OVERVIEW

This Audit Report contains 31 Audit Paragraphs and four Audit Reviews apart from comments on the Finance and Appropriation Accounts. As per existing arrangement, copies of the draft Audit Paragraphs and draft Audit Reviews are sent to the concerned Secretaries to the State Government by the Principal Accountant General demi-officially with a request to furnish replies within six weeks. The Secretaries are also reminded demi-officially. Despite such efforts, in respect of 12 Audit Paragraphs and all the four Reviews, no response was received from the Secretaries concerned. The matter was also brought to the notice of the Chief Secretary to the Government of Tamil Nadu.

1 *Review of the State's Finances*

The assets of the State Government grew by 11.8 *per cent* during 2001-2002 while the liabilities grew by 13.1 *per cent*. The share of revenue receipts to the total receipts went up to 78.8 *per cent* during 2001-2002 and the share of recoveries of loans and advances went down marginally from 1.5 *per cent* to 1.4 *per cent.* The share of receipts from the Public Debt was 14.4 *per cent* and that of receipts in the Public Account was 4.8 *per cent.*

The share of revenue expenditure in total expenditure went down from 91 to 90.3 *per cent* and remained significantly higher than the share of revenue receipts, leading to a revenue deficit of Rs 2739 crore during 2001-2002. Balance from Current Revenues was negative since 1997-98, indicating the dependence of Government on borrowings to meet its plan expenditure.

Interest payments increased by 99 *per cent* from Rs 1763 crore in 1997-98 to Rs 3513 crore in 2001-2002. The interest ratio which is the ratio of net interest burden to revenue receipts less interest receipts shot up from 0.10 to 0.16 over the five year period.

The recovery of loans and advances by State Government went down from Rs 1217 crore in 1997-98 to Rs 324 crore in 2001-2002. The outstanding loan amount had increased from Rs 3507 crore at the end of 1997-98 to Rs 4348 crore at the end of 2001-2002.

The ratio between capital outlay and capital receipts declined from 0.46 in 1997-98 to 0.37 in 2001-2002 indicating a worsening sustainability, as a substantial part of the capital receipts were not available for capital formation.

As on 31 March 2002, 33 Government companies, in which Government had invested Rs 844.23 crore were running under loss with accumulated losses of Rs 2163.10 crore upto March 2002. Even the companies which were making profits were giving only a marginal return on investment ranging from 1.13 to 1.56 *per cent* during 1997-2002. Thus, while the Government was borrowing at high cost (8 to 10.35 *per cent*), its investments in Government companies fetched insignificant returns.

Revenue realised from 5 major and 47 medium irrigation projects with a total capital outlay of Rs 1990.23 crore was only 0.42 *per cent* of the capital outlay and was not sufficient to cover even the direct working expenses of Rs 65.74 crore. The schemes suffered a net loss of Rs 159.84 crore in 2000-2001, of which the loss under 5 major irrigation projects was substantial (Rs 110.45 crore).

The revenue deficit of Rs 2739 crore in 2001-2002 was fully met by borrowings (Rs 3446 crore). The fiscal deficit of Rs 4740 crore was financed by net proceeds of the Public Debt (Rs 3446 crore) and from the surplus in Public Account (Rs 1150 crore).

The amount of outstanding guarantees given by Government as on 31 March 2002 was Rs 8570 crore and Rs 0.11 crore were received as guarantee commission. Rupees 32.47 crore were pending recovery from seven Government Companies/Corporations and Cooperative institutions.

Only 48 *per cent* of the borrowings under internal debt was available for investment after meeting repayment obligations.

Analysis of financial data for the Government of Tamil Nadu showed that revenue expenditure was being increasingly financed by borrowings. Despite controlling the revenue expenditure in 2001-2002, substantial increase in interest payments consequent to the increased borrowings over the years, coupled with the falling Balance from Current Revenues adversely affected the financial position of the State, aggravating the imbalance between Assets and Liabilities. The State Government continued to depend on ways and means advances /overdrafts from Reserve Bank of India to manage its day to day expenditure.

(Paragraphs 1.1 to 1.11)

2 Appropriation Audit and control over expenditure

During 2001-2002, expenditure of Rs 34304.31 crore was incurred against the total grants and appropriations of Rs 38039.57 crore resulting in a saving of Rs 3735.26 crore (9.8 *per cent*). The overall saving was the result of saving of Rs 4114.64 crore in 58 grants and 44 appropriations offset by excess of Rs 379.38 crore in 3 grants and 4 appropriations. The excess of Rs 379.38 crore requires regularisation by the Legislature under Article 205 of the Constitution of India.

