Chapter-3

Thematic Audit

REVENUE, REHABILITATION AND DISASTER MANAGEMENT DEPARTMENT

3.1 Ineffective implementation of State Disaster Response Fund

3.1.1 Introduction

The Government of India (GoI), Ministry of Home Affairs constituted (September 2010) the State Disaster Response Fund[1] (SDRF) at State level for providing immediate relief to the victims of natural calamities[2] and the Calamity Relief Fund (CRF) already in place for the purpose ceased to exist. For this, funds amounting to ₹ 2197.21 crore available under CRF as on 31 March 2010 were transferred to SDRF, as per guidelines of the scheme.

At the State level, State Executive Committee[3] (SEC) headed by Chief Secretary of the State is responsible for the management of SDRF and the Financial Commissioner (Revenue) (FCR) acts as a nodal agency for implementation of relief works. At district level, the Deputy Commissioner (DC) of the concerned district demands funds from FCR after getting the losses assessed by SEC and distributes the relief to the victims through the respective Sub-Divisional Magistrates (SDMs).

3.1.2 Scope of Audit, methodology and objective

An audit of SDRF for the year 2011-12 was conducted between May 2012 and July 2012 by test checking the records of FCR and six[4] out of 22 districts selected by adopting probability proportional to size method of random sampling. A review of operation of State Disaster Response Fund in the State covering the period 2011-12 has been attempted to assess whether the Department effectively monitored and implemented the relief measures as per existing guidelines to provide immediate relief to the victims of natural calamities.

Audit Findings

The audit findings are discussed in the succeeding paragraphs.

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1 Constituted under section 48(1) (a) of Disaster Management Act, 2005 (53 of 2005).
2 Cyclones, droughts, earthquakes, fires, floods, hailstorms, cloudbursts, pest attacks etc.
3 Constituted under section 20 of Disaster Management Act, 2005.
4 Fazilka, Ferozepur, Kapurthala, Moga, Muktsar and Tarn Taran.

3.1.3 Financial Management

As per para 4, 5 and 10 of the guidelines, the balance as on 31 March 2010 in the CRF would be transferred to SDRF. Besides, the GoI would contribute 75 *per cent* of the total annual allocation in the form of non-plan grants in two instalments (June and December) each year and the balance 25 *per cent* would be contributed by the State Government to SDRF along with GoI's contribution. The position of receipts and expenditure of the SDRF for the period 2010-11 and 2011-12 was as given in **Table 3.1**:

Table 3.1 : Position of receipts and expenditure for the period 2010-11 an 2011-12

(₹ in crore)

Year	Opening balance	Allocation	Release			Interest credited^	Total funds available	Expenditure	Closing Balance
			Central	State	Total				
2010-11	2197.21*	222.92	83.60	27.86	111.46	80.20	2388.87	184.46	2204.41
2011-12	2204.41	234.07	171.37$	57.12$	228.49	239.85	2672.75	158.56	2514.19

Source: Departmental data

* *Closing balance of Calamity Relief Fund as on 31.3.2010 transferred to SDRF, as per GoI guidelines.*

$ *Includes 2nd instalment of 2010-11 received in July 2011.*

^ *State Government was crediting interest to SDRF on Overdraft Regulations of RBI.*

3.1.3.1 Delayed receipt of GoI contribution

As per para 11 (i) of the guidelines, first instalment of central contribution to SDRF for 2010-11 was to be released by GoI unconditionally. The second instalment of central contribution for 2010-11 and subsequent instalments were to be released by GoI on receipt of confirmation with regard to adoption of required accounting procedure by October 2010. The State Government is required to furnish a certificate to the Ministry of Home Affairs and to Ministry of Finance in the months of April and October every year indicating that the amount received earlier has been credited to the SDRF along with the State's share of contribution, accompanied by a statement giving the up-to-date expenditure and the balance amount available in the SDRF. Further, the central contribution due in December every year is to be released after the receipt of an 'Annual Report on Natural Calamities' faced in the previous year, by September of every year.

Audit observed that the GoI released (June 2010) the first instalment of ₹ 83.60 crore for 2010-11 to SDRF unconditionally. But, the second installment of ₹ 83.60 crore for 2010-11 due in December 2010 was released by GoI in July 2011, as the confirmation with regard to adoption of prescribed accounting procedure due to be submitted by October 2010 was initiated in March 2011 by the State Government and furnished to GoI in June 2011 with a delay of seven months.

The first instalment of ₹ 87.78 crore for 2011-12 (due in June 2011) was received late from GoI in September 2011 with a delay of three months, due to late submission of certificate indicating the credit of funds received earlier together with the State's share in the SDRF by the State Government in August 2011, instead of April 2011.

The second installment of ₹ 87.78 crore for 2011-12 (due in December 2011) was received in July 2012, as the annual report of natural calamity was submitted by the State Government in April 2012 (due in September 2011) with a delay of seven months.

On this being pointed out (September 2012), the FCR attributed (December 2012) the delay in getting the funds released from GoI, to procedural delay in submission of confirmation regarding adoption of prescribed accounting procedure and annual reports of the previous year to GoI due to late receipt of utilization certificates/reports from the districts. The reply is not convincing, as the FCR being the implementing agency, was to ensure the timely adoption of requisite accounting procedure and receipt of reports from DCs for onward submission to GoI.

Thus, delay in submission of requisites led not only to delayed receipt of funds from GoI, but also resulted in loss of ₹ 10.91 crore[5] to SDRF on account of accrued interest ***(Appendix-3.1)***, besides reflecting the inadequate internal control of the State Government to get the assigned task completed within stipulated time.

3.1.3.2 Non-investment of funds

As per para 19 of the guidelines, the accretions to the SDRF together with the income earned on the investment of the SDRF is required to be invested in one or more of the instruments viz. (a) Central Government dated Securities; (b) Auctioned Treasury Bills; and (c) Interest earning deposits and certificates of deposits with Scheduled Commercial Banks.

