

CHAPTER-I

INTRODUCTION

1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from performance audit of selected programmes and activities and compliance audit of Government departments and autonomous bodies.

Compliance audit refers to 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. On the other hand, performance audit, besides conducting a compliance audit, also examines whether the objectives of the programme/activity/department are achieved economically and efficiently.

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 findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the audit of transactions and follow-up on previous Audit Reports. Chapter-2 of this Report contains findings arising out of performance audit of selected programmes/activities/departments. Chapter-3 contains observations on audit of transactions in Government departments and autonomous bodies. Chapter-4 presents an assessment of the functioning of the Animal Husbandry and Dairying Department.

1.2 Auditee profiles

There are 56 departments in the State at the Secretariat level, headed by the Chief Secretary/Financial Commissioners and Principal Secretaries/Commissioners and Secretaries, who are assisted by Special Secretaries/ Additional Secretaries/ Directors and subordinate officers under them. Besides, there are local bodies, 49 autonomous bodies and 163 other autonomous bodies substantially funded by the Government, which are audited by the Principal Accountant General (Audit), Haryana on behalf of the CAG.

The comparative position of expenditure incurred by the Government during the year 2010-11 and in the preceding two years is given in **Table-1** below.

Table 1: Comparative position of expenditure

(₹ in crore)

Disbursement	2008-09			2009-10			2010-11		
	Plan	Non-Plan	Total	Plan	Non- Plan	Total	Plan	Non- Plan	Total
Revenue Expenditure									
General Services	54.16	5,970.31	6,024.47	68.02	7,687.33	7,755.35	65.84	9,262.30	9,328.14
Social Services	2,662.19	4,596.54	7,258.73	4,014.59	5,887.63	9,902.22	4,329.69	6,574.39	10,904.08
Economic Services	1,201.56	5,834.19	7,035.75	1,632.16	5,897.75	7,529.91	1,855.98	6,140.75	7,996.73
Grants-in-aid and Contributions		215.78	215.78	-	69.91	69.91	-	81.24	81.24
Total	3,917.91	16,616.82	20,534.73	5,714.77	19,542.62	25,257.39	6,251.51	22,058.68	28,310.19
Capital Expenditure									
Capital Outlay	3,989.86	511.81	4,501.67	4,203.29	1,015.19	5,218.48	3,845.01	186.09	4,031.10
Loans and Advances Disbursed	20.44	311.87	332.31	615.76	213.93	829.69	538.50	183.37	721.87
Repayment of Public Debt		1,291.84	1,291.84	-	2,745.97	2,745.97		3,971.08	3,971.08
Contingency Fund		-	-	-	-	-		190.00	190.00
Public Account Disbursements		11,441.82	11,441.82	-	14,319.66	14,319.66		15,324.41	15,324.41
Total	4,010.30	13,557.34	17,567.64	4,819.05	18,294.25	23,113.80	4,383.51	19,854.95	24,238.46
Grand Total	7,928.21	30,174.16	38,102.37	10,533.82	37,837.37	48,371.19	10,635.02	41,913.63	52,548.65

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) Act, 1971. CAG conducts audit of expenditure of the departments of the Government of Haryana under Section 13¹ of the CAG's (DPC) Act. CAG is the sole auditor in respect of 49 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 163 other autonomous bodies, which are substantially funded by the Government, under Section 14⁴ of the CAG's (DPC) Act. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts issued by the CAG in 2007.

- 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 in accordance with the provisions of the respective legislations.
- 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 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 ₹one crore.

1.4 Planning and conduct of audit

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

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are requested to furnish replies to the audit findings within six weeks 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 arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State of Haryana under Article 151 of the Constitution of India.

During 2010-11, 7,171 party-days⁵ were used to carry out transaction audit of 1,453 units and to conduct performance audit of two departments, one university and one district. The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

1.5 Significant audit observations

In the last few years, Audit has reported on several significant deficiencies in the implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in selected departments. Similarly, the deficiencies noticed during compliance audit of the Government departments/organisations were also reported upon.

