Chapter-1

Introduction

1.1 About this chapter

This chapter covers profile of audited entities, budget and expenditure of the State Government for the last five years, authority for audit, planning and conduct of audit, responses of the departments to draft paragraphs, follow up on Audit Reports and status of placement of Supplementary Audit Reports in State Assembly. Besides, significant audit observations included in this Report have also been brought out in this chapter.

1.2 Profile of audited entities

There are 44 departments and 35 autonomous bodies (28 State and seven Central) in the State under the audit jurisdiction of the four sectors of the office of the Accountant General (Audit), Punjab. Besides, audit of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) was entrusted to this office in October 2011. There are 12936[1] PRIs and 140[2] ULBs in Punjab as on 31 March 2012. During 2011-12, audit of 1437 drawing and disbursing officers of 44 departments, 248 PRIs and 32 autonomous bodies (25 State and seven Central) was conducted by this office.

1.3 Budget and expenditure of the State Government

1.3.1 Budget profile

The position of budget and expenditure incurred there against by the State Government during 2007-12 is given in **Table 1.1**.

Table 1.1: Budget and expenditure

(₹ in crore)

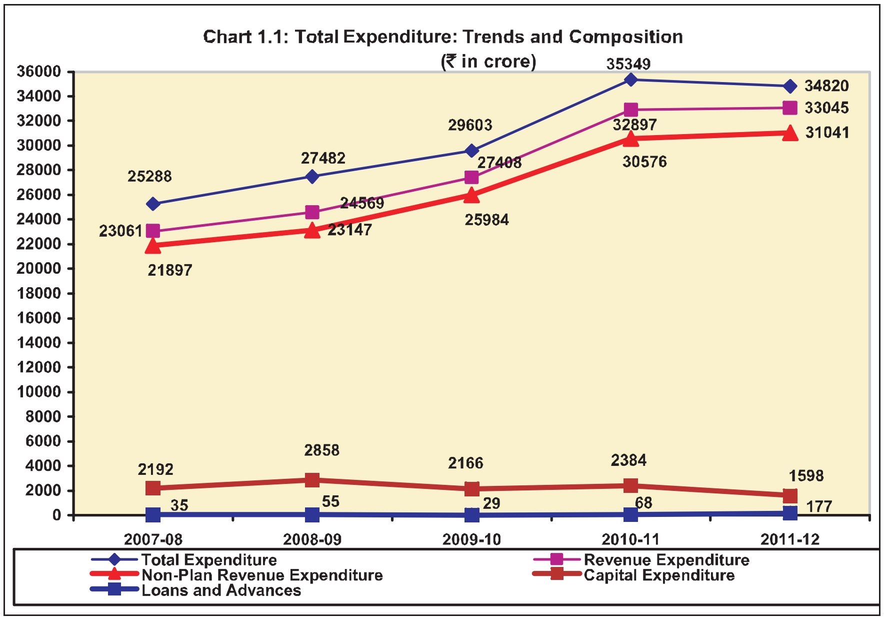
Disbursement	2007-08		2008-09		2009-10		2010-11		2011-12	
	Budget	Expenditure	Budget	Expenditure	Budget	Expenditure	Budget	Expenditure	Budget	Expenditure
Revenue expenditure										
General Services	12573.53	12891.90	13997.31	14032.13	15859.39	15525.28	17465.85	18597.73	16434.11	16787.95
Social Services	4942.22	4333.58	6394.72	5482.68	7296.23	6217.13	8600.00	7260.85	11387.32	9246.50
Economic Services	6229.92	5478.59	5477.74	4744.49	5927.18	5218.62	6795.03	6398.94	7018.77	6264.07
Grants-in-aid and Contributions	747.96	356.79	861.29	309.69	520.95	446.91	1319.39	639.66	1759.22	746.80
Total	**24493.62**	**23060.86**	**26731.06**	**24568.99**	**29603.75**	**27407.94**	**34180.27**	**32897.18**	**36599.42**	**33045.32**
Capital expenditure										
Capital Outlay	3405.12	2191.60	4664.19	2857.93	3603.46	2166.41	4029.43	2384.09	3959.66	1598.12
Loans and Advances disbursed	40.02	34.85	40.06	55.07	27.67	28.84	68.27	68.40	176.84	176.61
Repayment of Public Debt (including Ways and Means Advances)	1673.75	1719.22	2408.03	2288.52	5902.89	5308.36	7385.58	5952.88	8624.92	2675.22
Contingency Fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Public Account disbursements	17297.37	18751.22	22688.57	22590.85	22618.88	20721.04	23011.37	25836.98	29020.27	28771.75
Total	**22416.25**	**22696.89**	**29800.85**	**27792.37**	**32152.90**	**28224.65**	**34494.65**	**34242.35**	**41781.69**	**33043.40***
Grand Total	**41991.27**	**45757.75**	**56531.91**	**52361.36**	**61756.65**	**55632.59**	**68674.92**	**67139.53**	**78381.11**	**66088.72**