Audit of records[6] (May 2012) of FCR disclosed that despite availability of balance of ₹ 2204.41 crore as on 31 March 2011 and ₹ 2514.19 crore as on 31 March 2012 in SDRF, the funds were not invested in any of the prescribed instruments for the period 2010-2012, rather those were kept in the State Account[7] and the State Government, in contravention of the guidelines *ibid,* had been crediting interest to SDRF on Overdraft Regulations Guidelines of Reserve Bank of India from its own sources on the analogy of the earlier practice being followed under CRF. This indicated that the State Government was not having sufficient floating money in SDRF. This fact was also substantiated with the delayed release of relief amounting to ₹ 21.32 crore with the delay ranging between 86 and 199 days in four districts (out of six test-checked) due to non-passing of bills by the treasury despite according sanction by the Finance Department/FCR between September and December 2011 ***(Appendix-3.2).***

On this being pointed out (September 2012), the FCR stated (December 2012) that the funds were kept in the State Account on the directions of the Finance Department, for which necessary approval was yet to be received from GoI.

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5 Calculated at the rate of Overdraft Regulations the State Government was crediting interest to SDRF.

6 Financial statements and relevant files.

7 Major Head "8121 – General and other Reserve Funds".

As regards delayed release due to insufficient floating money in the SDRF, the matter was stated to have been under active consideration of the Finance Department awaiting final decision. The reply of the FCR is not acceptable as neither the accretions to SDRF were invested, as per the guidelines, nor any approval of GoI was obtained (December 2012) by the State Government. However, on enquiry, the Finance Department in this regard elicited no reply.

3.1.4 Programme Implementation

While examining the SDRF with a view to assess implementation of the scheme for providing immediate relief to the victims of natural calamities, the discrepancies noticed in Audit are discussed in the succeeding paragraphs.

3.1.4.1 Delay in providing relief to victims of natural calamities.

As per the directives of FCR (July 2001), the concerned DCs were required to send information to State headquarters regarding natural calamity and loss caused within 24 hours of its occurrence and demand for relief for damaged houses/crops within one month of natural calamity/*girdawari*. Further, the relief was also to be disbursed within one month.

During audit of the records (June-July 2012) in six test checked districts, it was noticed that in four districts, the funds amounting to ₹ 37.10 crore for providing relief to the victims of natural calamities occurred between April 2011 and September 2011, were drawn (between December 2011 and March 2012) from treasury with a delay ranging between 38 and 308 days due to delay in submission of demand by DCs and late release of funds by FD/FCR, which caused late disbursement of relief to the aggrieved persons. Further, out of ₹ 37.10 crore received (between December 2011 and March 2012) by the respective DCs, ₹ 5.23 crore (14 *per cent*) remained undisbursed (September 2012) in three districts even after the delay ranging between 257 and 446 days over and above the stipulated time of 60 days, as per instructions *ibid* ***(Appendix-3.3).***

On this being pointed out (September 2012), the FCR assured (December 2012) that after the investment of funds in the interest bearing securities, delay in withdrawing money from the treasuries would not be repeated. As regards delay in distribution of relief, the department attributed it to the preoccupation of already short staff in the field offices. The reply is not convincing as the delayed/non-disbursement of relief defeated the prime objective of providing immediate relief to the victims of the natural calamities under the scheme.

3.1.4.2 Inadmissible expenditure on construction of new roads

Para 18 of the norms (July 2009) under the Scheme provides that the repair/restoration of immediate nature of the damaged infrastructure in eligible sectors could be taken from the SDRF, which included filling up of breaches

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[8] Fazilka, Ferozepur, Kapurthala, Moga, Muktsar and Tarn Taran.

[9] Kapurthala, Moga, Muktsar and Tarn Taran

and potholes, repair of breached culverts, providing granular sub base over damaged stretch of roads to restore traffic.

Audit of records of FCR (May 2012) revealed that against a sanction (September 2011) of FCR, a sum of ₹ 2.34 crore was spent (between June 2012 to December 2012) by DC Kapurthala to construct various new roads measuring 12.55 kilometers in Sultanpur Lodhi, district Kapurthala from SDRF in contravention of the norms *ibid.*

On this being enquired (September 2012), the FCR, while admitting the audit observations, intimated (December 2012) that the matter had been taken up with the State Finance Department for release of funds under State budget and on receipt of approval, the amount of ₹ 2.34 crore would be credited to SDRF.

Thus, late receipt of GoI's contribution due to non-submission of necessary requisites by FCR not only caused loss of interest to the 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 not having 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 also exhibited ineffective implementation of the scheme.

FINANCE DEPARTMENT

3.2 Working of Internal Audit Organization

3.2.1 Introduction

With a view to plug the various loop holes leading to leakage of revenue and to tone up the quality of assessment and collection work of major revenue earning departments[10] in Punjab, an Internal Audit Organization (IAO) under the Finance Department (FD), Government of Punjab was set up in October 1981 and made functional in May 1982. The scope of IAO was further widened by bringing the Audit of Group Insurance Scheme (GIS) (September 1985) and General Provident Fund (GPF) Accounts, Grants-in-Aid (GIA) to aided private managed educational/technical institutions and District Planning Board Funds (November 1991) under its ambit.

3.2.2 Organizational Set up

At secretariat level, the Principal Secretary Finance is responsible for implementation and monitoring the activities of the IAO. The Additional Director IAO, assisted by five Deputy Directors and three Assistant Directors, under the administrative control of Special Secretary Finance cum Director Treasuries and Accounts, is the head of IAO and looks after the internal audit of offices located at Chandigarh. There are 12 field offices[11] (headed by

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[10] Excise and Taxation, State Transport, Revenue (Stamp Duty and Registration Fee) and Chief Electrical Inspector to Government of Punjab.

[11] Amritsar, Bathinda, Faridkot, Ferozepur, Gurdaspur, Hoshiarpur, Jallandhar, Kapurthala, Ludhiana, Patiala, Ropar and Sangrur.

Deputy Controllers (Finance & Accounts) (DCFA) to look after the internal audit of offices located in all the 22 districts.

3.2.3 Scope of Audit, Methodology and Objective

Mention was made in paragraph 3.2 of Audit Report (Civil) of the Comptroller and Auditor General of India for the year ended 31 March 2001 on the working of IAO, which was discussed in Public Accounts Committee (PAC) between July 2006 and December 2011, wherein the department assured the PAC to comply with the shortcomings in IAO as pointed by Audit.