1.5.1 Performance audits of programmes/activities/departments

The present Report contains four performance audits, the highlights of which are given in the following paragraphs:

1.5.1.1 Working of Kurukshetra University

The performance audit of the Kurukshetra University revealed that no long-term perspective Plan for development activities had been prepared by it. Its Planning Board was non-functional since September 2000. Right from its inception, the University did not prepare any balance sheet with the result that it had no knowledge of its total assets and liabilities. Its in-house software programme, developed for maintenance of accounts of receipts and payments was not foolproof and was prone to serious errors. Inadequate financial control led to non-

5 Autonomous Bodies and Local Bodies: party days :1,199 (Unit Audited:197), Inspection Civil: party days 3,318 (Unit Audited:972), Works/Forest: party days:1,279 (Unit Audited:245) and Commercial: party days: 1,375 (Unit Audited:39).

adjustment of temporary advances amounting to ₹ 5.89 crore given to employees during 1998-2011. The University could not utilise ₹ 20 crore out of ₹ 30 crore provided by the Government during March 2008 for enhancing the intake capacity of students. Out of 54 research projects, only 17 were completed during 2006-11. Shortage of teaching staff was 26 *per cent* for general courses and 61 *per cent* for self-financing courses, which affected the quality of education, leading to a decline in the percentage of successful students in various courses. There was inadequate space for classrooms, laboratories and the library in the University Institute of Engineering and Technology and overall shortage of hostel accommodation both for boys and girls in the University. Physical verification of assets, stores, library, etc. had not been carried out for long periods.

(Paragraph 2.1)

1.5.1.2 Working of the Forest Department

The Government of Haryana framed the Haryana State Forest Policy in 2006, which envisaged bringing 10 *per cent* of the State's area under forest and tree cover by 2010 and ultimately bringing it to 20 *per cent* in a phased manner. Performance audit of the department revealed that no long-term perspective Plan had been prepared to bring 10 *per cent* of the State's total geographical area under forest and tree cover by 2010 as per State's policy. In four divisions, a total amount of ₹ 5.56 crore was kept in bank accounts instead of remitting the same to the Compensatory Afforestation Management and Planning Authority. Against the due amount of ₹ 4.60 crore, only ₹ 2.61 crore was realized as compensation from forest land users. The survival of plantations under the Integrated Natural Resource Management and Poverty Reduction Project was very low. Proper planning for carrying out compensatory afforestation was not done, as a result of which, ₹ 109.18 crore realised in 12 test-checked divisions as compensation from users of forest land for non-forest purposes was not utilised. Contrary to provisions of the Forest (Conservation) Act, 1980 and the Wild Life (Protection) Act, 1972, 11 herbal parks were developed in reserved /protected forests and wild life sanctuary.

(Paragraph 2.2)

1.5.1.3 District Jind

A district-centric audit of Jind district was conducted to assess the status and impact of implementation of various socio-economic development activities there. Scrutiny revealed that the District Planning Committee had not prepared any Perspective Plan. The district was short of health centres, minimum infrastructure and doctors, as a result of which it was lagging behind in the achievement of targets of reducing the infant mortality rate, the birth rate and the death rate and increasing ante-natal care, institutional deliveries, etc. In the education sector, there was lack of monitoring of the execution of repair works of 777 schools and many schools had no science laboratories. A total of 851 out of 8,969 samples checked during 2006-11 contained bacteriological contamination. Sewerage facilities were not available in Julana town while a sewerage treatment plant was not provided in Safidon town. In Panchayati Raj institutions, there were deficiencies such as

delayed execution of works and leaving them incomplete, diversion of funds, irregular expenditure, non-maintenance of asset registers, lack of supervision, overpayments, etc. There were no solid waste treatment plants for Jind and Uchana towns. Deficiencies in the public distribution system such as non-detection of bogus ration cards, delays in distribution of food items to beneficiaries, lack of supervision, etc. were observed. There was shortage of police personnel and a rising trend in crimes in the district.

(Paragraph 2.3)

1.5.1.4 Functioning of the Animal Husbandry and Dairying Department

The main objectives of the Animal Husbandry and Dairying Department were to provide health care and breeding facilities for livestock to upgrade and conserve indigenous breeds; control quality of animal feed, milk and milk products and providing self-employment through dairying. Performance audit of the functioning of the department revealed that the targets for increasing the production of milk, eggs and wool were fixed in the Eleventh Five Year Plan, but targets were not set to increase the number of livestock. The department had performed well so far as the achievement of the targets of production of milk and eggs was concerned as the per capita availability of these products had increased. There was, however, a decrease in the number of livestock from 94.43 lakh in 2003 to 90.50 lakh in 2007 as per the livestock census of 2007.

Utilisation certificates of ₹ 35.20 crore were furnished to Government of India without obtaining details of expenditure for ₹ 20.47 crore from executing agencies. Incentive money amounting to ₹ 2.73 crore was paid in excess to beneficiaries under the Murrah Development Scheme. Artificial insemination services were outsourced by violating the norms of financial propriety. Against the target of establishing 1,100 dairy units, only 445 units were set up under the Hi-tech Commercial Dairy Scheme. No system was evolved to draw samples of milk and milk products of milk plants to check their quality. Monitoring by the department was not effective and there was no internal audit system in place.