***Source:** Annual Financial Statement and Explanatory Memorandum of the Budget of the Government of Punjab.*
** It includes minus closing cash balance of ₹ 178.30 crore.*

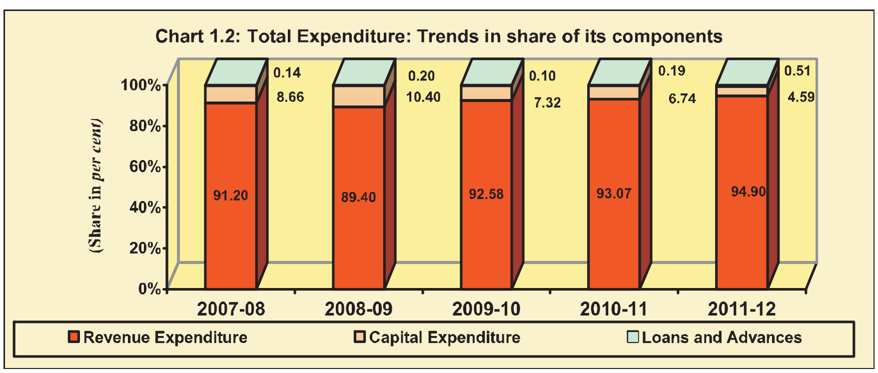
1 20 Zila Parishads, 141 Panchayat Samitis and 12775 Gram Panchayats.
2 Five Municipal Corporations, 102 Municipal Councils and 33 Nagar Panchayats.

1.3.2 Application of resources of the State Government

The trend of total expenditure over a period of last five years (2007-12) is given in **Chart 1.1**.



Composition of total expenditure incurred during the period 2007-12 is given in **Chart 1.2.**



Source: Figure of expenditure from Finance Accounts

The total expenditure[3] of the State increased by 37.69 *per cent* from ₹ 25,288 crore in 2007-08 to ₹ 34,820 crore in 2011-12. The revenue expenditure increased by 43.29 *per cent* from ₹ 23,061 crore to ₹ 33,045 crore, non plan revenue expenditure increased by 41.76 *per cent* from ₹ 21,897 crore to ₹ 31,041 crore and capital expenditure decreased by 27.09 *per cent* from ₹ 2,192 crore to ₹ 1,598 crore during the period 2007-12.

[3] Total expenditure includes revenue expenditure, capital expenditure and loans and advances.

1.3.3 Application of resources

The revenue expenditure constituted a dominant proportion (89 to 95 *per cent*) of the total expenditure during the years 2007-12 leaving small fund for capital expenditure (5 to 11 *per cent*). During this period, it grew at an annual average growth rate of 8.66 *per cent* whereas, the revenue receipts grew at an annual average of 7.27 *per cent* during 2007-12. It implies that the revenue expenditure could outpace the revenue receipts in the years to come.

The plan revenue expenditure contributed just five to seven *per cent* of the total revenue expenditure, whereas the non-plan revenue expenditure was 93 to 95 *per cent* during the period 2007-12.