With a view to further assess the working of IAO and impact of recommendations of the PAC and assurances of the department given to PAC, an audit was conducted between January 2012 and July 2012 by test checking the records for the period from April 2009 to March 2012 at the headquarter of IAO at Chandigarh and three field offices (25 *per cent*) out of 12 field offices selected by adopting random sampling method. These three field offices[12] were responsible for internal audit of the units located in six districts.

I. Financial Management

The budget allotment and expenditure (Non Plan) of IAO during the period 2009-10 to 2011-12 was as given in **Table 3.2**:

Table 3.2 : Position of budget allotment and expenditure (Non Plan)

(₹ in lakh)

Year	Budget Allotment	Expenditure	Savings
2009-10	501.15	488.62	12.53
2010-11	544.51	530.89	13.62
2011-12	651.25	601.74	49.51
Total	**1696.91**	**1621.25**	**75.66**

Source: Departmental data

There was no plan expenditure and the major expenditure pertained to salary during 2009-12.

II. Programme Management

The working of the department, created more than 30 years ago, with a view to avoiding errors, omissions and irregularities was evaluated. Important audit findings are discussed in the succeeding paragraphs.

3.2.4 Planning

3.2.4.1 Delayed approval of auditing targets without considering availability of manpower

As per notification (November 1991) of the Department of Finance (Treasury and Accounts Branch), before firming up the program for the next financial year, the Director, Treasury and Accounts (DTA) decides and gets it approved

[12] DCFAs at (i) Amritsar (Amritsar and Taran Tarn), (ii) Ludhiana (Ludhiana and Moga) and (iii) Patiala (Patiala and Fatehgarh Sahib).

by FD regarding the items/departments to be audited keeping in view the manpower available.

Audit of test checked field offices and subsequent information collected (August 2012) revealed that no calendar for approval of auditing targets was formulated, as a result of which, the proposal for auditing targets were submitted by Deputy Controllers (Finance and Accounts) (DCFAs) with a delay ranging between 19 and 251 days and the same were approved by the IAO with an inordinate delay ranging between 133 and 358 days ***(Appendix-3.4)***.

Audit further observed that the auditing targets were approved by the DTA and FD as it was without taking any action on delayed submission of auditing targets and without considering the inadequate manpower, as discussed in paragraphs 3.2.4.2 and 3.2.5.1. The audit of units was being conducted even before their approval during 2009-12.

On this being pointed out (September 2012), the IAO stated (October 2012) that the targets were fixed on the basis of funds provided by the Government to various departments/institutions in the new financial year and the job of collecting the data from field offices for fixing the targets for the new financial year was started after the close of the last year i.e. in April, which took 3-4 months for collecting/compiling the data and getting approval of the higher authorities. The reply of the IAO was not convincing as it not only reflected upon the non-serious approach towards planning process, which should have been completed before the start of new financial year as per instructions *ibid*, but also the significance of planning got lost in such cases where the approval was accorded in August and March of the respective financial years i.e. after the audit of most of the units during the period 2009-2012 had already been completed.

To the audit query regarding planning of audit in consonance with the available manpower, no reply was furnished (December 2012).

3.2.4.2 Inflated arrears of auditing targets

The DTA instructed (May 1995) the IAO to review the periodicity of audit of various departments/functions to reduce the quantum of units in arrears.

It was observed that the periodicity of audit was never reviewed by the IAO on the plea that the field offices get the audit conducted according to availability of staff with them. However, during the period 2009-2012, all the units (current as well as pending) were being targeted for conducting internal audit every year without taking cognizance of shortage of manpower. This resulted into continuous increase in the arrears of audit units from 1654 units and 1549249 GPF/GIS accounts in 2009-10 to 2574 units[13] and 1776017 GPF/GIS

[13] Stamp Duty and Registration (44), Token Tax (85), Sale Tax (520), Grant-in-aid (335), Excise Duty (62), Plan Fund (168), Electricity Duty (1311) and Entertainment Tax (49).

accounts[14] in 2011-12 in the six districts under the jurisdiction of three test checked field offices, as given in **Table 3.3**:

Table 3.3 : Position of audit units in arrears

Districts	Arrear as on 31.3.2010		Arrear as on 31.3.2011		Arrear as on 31.3.2012	
	Units	GPF&GIS Accounts	Units	GPF&GIS Accounts	Units	GPF&GIS Accounts
Amritsar	267	539432	353	549814	485	568802
Tarn Taran	155	2020	205	14534	260	19609
Ludhiana	271	435617	346	457078	366	476896
Moga	133	122488	175	128768	209	134954
Patiala	711	363837	899	416914	1103	474506
Fatehgarh Sahib	117	85855	128	93186	151	101250
Total	**1654**	**1549249**	**2106**	**1660294**	**2574**	**1776017**

Source : Departmental data

In reply, the DCFAs admitted (June 2012) that audit planning was not being made, only tentative monthly programs for conducting audit were being prepared for approval of IAO and no criteria was adopted for selection of units.

On this being pointed out (September 2012), the IAO stated (October 2012) that the pending units were increasing due to assignment of special audit and shortage of staff and the matter had been taken up with the Government for filling up the vacant posts. The reply of the IAO is not convincing as the unplanned audit augmented the problem of covering the auditing targets, as discussed in paragraph 3.2.4.3. Further, the department neither reviewed the periodicity of the audit of units in cognizance of shortage of staff nor the problem of shortage of staff was resolved despite reporting (July 2006) to PAC about taking steps to fill up the vacant posts, though a committee for rationalizing the targets and making them realistic was constituted (September 2012) by the department, results of which are awaited (December 2012).

3.2.4.3 Fixation of party days without assessing workload

Audit observed (May/June 2012) that while conveying (October 2009) the entrustment of special audit for checking "embezzlement through sale of fake stamp papers", the IAO, without assessing the workload, fixed 90 party days (at the rate of 15 days per district uniformly) for all the six selected districts. The adhocism in planning was substantiated when the DCFAs could complete the assigned task in 721[15] party days.

Though the IAO stated (October 2012) that it had received approval for the excess consumption of party days, it did not furnish any justification for not assessing the actual volume of work while fixing party days initially.

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[14] General Provident Funds Accounts (1,89,916) and Group Insurance Scheme Accounts (15,86,101).

[15] Amritsar(185), Fatehgarh Sahib(81), Ludhiana(269), Moga(32), Patiala(78), Taran Taran(76).