Supplementary provision of Rs 991.28 crore constituted 3 *per cent* of original budget provision of Rs 37048.29 crore. Ninety-nine *per cent* of the Supplementary provision was obtained in March 2002. Supplementary provision of Rs 4.10 crore obtained in March 2002 in 4 grants and 13 appropriations proved unnecessary in view of the final saving in each grant/appropriation being more than the supplementary provision. On the other hand, in 3 grants and one charged appropriation, supplementary provision proved insufficient, resulting in uncovered excess expenditure of Rs 38.06 crore and Rs 341.21 crore respectively.

Significant excess was persistent in one grant (Grant No.35). Persistent saving of 5 *per cent* and above was noticed in 15 grants and 7 appropriations.

In respect of 184 schemes, Rs 2811.71 crore (76 *per cent*) out of the provision of Rs 3719.77 crore, was surrendered due to slow implementation of the schemes.

Under 32 schemes, the expenditure during March exceeded Rs 10 crore and also was more than 50 *per cent* of the total expenditure, which revealed rush of expenditure to the tune of Rs 1725.64 crore.

In 23 schemes, expenditure of Rs 171.94 crore was incurred which attracted the limitations of New Service/New Instrument of Service for which approval of Legislature or advance from Contingency Fund should have been obtained.

(Paragraphs 2.1 to 2.10)

3 Swarnjayanthi Gram Swarozgar Yojana

The Swarnjayanthi Gram Swarozgar Yojana was implemented from April 1999 with the objective of bringing the assisted families above poverty line in three years by providing them with income-generating assets through a mix of bank credit and Government subsidy.

Test-check revealed that the survey conducted to identify families below poverty line was incomplete. Besides this there was faulty selection of key activities, less provision of assistance than the approved project cost, irregular utilisation/ diversion of scheme funds for purposes not connected with the scheme and inflated reporting of physical and financial achievement to Government of India.

- Ten key activities with projected income ranging between Rs 169 and Rs 1953 were selected and implemented resulting in unfruitful assistance of Rs 2.58 crore extended to 249 Self Help Groups in 5 sample districts.

- The income earned per month per family was less than the scheme designed income of Rs 2000 in 126 out of 127 sample Self Help Groups.

- Expenditure reported to Government of India was in excess of the actuals to the tune of Rs 20.35 crore, Rs 4.34 crore and Rs 2.96 crore under subsidy, infrastructure and training respectively in 6 sample districts.

- Scheme funds of Rs 5.95 crore were diverted to purposes not connected with the scheme, of which Rs 1.41 crore was yet to be recouped. Rs 4.96 crore was irregularly spent on inadmissible items.

- Against the envisaged coverage of 1.45 lakh Below Poverty Line families in six sample districts, the reported coverage was only 45,549 families. The block level records, however, revealed that only 17,808 were actually covered.

(Paragraph 5.1)

4 Rural Housing Schemes

To provide shelter to the rural poor, a number of schemes are being implemented by the State Government from 1980 onwards. A review of Indira Awaas Yojana for the period 1997-2002, Pradhan Mantri Gramodaya Yojana (Gramin Awaas) for 2000-2002, Credit-cum-subsidy scheme for Rural Housing, Samagra Awaas Yojana and Innovative Stream for Rural Housing and Habitat Development for 1999-2002 revealed the following:

- Rupees 1.96 crore released during 1997-2001 under Indira Awaas Yojana were diverted to other schemes and recoupment time ranged between one and seventeen months in three sample districts.
- Rupees 1.56 crore were transferred to Post Office Savings Account for achieving small savings target and recoupment was made after an interval of upto 2 months in three sample districts.
- In Madurai and Coimbatore Districts, 86 group houses (value: Rs 27.52 lakh) were constructed by external agencies instead of by the beneficiaries themselves.
- In 18 Panchayat Unions, 5685 houses were allotted to male members instead of female members or in joint names.
- In 21 Panchayat Unions, Rs 2.31 crore provided for creation of infrastructure were diverted for construction of group houses.
- Under credit-*cum*-subsidy scheme, as against the target of 13731 houses fixed by Government of India, only 7790 houses had been completed.
- Under credit-*cum*-subsidy scheme, banks released Rs 2.43 crore out of Rs 2.99 crore released by District Rural Development Agencies; consequently, only 2431 out of 2989 beneficiaries could be benefited.