1.3.4 Financial assistance to PRIs and ULBs out of State budget

The quantum of financial assistance provided by way of grants and loans to the PRIs and ULBs during 2007-12 is given in the **Table 1.2.**

Table 1.2: Financial assistance to PRI and ULBs

(₹ in crore)

Institutions	2007-08	2008-09	2009-10	2010-11	2011-12
Municipal Corporations and Municipalities	28.75	1.93	18.87	155.05	71.90
Zila Parishads and Other Panchayati Raj Institutions	145.11	73.34	116.93	87.02	131.48
Total	**173.86**	**75.27**	**135.80**	**242.07**	**203.38**

Source: Finance Accounts

1.4 Authority for audit

The authority for audit by the Comptroller and Auditor General of India is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General of India's (C&AG) (Duties, Powers and Conditions of Service) Act, 1971. The Accountant General (Audit), Punjab conducted audit of expenditure of civil and works departments, PRIs and ULBs and autonomous bodies of the Government of Punjab under Sections 13, 14, 15, 17, 19(2), 20 and 20(1) and audit of receipts of the State under section 16 of the C&AG's (DPC) Act. The principles and methodologies for various audits are prescribed in the Regulations on Audit and Accounts, 2007 and the manuals issued by the C&AG.

1.5 Planning and conduct of audit

The Audit process starts with the risk assessment of various departments, autonomous bodies, schemes/projects etc. based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, 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 and an Annual Audit Plan is formulated to conduct audit. The audit plan covers those offices/entities which are vulnerable to significant risks as per our assessment.

After completion of audit of each office, Inspection Report (IR) containing audit findings is issued to the head of the office with request to furnish replies to the audit findings within one month of receipt of the IR. Whenever replies are received, audit findings are either settled, if the replies are found satisfactory or further action for compliance is advised. The important audit observations pointed out in these IRs are processed for inclusion in the Audit Reports of the C&AG, which are submitted to the Governor of Punjab under Article 151 of the Constitution of India.

During 2011-12, compliance audit of 1437 drawing and disbursing officers of the State, 248 PRIs, 32 autonomous bodies was conducted by the office of the Accountant General (Audit), Punjab. Besides, two performance Audits viz. (i) construction and improvement of rural roads under Pradhan Mantri Gram Sadak Yojna and (ii) Implementation of Mahatma Gandhi National Rural Employment Guarantee Scheme, one Chief Controlling Officer based Audit of Jails Department and three Thematic Audits on (i) Ineffective implementation of State Disaster Response Fund, (ii) Working of Internal Audit Organization and (iii) Non-achievement of objectives due to non-utilisation of labour cess fund were also conducted.

1.6 Significant audit observations

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities as well as on the quality of internal controls in selected departments, which have impact on the success of programmes and functioning of the departments. The focus was on auditing the specific programmes/schemes and to offer suitable recommendations, with the intention to provide an aid to the executive in taking corrective action and improving service delivery to the citizens.

1.6.1 Performance Audit

Performance audit examines the extent to which the objectives of an organization, programme or scheme have been achieved economically, efficiently and effectively.

The present Report contains two performance audits. Significant audit observations are given below:

(i) Construction and improvement of rural roads under Pradhan Mantri Gram Sadak Yojna

The objectives of the Pradhan Mantri Gram Sadak Yojna (PMGSY) of providing all-weather road connectivity to the unconnected habitations in the rural areas were not achieved since it could not meet its targets as defined under the PMGSY. Even after lapse of five years from the target date (March 2007), three habitations of population 1000 and above and 20 of population 500 and above were still unconnected. New connectivity to 96 habitations of the PMGSY Core Network were provided from State funds and NABARD loans thereby putting extra burden on the State exchequer. Eighteen roads were upgraded without preparation of Comprehensive Upgradation Priority

List, in contravention of PMGSY guidelines. Maintenance of roads was not carried out as planned. State's share was released directly bypassing the Nodal Agency. In 63 cases, works were either executed in excess of approved length under Core Network or completed without executing approved items of work. Excess length of 28.61 kms was constructed without approval in Core Network and 28.81 kms of Core Network was executed with State funds and NABARD loans, putting extra burden on State exchequer, despite availability of huge funds with State Rural Roads Development Agency. Thirteen roads were upgraded in violation of technical specification. Internal control and monitoring was inadequate.