3.2.4.4 Non preparation of Internal Audit Manual

Since the IAO was made functional in 1982, the Finance Department and IAO issued many instructions/guidelines on various affairs and activities of IAO from time to time, but the IAO did not initiate action to consolidate these directives to prepare a comprehensive Manual to ensure delivery of assured, standardized and quality results of internal audit. However, instead of preparing the Manual, the department had submitted (July 2006) a Compendium of instructions approved by Principal Secretary Finance to the PAC.

To an audit query in this regard, the IAO stated (July 2012) that the instructions/guidelines regarding audit were being disseminated among the field offices. The reply was not convincing as adhocism in disseminating the instructions/guidelines to the field offices did not provide the assurance of the level as would be provided by a Manual. Further, the department intimated (October 2012) that it had started the process of preparation of Manual.

3.2.5 Human Resource Development

3.2.5.1 Acute shortage of human resource

When the IAO was made functional in 1982, the human resource was provided to look after the work of internal audit of major revenue earning departments[16]. The IAO was also entrusted with the work of internal audit of expenditure of some of the Heads of accounts[17] during 1985 and 1991. The Finance Department also authorized (November 1991) the DTA to establish separate office in each of the district in order to enable the IAO to discharge its functions independently and effectively.

The position of sanctioned strength and men-in-position of all the field offices during 2009-12 is given in **Table 3.4**:

Table 3.4 : Position of Sanctioned Strength and Men-in-Position

Name of post	Position as on 31.3.2010			Position as on 31.3.2011			Position as on 31.3.2012		
	SS	MIP	Shortage (%age)	SS	MIP	Shortage (%age)	SS	MIP	Shortage (%age)
AC(F&A)	11	9	2 (18)	11	7	4 (36)	11	8	3 (27)
Section Officer	29	15	14 (48)	29	15	14 (48)	29	15	14 (48)
Auditors	40	27	13 (33)	40	27	13 (33)	39	27	12 (31)
TOTAL	**80**	**51**	**29 (36)**	**80**	**49**	**31 (39)**	**79**	**50**	**29 (37)**

Source: Departmental data

Audit observed (April and July 2012) that there was a considerable shortage of staff ranging between 36 and 39 *per cent* during the period 2009-12 and the

16 Excise and Taxation, State Transport, Revenue (Stamp Duty and Registration Fee) and Chief Electrical Inspector to Government of Punjab.

17 Group Insurance Scheme (September 1985) and General Provident Fund Accounts, Grants-in-Aid to aided private managed educational/technical institutions and District Planning Board Funds (November 1991).

staff available was not sufficient to cover the audit of units in arrears, as was also admitted (July 2012) by the IAO itself.

It was further observed that despite entrustment of additional internal audit of expenditure during 1985 and 1991 and increase in number of districts from 12 to 22, the DTA neither made efforts to increase the human resource in proportion to the increased work load nor separate field offices were created for each district, in spite of the authorization of the Finance Department. This affected the performance of the IAO adversely as is evident from the non-coverage of targeted units ranging between 63 and 99 *per cent* during 2009-12 in six districts under the audit control of three test-checked field offices ***(Appendix-3.5).***

On this being pointed out (September 2012), the IAO stated (October 2012) that the Finance Department had repeatedly been asked to consider deployment of sufficient human resource. The reply of the department is not convincing as the problem of insufficient manpower has not been resolved (December 2012) even after assuring the PAC (July 2006) for taking steps to fill up the vacant posts, thereby leading to continuous accumulation of auditable units in arrears.

3.2.6 Execution

3.2.6.1 Non-adherence to pendency based priority

The IAO, while approving the auditing targets during the period 2009-10 and 2010-11, instructed (August 2009 and March 2011) the DCFAs that the units having maximum pendency be prioritized and also asked to cover current year units along with the pending units with a view to bring uniformity in the arrear of units.

Audit of records (June 2012) in the test checked field offices disclosed that units pending for over six years were covered to the extent of seven *per cent* only against 38 *per cent* of two years old units, followed by 33 *per cent* (three years old) and 15 *per cent* (one year old), as given in **Table 3.5**:

Table 3.5 : Age-wise position of pending units

	6 years old and above	5 years old	4 years old	3 years old	2 years old	1 year old
Targetted units	212	284	318	457	786	679
Units audited during 2009-11	15	23	37	152	299	104
Units in arrear	197	261	281	305	487	575
Percentage coverage	7	8	12	33	38	15

Source: Departmental data

Thus, the actual coverage in internal audit demonstrated reverse trend in contravention of the instructions of IAO resulted in non-coverage of arrears of units ranging between 62 and 93 *per cent* in the categories of two years old to six years old and above.

On this being pointed out (June and September 2012), the IAO stated

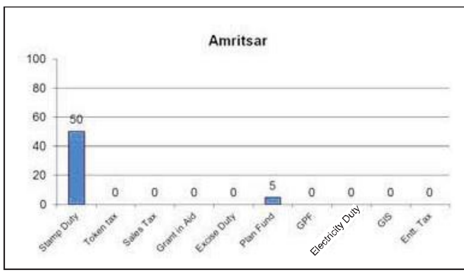
(October 2012) that the instructions had been issued (August 2012) to field offices to clear the year-wise pendency of audit.

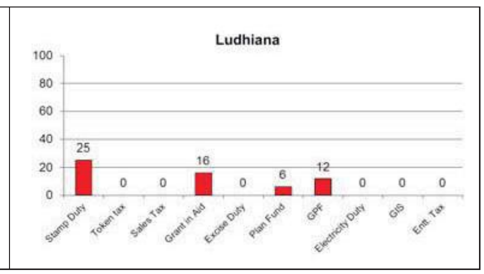
3.2.6.2 Non-adherence to category based priority

The IAO, while approving the auditing targets during the period 2011-12, fixed (August 2011) the priority of various categories of internal audit being undertaken by it. As per the fixed priority for various categories, audit of Stamp Duty was kept on top of the list, followed by Token Tax, Sales Tax, Grant-in-Aid, Excise Duty, Plan Fund, GPF, Electricity Duty, GIS and Entertainment Tax.

