

CHAPTER-I INTRODUCTION

1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from compliance audit of the transactions of the departments and autonomous bodies in Social, General and Economic Sectors including performance/ thematic audit of selected schemes, departments, etc., of the Government of Himachal Pradesh.

The primary purpose of the Report is to bring to the notice of the State Legislature, the important results of audit. Auditing standards require that the materiality level of reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executives of the Government to take corrective actions as also to frame policies and directives that result in improved financial management of the organisations, thus contributing to better governance of the State.

Compliance audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities 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.

Performance audit is an independent assessment or examination of the extent to which an organisation, programme or scheme operates economically, efficiently and effectively.

Chapter-II of this Report deals with the findings of performance audit, Chapter-III contains a thematic audit paragraph, Chapter-IV contains observations on audit of transactions in Government Departments and Autonomous Bodies and Chapter-V covers the results of Chief Controlling Officer (CCO) based audit of the Department of Technical Education, Vocational and Industrial Training.

1.2 Profile of audited entities

There are 53 departments at the Secretariat level, headed by Chief Secretary/ Additional Chief Secretary/ Principal Secretaries/ Secretaries who are assisted by the Special Secretaries, Deputy Secretaries, Directors and Subordinates officers under them for 3638 units and 48 Autonomous Bodies of the State which are under the audit jurisdiction of the Principal Accountant General (PAG), Himachal Pradesh on behalf of the CAG. During 2011-12, 308 units of 27 departments were covered in Audit.

1.3 Expenditure profile of the State Government

The comparative position of expenditure incurred by the State Government during the year 2011-12 and in the preceding four years is given in **Table 1.1** below:

**Table-1.1
Comparative position of expenditure for the period 2007-12**

(₹ in crore)

Particular	2007-08			2008-09			2009-10			2010-11			2011-12		
	Non Plan	Plan	Total	Non Plan	Plan	Total	Non Plan	Plan	Total	Non Plan	Plan	Total	Non Plan	Plan	Total
Revenue expenditure															
General services	3406	23	3429	3887	31	3918	4335	42	4377	5249	30	5279	5655	35	5690
Social services	2147	728	2875	2898	434	3332	3307	595	3902	4081	898	4979	4209	938	5147
Economic services	1533	451	1984	1772	412	2184	2267	601	2868	2959	723	3682	2321	728	3049
Grants-in-aid and Contributions	3	---	3	4	---	4	4	---	4	6	--	6	12	--	12
Total (1)	7089	1202	8291	8561	877	9438	9913	1238	11151	12295	1651	13946	12197	1701	13898
Capital expenditure															
Capital Outlay (2)	100	1313	1413	87	1992	2079	48	1895	1943	15	1774	1789	46	1764	1810
Loans and Advances disbursed (3)	3	11	14	76	14	90	3	67	70	4	223	227	15	478	493
Repayment of Public Debt (4)	937	---	937	885	---	885	867	---	867	--	870	870	--	1128	1128
Total disbursement out of Consolidated Fund (1+2+3+4)	8129	2526	10655	9609	2883	12492	10831	3200	14031	12314	4518	16832	12258	5071	17329
Contingency Fund	---	---	---	--	---	---	---	---	---	--	--	--	--	--	--
Public Account disbursements	5737	---	5737	5690	---	5690	6421	---	6421	7162	--	7,162	8526	--	8526
Total	13866	2526	16392	15299	2883	18182	17252	3200	20452	19476	4518	23994	20784	5071	25855

1.4 Authority for audit

Authority for audit by the CAG is derived from the Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The CAG conducts audit of expenditure of the departments of the Government of Himachal Pradesh under Section 13¹ of the CAG's (DPC) Act. The CAG is the sole auditor in respect of 14 Autonomous Bodies which are audited under Sections 19(3)² and 20(1)³ of the CAG's (DPC) Act. In addition, the CAG also conducts audit of 34 other Autonomous Bodies, which are substantially funded by

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.

the Government, under Section 14⁴ of the CAG's (DPC) Act. The principles and methodologies for various audits are prescribed in the Auditing Standards (March 2002) and the Regulations on Audit and Accounts issued by the CAG in 2007.

