

OVERVIEW

This Report includes two chapters containing observations on the Finance and the Appropriation Accounts of the Government of Punjab for the year 2005-06 and three others comprising five Reviews including Internal Control System and 23 paragraphs dealing with the results of performance audit of selected programmes and schemes as well as audit of the financial transactions of the Government.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples have been drawn based on statistical sampling methods as well as on judgment basis. The specific audit methodology adopted for programmes and schemes has been mentioned in the reviews. The audit conclusions have been drawn and recommendations made taking into consideration the views of the Government.

Financial position of the State Government

The finances of the State continued to be under stress during 2005-06 and revenue receipts were not keeping pace with revenue expenditure. Seventy eight *per cent* of the revenue receipts were consumed on committed expenditure of State viz. salaries, pensions and interest payments. Although the revenue deficit decreased from Rs 3,391 crore in 2004-05 to Rs 1,241 crore in 2005-06, the continuous application of borrowed funds largely to current consumption and debt servicing indicated increased unsustainability and vulnerability of the State finances. It is not uncommon for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. Similarly, the higher buoyancy of debt both with regard to its revenue receipts and own resources indicated its increasing unsustainability. The State's high cost borrowing for investments, which yielded very little return, indicated an implicit subsidy. Thus, the State has either to generate more revenues from out of its existing assets or needs to provide from its current revenue for servicing its debt obligations. The FRBMA 2003 was a step in the right direction but the commitments made therein still remained to be fulfilled by the State Government especially to cap outstanding guarantees to 80 per cent of the revenue receipts and efforts have to be made to reach the target of reduction of ratio of debt to GSDP to 40 *per cent* by 2006-07.

Review of Water Supply and Sanitation Department

Water Supply and Sanitation Department is responsible for providing drinking water in rural areas through Water Supply and Sanitation (RWS) Divisions and Water Supply and Sanitation/Drainage in government buildings through Government Works (GW) Divisions. Besides, department is engaged in collecting revenue in terms of user charges, water connection fee, etc.

Review of working of Water Supply and Sanitation Department revealed cases of financial mismanagement. Expenditure was in excess of amount deposited

by the client agencies and amounts were kept in banks in personal accounts in violation of the instructions. Despite availability of Rs 2.92 crore, 2129 traditional sources of water could not be revived to provide safe drinking water. Ignoring 331 villages with acute problem, 42 schemes covering 59 villages with not so acute problems were completed by diverting funds of Rs 8.32 crore from schemes of acute problem villages. Purchase of 20 units of water treatment plants was made in violation of rules.

Functioning of Punjab Agricultural University Ludhiana

The Punjab Agricultural University Ludhiana (PAU) was established in October 1962 under the Punjab Agricultural University Act, 1961 for furtherance of agricultural interests of the State

Review on the functioning of Punjab Agricultural University revealed that the funds and financial management systems were defective. This was evident from the fact that balance sheets were not prepared, calculation of deficit was inaccurate, advances were outstanding for many years and recoveries from client organizations were not effected. The impact of research activity particularly introduction of improved variety of seed did not result in increase in productivity in the State. Extension trainings were not organized as envisaged. Utilisation of infrastructure suffered from major deficiencies and large tract of fallow land was not utilised for agriculture. University failed to avail the waiver of electricity charges on irrigation tubewells granted by the Government. Ungainful expenditure was incurred on running of University Press. Physical verification of Library has not been done as per provisions.

Educational Development of Scheduled Castes

The objectives of this programme are to increase enrolment, retention of SCs in educational institutions, reduce drop out rates and increase their representation in jobs and higher educational and professional institutions.

Audit noticed that the population of SCs in Punjab State is 70.29 lakh (2001 Census) which is 28.85 *per cent* of total population and is highest in the country. The literacy rate among SCs is 56.22 *per cent* against 69.65 *per cent* for the whole State indicating a gap of 13.43 percentage points. There is no ST population in Punjab. Audit noticed that the State Government had not implemented the welfare schemes effectively in regard to avilment of the central assistance for scholarships for post-matric and pre-matric students, construction of hostels despite the availability of the central assistance. Timely supply of free text books was not ensured. Scheme for improving the representation of the SC candidates in Group A or B services through free coaching centres did not yield results and monitoring of the schemes was deficient.