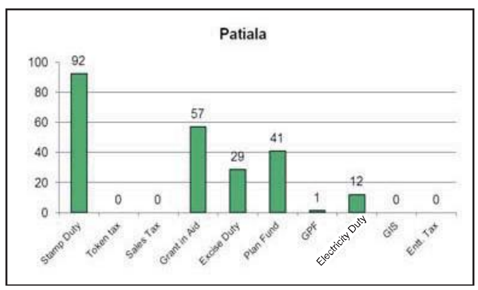
Audit of records (August 2012) in three test checked field offices disclosed that though the DCFAs prioritised internal audit of Stamp Duty, as prescribed, but none followed the priority fixed by the IAO in respect of other categories, as depicted in the charts below:-

Percentage of units audited during the year 2011-12





It was observed (August 2012) that internal audit of Token Tax, Sales Tax, GIS and Entertainment Tax was not at all conducted during 2011-12. However, audit of Grant-in-Aid and Plan Fund was given importance by the test checked field offices, in departure from the priority fixed by the IAO.



Thus, IAO did not accord adequate priority to audit of revenue units where the possibilities of pointing out under-assessment and short levy of taxes which consequently leads to revenue loss to Government could have been explored. During 2011-12, the Statutory Audit had pointed out under-assessment and short levy of tax amounting to ₹ 21.78 crore in 113 cases[18] in respect of three test checked districts.

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Category	No. of cases	Amount (₹ in crore)
Sales Tax	76	10.17
Entertainment Tax	12	10.96
Token Tax	25	0.65
Total	**113**	**21.78**

On this being pointed out (September 2012), the IAO stated (October 2012) that instructions had been issued (August 2012) to all the DCFAs to adhere to the priority fixed by IAO.

3.2.6.3 Incomplete special audit of PUNGRAIN

The IAO instructed (May 2009) all the DCFAs to conduct special audit of "expenditure against grants given to PUNGRAIN during the year 2003-04" and directed them to examine the relevant records[19]. Further, the IAO instructed (December 2009) the DCFAs to bring the matter of non-production of records during audit to the notice of DTA through FAX, so as to make suitable efforts to get the records produced immediately.

Audit observed (May/June 2012) that of the districts falling under the jurisdiction of three test checked field offices, reports of special internal audit were submitted (July and August 2009) by DCFA Ludhiana (in respect of Moga district) and DCFA Amritsar (in respect of Amritsar district) without auditing vital records[20] as the same were stated to have not been produced by the audited entity.

The DCFA, Patiala, despite entrustment of special audit of PUNGRAIN in May 2009, conducted the audit (in respect of Patiala district) in July-August 2011 with a delay of more than two years and submitted (August 2011) its report without auditing the important records, which were not produced by the audited entity.

However, despite the instructions of IAO issued in December 2009, the matter with regard to non-production of records was not taken up with the appropriate authorities by the concerned DCFAs/IAO.

On this being pointed out (September 2012), the IAO stated (October 2012) that the audit of PUNGRAIN could not be termed as incomplete rather that was suspended audit and the special audit of district Patiala had been got completed in October 2012. The reply was not acceptable as the department had already issued the Inspection Reports of incomplete audit in respect of Ludhiana, Amirtsar (July & August 2009) and Patiala (August 2011). Further, the department did not furnish the updated status of special audit in respect of Amritsar and Ludhiana districts, thereby leaving the audit incomplete in these two districts (December 2012) even after the lapse of more than three years.

3.2.6.4 Non- ensuring checking of GPF

The IAO issued instructions that 20 *per cent* of the available GPF accounts,

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19 (i) Receipt, distribution and movement of gunny bags (ii) transfer of gunny bags and wooden crates from one district to others, (iii) movement of paddy from one district to others (iv) checking the available cash credit and procurement against the cash credit availed keeping in view the rules regarding procurement of department and quantity distributed to different districts separately.

20 (i) Amritsar (Records of Purchase Centres of PUNGRAIN in district Amritsar).
(ii) Ludhiana and Patiala (Cash Book, Bank Reconciliation Statements, Trial Balance Sheet, Vouchers relating the purchase of paddy, record relating the transfer of paddy to other districts, transfer of gunny bags and wooden crates etc.).

besides cent *per cent* refundable advances (RA), non-refundable advances (NRA) and final withdrawal during the period of internal audit were to be checked every year. Further, the IAO instructed (June 2011) to check the GPF of the respective unit with the related vouchers under Major Head-8009 "State Provident Funds" in the treasury.

It was, however, observed (May/June 2012) that two test checked field audit offices (Patiala and Ludhiana), did not have exact number of GPF accounts and the accounts were being checked along with the NRAs and RAs without obtaining the details of expenditure booked by treasury under Major Head 8009 - State Provident Funds. In the absence of above details, the correctness with regard to 20 *per cent* checking of GPF accounts and 100 *per cent* checking of NRAs and RAs could not be ensured.

On this being pointed out, the IAO stated that they had circulated the deficiencies pointed out by audit to the field offices for compliance.

3.2.7 Monitoring and evaluation

3.2.7.1 Inadequate follow up of old objections

The IAO instructed (June 1996) the DCFAs to ensure receipt of initial reply within one month of the issue of internal audit report; or else the follow up on regular basis was required to be done. The PAC also instructed[21] (July 2008) to take up the matter of follow up at the level of Chief Secretary. However, the category-wise position of outstanding objections as on 31 March 2012 is given in **Table 3.6**:

Table 3.6 : Category-wise position of outstanding objections

(₹ in lakh)

Name of field office	No. of recovery objections	Amount	No. of procedural objections	Amount	Period since when objections outstanding
Amritsar	1557	3241.89	2048	7238.53	1981-82 to 2011-12
Patiala	2251	15100.36	1849	16194.52	1982-83 to 2011-12
Ludhiana	1814	4174.32	2662	3590.70	Not available
Total	**5622**	**22516.57**	**6559**	**27023.75**	

Source: Departmental data

Audit of test checked field offices disclosed that the DCFA Ludhiana had not maintained age-wise record of outstanding objections. However, in the offices of the DCFAs Amritsar and Patiala, as much as 2815 objections (out of 3808) *(74 per cent)* involving ₹ 9239.21 lakh were very old ranging between 6 and 30 years, which remained outstanding due to ineffective follow up ***(Appendix-3.6)***.