1.5 Organisational structure of the office of the Principal Accountant General (Audit), Himachal Pradesh

Under the directions of the CAG, the Principal Accountant General (Audit), Himachal Pradesh conducts audit of the State Government departments and Autonomous Bodies. The Government departments have been grouped in Social Sector, General Sector, Revenue Sector and Economic Sector (Non-PSUs) and Economic Sector (PSUs) for the purpose of audit. This Report covers audit observations on Social Sector, General Sector and Economic Sector (Non-PSUs). During 2011-12, 18 audit parties⁵ conducted audit of the selected units from various departments of the State Government, autonomous bodies, externally aided projects, etc.

1.6 Planning and conduct of audit

Audit process commences with the assessment of risk of various Government departments/ organisations/ autonomous bodies and schemes/ projects, etc., based on expenditure, criticality/ complexity of activities, level of delegated financial powers, assessment of internal controls and the concerns of stakeholders. The previous audit findings are also considered as an input to this exercise.

After completion of audit of each unit, Audit Inspection Reports containing audit findings are issued to the Head of the unit/ Department. The units are requested to furnish replies to the audit findings within one month of receipt of the Audit Inspection Report. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Audit Inspection Reports are processed for inclusion in the CAG's Audit Report.

During 2011-12, 1952 party-days were utilised to carry out compliance audit of 308 units out of 3638 units of various departments/ organisations. The Audit Plan covered those units/ entities which were vulnerable to significant risk, as per the assessment.

1.7 Significant audit observations

A synopsis of the important audit findings relating to the performance audit of Hydro Power Development through Private Sector Participation, Thematic Audit of Himachal Pradesh Building and Other Construction Workers Welfare Board, CCO based audit of the Department of Technical Education, Vocational and Industrial Training and transaction audit paragraphs included in the Report are given as under:

⁴ Audit of all (i) 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.

⁵ Prior to restructuring of Audit Groups, 14 parties were under Civil Inspection Wing and four parties under Works Wing.

(a) Performance Audit

Hydro Power Development through Private Sector Participation

Recognising the importance of Hydro Power as a key to the prosperity of the State, the State Government formulated its Hydro Power Policy in December 2006, in order to promote efficient, ecological and environment friendly hydro power generation. The policy stipulated a four pronged strategy through participation of State Sector, Central Sector, Joint Sector and Private Sector in the development of hydro power in the State. The performance audit of the implementation of hydro power projects through Private Sector participation revealed that out of 559 projects of 10131 Mega Watt (MW) capacity allotted to Independent Power Producers (IPPs) during November 1991 to 2011-12, only 55 (10 *per cent*) projects with 1805.45 MW were completed and made operational. The State Government had got identification of potential sites of small hydro power projects done on the basis of preliminary reconnaissance only and no system existed to conduct pre-feasibility studies to ensure realistic estimation of power potential. Execution of 40 hydro power projects having total capacity of 315.35 MW could not progress well and suffered due to reasons such as inadequate/ non-conducting of feasibility studies, non-approval of Detailed Project Reports (DPRs) by the Department and non-signing of Implementation Agreements (IAs) by the IPPs. Also, negligence of environmental concerns was quite visible as for the sustenance of aquatic ecosystem and nearby ground water aquifers, minimum water flow of 15 *per cent* immediately downstream was not kept by one IPP. In addition, plantation activities in sampled projects were found highly deficient. Implementation of hydro power projects through private sector participation was not efficient due to non-existence of a suitable monitoring mechanism at the Apex level of the Government. Apart from this, there were shortfall in providing employment opportunities to bonafide Himachalis to the prescribed extent of 70 *per cent*. On the whole, there was inefficiency on the part of the Government in ensuring power development through IPPs.

(Paragraph 2.1)

(b) Thematic Audit

Functioning of Himachal Pradesh Building and Other Construction Workers Welfare Board (HPBOCWFB)

In pursuance of Sections 40 and 62 of Buildings and Other Construction Workers Welfare Act, enacted by the Government of India in August 1996, the State Government constituted the Himachal Pradesh Building and Other Construction Workers Welfare Board (Board) in March 2009. Audit noticed that the implementation of the aforesaid Act was not ensured expeditiously by the State Government and it took more than 12 years to constitute the Board. During 2009-12, the Board had receipts aggregating ₹ 107.46 crore which included ₹ 107.41 crore as cess and ₹ 0.05 crore as subscription. Of this, expenditure on Welfare Schemes for workers was only ₹ 0.04 crore (four *per cent*).

