

Chapter 3

FINANCE DEPARTMENT

3.1 Lack of response to Audit

Timely response to audit findings is one of the essential attributes of good governance as it provides assurance that the Government takes its stewardship role seriously.

Section 13 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971 mandates the Comptroller and Auditor General of India (C&AG) to audit all expenditure incurred by the State Government. Section 18 of the said Act mandates the C&AG to inspect various offices of the State Government responsible for keeping of initial or subsidiary accounts. Regulations on Audit and Accounts 2007, issued by the C&AG under Section 23 of the Act, serve to operationalise the provisions of the Act in so far as the scope, extent and procedure of audit is concerned. Audit conduct periodical inspection of Government departments and their field offices according to the procedure laid down in the Regulations on Audit and Accounts 2007 (Chapters 13 and 14) to test check a few transactions on sample basis. During these inspections, the quality and timeliness of maintenance of important accounting and other records as per prescribed rules and procedures is verified and opinion not only on the truthfulness and fairness of the accounts so maintained but also on the economy, efficiency and effectiveness aspects of the transactions connected with such accounts is expressed. Such comments and opinion are incorporated in Inspection Reports (IRs) which are sent to the Heads of Offices and the next higher authorities.

Regulations 195 and 196 of Regulations of Audit and Accounts 2007 require each audited entity to maintain proper record relating to receipt of IRs and progress of their settlement and also initiate action for settlement of audit observations with reference to the audit memos issued during audit without waiting for formal receipt of the IRs from the Audit Office. Regulation 197 requires that the officer in-charge of the audited entity to send the reply to IR paragraphs to the respective Audit office within four weeks of its receipt. Even if, it is not feasible to furnish final replies to some of the observations in the IRs within the aforesaid time limit, the first reply should not be delayed and an interim reply to be given indicating the likely date by which the final reply would be furnished. In the case of an IR that relates to Public Works department, the reply is to be sent through the next higher authority along with the observations of that authority (Regulation 198). Thus, all defects and acts of omissions and commission are expected to be attended to promptly and compliance reported to the Accountant General (G&SSA) after taking due executive / administrative action to set right / remedy such defects / acts. A half-yearly report of pending IRs is also sent to the Secretary of each department to facilitate monitoring of the audit observations / comments / opinions and their compliance by the departments.

A review of the IRs issued upto March 2012 pertaining to 24 departments showed that 75001 paragraphs relating to 11667 IRs were outstanding at the end of June 2012. Of these, 2308 IRs containing 6089 paragraphs have not been settled for more than 10 years (*Appendix 3.1*). Even the first reply from the Heads of Offices which was to be furnished within four weeks was not received in respect of 2638 IRs issued up to March 2012. Year-wise position of the outstanding IRs and paragraphs are detailed in *Appendix 3.2*. Five major defaulters were Panchayati Raj, Revenue & Disaster Management, Health & Family Welfare, Women & Child Development and School & Mass Education departments.

Serious irregularities commented in these IRs like non compliance with rules and regulations, improper expenditure and expenditure without justification, persistent / pervasive irregularities and failure of oversight / governance have not been settled as of June 2012. Details are in *Appendix 3.3*.

Apart from the above standing mechanism, Triangular Committee (TC) meetings, consisting of representatives of the administrative departments, Accountant General (G&SSA) and Financial Advisors of the respective Departments are also held for speedy settlement of the outstanding IRs and paragraphs after detailed deliberations and verification of records in support of the action taken to address the audit observations. Accordingly, 27 TC meetings were held during 2011-12 at different district headquarters in which a total of 117 IRs and 2103 paragraphs relating to eight departments could be settled (*Appendix 3.4*).

The Chief Secretary also communicated (1 January 2013) serious concern of the Chairman, Public Account Committee over inadequate response of some departments and instructed all departments to personally review the cases and to furnish the first replies of IRs received up to November 2012 latest by 15 January 2013. The Chief Secretary also intimated the Departmental Secretaries about the recommendation of the Chairman PAC that:

- The first replies to the outstanding unsettled IRs should be submitted to AG immediately;
- Calendar for convening TC meetings for the Departments having huge number of IRs to be prepared for the calendar year 2013 in consultation with the AG;
- Departmental Monitoring Committee meetings should be held regularly and the proceedings thereof should be shared with the AG for their record.

In line with the above recommendation, Finance Department had chalked out annual calendar for holding TC meetings during the year 2013 in respect of five Departments¹ in consultation with the AG(G&SSA) and the AG(E&RSA).