In reply, the IAO stated (October 2012) that the old objections were settled on receipt of satisfactory reply from the concerned office. The reply was not acceptable as lack of monitoring the compliance of old objections on the part

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[21] In response to paragraph 3.2.5(iv) of the Audit Report for the year ending March 2001 Government of Punjab.

of IAO by not taking the matter at higher level resulted into accumulation of audit objections to the extent of 12181 paras as on 31 March 2012 which would dilute the significance of audit objections with the passage of time and was a matter of concern.

Thus, the main aim for setting up of 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.

LABOUR AND EMPLOYMENT DEPARTMENT

3.3 Non-achievement of objectives due to non-utilisation of cess fund

3.3.1 Introduction

In order to regulate employment and conditions of service including providing basic amenities and welfare facilities to workers engaged in construction activities throughout the country, the Government of India (GoI) enacted (August 1996), the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996 (BOCW Act) and the Building and Other Construction Workers Welfare Cess Act, 1996 (Cess Act) to provide for the levy and collection of cess at such rate not exceeding two *per cent* but not less than one *per cent* of the cost of construction incurred by employers. Pursuant to the Cess Act, the GoI framed (March 1998) the Building and Other Construction Workers Cess Rules, 1998 (Cess Rules). The provisions of the BOCW Act are applicable to "every establishment belonging to or under the control of Government, body-corporate or firm or association or other body of individuals which or who employ ten or more workers in any construction activity and total cost of such construction is more than ten lakh".

In exercise of the powers conferred under Section 62 of the BOCW Act, the Punjab Government framed (October 2008) the Punjab Building and Other Construction Workers (Regulation of Employment and Conditions of service) Rules, 2008 (PBOCW Rules) and implemented (November 2008) the collection of labour cess @ one *per cent* on the cost of construction. The Punjab Building and Other Construction Workers Welfare Board (Board) was constituted (May 2002) and re-constituted (April 2009) under the Labour Department, which was responsible for all matters connected with the administration of fund, implementation of welfare schemes, proper maintenance of accounts records, annual audit of accounts of the Board and submission of report to the State Government.

The Labour Department divided the State into 23[22] circles. Each circle is headed by an Assistant Labour Commissioner (ALC) or Labour-cum-Conciliation Officer who will act as Registering Officer cum Assessing Authority and the Labour Inspector of the State is the Cess Collector for the implementation of Cess Act/Rules.

3.3.2 Scope, Coverage of Audit and objectives

In order to ascertain the implementation of the provisions of the Acts and use of funds for welfare activities of workers covered in the Act, the record of the Welfare Board and Labour Department along with eight[23] circles (*35 per cent*) out of 23 circles on the basis of balanced representation of three strata of Punjab State (Malwa, Doaba and Majha) covering the period April 2009 to March 2012 was checked between April and July 2012.

The main audit objectives were to assess whether:

- the planning process for the implementation of welfare measurers by the State Government and Board for the beneficiaries was effective;
- the financial management was effective;
- the welfare measures were implemented effectively;
- the human resource management was effective; and
- the adequate monitoring and internal control mechanism was in place.

3.3.3 Audit methodology

The criteria of audit was derived from the sources of the BOCW Act/Rules, Cess Act, Cess Rules, procedures and norms laid down in Punjab Financial Rules (PFR), guidelines/instructions issued by Government of India and Government of Punjab.

Programme Implementation

Audit of Workers Welfare Board revealed the following irregularities:

3.3.4 Planning

The State Government appointed (May 1998) the Labour Commissioner Punjab as the Appellate Authority under the BOCW Act and constituted State Advisory Committee (SAC) (December 1999). The Punjab Building and Other Construction Workers Welfare Board (Board) was constituted (May 2002) in the absence of PBOCW Rules, which were framed by the State Government in October 2008 after a delay of 12 years of the enactment (1996) of BOCW Act by the GoI. The Board was again constituted (April 2009) after a delay of six months and the SAC (October 2010) after a delay of two years from framing the PBOCW Rules. The SAC was required to meet at least once in six months

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22 Amritsar-I, II, III , Batala, Bathinda, Fatehgarh Sahib, Ferozepur, Gurdaspur, Hoshiarpur, Jalandhar-I, II, III , Kapurthala, Ludhiana-I, II, III, IV, V, VI, , Mohali, Moga, Patiala and Sangrur.

23 Amritsar-I, Bathinda, Hoshiarpur, Jalandhar-I, Ludhiana-III, Moga, Mohali, Patiala.

to advise the State Government on administrative matters, but only one meeting was held (September 2012) since its inception.

On this being pointed out by Audit, the department (July and November 2012) did not furnish any reasons for delayed reconstitution of the SAC and the Board. Further, the initial constitution of SAC and Board, before the enactment of PBOWC rules remained ineffective.

The delay in implementation of the BOCW Act/Cess Act and the constitution of the Board/SAC resulted in non collection of cess and denial of intended benefits to State construction workers for more than 12 years.

3.3.5 Financial Management

The receipts and expenditure of the Board is given in **Table 3.7:**

Table 3.7 : Position of receipts and expenditure

(₹ in crore)

Year	Actual Receipts				Actual Expenditure		
	Cess collected	Beneficiaries contribution	Interest earned	Total receipts	Administrative expenditure	Expenditure on schemes	Total expenditure
2009-10	37.68*	0.130	0. 69	38.50	1.28	--	1.28
2010-11	92.69	0.004	2.98	95.67	1.06	0.14	1.20
2011-12	112.95	0.023	4.92	117.90	1.47	1.15	2.62
Total	**243.32**	**0.157**	**8.59**	**252.07**	**3.81**	**1.29**	**5.10**

Source: Departmental figures
****Cess of 2009-10 includes ₹0.93 crore cess collected during 2008-09.***

It would be seen from the above table that:

- The expenditure incurred on welfare schemes was nil in 2009-10, 0.15 *per cent* in 2010-11 and 0.98 *per cent* in 2011-12 of total receipts during respective years.
- The administrative expenditure during 2009-10 to 2011-12 stood between 56 and 100 *per cent* of the total expenses against the admissible limit of five *per cent* as per rule 24(3) of BOCW Act 1996.
- The beneficiary contribution shows a considerable drop in the year 2010-11.