The crucial aspect of identification of beneficiaries and registration of establishments and implementation of welfare schemes for workers was not given due priority, and as a result huge funds remained unutilised with the Board in bank account. The implementation of the Act in the State was not done in an efficient way resulting in non-achievement of the objective of carrying out welfare measures for the workers.

(Paragraph 3.1)

(c) Audit of Transactions

Excess/ overpayment/ wasteful/ unfruitful/ infructuous expenditure

Failure of Public Works Department to ensure timely completion of road and bridge work led to unfruitful expenditure of ₹ 4.67 crore.

(Paragraph 4.1)

Faulty planning and failure of the Public Works Department to ensure encumbrance free land for construction of a road alongwith two bridges resulted in unfruitful expenditure of ₹ 1.04 crore on incomplete works.

(Paragraph 4.2)

Due to casual approach of the Public Works Department, desired objective of providing proper road connectivity to seven villages could not be achieved despite incurring expenditure of ₹ 2.05 crore on road and incomplete bridge.

(Paragraph 4.3)

Failure of the Public Works Department to ensure viability of road alignment resulted in wasteful expenditure of ₹ 55.38 lakh on incomplete road and Government dues of ₹ 18.07 lakh also remained unrecovered from a contractor for more than three years.

(Paragraph 4.4)

Undue favour to contractor/ avoidable expenditure

Drawal of funds in anticipation of requirements and their retention in Public Works Deposits and deposits with Corporation during February 2008 and March 2011 led to falsification of accounts, undue aid to the Corporation and loss of interest of ₹ 1.26 crore to the Government.

(Paragraph 4.5)

Unproductive expenditure/ idle investment/ blocking of funds/ diversion of funds

Expenditure of ₹ 1.81 crore incurred on the construction of hostel for Scheduled Castes (SC) students at Netaji Subhash Chandra Bose Memorial Government College, Hamirpur proved unproductive as it could not be utilised for want of electricity connection.

(Paragraph 4.6)

Failure of the Health and Family Welfare Department for non-setting up of Special new born care units resulted in locking up of ₹ 1.50 crore and denial of intended medical facilities in health institutions.

(Paragraph 4.7)

Failure of the Health and Family Welfare Department in timely finalisation of tender for procurement of Trauma Vans resulted in denial of initial trauma aid to accident victims and locking up of ₹ 1.75 crore in bank for four years.

(Paragraph 4.8)

An amount of ₹ 2.90 crore drawn for construction of Community Health Centre at Shri Naina Devi Ji and Administrative Block at Indira Gandhi Medical College, Shimla remained unutilised for two to three years for want of encumbrance free sites.

(Paragraph 4.9)

Imprudent decision of the Public Works Department to entrust road works under *Pradhan Mantri Gram Sadak Yojana* (PMGSY) to inexperienced legal heir of the contractor without any provision in the Standard Bidding Documents led to abandonment of works and rendered the expenditure of ₹ 1.92 crore as unproductive on incomplete roads. Besides, financial benefits of ₹ 1.44 crore were also extended to the contractor by way of non-recovery of Government dues.

(Paragraph 4.12)

Imprudent decision of the Public Works Department in awarding bridge work to a firm without ensuring techno-feasibility led to an unproductive expenditure of ₹ 21.31 crore.

(Paragraph 4.13)

Regularity and other issues

Failure to enforce the provisions of Member of Parliament Local Area Development Scheme (MPLADS) guidelines resulted in less release of scheme funds amounting to ₹ 3.10 crore for areas inhabited by Scheduled Castes population.

(Paragraph 4.16)

(d) Chief Controlling Officer based Audit of a Government Department

Department of Technical Education, Vocational and Industrial Training

Technical education plays a vital role in the socio-economic development of a State. The Department of Technical Education, Vocational and Industrial Training is responsible for developing competent technical manpower for catering to the needs of various industries and organisations within the State and Country. The Chief Controlling Officer (CCO) based audit covering the overall working of the Department including performance audit

of the implementation of State sponsored and Centrally Sponsored Schemes (CSSs) revealed that the Department could not provide an expected level of infrastructure despite receiving substantial funds from Government of India (GOI) for implementation of CSSs.

