CHAPTER I
GENERAL

1.1 Introduction

Tamil Nadu is one of the largest States of India with a population of 7.21 crore and a geographical area of 1,30,058 sq.kms. For the purpose of Administration there are 37 Departments at the Secretariat level headed by Principal Secretaries/Secretaries who are assisted by Directors/Commissioners and Sub-ordinate officers under them.

Government functioning is broadly classified as General Services, Social Services and Economic Services. This report covers the functioning of 10[1] major Departments of the Economic Sector including important Departments such as Agriculture, Industry, Highways, *etc*.

Of the 10 Departments with a total expenditure of ₹ 12,358.21 crore covered here, the bulk of the expenditure was incurred by Highways (40.21 *per cent)*, Public works (27.73 *per cent)* and Agriculture (16.59 *per cent)* Departments during 2011-12.

1.2 Trend of expenditure

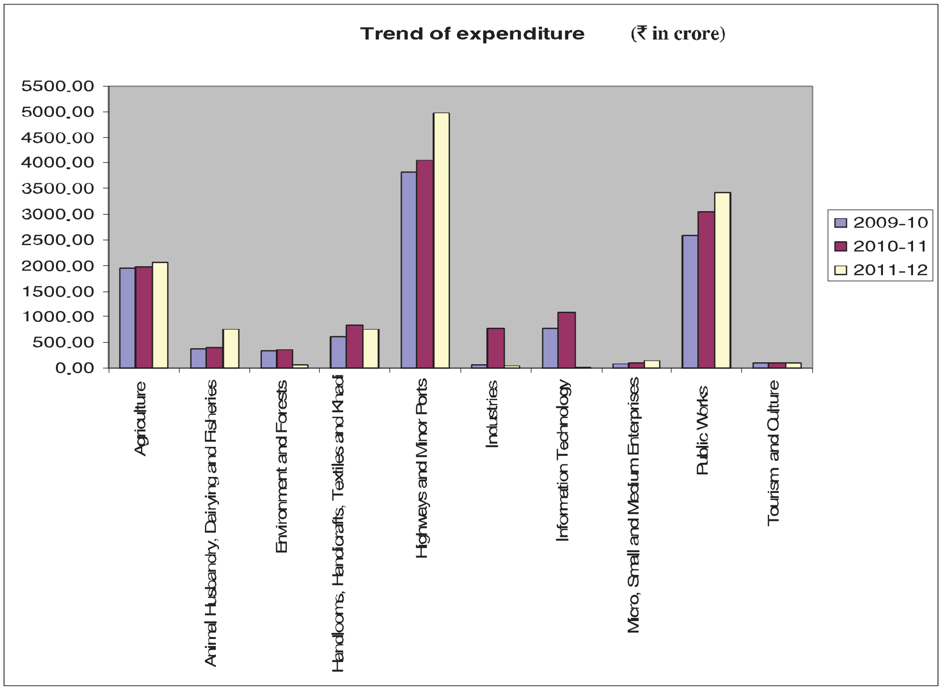
Table 1: Table showing the trend of expenditure for three years

(₹ in crore)

Sl. No.	Name of the Department	2009-10	2010-11	2011-12
1	Agriculture Department	1,960.65	1,965.99	2,050.02
2	Animal Husbandry, Dairying and Fisheries Department	370.13	400.99	758.98
3	Environment and Forests Department	343.14	365.52	64.92
4	Handlooms, Handicrafts, Textiles and Khadi Department	616.15	836.88	763.82
5	Highways and Minor Ports Department	3,816.05	4,045.05	4,968.76
6	Industries Department	67.67	775.73	47.01
7	Information Technology Department	771.10	1,091.62	29.06
8	Micro, Small and Medium Enterprises Department	78.20	105.84	143.22
9	Public Works Department	2,586.61	3,051.92	3,427.39
10	Tourism and Culture Department	106.27	106.77	105.03
Total		**10,715.97**	**12,746.31**	**12,358.21**

(Source: Finance Accounts for the year 2009-10, 2010-11 and 2011-12)

[1] 1. Agriculture 2. Animal Husbandry, Dairying and Fisheries 3. Environment and Forests 4. Handlooms, Handicrafts, Textiles and Khadi 5. Highways and Minor Ports 6. Industries 7. Information Technology 8. Micro, Small and Medium Enterprises 9. Public Works and 10. Tourism and Culture.



Analysis of increase in expenditure in 2011-12 over the previous year shows an increase of ₹ 923.71 crore in Highways and Minor Ports Department and ₹ 357.99 crore in Animal Husbandry, Dairying and Fisheries Department. The increase in Highways and Minor Ports department was mainly due to increase in expenditure on District and other Roads (₹ 465.64 crore), widening and strengthening of Roads and construction of Bridges (₹ 202.21 crore).

There was a decrease in expenditure of ₹ 1,062.56 crore in Information Technology Department, ₹ 728.72 crore in Industries Department, ₹ 300.60 Crore in Environment and Forests Department and ₹ 73.06 crore in Handlooms, Handicrafts, Textiles and Khadi Department during 2011-12 over the previous year.

1.2.1 Some major schemes implemented by the departments in the Economic Sector during 2011-12

(i) National Agriculture Development Programme (₹ 166.18 crore) implemented by Agriculture Department.

(ii) Comprehensive Road Infrastructure Development Programme (CRIDP) - (State Highways, Major District Roads, Other District Roads (ODR), ODR (Special component) (₹ 1,729.46 crore) implemented by Highways Department.

(iii) Revamped Central Road Fund (₹ 147.45 crore) implemented by Highways Department.

(iv) Tamil Nadu Road Sector Project (₹ 123.81 crore) implemented by Highways Department.

