

# 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 km. For the purpose of Administration, there are 37 Departments, headed by Principal Secretaries, who are assisted by Commissioners/Directors and subordinate officers under them.

Government functioning is broadly classified as General Services, Social Services and Economic Services. This Report covers the functioning of 10 Departments of Economic Sector listed in the table given below.

Of the 10 Departments with a total expenditure of ₹ 21,794.30 crore covered here, a major portion of the expenditure was incurred by Highways and Minor Ports (30.83 *per cent*), Agriculture (28.45 *per cent*), Public Works (16.65 *per cent*) and Animal Husbandry, Dairying and Fisheries (8.24 *per cent*) Departments during 2015-16.

## 1.2 Trend of expenditure

A comparative position of expenditure incurred by the Departments during the year 2015-16 along with preceding two years is given in **Table 1.1** and **Chart No.1**

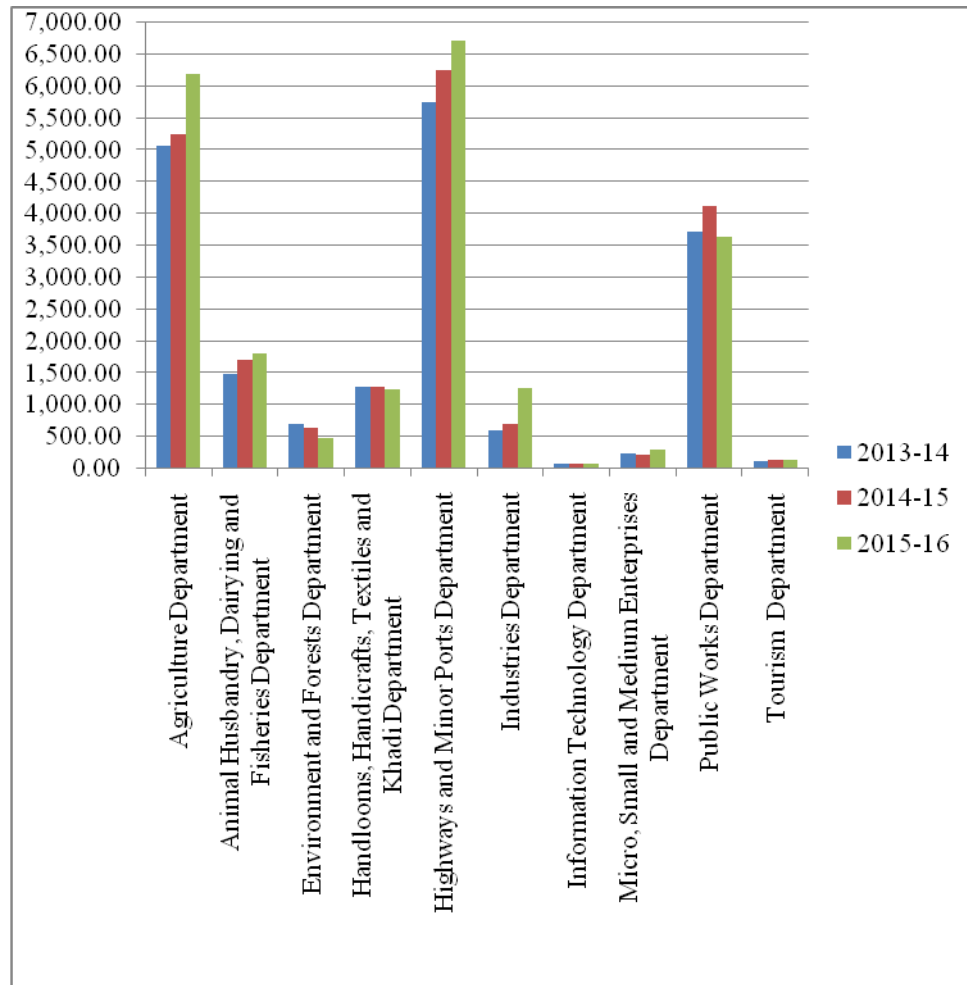
**Table 1.1: Trend of expenditure for three years**

(₹ in crore)

Sl. No.	Name of the Department	2013-14	2014-15	2015-16
1	Agriculture	5,067.84	5,247.25	6,199.67
2	Animal Husbandry, Dairying and Fisheries	1,487.60	1,705.37	1,795.75
3	Environment and Forests	686.75	633.96	473.47
4	Handlooms, Handicrafts, Textiles and Khadi	1,287.38	1,271.56	1,234.97
5	Highways and Minor Ports	5,744.66	6,254.65	6,719.63
6	Industries	591.90	703.58	1,253.08
7	Information Technology	75.83	81.72	79.29
8	Micro, Small and Medium Enterprises	238.63	219.06	284.04
9	Public Works	3,710.66	4,113.54	3,628.23
10	Tourism	105.50	125.33	126.17
<b>Total</b>		<b>18,996.75</b>	<b>20,356.02</b>	<b>21,794.30</b>

(Source: Finance Accounts for the years 2013-14, 2014-15 and 2015-16)

**Chart No. 1: TREND OF EXPENDITURE (₹ in crore)**



(Source: Finance Accounts for the years 2013-14, 2014-15 and 2015-16)

Reasons for increase or decrease in expenditure are stated below:

**Agriculture Department:** The increase in expenditure was due to payment of production incentive to the farmers for supply of paddy to Tamil Nadu Civil Supplies Corporation and payment of subsidies to Tamil Nadu Electricity Board on behalf of farmers using new connections for farm pump sets in Crop Husbandry.