There was inadequacy of proper infrastructure as 42 out of 84 Industrial Training Institutes (ITIs) and seven out of 10 polytechnics did not have adequate infrastructure facilities, 67 ITIs had no hostel facilities for students and no facility of residential accommodation for the staff. Besides, there was also an acute shortage of staff, especially in teaching and teaching supporting staff. The percentage of shortages of above staff in various institutions was 23 to 72 and 45 to 70 *per cent* respectively as of March 2012. Execution of civil works such as buildings of Engineering and Pharmacy colleges, Polytechnics, ITIs hostels, etc., was being done without proper planning and definite timeframe. As a result, only four out of 29 works were completed during 2009-12 with cost overrun of ₹ 2.11 crore and time overrun of two to seven years. Besides, execution of eight works sanctioned at a cost of ₹ 15.27 crore and stipulated to be completed between March 2002 and March 2011 could not be taken up due to non-availability of sites and non-finalisation of drawings, etc. The remaining 17 works (estimated cost ₹ 135.96 crore) even after incurring an expenditure of ₹ 93.06 crore were lagging behind their schedule of completion by two to more than 12 years as of June 2012.

Against the total receipt of ₹ 85.71 crore, directly from Government of India (GOI) for the implementation of four CSSs during 2007-12, the Department could not spend ₹ 19.87 crore on infrastructure and equipment in the technical institutions as of March 2012. Thirty three ITIs were selected for upgradation through PPP mode in the State. In nine test-checked ITIs, envisaged upgradation remained incomplete as of March 2012 due to non-completion of civil works. As a result, the concerned institutes could utilise only ₹ 6.95 crore against availability of loan assistance of ₹ 11.25 crore.

(Paragraph 5.1)

1.8 Recoveries at the instance of Audit

The audit findings involving recoveries that came to notice in the course of test audit of accounts of the Departments of the State Government were referred to the Departments/ State Government through Audit Inspection Reports for further investigation and in case of overpayments/ excess payment recovery of the same under intimation to audit.

On being pointed out by audit, the Department/ State Government initiated corrective action in one case involving overpayment/ excess payment as tabulated below:

Department	Particulars of recoveries noticed	Amount involved	Corrective action taken by the Department/ State Government
Agriculture	Double payment of leave encashment	₹ 3.76 lakh	The Sub-Divisional Soil Conservation Officer (SDSCO) Fatehpur (Kangra district) drew and disbursed (March 2010 and November 2010) leave encashment claim of ₹ 3.76 lakh twice to a retired Agriculture Development Officer by falsely recording a certificate on the second bill to the effect that the same was first claim. This resulted in overpayment of ₹ 3.76 lakh to the retiree. On this being pointed out in audit (February 2011), the SDSCO recovered (March 2011) the excess paid amount of ₹ 3.76 lakh along with penal interest from the retiree and deposited in the Government Treasury.

1.9 Lack of responsiveness of Government to Audit

The Principal Accountant General (Audit), Himachal Pradesh (HP) conducts periodical inspection of Government Departments by test-check of transactions and verify the maintenance of important accounting and other records as per the prescribed rules and procedures. These inspections are followed by issue of Audit Inspection Reports (IRs). When important irregularities, etc., detected during audit inspection are not settled on the spot, these IRs are issued to the heads of offices inspected, with a copy to the next higher authorities.

The heads of offices and next higher authorities are required to report their compliance to the PAG (Audit) within four weeks of receipt of IRs. Serious irregularities are also brought to the notice of the Heads of the departments by the office of the PAG (Audit), HP through a half yearly report of pending IRs sent to the Principal Secretary (Finance).

Based on the results of test audit, 17552 audit observations contained in 6587 IRs outstanding⁶ as on 31st March 2012 are given in **Table 1.2** below:

Table-1.2
Outstanding Inspection Reports/ Paragraphs

Sr. No.	Name of Sector	Inspection Reports	Paragraphs	Amount involved (₹ in crore)
1.	Social Sector	3775	10293	3208.19
2.	General Sector	1173	3484	4252.74
3.	Economic Sector (Non PSUs)	1639	3775	4392.33
Total:		6587	17552	11853.26

During 2011-12, 39 meetings of the Adhoc Committee were held in which 342 IRs and 1347 paragraphs were settled.

⁶ Including IRs and paragraphs issued upto 30 September 2011 and outstanding as on 31 March 2012.

A detailed review of the IRs issued to 382 Drawing and Disbursing Officers⁷ (DDOs) upto September 2011 pertaining to Health and Family Welfare and Food and Civil Supplies departments revealed that 1046 Paragraphs having financial implications of ₹ 345.47 crore relating to 382 IRs remained outstanding at the end of 31 March 2012. Of these, oldest items pertain to IRs issued during the year 1970-71 and 368 paragraphs having financial implication of ₹ 25.12 crore had not been settled for more than 10 years. The year-wise position of these outstanding 382 IRs and 1046 paragraphs is detailed in **Appendix-1.1** and types of irregularities in **Appendix-1.2**.