(Paragraph 5.2)

5 Liberation and Rehabilitation of Scavengers

National Scheme of Liberation and Rehabilitation of Scavengers was launched by Government of India in March 1992 with the objective of liberating scavengers from the existing hereditary, obnoxious and inhuman occupation of manual scavenging through a time-bound programme of identification, training in various trades/occupations and rehabilitation by providing subsidy, margin money loans and institutional finance through banks. The scheme was implemented by Tamil Nadu Adi-Dravidar Housing and Development Corporation. Test-check revealed that out of 35,561 persons identified through a survey in 1992, only 23,114 persons were rehabilitated upto March 2002. The innovative scheme of sanitary marts taken up for rehabilitation of scavengers from April 2000 had not achieved the desired results.

- Rupees 32.72 crore released by GOI was lying unutilised with Tamil Nadu Adi-Dravidar Housing and Development Corporation.

- Physical verification revealed that 99 assets created with an assistance of Rs 24.44 lakh were not in existence and 23 assets created with an assistance of Rs 6.93 lakh could not be verified as the beneficiaries were not traceable.

- Against the target of 1000 sanitary marts to be set up with central assistance of Rs 40.17 crore for rehabilitating 25,000 scavengers, only 158 marts at a cost of Rs 3.88 crore were established rehabilitating 3,074 persons.

- Though the Employment of Manual Scavengers and Construction of Dry Latrines (Prohibition) Act 1993 was adopted in May 1999, the matter of framing rules and issue of notifications under the Act was still under consideration as of July 2002.

- As there are no scavengers involved in manual cleaning, rehabilitation assistance under the scheme is being extended to the dependants of sanitary workers, who were not eligible.

(Paragraph 3.1)

6 Integrated Audit and Manpower Management of Highways Department

The objective of the Department was to improve the existing roads by strengthening and widening so that they would withstand the increased traffic load with free flow of traffic. The Department failed to consider the increase in vehicle population, the steady increase in road accidents and the cascading effects of widening the National Highways. Defective planning, designing and execution resulted in blocking of funds and wasteful expenditure. Quality of works was not ensured and least priority was given to maintenance.

- Rural Roads Scheme was funded with borrowed money in spite of availability of Government of India funds, resulting in avoidable expenditure of Rs 133.08 crore and interest liability of Rs 14.37 crore.

- There was large scale misuse of Letter of Credit and wrong booking of expenditure due to poor budgetary control.

- Rupees 119.23 crore were misspent due to poor planning, unnecessary widening of roads and non-adherence to prescribed specifications.

- Consultants and contractors were engaged for the same purpose resulting in avoidable expenditure of Rs 2.22 crore.

- Failure to estimate the cost of alternative design led to unintended benefit of Rs 14.77 crore to the contractors.

- There was an overpayment of Rs 7.41 crore to the consultants under Tamil Nadu Road Sector Project.

- Rupees 51.32 crore meant for maintenance was diverted.

- Formation of divisions in excess of norms and excess employment of Gang Mazdoors resulted in avoidable expenditure of Rs 46.01 crore.

(Paragraph 4.1)

7 Construction of Bridges/ subways

Test-check of records relating to the construction of six bridges and two subways by the Corporation of Chennai revealed:

(i) Construction of three bridges with wider carriageway than necessary resulted in an extra expenditure of Rs 3.34 crore.

(ii) Delay in issue of administrative sanction by Government for one bridge and one subway resulted in an additional expenditure of Rs 52.84 lakh.

(iii) Injudicious rejection of the lowest tender for one bridge and one subway by the Corporation of Chennai resulted in additional expenditure of Rs 15.52 lakh besides escalation of Rs 30.50 lakh.

(iv) Adoption of deeper pile foundation than recommended by the consultants after geo-physical tests for 3 bridge works resulted in an extra expenditure of Rs 1.18 crore.

(v) Corporation of Chennai failed to avail grant from Tamil Nadu Urban Finance and Infrastructure Development Corporation under Megacity Programme to the extent of Rs 75.48 lakh for 4 bridge works.

(vi) Corporation of Chennai failed to deduct income tax with surcharge to the tune of Rs 87.87 lakh from the interest paid to Tamil Nadu Urban Finance and Infrastructure Development Corporation and Tamil Nadu Urban Development Fund as required under the provisions of Income Tax Act.