(Paragraph 4.1)

1.5.2 Compliance audit of transactions

The Report highlights several significant deficiencies in critical areas which impacted the effective functioning of Government departments and organisations. These can be broadly categorised as:

- Non-compliance with rules.
- Propriety audit/unjustified expenditure.
- Failure of oversight/governance.

1.5.2.1 Non-compliance with rules

For sound financial administration and financial control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the

competent authority. This not only prevents irregularities, misappropriation and frauds, but also helps in maintaining good financial discipline. This Report contains instances of non-compliance with rules involving ₹ 6.01 crore. Some significant audit findings are given below:

Embezzlement of ₹ 3,76,250 occurred in the District Red Cross Society, Karnal due to non-observance of the provisions of financial rules regarding receipts and deposit of service charges levied for issue of registration certificates of land records.

(Paragraph 3.1.1)

The Executive Engineer (EE), Construction Division No. 3, Irrigation Department, Kaithal, adopted an incorrect wholesale price index of steel which resulted in excess payment of ₹ 62.25 lakh to a contractor on account of an escalation clause. Irregular extension of time given to the contractor by the EE and the Superintending Engineer resulted in a loss of ₹ 5.35 crore.

(Paragraph 3.1.2)

1.5.2.2 Propriety audit/unjustified expenditure

Audit detected instances of impropriety and extra expenditure involving ₹ 11.55 crore, some of which are highlighted below:

The Executive Engineer, Nehrana Water Services Division, Sirsa spent ₹ 89 lakh in constructing 116 borewells to improve groundwater reserves which were later abandoned, rendering the entire expenditure wasteful.

(Paragraph 3.2.1)

Injudicious decision of the Executive Engineer, Provincial Division, Public Works Department (PWD), Buildings and Roads (B & R), Kaithal of making payment to an agency during the process of termination of a contract and non-recovery of mobilization advance as per terms and conditions of the agreement resulted in undue financial aid of ₹ 47.93 lakh to the contractor and non-recovery of ₹ 3.99 crore.

(Paragraph 3.2.2)

The Executive Engineer, Provincial Division No. 1, Gurgaon failed to provide a clear site for construction of an Industrial Training Institute building at Sohna which resulted in extra expenditure of ₹ 1.09 crore on retendering.

(Paragraph 3.2.3)

In Provincial Division, PWD (B & R), Charkhi Dadri, due to sub-standard execution of work, expenditure of ₹ 2.52 crore incurred on a damaged road became infructuous. Besides, avoidable expenditure of ₹ 30 lakh on repairs was incurred due to non-invoking of the defect maintenance liability clause of the agreement.

(Paragraph 3.2.4)

The Haryana State Agricultural Marketing Board started the construction of cold storages at Sonipat without finalisation of designs and drawings and detailed estimates which resulted in unfruitful expenditure of ₹1.72 crore as the construction had not been completed.

(Paragraph 3.2.5)

The Haryana Police Housing Corporation, constructed residential houses at the Police Station, Mohana at a cost of ₹ 56.26 lakh without providing basic amenities. The houses were lying unoccupied since January 2006, rendering the expenditure unfruitful.

(Paragraph 3.2.6)

1.5.2.3 Failure of oversight/governance

The Government has an obligation to improve the quality of life of the people towards fulfilment of certain goals in the areas of health, education, development and upgradation of infrastructure, public service, etc. Audit, however, noticed instances where funds released by Government for creating public assets for the benefit of the community aggregating ₹ 515.91 crore remained unutilised/blocked and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and lack of concerted action at various levels. A few such cases are mentioned below.

The Executive Engineer, Water Services Division, Dadupur constructed a ditch drain for carrying treated/untreated effluents of Yamunanagar and Jagadhri cities by spending ₹ 10.28 crore. The drain failed to sustain the discharge due to defective construction and effluents continued to be released in the Western Jamuna Canal which provided drinking water to the State and Delhi.

(Paragraph 3.3.1)

In Loharu Water Services Division, Charkhi Dadri, an irrigation channel constructed with high cost borrowing of ₹1.15 crore from the National Bank for Agriculture and Rural Development along with interest payment of ₹ 75.90 lakh thereon, was lying unutilised since its construction in September 2005.

(Paragraph 3.3.2)

Thirty four villages in three districts (Kaithal, Jhajjar and Mohindergarh) already being supplied potable water were selected for installation of water purification plants costing ₹ 4.21 crore.

(Paragraph 3.3.3)

The Executive Engineer, Public Health Engineering Division, Tosham constructed a sewerage scheme for Siwani Town by spending ₹ 2.99 crore but the scheme remained non-functional due to non-construction of a disposal point and non-providing of sewer connections to residents.