Implementation of Sarva Shiksha Abhiyan

Sarva Shiksha Abhiyan (SSA) was launched in 2000-01 with the objective of all Children to be in School, Education Guarantee Centre, Alternative School,

Back-to-School camp by 2005, all children complete five years of primary schooling by 2007 and complete eight years of elementary schooling by 2010 and universal retention by 2010.

The Review highlights that SSA programme suffered in the State as the project grant amounting to Rs 55.17 crore released by GOI during 2001-02 were retained by State Government during whole of the year as a result of which the scheme could not be implemented in that year. Further the expenditure level of 1999-2000 on elementary education was not maintained resultantly the State funding of SSA was met from the cut in expenditure on elementary education. This was also compounded by further delays in releasing of State share to SPD in contravention to the frame work of the implementation of the programme. UCs for a sum of Rs 66.38 crore disbursed to DPDs during 2002-04 were not received till January 2005 putting the matter to risk of misappropriation of government money. An amount of Rs 3.62 crore was released by SPD to DPDs for construction and repair of schools and other buildings in violation of norms and conditions of SSA. Besides, SPD failed to fill up vacancies of teachers despite funds being available. There was heavy shortfall in training of VEDC members and teachers. Books worth Rs 1.09 crore purchased were lying undistributed in stores and there were cases of irregularities in purchase of books and training modules. The EGS did not work properly because against 39179 out of school children only 8659 students could be actually enrolled.

Evaluation of Internal Control System and Internal Audit Arrangement in Punjab Roadways

Internal control is an integral part of the process and it helps in creating reliable financial and management information system besides effective decision making. Internal audit is an appraisal of activity established with an entity as a service to the entity. Its functions, *inter alia* include examination, evaluation and monitoring the adequacy and effectiveness of the accounting and internal control system.

Internal control mechanism in the Punjab Roadways was not functioning effectively, which adversely affected the key areas of administration, finance and accounting. Inadequate internal control led to improper maintenance of cash books. There were deficiencies in maintenance of accounts of General Provident Fund and Group Insurance Scheme as consolidated statements were not prepared. Cases of excess deployment of man power, frequent transfers of General Managers were indicative of the ineffectiveness of control mechanism. Missing of scheduled kms, irregular purchases, non-disposal of obsolete stores and excess consumption of High Speed Diesel(HSD) was resultant effect of inadequacies and ineffectiveness of Internal controls. Internal Audit arrangement was adhoc and weak.

Findings of Transaction Audit

The audit of financial transactions in various departments of the Government and their field formations revealed instances of embezzlement of government money, losses and wasteful spending over Rs 80.95 crore as mentioned below:

There were instances of embezzlement/possible fraud of government money in Irrigation and Power Department (Rs 85.60 lakh). Loss due to irregular grant of sales tax exemption in Industries and Commerce Department (Rs 1.01 crore).

There was avoidable/excess payment or wasteful expenditure or infructuous expenditure in Food and Civil Supplies Department (Rs 2.12 crore), Animal Husbandry and Fisheries Departments (Rs 2.45 crore), Health and Family Welfare Department (Rs 52.23 lakh), Department of Finance (Rs 43.39 lakh), Department of Information Technology (Rs 60.50 lakh), Housing and Urban Development Department (Rs 30.54 lakh), Irrigation and Power Department (Rs 24.37 lakh).

There were cases of avoidable expenditure and undue financial aid in Irrigation and Power Department (Rs 94.59 lakh), Rural Development and Panchayat Department (Rs 25 lakh).

There was unauthorized expenditure and irregular retention of government receipts in Animal Husbandry Department (Rs 13.71 crore), in Education Department (Rs 5.56 crore), and blockage of funds and non-utilisation of central grant in Home Affairs and Justice (Rs 35.92 crore).

There was irregular expenditure in Technical Education Department (Rs 1.98 crore), non-realisation of establishment charges and other government dues in Department of Architecture (Rs 2.15 crore) and Police Department (Rs 11.89 crore).