On this being pointed out (April 2012) the Board stated (November 2012) that few beneficiaries applied for availing benefits under various schemes as majority of construction workers were migrants, who stayed at one place only for a limited period of time and also due to lack of awareness of the schemes. It was further added that the Board had already started publicity campaign through advertisement in various newspapers, pamphlets, FM Radio/TV channels,etc. to enhance the awareness of the workers about the schemes.

On the excess administrative expenditure the department stated that during 2009-10, out of ₹ 1.28 crore an expenditure of ₹ 1.19 crore was on capital assets like vehicles and during 2010-11 ₹ 20 lakh was spent on fixed assets like computers etc. The reply is not acceptable as there is no provision in the Act to incur expenditure on capital assets like vehicles, computers.

However, the fact remains that the absence of wide publicity and incurring meager amount of ₹ 40.95 lakh during 2009-12 on the publicity related expenses about the benefits of scheme for the construction workers attracted only fewer workers.

3.3.5.1 Avoidable deduction of TDS

As per Section 12-A (a) of the Income Tax Act 1961, all charitable or religious trusts or institutions are to be registered to avail exemption from deduction of Income Tax.

Audit scrutiny revealed that banks deducted income tax of ₹ 63.39 lakh at source (TDS) on interest accrued during the period 2009-12, due to non-furnishing of income tax exemption certificate, which was applied (September 2011) and received (March 2012) by the Board. Delay of one year in applying for income tax certificate resulted in avoidable deduction of TDS by banks.

On being pointed out (April 2012), the Board stated (November 2012) that the claim for income tax refund was lodged which was rejected by the Commissioner, Income Tax and appeal was filed (September 2012) against the above orders with the Income Tax Appellate Tribunal, Chandigarh, which was still pending. Final outcome of the case is awaited (December 2012).

3.3.5.2 Receipts of the Board

The records of the selected eight circles revealed as follow:

a) Registration of establishments

Rule 6 and 7 of Cess Rules 1998, provide that every employer, within thirty days of commencement of his work shall furnish information of payment of cess in Form I to the Assessing Officer, who shall scrutinize the information and make an order of assessment.

Audit observed that no survey was conducted to ascertain the total number of construction workers and the construction organizations/companies existing in the State. The Board has no knowledge of actual number of companies registered with the State Infrastructure Construction Departments viz. Public Works Department (Buildings and Roads), Water Supply and Sanitation, Central Public Works Department, Police Housing Corporation, Mandi Board, Municipal Corporations, Punjab Urban Development Authority etc.

In Patiala, Amritsar Circle-I and Hoshiarpur Circle, no returns in Form-I were received during 2009-12. However, in Ludhiana Circle-3 (8 returns), Jalandhar Circle-I (79 returns) and Moga Circle (18 returns) were received.

The department in its reply (November 2012) stated that there were 1668 establishments registered with the Board.

It is, thus, evident that no mechanism exists in the department to find out the actual number of construction companies in the State.

b) Registration of workers

As per Rule 260 and 261 of PBOCW Rules 2008, every worker in the age group of 18 and 60 years who was not a member of any Welfare Fund established under any law and who had completed a period of ninety days of service in the State was eligible to apply for the membership of the fund with fee of ₹ 25 and thereafter to contribute ₹ 10 per month to remain eligible for availing the benefits. It has been observed that out of 49816[24] workers registered in 23 circles with the Board as of March 2012, there were only 28464 live registrations upto October 2012 in 21 circles. The information of live workers in two circle i.e Fatehgarh Sahib and Batala was not provided to audit by the Board (December 2012).

c) Short collection of Cess

i) Rule 3 of Cess Act provides that the cost of construction shall include all expenditure incurred by an employer in connection with building and other construction work but shall not include cost of land and any compensation paid or payable to a worker or his kin under the Workmen's Compensation Act-1923.

Audit noticed that in Bathinda Circle, the cess was assessed (May 2012) at ₹ 5.12 crore @ one *per cent* on ₹ 512.00 crore after excluding the amount of TDS ₹ 33.37 crore instead of assessing cess on gross amount of work ₹ 545.16 crore resulting in under assessment of ₹ 33.37 lakh. On this being pointed out the Department stated that the earlier assessment order dated 9 May 2012 has been reviewed and new assessment order dated 31 August 2012 was issued. Final outcome is awaited (December 2012).

ii) As per Rule 4 (2) of BOCW Cess Rules 1998, where the duration of the project or construction work exceeds one year, the cess shall be paid within 30 days of the completion of one year from the date of commencement of work and every year thereafter at the notified rates[25] on the cost of construction incurred during the relevant period as depicted in Form-I by the employer.

Examination of the records of Form I in Ludhiana-III circle revealed that three[26] firms deposited cess of ₹ 3.65 lakh on the cost of construction of ₹ 18.80 crore against the recoverable cess of ₹ 18.80 lakh @ one *per cent* resulting in short collection of ₹ 15.15 lakh. The department in its reply stated (November 2012) that the notices had been issued for depositing of balance cess to the concerned firms. Final outcome is awaited (November 2012).

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[24] 2009-10=6087, 2010-11=19041, 2011-12=24688 (Total=49816).

[25] One *per cent* of the cost of construction.

[26] M/s Vardhman Tax Garments Limited, M/s Centex International Pvt. Limited and M/s Eastman Industries Limited, Ludhiana.

d) Delay in collection of cess

As per para (v) of Government of Punjab, Department of Labour's letter dated 11 November 2008 it shall be ensured that henceforth no building plan is approved by such local authorities without collecting one *per cent* cess on the cost of construction.

i) It was noticed that 21 Municipal Councils (MCs) delayed the collection of cess from 4 to 42 months from the date of notification. In Moga circle two MCs, (Bagha Purana and Malout) had not started collecting cess (November 2012).

The Board stated (November 2012) that it was the responsibility of the concerned authority/department to collect cess at the initial stages. However, matter has been taken up (May 2012 & October 2012) with the concerned departments/authorities/Municipal Corporations but no concrete results have come out. The matter has also been taken up by Labour Department with Local Government Department demi officially for getting the needful done at the earliest and taking action against concerned officers of Municipal Councils.

ii) Further, three[27] Circles- Bathinda Development Authority (BDA), Jalandhar Development Authority (JDA) and Amritsar Development Authority (ADA) were not collecting (July 2012) cess as per cess notification. The department replied (November 2012) that the concerned Assistant Labour Commissioners had recovered ₹ 17.81 lakh, ₹ 12.81 lakh and ₹ 16.59 lakh from July 2012 onwards on account of labour cess from Development Authorities of Bathinda, Jalndhar and Amritsar respectively. Further, the Principal Secretary, Labour has taken up the matter with Housing and Urban Development Department to collect/deduct cess as per provision of Cess Act.