(Paragraph 3.3.4)

Due to non-finalisation of the list of eligible applicants, 2,072 dwelling units constructed by the Haryana Urban Development Authority at Panchkula by spending ₹ 62.01 crore were lying vacant for two years. In Ambala, the construction of 1,640 units could not be completed due to wrong site selection even after spending ₹ 55.49 crore.

(Paragraph 3.3.5)

Five District Food and Supply Controllers (Ambala, Kaithal, Karnal, Kurukshetra and Sirsa), failed to claim refund of bonus paid to farmers for the Kharif season of 2008 in time, resulting in loss of ₹ 2.04 crore to Government on account of interest.

(Paragraph 3.3.6)

The Haryana Building and Other Construction Workers Welfare Board failed to formulate and implement welfare schemes for the benefit of the workers, resulting in cess of ₹ 376.98 crore collected from the Government and Public Sector undertakings remaining unutilised.

(Paragraph 3.3.7)

1.6 Lack of responsiveness of Government to Audit

1.6.1 Outstanding inspection reports

After periodical inspections of Government departments, the Principal Accountant General (Audit) issues Inspections Reports (IRs) to the heads of the offices audited with copies to the next higher authorities. The executive authorities are expected to promptly rectify the defects and omissions pointed out and report compliance to the Principal Accountant General (Audit) within six weeks. Half-yearly reports of IRs pending for more than six months are also sent to the concerned Administrative Secretaries of departments to facilitate monitoring and compliance of the audit observations in the pending IRs.

A review of IRs issued up to March 2011 of various offices of the Education Department (Elementary, Secondary and Higher Education) disclosed that 6,189 paragraphs of 2,267 IRs with money value of ₹ 278.91 crore (**Appendix 1.1**) remained outstanding as on 30 June 2011. Of these, 1,581 paragraphs involving 805 IRs were more than five years old. Category-wise details of irregularities pointed out through these IRs which had not been settled as of 30 June 2011 are indicated in **Appendix 1.2**.

The Administrative Secretary of the department, who was informed of the position through half-yearly reports, failed to ensure prompt and timely action on the audit observations. The matter was referred to the Financial Commissioner and Principal Secretary to Government of Haryana, Elementary, Secondary and Higher Education in March 2011.

1.6.2 Response of departments to draft paragraphs

Draft paragraphs/performance audit reports pertaining to the year 2010-11 were forwarded demi-officially to the Principal Secretaries/Secretaries of the concerned departments between June and September 2011 with the request to send their responses within six weeks. Departmental replies for one out of four performance audit reports and one out of 15 paragraphs included in this Report have been received. The replies, wherever received, have been suitably incorporated in the Report.

1.6.3 Follow-up on Audit Reports

According to the instructions issued (October 1995) by the Finance Department and reiterated in March 1997 and July 2001, the administrative departments were required to initiate *suo moto* positive and concrete action on all audit paragraphs and performance audits featuring in the Comptroller and Auditor General's Audit Reports (ARs), regardless of whether the cases had been taken up for examination by the Public Accounts Committee or not. The administrative departments were also required to furnish detailed notes, duly vetted by Audit, indicating the remedial action taken or proposed to be taken by them within three months of the presentation of the ARs to the Legislature.

A review of the position regarding receipt of Action Taken Notes (ATNs) on the paragraphs included in the ARs up to the period ended 31 March 2010 revealed that out of 74 paragraphs and performance audits of 24 administrative departments included in the ARs for the period 2006-07, 2007-08, 2008-09 and 2009-10 were presented⁶ to the State Legislature, ATNs on 67 paragraphs and performance audit reports in the case of 23 administrative departments were not submitted as per details given in **Appendix 1.3**. The administrative departments, viz Public Works (Buildings and Roads Branch), Irrigation, Public Health, Education, Finance and Home (Police and Jail) had not submitted ATNs in respect of 30 out of 67 paragraphs/performance audit reports. Six administrative departments, out of those which had submitted the ATNs, had not taken any action to recover a total amount of ₹ 207.27 crore in respect of 10 paragraphs and performance audits as per details given in **Appendix 1.4**. Further, the response of the administrative departments towards the recommendations of the Public Accounts Committee was not encouraging as 354 recommendations relating to Audit Reports 1970-71 to 2005-06 were still awaiting final action by the concerned administrative departments as per details given in **Appendix 1.5**.

6 Audit Report 2006-07: March 2008, Audit Report 2007-08: February 2009 and Audit Report 2008-09: March 2010

