

CHAPTER I

CHAPTER I GENERAL

1.1 About this Report

The Compliance Audit Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from the Audit by Accountant General (Audit-II), Tamil Nadu and Puducherry relating to 14 Government Departments including 60 Public Sector Undertakings (PSUs) and 40 Autonomous Bodies (ABs) under the control of these Departments. There are 664 Urban Local Bodies (ULBs) under the control of Municipal Administration and Water Supply Department. The Compliance Audit covers examination of the transactions relating to expenditure 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.

1.2 Profile of Audited Entities

The 14 Departments are headed at the Secretariat by Additional Chief Secretaries / Principal Secretaries / Secretaries who are assisted by Commissioners/Directors and subordinate officers under them. The details of expenditures incurred by these 14 Departments in the past five years from 2015-20 are detailed below:

Table No.1.1 – Trend of Expenditure

| (₹ in crore) | | | | | | |
|--------------|--|------------------|------------------|------------------|------------------|------------------|
| Sl. No. | Name of the Department | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
| 1 | Energy | 7,217.32 | 10,834.02 | 9,224.61 | 9,077.30 | 11,159.58 |
| 2 | Environment and Forests | 473.47 | 443.53 | 539.66 | 551.96 | 632.36 |
| 3 | Handloom, Handicrafts, Textiles and Khadi | 1,234.97 | 1,257.55 | 1,223.53 | 1,345.59 | 1,327.82 |
| 4 | Highways and Minor Ports | 6,719.63 | 7,030.85 | 8,630.59 | 9,149.28 | 10,872.06 |
| 5 | Home (Police, Prison and Administrative Judiciary) | 6,530.56 | 6,998.01 | 7,596.58 | 9,015.94 | 9,862.96 |
| 6 | Home (Transport) | 969.07 | 1,364.85 | 4,475.21 | 2,133.49 | 2,668.85 |
| 7 | Housing and Urban Development | 1,239.78 | 1,261.45 | 3,017.94 | 3,196.08 | 2,561.77 |
| 8 | Industries | 1,253.08 | 1,709.50 | 1,702.56 | 3,794.33 | 2,803.06 |
| 9 | Information Technology | 79.29 | 70.22 | 67.87 | 123.50 | 121.27 |
| 10 | Law | 25.00 | 25.41 | 30.36 | 47.22 | 54.28 |
| 11 | Micro, Small and Medium Enterprises | 284.04 | 299.78 | 377.19 | 632.93 | 479.60 |
| 12 | Municipal Administration and Water Supply | 8,832.79 | 11,115.56 | 8,950.42 | 13,021.30 | 13,139.33 |
| 13 | Public Works (Buildings) | 1,127.10 | 1,188.71 | 1,169.89 | 1,368.39 | 1,264.46 |
| 14 | Tourism, Culture, and Religious Endowments | 205.34 | 206.61 | 489.03 | 718.38 | 440.84 |
| Total | | 36,191.44 | 43,806.05 | 47,495.44 | 54,175.69 | 57,388.24 |

(Source: Appropriation Accounts for the years 2015-16 to 2019-20)

In addition to the above departments, there are 60 PSUs which are established to carry out activities of commercial nature keeping in view the welfare of the people and they occupy an important place in the State economy. The details of investments made in these 60 PSUs, results of their audit during 2019-20 and the related matters are discussed in **Chapter IV** of this Report.

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 Service) (DPC) Act, 1971. CAG conducts audit of expenditure of the Departments of Government of Tamil Nadu under Section 13¹ of the CAG's (DPC) Act. CAG is the sole Auditor in respect of Autonomous Bodies which are audited under Sections 19(3)² and 20(1)³ of the CAG's (DPC) Act. In addition, CAG also conducts audit of other Autonomous Bodies, under Section 14⁴ of CAG's (DPC) Act, which are substantially funded by the Government.

In respect of PSUs, CAG conducts Audit of the accounts of Government Companies under the provisions of Section 139 and 143 of the Companies Act, 2013. Detailed procedure in respect of audit of PSUs are narrated in **Paragraph Nos. 4.1.3 and 4.1.4** of this Report.

1.4 Planning of Audit

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

Audit process starts with the assessment of risks faced by various Departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit observations are also considered in this exercise. The frequency and extent of audit are decided based on this risk assessment.

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 and loss accounts, balance sheets and other subsidiary accounts.

² 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.

³ 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.

⁴ Audit of (i) all receipts and expenditure of a body or 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 ₹ one crore.

Inspection Reports (IRs) containing audit observations are issued to the Heads of the Department/field officers after completion of audit. The Departments are requested to furnish replies to the audit observations within one month of receipt of the IRs. Whenever replies are received, audit observations are either settled or further action for compliance is advised. Important audit observations arising out of these IRs are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the house of the State Legislature.

The total audit universe was 1,995 units of 14 departments and 60 PSUs. Out of which 248 units and 30 PSUs were audited during 2019-20. In addition, 35 out of 36 Autonomous Bodies under the control of these departments which qualified for conduct of audit under Sections 14, 19 (2), 19 (3) and 20 (1) of the CAG's (DPC) Act, 1971 were also audited during 2019-20.

1.5 Draft Paragraphs and Compliance Audit

Fourteen Draft Paragraphs and a Compliance Audit on Preservation and conservation of monuments and antiquities by the Department of Archaeology were forwarded, to the Principal Secretaries of the Departments concerned between February 2021 and June 2021, with the request to send their responses. Government replies to nine Draft Paragraphs and the Compliance Audit were received. The replies have been suitably incorporated in the Audit Report.

1.6 Follow-up action on Audit Reports

With a view to ensuring accountability of the Executive in respect of the issues dealt with in the Audit Reports, the Public Accounts Committee (PAC)/ Committee on Public Undertakings (COPU) directed that the Departments concerned should furnish remedial Action Taken Notes (ATNs) on the recommendations of PAC/COPU, relating to the Paragraphs contained in the Audit Reports, within six months. We reviewed the outstanding ATNs on the Paragraphs included in the Reports of the Comptroller and Auditor General of India relating to the Departments under the Audit purview of this office and found that 768 and 566 recommendations pertaining to the Audit Paragraphs discussed by PAC and COPU respectively were pending as on 31 March 2020.

1.7 Outstanding replies to Inspection Reports

On behalf of the CAG, the Accountant General conducts periodical inspections of the Government Departments to test check transactions and verify maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with issue of IRs, incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the Heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The Heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through replies. Serious financial irregularities are brought to the notice of the Heads of the Departments and the Government.

Inspection Reports issued upto 31 March 2020 were reviewed and found that 11,175 Paragraphs relating to 2,968 IRs remained outstanding at the end of September 2020 (**Annexure 1**). The pendency position of IR relating to PSUs are detailed in **Paragraph No.4.1.7** of this Report.

This large pendency of IRs, due to lack of corrective action or non-receipt of replies, was indicative of the fact that Heads of the offices and Heads of the Departments did not take appropriate action to rectify the defects, omissions and irregularities pointed out in the IRs.