¹ Health and Family Welfare, Panchayati Raj, School and Mass Education, Water Resources and Women and Child Development

3.1.1 Follow up action on earlier Audit Reports

Serious irregularities noticed in audit are included in the Audit Reports of the Comptroller and Auditor General of India (C&AG) that are presented to the State Legislature. According to the Finance Department instructions (December 1993), the Administrative Departments are required to furnish explanatory notes on the transaction paragraphs, Performance Audits etc., included in the Audit Reports within three months of their presentation to the State Legislature. Regulations on Audit and Accounts 2007 issued by the Comptroller and Auditor General of India outlines (Regulation 212) the manner in which the Departments should furnish replies to the Public Accounts Committee (PAC). Explanatory notes to paragraphs/ Performance Audits of C&AG's Audit Reports should carry the approval of the Secretaries and state:

- whether a written reply on the draft audit paragraph was sent to the Accountant General (G&SSA) and if not, the reasons for not doing so;
- action taken to fix responsibility on the individual(s) responsible for the loss, failure, infructuous expenditure, etc; and the likely time frame within which such action is expected to be completed;
- the current status of recovery of any amount due to Government as pointed out in the audit paragraph;
- the action taken or proposed to be taken on the suggestions and recommendations made in the audit paragraph;
- the result of review of similar other cases, and the action taken;
- remedial action taken or proposed to be taken to avoid occurrence of similar cases in future, to streamline the systems and to remove system deficiencies, if any.

In the seventh Apex Committee meeting (11 April 2012), it was decided that all Departments should ensure disposal of outstanding Action Taken Notes (ATN) and paragraphs of C&AG Reports between July 2012 and September 2012, but no significant improvement was noticed.

However, it was noticed that in respect of Audit Reports from the year 2001-02 to 2010-11 indicated below (Table-3.1), 12 out of 25 departments, which were commented upon, did not submit explanatory notes on paragraphs and Performance Audits as of September 2012.

Table 3.1: Position of Paragraphs and Performance Audits(PAs) (In Number)

Year of Audit Report	Total number of paragraphs including paragraphs on State Finances and Allocative Priorities and Appropriation etc.	Individual paragraphs/reviews/others			Number of performance audits / Reviews and individual transaction audit paragraphs for which explanatory notes were not submitted (September 2012)	
		Individual paragraphs	Reviews/ Performance Audits	Others	Individual paragraphs	PAs
2000-01	57	6	22	29	1	0
2001-02	47	3	16	28	2	0
2002-03	41	6	15	20	0	1

Year of Audit Report	Total number of paragraphs including paragraphs on State Finances and Allocative Priorities and Appropriation etc.	Individual paragraphs/reviews/others			Number of performance audits / Reviews and individual transaction audit paragraphs for which explanatory notes were not submitted (September 2012)	
		Individual paragraphs	Reviews/ Performance Audits	Others	Individual paragraphs	PAs
2003-04	46	4	19	23	1	1
2004-05	44	7	15	22	1	1
2005-06	42	4	13	25	1	1
2006-07	42	5	14	23	5	2
2007-08	36	2	10	24	5	0
2008-09	54	4	22	28	9	1
2009-10	44	5	12	27	7	3
2010-11	46	6	10	30	5	5
Total	499	52	168	279	37	15

Source: As per records of the AG (G&SSA)

Explanatory notes in respect of 37 individual paragraphs have not been received as of September 2012 can be categorised under (i) non-compliance with rules and regulations (14), (ii) audit against propriety / expenditure without justification (11), (iii) persistent / pervasive irregularities (1) and failure of oversight and governance (11). The department-wise analysis as in the **Appendix 3.5** shows that the departments largely responsible for non-submission of explanatory notes were Revenue and Disaster Management, Health and Family Welfare, Housing and Urban Development, Food Supplies and Consumer Welfare followed by Higher Education etc.

The Chief Secretary also intimated the Departmental Secretaries (January 2013) about the following recommendation of the Chairman PAC and assurance given by him to PAC for submission of compliances and ATNs to all the C&AG's Audit Reports (both the Civil and Revenue Receipts) latest by 31 March 2013.

- Departments should avoid furnishing compliances to the PAC on the date of PAC meeting or a day before the meeting as such last minute compliances do not give sufficient time for the AG to brief the PAC;
- Secretaries of Departments have to pay adequate attention to the compliances furnished by the Departments instead of routinely forwarding the replies of subordinate officers to AG/PAC.
- Secretaries should take proactive action in addressing issues raised by the AG at the draft para stage, so that submission of compliance can be made much before the prescribed time limit.

3.1.2 Response of the departments to the recommendations of the Public Accounts Committee

The Public Accounts Committee Reports / recommendations are the principal medium by which the legislature enforces financial accountability of the executive to the Legislature and it is appropriate that they elicit timely

response from the departments in the form of Action Taken Notes (ATNs). The Odisha Legislative Assembly (OLA) Secretariat issued (May 1966) instructions to all departments of the State Government to submit ATNs on serious suggestions, observations and recommendations made by PAC for their consideration within six months after presentation of PAC Reports to the Legislature. The above instructions were reiterated by Government in Finance Department in December 1993 and by OLA Secretariat in January 1998. The time limit for submission of ATNs had since been reduced to four months instead of six months by OLA (April 2005)². In seventh meeting of Apex Committee (April 2012), it was further decided that all the departments should ensure disposal of outstanding ATNs on Recommendations of PAC and C&AG's paras between July 2012 and September 2012.