(Paragraph 5.9)

8 Integrated Development of Small and Medium Towns

The Centrally Sponsored Scheme of Integrated Development of Small and Medium Towns was implemented from 1979-80 to develop small and medium towns to generate economic growth and employment and reduce migration from rural areas and smaller towns to larger cities. The Central assistance was in the form of loan to the extent of 50 per cent of the project cost. From 1992-93, the project cost was shared between Government of India, State Government and financial institutions. Tamil Nadu Urban Finance and Infrastructure Development Corporation implemented the scheme as the nodal Agency since 1992-93. Test-check of implementation of the scheme revealed that

- Rupees 25.43 crore was released by Government of India and State Government during 1992-2001. Of this, Rs 23.58 crore was released to urban local bodies by Tamil Nadu Urban Finance and Infrastructure Development Corporation including institutional finance. As of September 2002, Rs 25.56

crore was spent by urban local bodies including the contribution from their own funds.

- Eighty projects were dropped during 1992-93 to 2000-2001 for want of site, non-viability of the projects, lack of repaying capacity of urban local bodies and litigations.

- Twenty two sample urban local bodies had credited Rs 20.85 crore generated from the assets into their general funds and used it to meet their regular expenditure.

- Funds were released by Tamil Nadu Urban Finance and Infrastructure Development Corporation as mix of grant and loan instead of as grant only as required by Government of India, thus, affecting the financial position of urban local bodies.

- Delay in completion of 16 commercial projects in 7 sample towns resulted in an estimated loss of revenue of Rs 4.21 crore.

- Loan annuities to the tune of Rs 33.73 crore collected by Tamil Nadu Urban Finance and Infrastructure Development Corporation from the urban local bodies were not remitted to Government account. Of this, Rs 16.19 crore was diverted for servicing the loans from Housing and Urban Development Corporation that were not connected with the scheme.

- Time-overrun ranging between 14 to 65 months was noticed in 27 projects during 1992-97 due to delay in getting technical sanction, plan approval and due to slow progress in execution; the eventual cost-overrun of Rs 1.07 crore was met from the internal funds of urban local bodies, eroding their resources.

(Paragraph 3.14)

9 National Social Assistance Programme

National Old Age Pension Scheme, National Family Benefit Scheme and National Maternity Benefit Scheme are the three schemes introduced by Government of India from August 1995 under the centrally sponsored "National Social Assistance Programme". State Government implemented these schemes from October 1995, dovetailing similar schemes which were already under implementation in the state. In audit, it was observed:

(i) State Government, instead of utilising the central assistance as an additionality to the existing State budget provision to cover more beneficiaries, had reduced/withdrawn their existing share under the schemes. The central assistance was used against the shortfall in state share to the tune of Rs 35.87 crore during 1995-1999 under National Old Age Pension Scheme, Rs 28.99 crore during 1995-2001 under National Family Benefit Schemes and

Rs 13.86 crore during October 1995 to July 1998 under National Maternity Benefit Scheme. 51,782 applications under National Family Benefit scheme and 2,55,609 applications under National Maternity Benefit Scheme were pending in the State as a whole. Records in sample districts revealed that the applications were pending for want of funds.

(ii) Rupees 4.48 crore and Rs 0.62 crore given towards administrative charges and publicity respectively by Government of India were lying unutilised with the implementing agencies.

(iii) Rupees 1.13 crore were temporarily diverted from two schemes for purposes not connected with the schemes.

(Paragraph 3.15)

10 Blocking of funds

(i) Government funded State Industries Promotion Corporation of Tamil Nadu towards State Capital Subsidy Scheme on the basis of incorrect reporting of expenditure and inflated claims from the corporation. This led to accumulation of Rs 5.36 crore outside Government account as of July 2002.

(Paragraph 3.12)

(ii) Release of Seed Capital assistance to Commissioner of Town and Country Planning without proper proposals for implementation of Master Plan, District Development Plan and New Town Development Plan led to accumulation of Rs 3.36 crore in the Personal Deposit Account of the Commissioner.

(Paragraph 3.11)

(iii) Procedural delays in Government regarding deposit of towing charges resulted in Rs 1.73 crore lying outside Government account.

(Paragraph 3.9)

(iv) Poor performance by Tamil Nadu Horticultural Producers' Cooperative Enterprises Limited resulted in locking up of Government funds of Rs 1.12 crore for over 3 years, besides payment of interest of Rs 51.74 lakh on unutilised portion of loan.