**Industries Department:** The increase in expenditure was due to promotion of Investment in Tamil Nadu, Global Investors Meet, Value added Tax refunds, subsidy for promotion of industries and refund of Electricity tax for promotion of industries and contribution to Industrial Infrastructure Consolidated Fund.

**Roads and Bridges:** The increase in expenditure was due to maintenance of roads under Comprehensive Road Infrastructure Development Programme.

**Public works:** The decrease in expenditure was due to non-execution of the sanctioned works on account of unprecedented rain and consequential flood during November and December 2015.

### 1.2.1 Some major schemes implemented by the Departments of the Economic Sector during 2015-16

- (i) Comprehensive Road Infrastructure Development Programme covering State Highways, Major District Roads, Other District Roads (including Special Component Plan) at a cost of ₹ 2,992.47 crore, implemented by Highways Department.
- (ii) Value Added Tax Refund Subsidy Scheme at a cost of ₹ 1,003.50 crore implemented by Industries Department
- (iii) Free distribution of handloom cloth to the people below poverty line including Special Component Plan (₹ 489.52 crore), by Handlooms and Textiles Department.
- (iv) National Agriculture Development Programme (₹ 309.33 crore), implemented by Agriculture Department.
- (v) Free distribution of sheep/goat/milch cows to persons living below poverty line including Special Component Plan (₹ 236.05 crore), implemented by Animal Husbandry Department.

### 1.3 About this Report

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from the Audit of 10 Government Departments and 48 Autonomous Bodies under the Economic Sector. Compliance Audit covers 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. Performance Audit examines whether the objectives of the programme/activity/Department are achieved economically, efficiently and effectively.

### 1.4 Authority for audit

The authority for audit by the CAG 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. CAG conducts audit of expenditure of the Departments of Government of Tamil Nadu under Section 13<sup>1</sup> of the CAG's (DPC) Act. CAG is the sole Auditor in respect of Autonomous Bodies which are audited under Sections 19(3)<sup>2</sup> and 20(1)<sup>3</sup> of the CAG's (DPC) Act. In addition, CAG also conducts audit of other

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the CAG and the Government.

Autonomous Bodies, under Section 14<sup>4</sup> of CAG'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 CAG.

## **1.5 Planning and conduct of audit**

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

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 observations are also considered in this exercise. The frequency and extent of audit are decided based on this risk assessment.

Inspection Reports (IRs) containing audit observations are issued to the Heads of the Department/field officers after completion of audit. The Departments are requested to furnish replies to the audit observations within one month of receipt of the IRs. Whenever replies are received, audit observations are either settled or further action for compliance is advised. Important audit observations arising out of these IRs 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 for laying on the table of the House of the State Legislature.

## **1.6 Response to audit**

### **1.6.1 Draft Paragraphs and Performance Audit**

Eight Draft Paragraphs and one Performance Audit of Implementation of National Horticulture Mission in Tamil Nadu were forwarded, demi-officially, to the Principal Secretaries of the Departments concerned between May and November 2016, with the request to send their responses. Government replies to seven Draft Paragraphs and one Performance Audit of Implementation of National Horticulture Mission in Tamil Nadu have been received. The replies have been incorporated in the Audit Report, wherever applicable. In respect of Performance Audit, an Entry Conference was held in May 2016 with the representatives of the Government and an Exit Conference was held with the representatives of the Government in October 2016 and views expressed in these Conferences have been included in the Report.

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<sup>4</sup> Audit of (i) all receipts and expenditure of a body or 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.

### 1.6.2 Follow-up action on Audit Reports

With a view to ensuring accountability of the Executive in respect of the issues dealt with in the Audit Reports, the Public Accounts Committee (PAC)/Committee on Public Undertakings (COPU) directed that the Departments concerned should furnish remedial Action Taken Notes (ATNs) on the recommendations of PAC/COPU, relating to the Paragraphs contained in the Audit Reports, within six months. We reviewed the outstanding ATNs as of 31 March 2016, on the Paragraphs included in the Reports of the Comptroller and Auditor General of India relating to the Departments of Economic Sector, Government of Tamil Nadu and found that the Departments did not submit ATNs for 764 and 15 recommendations pertaining to the Audit Paragraphs discussed by PAC and COPU respectively. The delay in submission of ATNs ranged between six months and five years.