(Paragraph 2.1)

(ii) Performance Audit on Implementation of Mahatma Gandhi National Rural Employment Guarantee Scheme

The district perspective plan providing framework for the Annual Development Plan was not approved in respect of any of the districts. The Annual Development Plans were not prepared in realistic manner and were not based on the actual trends of the previous years. The state share was not released in full and on time. The available funds could not be utilized during the period covered under performance audit. The funds released were diverted for works not covered under the scheme.

The primary objective of ensuring the livelihood security by providing 100 days of annual employment to the registered households remained unachieved. The payment of wages to the beneficiaries was not made within the prescribed time period and workers were not compensated for delayed payments. Non-adherence to guidelines of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) in respect of execution of impermissible works, non maintenance of prescribed wage material ratio, use of machinery and contractors were noticed during audit. No evaluation study to assess the performance of the scheme and its impact on individual life was conducted. Vital records necessary for effective implementation of the scheme prescribed under the guidelines were not maintained. There was no system in place to verify the authenticity of the data uploaded on the MGNREGS website.

State Government did not take adequate capacity building measures for implementation of the scheme as there was acute shortage of staff implementing MGNREGS in the State. No training calendar and training module for various target groups of trainees was developed to train the staff for effective implementation of the scheme. Transparency, accountability and grievances redressal systems were found inadequate.

(Paragraph 2.2)

1.6.2 Thematic Audit paragraphs

The present report contains three thematic paragraphs. Significant audit observations are given below:

(i) Ineffective implementation of State Disaster Response Fund

Late receipt of Government of India's contribution due to non-submission of necessary requisites by Financial Commissioner Revenue not only caused loss of interest to the State Disaster Response Fund (SDRF), but it also reflected upon the inadequate internal control in the department. Non-investment of funds in the prescribed instruments, in contravention of the guidelines led to non-availability of sufficient floating money in SDRF, which delayed the disbursement of relief to the victims of natural calamities, thereby defeating the prime objective of the scheme. Inadmissible expenditure from SDRF exhibited ineffective implementation of the scheme.

(Paragraph 3.1)

(ii) Working of Internal Audit Organization

The main aim for setting up of Internal Audit Organisation (IAO) remained unachieved due to deficient audit planning, acute shortage of human resource, non-adherence to the pendency and category based audits, besides deficiencies in execution. Lack of monitoring and follow up of long pending audit objections further diluted the impact of the internal audit. The Finance Department is required to review and evaluate the working of IAO, prepare Manual for guidance and also make available sufficient human resource to achieve the objectives for which IAO was established.

(Paragraph 3.2)

(iii) Non-achievement of objectives due to non-utilisation of cess fund

Delay of twelve years in implementation of the Building and Other Construction Workers' (Regulation of Employment and Conditions of Service) Act, 1996 and Building and Other Construction Workers' Welfare Cess Act, 1996, non implementation of all the approved welfare schemes and absence of data of construction companies/workers engaged in the construction activities led to non achievement of objectives and non providing of basic amenities and benefits under the scheme to the workers despite huge funds being available with the Punjab Building and Other Construction Workers' Welfare Board. Non implementation of three out of eight formulated schemes indicates slackness in implementation of welfare schemes.

(Paragraph 3.3)

1.6.3 Compliance Audit of transactions

Audit has also observed significant deficiencies in critical areas, which has adversely impacted effective functioning of the Government departments/organizations. These are broadly categorised and grouped as under:

- Non-compliance with rules and regulations.
- Failure of oversight/governance.

a) Non-compliance with rules and regulations

For sound financial management, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authorities. This helps in maintaining financial discipline and prevents irregularities, misappropriation and frauds. This Report contains instances of non-compliance with rules and regulations as given below:

Inclusion of price adjustment clause in a lump sum contract against the spirit of PWD code/financial rules resulted in extra payment of ₹5.74 crore to contractor.

(Paragraph 4.1.1)

Non approval of tenders within the validity period and delay in retendering led to extra/avoidable expenditure of ₹ 2.17 crore.

(Paragraph 4.1.2)

Award of work of road over bridge without obtaining prior approval of drawing/design from Railways led to execution of extra work of ₹ 1.34 crore.