(Paragraph 3.2)

(v) Contrary to instructions, Rs 1.51 crore were kept outside Government account by Executive Engineer (Construction and Maintenance), Tiruvannamalai.

(Paragraph 4.5)

(vi) Commissioner of Police , Chennai released Rs 1.27 crore to Electronics Corporation of Tamil Nadu in March 2001 towards purchase of equipment for a Modern Police Control Room even before the building was ready. The amount remained outside Government account for more than a year.

(Paragraph 3.10)

11 Unfruitful/infructuous/wasteful expenditure

(i) Steam laundries could not be set up in 15 hospitals as planned due to delay in completion of Civil works and non-supply of machinery and equipment resulting in unfruitful expenditure of Rs 6.81 crore.

(Paragraph 3.5)

(ii) Inflation of requirement of funds for the flood alleviation measures in Chennai Metropolitan area by Chennai Metropolitan Development Authority and the Chief Engineer, Water Resources Organisation, Chennai resulted in premature drawal of loan and wasteful expenditure of Rs 5.49 crore.

(Paragraph 4.2)

(iii) Machinery of Public Works Department was not utilised for desilting works, resulting in cash outflow of Rs 1.51 crore in favour of private contractors.

(Paragraph 4.4)

(iv) Failure to provide staff and equipment to Government hospitals in Ramanathapuram and Tiruvarur resulted in unfruitful expenditure of Rs 98.06 lakh.

(Paragraph 3.6)

(v) Although there was no water supply from January 2000 to May 2002, the Superintendent of Government Royapettah Hospital paid water charges of Rs 31.84 lakh to Chennai Metropolitan Water Supply and Sewerage Board.

(Paragraph 3.7)

12 Extra expenditure/avoidable expenditure/overpayment

(i) Failure to prevent illicit quarrying resulted in extra expenditure of Rs 3.31 crore on formation of flood banks.

(Paragraph 4.8)

(ii) Surplus posts of Office Assistants were not identified in all districts even after seven years of the Government order. Instead of redeploying the surplus, 314 persons were recruited during 1996-2001 ; salary paid to them was Rs. 3.25 crore.

(Paragraph 3.3)

(iii) Failure to communicate the administrative sanction resulted in non-provision of funds in the budget and consequent additional expenditure of Rs 60.65 lakh.

(Paragraph 4.6)

(iv) Failure to enforce the contractual conditions by Tamil Nadu Water Supply and Drainage Board regarding potability of water resulted in avoidable expenditure of Rs 58.40 lakh on corrective measures.

(Paragraph 5.14)

13 Other points of interest

(i) Number of cable television connections in the city was not ascertained by Corporation of Chennai resulting in short-collection of entertainment tax of Rs 51.84 crore.

(Paragraph 5.10)

(ii) The Commissioner, Corporation of Chennai had not adjusted the advances given to suppliers/contractors and staff/officers to the extent of Rs 44.88 crore as of March 2002.

(Paragraph 5.11)

(iii) Non-construction of a compound wall in the Peripheral Hospital at K.K. Nagar due to lack of coordination and cooperation between the hospital authorities, Tamil Nadu Slum Clearance Board and revenue authorities led to encroachment of hospital land valued at Rs 42.29 crore.

(Paragraph 3.8)

(iv) Government paid an advance of Rs. 6.11 crore to the Sthapati for raising a monument for Saint Thiruvalluvar at Kanyakumari. Accounts and vouchers were not insisted upon and capital assets valued Rs 63.40 lakh had not been retrieved from the Sthapati.

(Paragraph 3.13)

(v) Changes in scope of work during technical sanction and execution defeated the objective of providing flood defences in Adyar river despite spending Rs 2.52 crore.

(Paragraph 4.3)

(vi) Adoption of lower rate of water charges by the Commissioner, Bodinaickanur Municipality without the amendment to the by-laws being approved by Government resulted in loss of revenue of Rs 63.21 lakh to the Municipality.

(Paragraph 5.7)

(vii) Commissioner of Municipal Administration released excess grant of Rs 51.60 lakh while funding one High Mast Light in each Municipality.

(Paragraph 5.8)

(viii) Delay by the Commissioner, Corporation of Chennai in initiating tendering process for award of contracts for display of advertisement boards on lamp posts resulted in loss of revenue of Rs 44.10 lakh.

(Paragraph 5.12)