### 1.6.3 Outstanding replies to Inspection Reports

On behalf of the Comptroller and Auditor General of India (CAG), the Accountant General (E&RSA), Tamil Nadu conducts periodical inspections of the Government Departments to test check transactions and verify maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with issue of 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 replies. Serious financial irregularities are brought to the notice of the Heads of the Departments and the Government.

Inspection Reports issued upto 31 March 2016 were reviewed and found that 3,148 Paragraphs relating to 1,005 IRs remained outstanding at the end of September 2016 (**Annexure - 1**).

This large pendency of IRs, due to lack of corrective action or non-receipt of replies, was indicative of the fact that Heads of the offices and Heads of the Departments did not take appropriate action to rectify the defects, omissions and irregularities pointed out in the IRs.

## 1.7 Significant Audit Observations

### 1.7.1 Performance Audit of Implementation of National Horticulture Mission in Tamil Nadu was conducted during this year. Significant audit observations are given below:

- Tamil Nadu Horticulture Development Agency failed to prepare State Horticulture Mission Document to determine the potentiality of horticulture in the State. Annual Action Plan was prepared without baseline survey, finalisation of detailed project proposals was delayed and there was absence of sub-plan for the component area expansion. All these resulted in deferment of six sanctioned projects for ₹ 11.47 crore and non-availing of GOI sanction of ₹ 34.33 crore for 26 projects indicating inadequate planning in the development of horticulture sector.

- Imprudent financial management resulted in blocking of funds of ₹ 4.35 crore and non-utilisation of the released funds of ₹ 32.37 crore. There was delay in release of received Central funds and State funds by Government of Tamil Nadu resulting in delayed achievement of the envisaged objectives.
- Absence of effective maintenance of new plantations in the subsequent years despite incurring of ₹ 36.15 crore, and delayed or under completion of projects resulted in non-achievement of the objective of enhancement of production of horticultural crops. Short allocation of sanctioned funds to the schemes for the benefit of deprived sections of society resulted in non-generation of income and provision of social security.
- Lack of concurrent evaluation of projects and deficiencies in the monitoring of the programme indicated weak internal control.

## **1.7.2 Compliance Audit**

### **1.7.2.1 Management of Co-operative Sugar Mills in Tamil Nadu**

Audit of Management of Co-operative Sugar Mills (CSMs) in Tamil Nadu brought out the following observations:

- Commissioner of Sugar failed to consider the earlier years' productivity while fixing the targets for cane crushing due to faulty planning.
- The Co-operative Sugar Mills suffered losses of ₹ 1,095 crore during 2013-14 to 2015-16, due to high cost of production, coupled with interest burden of ₹ 963.73 crore on the borrowings, due to which CSMs became financially weak.
- The objective of nursery programme to ensure the development of quality seeds for bulk plantations was not fulfilled, which impacted the optimum sugarcane production for crushing by CSMs.
- Utilisation of over-aged cane for crushing, non-adherence to prescribed norms in production activities and delay in completion of diversification and modernisation programme impacted the effective sugar recovery and resulted in revenue loss of ₹ 33.49 crore and excess expenditure of ₹ 47.98 crore.
- Due to lack of proper monitoring, above deficiencies were yet to be corrected. Some deficiencies continued to exist despite being pointed out in the CAG's Audit Report for the year 2008-09.

**1.7.2.2** Audit of transactions of various Departments of Government and field offices revealed additional expenditure, avoidable expenditure and blocking of funds as detailed below:

- Non-adherence to guidelines in preparation of estimates for execution of road works resulted in non-utilisation of Government of India grant of ₹ 1.40 crore besides additional burden to the State exchequer.

**(Paragraph No.3.2)**

- Delay in according Revised Administrative Sanction resulted in avoidable expenditure of ₹ 1.79 crore in the construction of High Level Bridge across Palar River.

**(Paragraph No.3.5)**

- Duplication in selection of blocks, absence of weather forecasting data and availability of incomplete and unreliable weather data in the server resulted in avoidable extra expenditure of ₹ 1.42 crore and blocking of funds of ₹ 1.03 crore besides non-achievement of the envisaged objective.

**(Paragraph No.3.6)**

- Non-adherence of GOI instructions and construction of godowns without adequate height and absence of three phase power supply to operate Seed Processing Units resulted in non-availing of GOI grant of ₹ 8.60 crore and blocking of funds of ₹ 4.66 crore, besides non-achievement of the envisaged objective.

**(Paragraph No.3.7)**

- Non-adherence to the Standard Schedule of Rates to determine the quantity of materials for the construction of spurs led to additional expenditure of ₹ 2.38 crore.

**(Paragraph No.3.8)**