(v) Flood Management Programme (₹ 508 crore) implemented by Public Works Department

(vi) Free distribution of sheep/goat/milch cows to the persons living Below Poverty Line under special component (₹ 167 crore) implemented by Animal Husbandry Department.

1.3 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from Compliance Audit of 10 Government Departments and 48 Autonomous Bodies under the Economic Sector. Compliance Audit covers the examination of the transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with.

1.4 Authority for Audit

The Authority for Audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) (DPC) Act, 1971. C&AG conducts Audit of Expenditure of the Departments of Government of Tamil Nadu under Section 13[2] of the C&AG's (DPC) Act. C&AG is the sole Auditor in respect of Autonomous Bodies which are audited under Sections 19(3)[3] and 20(1)[4] of the C&AG's (DPC) Act. In addition, C&AG also conducts Audit of other Autonomous Bodies, under Section 14[5] of C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

1.5 Planning and conduct of Audit

The primary purpose of this Report is to bring to the notice of the State Legislature, important results of Audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of Audit are expected to enable the Executive to take corrective action as also to frame policies and directives that will lead to improved Financial Management of the Organisations, thus contributing to better governance.

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2 Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts.

3 Audit of the accounts of Corporations (not being Companies) established by or under law made by the State Legislature at the request of the Governor.

4 Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government.

5 Audit of (i) all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated fund of the State in a financial year is not less than ₹ one crore.

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

After completion of Audit, Inspection Reports containing Audit findings are issued to the heads of the Departments. The Departments are requested to furnish replies to the Audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, Audit findings are either settled or further action for compliance is advised. Important Audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India. During 2011-12, 403 units of various Departments/Organisations under Economic Sector were audited and Inspection Reports issued containing 1,686 Paragraphs in total.

1.6 Response to Audit

1.6.1 Draft Paragraphs and Chief Controlling Officer Based Audit

Fourteen Draft paragraphs and Chief Controlling Officer (CCO) based Audit findings on Agriculture Department were forwarded demi officially to the Principal Secretaries/Secretaries of the Departments concerned between June and December 2012 with the request to send their responses within six weeks. Departmental replies for only four out of 14 Draft Paragraphs issued during the year 2011-12 have been received. The replies have been incorporated in the report. In respect of the CCO based Audit of the Agriculture Department, an Exit Conference was held with representatives of the Government in December 2012 and views expressed in the conference have been considered in the Report.

1.6.2 Pending replies to Inspection Reports

The Principal Accountant General (E&RS Audit), Tamil Nadu (PAG) arranges to conduct periodical inspections of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher Authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial replies to the PAG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

We reviewed the IRs issued upto 31 March 2012 and found that 4,372 paragraphs relating to 1,488 IRs remained outstanding at the end of September 2012 as detailed in **Annexure-1**.

This large pendency of IRs, due to non-receipt of replies, was indicative of the fact that heads of offices and heads of Departments did not initiate appropriate and adequate action to rectify the defects, omissions and irregularities pointed out by us in the IRs.

1.7 Status of placement of Separate Audit Report on Autonomous Bodies

Separate Audit Report (SAR) on Tamil Nadu Maritime Board for the year 2010-11 was placed in the State Legislature on 19 April 2012. SAR for the year 2011-12 is yet to be placed in the State Legislature.

1.8 Significant Audit Observations

1.8.1 CCO based Audit on Agriculture Department was conducted during the year. Some of the observations are given below:

- There was no control over conversion of agricultural lands for other purposes even though the Government aimed at stabilising area under agricultural production. The Centrally Sponsored Schemes were implemented without following the GOI guidelines. Subsidy was drawn without issue of seeds to the farmers and distribution of storage bins under the Seed Village Scheme was in violation of guidelines.
- Schemes for soil improvements intended to cater to the basic needs of farmers to improve the yield and reduce the fertiliser consumption were not implemented properly due to inadequate manpower, non-establishment of Agriclinics.
- The State Seed Farms established with the main objective of supplying quality seeds at economic cost to the farmers had produced only one MT to 1.5 MT as against the target of two MT per acre per State Seed Farms.
- Delay in communication of test results of seed samples beyond the stipulated time resulted in sale of seed available at the time of seed inspection before the ban orders on sales. As a result, the seeds of poor quality were supplied.
- National Agricultural Insurance Scheme lacked control and monitoring. Manipulation of the records and denial of compensation to genuine beneficiaries remained unchecked/uncorrected.
- Belated release of funds affected implementation of schemes and denial of benefits to the farmers. Further, continued savings due to allocation of scheme funds at the fag end of the financial year indicated improper planning.

1.8.2 Compliance Audit of transactions

Audit of financial transactions in various departments of the Government and the field offices, revealed instances of avoidable expenditure, blocking of funds and regularity issues. Some of the important findings are given below:

Adoption of fictitious traffic census for widening a road led to avoidable expenditure of ₹ 1.69 crore.

(Paragraph 3.1.1)

Rectification of defects in the widened portion of the two roads through new contractors instead of by the original contractors at their risk and cost led to avoidable extra expenditure of ₹ 2.31 crore.

(Paragraph 3.1.2)

Provision of excess cement in the estimates due to non-adherence of MORTH specifications resulted in avoidable expenditure of ₹ 1.33 crore.

(Paragraph 3.1.7)

Avoidable extra expenditure of ₹ 2.98 crore and an additional liability of ₹ 0.25 crore due to adoption of incorrect rates/specifications and unauthorised quarrying in PWD canal lands.

(Paragraph 3.1.8)

Imposition of unacceptable conditions on the Banks for adjustment of funds against the loan for Common Effluent Treatment Plants resulted in loss of ₹ 5.34 crore to the Government exchequer.

(Paragraph 3.1.10)