(Paragraph 4.1.3)

Delay in issue of declaration under Section 6 and consequential delay in announcement of award, coupled with delayed demand of funds by Director Civil Aviation resulted in avoidable extra payment of ₹0.94 crore to land owners on account of additional compensation.

(Paragraph 4.1.4)

Failure of the department to regulate the payment of compensation as per provisions of the Land Acquisition Act resulted in excess payment of ₹ 31.57 lakh to the land owners.

(Paragraph 4.1.5)

b) Failure of oversight/governance

Government has an obligation to improve the quality of life of the people in the areas of health, education, development and upgradation of infrastructure, public services etc. Audit noticed instances where the funds released by the Government for creating public assets remained unutilized/blocked or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. Audit findings related to failure of oversight are as under:

Failure of the Director Civil Aviation to recover the amount of ₹23.80 crore paid towards cost of the land already acquired and to deposit the same in

Government account within one month of its withdrawal deprived the State Government to save interest of ₹7.02 crore paid on borrowings.

(Paragraph 4.2.1)

Water supply schemes augmented 32 to 44 months earlier at a cost of ₹2.90 crore were not used by the intended beneficiaries of the scheme.

(Paragraph 4.2.2)

Irregular payment of ₹ 1.78 crore on items of works not included in detailed notice inviting tenders/bill of quantities and in allotment of work to contractor.

(Paragraph 4.2.3)

Failure of the department to complete the irrigation project even after incurring an expenditure of ₹ 18.21 crore resulted in unproductive expenditure, besides non achieving the assured irrigation facilities to farmers.

(Paragraph 4.2.4)

Procurement of uniforms by the District Education Officer from unapproved suppliers by reducing the number of approved items resulted in non supply of complete uniforms to students.

(Paragraph 4.2.5)

1.6.4 Chief Controlling Officer based Audit

The Chief Controlling Officer (CCO) based audit is a comprehensive appraisal of the functioning of a department, identifying systemic issues that need to be addressed at various appropriate levels. The audit focuses on the internal control that has an impact and risks on the achievement of objectives for which the department was established. Apart from the regularity and compliance issues, all the important aspects of functioning of the department viz. financial management, execution, monitoring, internal controls and human resource management etc. are covered in this appraisal.

The present Report contains one CCO based audit. Significant audit observations are given below:

Jails Department

Budget estimates were found to have been prepared unrealistically. Non-creation of reception centres in jails required for segregation of prisoners led to lodging of prisoners suffering from Tuberculosis and mental disorder with other prisoners and the health care facilities were also found to be inadequate. Video conferencing system was underutilized. Fifty one prisoners escaped during 2010-12 while ferrying them to courts for peshis. Enhanced capacity of jails was not utilized in a scientific manner to ease out the overcrowding. Reformative activities for prisoners were absent and most of the rehabilitation activities were also primitive. There was shortage of Warders and the available Warders were also not deployed in proportion to the number of inmates. The only Jail Training School in Punjab was lacking *basic infrastructure. Inadequate inspections of the jails and non submission of various prescribed periodical returns indicated the weak internal control management system in the department.*

(Paragraph 5.1)

1.7 Recoveries at the instance of audit

The audit findings involving recoveries that came to notice during audit were referred to the departments/State Government through Inspection Reports for further investigation and recovery of the same under intimation to audit. On being pointed out in Audit, ₹ 1.72 crore[4] were recovered during 2011-12.

1.8 Response of the Government to audit

As per the instructions issued by the Finance Department, Government of Punjab in August 1992 and provision of Comptroller & Auditor General of India's (C&AG) Regulations on Audit and Accounts, 2007, the departments are required to send their responses to draft performance audit reports/draft paragraphs proposed for inclusion in the C&AG's Audit Reports within six weeks. It was brought to their personal attention that in view of likely inclusion of such paragraphs in the Reports of the C&AG, which will be placed before the Punjab Legislature, it would be desirable to include their comments in the matter. They were also advised to have meetings with the Accountant General to discuss the draft reports of performance audits, CCO based audit, thematic audits and draft audit paragraphs. These draft reports and paragraphs proposed for inclusion in this Report were also forwarded to the Principal Secretaries/Secretaries concerned between August and December 2012 demi-officially seeking their replies.