However, out of 624 recommendations (*Appendix 3.6*) made by the PAC from the first Report of Tenth Assembly (1990-95) to fortieth Report of Thirteenth Assembly (2004-09) final action on 69³ recommendations from five Departments were awaited (September 2012). The Departments largely responsible for non-submission of ATNs were Rural Development, Health & Family Welfare, Law followed by Revenue and Disaster Management.

3.1.3 Monitoring

The following Committees have been formed at the Government level to monitor the follow up action on Audit Reports and Action Taken Notes on recommendations of PAC.

3.1.3.1 Departmental Monitoring Committee

Departmental Monitoring Committees (DMCs) have been formed (between May 2000 and February 2002) in all the departments of the Government headed by the Departmental Secretaries to monitor the follow up action on Audit Reports, PAC recommendations and Inspection Reports and are required to hold the meetings in each quarter and send the proceedings of such meetings to audit. Subsequently, it was decided in the seventh meeting of Apex Committee (April 2012) that DMC meeting should be convened each month on a fixed date. Out of 25 departments including Odisha Legislative Assembly Secretariat, 15 departments⁴ did not send any proceedings whatsoever for the year 2011-12 as of September 2012.

3.1.3.2 Review Committee

A Review Committee had been formed (December 1992) comprising Principal Secretary, Finance Department, erstwhile Accountant General (Audit-I), Accountant General (Audit-II) and concerned Departmental Secretaries to

² Rule 213-B(1) of Rules of procedure and Conduct of Business in the Odisha Legislative Assembly

³ Health & family Welfare (16), Housing and Urban Development (1), Law (8), Revenue & Disaster Management (12) and Rural Development (32)

⁴ General Administration, Health and Family Welfare, Higher Education, Housing and Urban Development, Information and Public Relations, Law, Odisha Legislative Assembly, Parliamentary Affairs, Planning and Coordination, Public Enterprises, Public Grievance and Pension Administration, Sports and Youth Services, Science and Technology, SC and ST Development and Minorities and Backward Classes Development and Culture.

review the progress as well as the adequacy of action taken on C&AG's Audit Reports and recommendations of PAC in order to facilitate the examination of such Reports/Recommendations by the State PAC.

The Review Committee meeting chaired by the Chief Secretary was convened last on 6 January 2009. It was decided in the meeting that all the Administrative Departments should reconcile the position of pendency with the Accountants General, Odisha on the Action Taken Notes, compliance to paragraphs of C&AG's Audit Reports (Civil) and (Revenue Receipts) and list of excess expenditure pending for regularisation for different years and take follow up action within the prescribed time frame by holding Departmental Monitoring Committees (DMCs). However, as indicated earlier, 15 out of 25 departments of the State Government did not send any proceedings of DMC whatsoever for the year 2011-12 as of September 2012.

3.1.3.3 Apex Committee

An Apex Committee comprising eight members was formed (December 2000) at the State level under the Chairmanship of the Chief Secretary with the Secretary, Finance Department as permanent member and Secretary of five other departments (Water Resources, Home, Panchayati Raj, Agriculture and Revenue as members and Additional Secretary, Finance (Audit & Accounts) as member convener. The Committee was to (i) review functioning of the DMC, ensure timely submission of compliance to the Accountants General, Odisha and to the Public Accounts Committee, (ii) review periodically the action taken on C&AG's Reports by the department and (iii) sort-out bottlenecks for prompt action to be taken by all the departments of the Government on audit observations. The Committee would sit half-yearly. On review of the work plan for disposal of the pendency prepared for different departments, the Committee found (April 2012) that the disposal except few departments seemed below par. The following important decisions were taken in the said meeting:

- All Departments should ensure disposal of outstanding ATN on PAC recommendations and CAG Paragraphs as per the approved Work Plan;
- Secretaries should personally ensure furnishing replies to draft audit paragraphs within the prescribed time of six weeks;
- DMC meeting should be convened every month under the responsibility of Financial Advisors/Additional Financial Advisors (FAs/AFAs);
- Stringent action to be taken against the officers withholding production of records to Audit; and
- There should be quarterly interaction with the Accountant General and his officers for better understanding of issues raised in audit.

Despite the above decisions, explanatory notes in respect of 52 paragraphs including 15 reviews/Performance Audits of C&AG's Audit Reports relating to 2000-01 to 2010-11 and 69 ATNs on PAC recommendations (Tenth to Thirteenth Assembly) were pending with the departments as indicated in the *Appendix 3.5* and *3.6* (September 2012).



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