The departmental officers failed to take action on observations contained in IRs within the prescribed time frame resulting in erosion of accountability.

It is recommended that the Government may look into the matter to ensure prompt and proper response to audit observations.

1.10 Response of departments to Audit Report material

For the Report of the Comptroller and Auditor General of India for the year ended 31 March 2012, one performance audit of Hydro Power Development through Private Sector Participation, one thematic audit paragraph on Functioning of Himachal Pradesh Building and Other Construction Workers Welfare Board, one CCO Based Audit of Department of Technical Education, Vocational and Industrial Training and 18 audit paragraphs were issued to the Government. The draft performance reviews, thematic paragraphs and audit paragraphs were forwarded to the Additional Chief Secretaries/ Principal Secretaries/ Secretaries of the concerned departments with the request to furnish replies within one month. However, in respect of thematic paragraph and 16 paragraphs included in the report, no reply was received from the State Government. The matter was also brought to the notice of the Chief Secretary in October 2012 to expedite replies from the concerned Administrative Heads but replies from them are still awaited (November 2012).

1.11 Follow-up on Audit Reports

According to the Rules of procedure for the internal working of the Committee on Public Accounts, the Administrative Departments were to initiate, *suo motu* action on all Audit Paragraphs and Reviews featuring in the Comptroller and Auditor General's Audit Reports (ARs) regardless of whether these are taken up for examination by the Public Accounts Committee or not. They were also 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 State Legislature.

The position regarding receipt of Action taken Notes (ATNs) on the paragraphs included in the ARs upto the period ended 31 March 2011 as on 31 August 2012 is given in **Table 1.3** below:

⁷ Health and Family Welfare: 335 and Food and Civil Supplies: 47.

Table-1.3
Position regarding receipt of ATNs on the paragraphs included in the ARs

Audit Report	Year	Department(s)	ATNs pending as of 31 August 2012	Date of presentation of ARs in the State Legislature	Due date for receipt of ATNs
Civil	2006-07	Home	01	10 April 2008	09 July 2008
	2007-08	Revenue	02	27 February 2009	26 May 2009
	2008-09	Revenue	01	13 April 2010	02 July 2010
	2009-10	Ayurveda	01	08 April 2011	07 July 2011
	2010-11	Miscellaneous departments	22	06 April 2012	05 July 2012
State Finances	2009-10	Finance and Miscellaneous departments	All Chapters	08 April 2011	07 July 2011
	2010-11	Finance and Miscellaneous departments	All Chapters	06 April 2012	05 July 2012
Mandi District	2010-11	Miscellaneous departments	All Chapters	06 April 2012	05 July 2012

1.12 Status of placement of Separate Audit Reports of Autonomous Bodies in the State Assembly

Several Autonomous Bodies have been set up by the State Government. A large number of these bodies are audited by the Comptroller and Auditor General of India for verification of their transactions, operational activities and accounts, regulatory compliance audit, review of internal management, financial control and review of systems and procedures, etc. The audit of accounts of 14 bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report (SAR) and its placement in the State Legislature are indicated in *Appendix-1.3*. The frequency distribution of Autonomous Bodies on the delays in submission of accounts to Audit and placement of Separate Audit Reports in the State Legislature after the entrustment of Audit to the Comptroller and Auditor General of India is summarised in **Table 1.4** below:

Table-1.4
Delays in Submission of Accounts and tabling of Separate Audit Reports

Delay in submission of Accounts (In Months)	Number of Autonomous Bodies	Reasons for the Delay	Delay in submission of SARs in Legislature (In Years)	Number of Autonomous Bodies	Reasons for the delay
0 – 1	08	Shortage of staff	0 – 1	-	-
1 – 6	03	-do-	1 – 2	-	-
Total	11				

The accounts of 10 Autonomous Bodies for the year 2011-12 were submitted late ranging between three to 37 days and the accounts of Himachal Pradesh Building and Other Construction Workers Welfare Board for the year 2011-12 have not been rendered as of November 2012. Delay in finalisation of accounts carries the risk of financial irregularities remaining undetected and, therefore, the accounts need to be finalised and submitted to audit at the earliest.