For the present Audit Report, draft reports on two performance audits, one CCO based audit, three thematic audits and 10 draft paragraphs were forwarded to the concerned Administrative Secretaries. Out of which replies of the Government/departments to two performance audits, one CCO based audit, three thematic audits were received which have been incorporated in the Report. However, replies of the Government to the 10 paragraphs were not received.

1.9 Outstanding Inspection Reports

During 2011-12, this office conducted compliance audit in 1437 offices and 248 PRIs. 23622 Inspection Reports (IR) were outstanding as on 31 March 2012 which includes the outstanding IRs pertaining to earlier years.

1.10 Impact of previous Audit Reports

An amount of ₹ 2.32 crore[5] was recovered during the Public Accounts Committee's meetings/discussions during 2011-12. Apart from this, the

[4] General Sector-₹ 1.47 crore; Economic Sector-₹ 0.17 crore; and Social Sector-II-₹ 0.08 crore.
[5] Transport department-₹ 0.10 crore; Agriculture department-₹ 0.55 crore; Home Affairs and Justice department-₹ 0.56 crore; and PWD (B&R)-₹ 1.11 crore.

following actions were also taken by the Government after being pointed out in the audit reports:

- Scientific equipment (Anaerobic Hood and Baby Boiler) costing ₹ 12.06 lakh lying uninstalled in Biotechnology department of Punjabi University, Patiala (Para No. 6.1.5.3 of the Audit Report (Civil) for the year 2000-01) were installed.
- Case of recovery of amounts incurred on the University Grants Commission's (UGC) projects abandoned by the teachers who proceeded on long leave and settled in foreign countries was under active consideration of the higher officers of the Punjabi University, Patiala. Further, unspent grants of UGC were returned to UGC along with interest. (Para No. 6.5.4 (i), (ii) and 6.1.6 (i), (ii) of the Audit Report (Civil) for the year 2000-01).
- Housing and Urban Development Department assured to conduct departmental enquiry against defaulting officers due to negligence of whom, the Government had to pay extra interest. (Para No. 4.3.6 of the Audit Report (Civil) for the year 2006-07).

1.11 Follow-up action on Audit Reports

The Comptroller and Auditor General of India's Audit Reports represent the culmination of the process of audit scrutiny starting with initial inspection of accounts and records maintained in the various offices and departments of the State Government. It is, therefore, necessary that they elicit appropriate and timely response from the executive. At the instance of the Public Accounts Committee (PAC), the Finance Department issued (August 1992) instructions to all the departments to initiate *suo moto* concrete action on all paragraphs and performance audits figuring in the Audit Reports irrespective of whether the cases were taken up for examination by the PAC or not. The departments were also required to furnish to the PAC detailed notes duly vetted by Audit indicating the remedial action taken or proposed to be taken by them within a period of three months of the presentation of the Reports to the State Legislature.

The PAC transferred (29 December 2011) the pending audit paragraphs included in the C&AG's Audit Reports (Civil and Revenue Receipts) upto 2007-08 to the Administrative Secretaries of concerned departments for completing action at their own level.

As regards the Audit Reports relating to the years 2008-09, 2009-10 and 2010-11, which had already been laid before the State Legislature, detailed notes in respect of 28 paragraphs and four Performance Audits ***(Appendix 1.1 and 1.2)*** were not received in Audit as of 30 September 2012, even after the lapse of the prescribed period of three months.

1.12 Status of placement of Supplementary Audit Reports of autonomous bodies in the State Assembly

Twelve Supplementary Audit Reports (SAR) in respect of four autonomous bodies (as detailed in **Table 1.3** below) issued between May 2008 and January 2011 were pending for placement before Legislature.

Table 1.3: Detail of SARs pending for placement before Legislature as on 31 March 2012

Sr. No.	Name of the autonomous body	Years for which SARs were pending for placement before Legislature
1.	Punjab Legal Services Authority	2006-07 to 2008-09
2.	Punjab Khadi and Village Industries Board	2008-09
3.	Punjab State Human Rights Commission	2001-02 and 2004-05 to 2008-09
4.	Punjab Labour Welfare Board	2000-01 and 2001-02

Source: Departmental information