3.3.6 Implementation of welfare schemes

The BOCW Act provides that the cess so collected is required to be spent for the welfare of workers on schemes like immediate assistance in case of an accident, pension scheme, loan and advances for construction of a house, group insurance scheme, financial assistance for education of children, medical expenses for treatment of major ailment of beneficiaries or his dependants, maternity benefits etc. The Board has formulated and approved (December 2010) eight welfare schemes for implementation, out of which three welfare schemes have not been implemented at all.

The position of welfare schemes implemented by the Board, beneficiaries and amount spent under these schemes during 2010-12 is given in **Table 3.8**:

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[27] Amritsar-I, Bathinda and Jalandhar-I.

Table 3.8 : Position of welfare schemes implemented by the Board

Sr. No.	Name of Scheme	Total beneficiaries covered	Amount spent (*₹in lakhs)*
Statutory Schemes			
1.	Immediate assistance in case of an accident (Ex-gratia)	24	23.00
2.	Rashtriya Swasthya Bima Yojna	Advance given to PHSC = ₹ 48.44*	--
3.	Financial assistance for the education of children (Sholarship Scheme)	740	9.80
4.	Medical expenses for major ailment of a beneficiary or dependants.	Not implemented	--
Non-Statutory Schemes			
1.	Interest free loan for girl marriage	Not implemented	--
2.	Shagun scheme	Not implemented	--
3.	Leave travel concession	390	3.90
4.	Interest free loan for purchase of cycle, wheat, fan, computer, TV etc.	24	2.78
	TOTAL	**1178**	**39.48**

Source: Departmental data

* *Out of an amount of ₹48.44 the Punjab Health System Corporation (PHSC) returned ₹ 47.54 lakh due to non availability of beneficiaries.*

Audit analysis of above welfare schemes revealed the following:

- No beneficiary was covered under one statutory (Medical expenses for major ailment of a beneficiary or dependants) and two non statutory (Interest free loan for girl marriage, Shagun scheme) schemes during 2009-12.
- The benefit under loan scheme for purchase of computers, television and cycle, was extended only in two circles viz. Amritsar-2 and Ferozepur during 2011-12 though the scheme was operational in all the districts.
- Out of 49816 workers registered during 2010-2012 only 1178 workers (2.36 *per cent*) benefited and ₹ 0.39 crore was spent.
- Twelve cheques in Ludhiana III Circle and two cheques in Bathinda Circle issued (March 2012) under different schemes were not disbursed to the beneficiaries. On being pointed out, the department stated (November 2012) that the beneficiaries could not be traced in respect of Ludhiana III Circle and further added that in Bathinda Circle the name of one beneficiary was wrong and cheque in correct name has now been sent to ALC Bathinda and the other beneficiary did not submit the proof of his journey. As such the cheque issued was cancelled.
- In four Circles Amritsar-I, Amritsar-3, Gurdaspur and Ludhiana-5, no worker was benefited (March, 2012) under any welfare scheme. The

Board stated (November 2012) that the benefit of any welfare scheme can be extended if the registered workers of the Board apply for the same and further added that 34 applications (23 under stipend scheme and 11 under LTC scheme) have been received from Gurdaspur Circle during current year. Similarly 107 applications under LTC schemes have been received from Ludhiana-5 circle during current year. However, the fact remain that the workers were not getting benefits under various schemes due to lack of awareness campaign initiated by the Board.

3.3.7 Human Resource Management

The sanctioned strength and men-in-position as on March 2012 with reference to the following cadre is given in **Table 3.9**:

Table 3.9 : Position of sanctioned strength and men-in-position

Sr. No.	Name of cadre	Sanctioned strength	Men in position	Shortfall	Percentage of Shortfall
1.	Assistant Labour Commissioner	13	6	7	54
2.	Labour & Conciliation Officer	11	8	3	27
3.	Labour Inspector Grade-I	41	17	24	59
4.	Labour Inspector Grade-2	35	10	25	71
	Total	**100**	**41**	**59**	**59**

Source: Departmental data

The above table shows that there was shortage of staff ranging between 27 and 71 *per cent* in various cadres and overall shortage was 59 *per cent*.

The department stated (July 2012) that the officers were already dealing with enforcing the provisions of 23 Central and 5 State Acts relating to labourers and facing difficulties in proper implementation of Cess Act and Rules due to shortage of staff. The department further stated (November 2012) that keeping in view the difficulties faced by the department on this account, a proposal to appoint officers of departments of PWD, Irrigation, Local Government, Housing etc., which are involved in construction work or who approve building plans as Assessing Officer, Registering Officer, Cess Collector and Appellate Authority is under active consideration of the department. In this regard required notifications will be issued in near future. Final outcome is awaited (December 2012).

3.3.8 Internal control and monitoring mechanism

The size and scale of Board operations and volume of receipts call for effective formation of welfare schemes for the construction workers. Internal controls help strengthen the public accountability of Board and help balance the competing demands of delivering a responsive and quality service to the community while recognizing the responsibilities and maintaining standards of probity and ethics. Internal controls are, therefore, closely aligned with good governance.

Check of internal control and monitoring mechanism, revealed that:

- 416 dishonored cheques pertaining to collection of cess valuing ₹ 2.30 crore received from various departments were lying with the Board whose validity had expired. This shows lack of proper monitoring mechanism in the Board.
- Even after four years from the notification of scheme (October 2008), the Board did not have the information about total registered construction companies and workers employed in the State which is very essential for implementation of welfare schemes as a result of which only a meagre amount of ₹ 0.39 crore (0.15 *per cent*) was expended on welfare schemes.

Delay of twelve years in the implementation of the BOCW and Cess Act, non-implementation of all the approved welfare schemes and the absence of data of construction companies/workers engaged in the construction activities had 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 Board. Non-implementation of three schemes out of eight formulated schemes revealed slackness in implementation of welfare schemes.

The matter was referred to the Government (August 2012); reply has not been received (December 2012).