

CHAPTER I

INTRODUCTION

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) on Government of Tamil Nadu (GoTN) relates to matters arising from Performance Audit of selected programmes and activities and Compliance Audit of Government departments, Autonomous Bodies and Local Bodies.

The primary purpose of the Report is to bring important results of audit to the notice of the State Legislature. Auditing standards issued by the CAG require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The audit findings are expected to enable the Executive to take corrective actions as also to frame appropriate policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

Compliance Audit refers to examination of transactions relating to expenditure, receipts, assets and liabilities of audited entities to ascertain whether 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 the extent to which objectives of an organisation, programme or scheme are achieved economically, efficiently and effectively.

This Chapter provides profile of audited entities, planning and extent of audit and follow-up of Audit Reports. Chapter II of this Report deals with findings of Performance Audit and Chapter III deals with findings of Compliance Audit of various departments, Autonomous Bodies and Local Bodies.

1.2 Profile of Audited Entities

There are 37 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries who are assisted by Commissioners/Directors and Subordinate Officers. Of these, 23 departments including 16 Public Sector Undertakings and 1,744 Autonomous Bodies/Local Bodies, falling under these departments, were under the audit jurisdiction of the Principal Accountant General (General and Social Sector Audit), Tamil Nadu.

A comparative position of expenditure incurred by the Government during the year 2018-19 and in the preceding four years is given in **Table 1.1**.

Abbreviations used in this report are listed in the Glossary at Page 130

Table 1.1: Comparative position of expenditure

(₹ in crore)

| Disbursements | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue expenditure | 1,28,828 | 1,40,993 | 1,53,195 | 1,67,874 | 1,97,200 |
| General services | 41,655 | 45,512 | 51,452 | 60,451 | 72,450 |
| Social services | 50,349 | 54,806 | 55,297 | 59,790 | 70,202 |
| Economic services | 26,843 | 29,943 | 33,980 | 36,162 | 39,669 |
| Grants-in-aid and contributions | 9,981 | 10,732 | 12,466 | 11,471 | 14,879 |
| Capital expenditure | 17,803 | 18,995 | 20,709 | 20,203 | 24,311 |
| Loans and advances | 4,319 | 2,331 | 26,046 | 6,517 | 6,478 |
| Repayment of public debt | 6,488 | 6,605 | 8,200 | 8,991 | 15,064 |
| Contingency fund | Nil | 19 | Nil | Nil | 10 |
| Public account | 1,59,384 | 1,77,442 | 1,73,007 | 1,84,209 | 2,23,930 |
| Total | 3,16,822 | 3,46,385 | 3,81,157 | 3,87,794 | 4,66,993 |

(Source: Finance Accounts for the respective years)

1.3 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 Services) Act, 1971. The CAG conducts audit of expenditure of the departments of GoTN under Section 13¹ of the CAG's (DPC) Act, 1971. The CAG is the sole auditor in respect of 37 Autonomous Bodies which are audited under Sections 19(2)², 19(3)³ and 20(1)⁴ of the said Act. Audit of Government companies is also conducted under Section 19(1) of the CAG's (DPC) Act. In addition, the CAG conducts, under Section 14⁵ of the Act, audit of other Autonomous Bodies, which are substantially funded by the State Government. Audit of Urban Local bodies (ULBs) are conducted under Section 14(2) of the CAG's (DPC) Act, 1971. The CAG also provides technical guidance and support to the Local Fund Audit for audit of Local Bodies. The principles and methodologies for various audits are

¹ Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and the Public Account and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts.

² Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations.

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 CAG 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 ₹ 1 crore.

prescribed in the Regulations on Audit and Accounts (Amendments) 2020 and CAG's Auditing Standards, 2017.

1.4 Planning and conduct of audit

Audit process starts with the risk assessment of the Departments/organisations as a whole and that of each unit based on expenditure incurred and its type, criticality/complexity of activities, level of delegated financial powers, assessment of internal controls, concerns of stakeholders and the likely impact of such risks. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An Annual Audit Plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of units, Inspection Reports (IRs) containing audit findings are issued to the Heads of the audited entities. The entities are requested to furnish replies to the audit findings within one month of receipt of the IRs. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Important audit observations pointed out in these IRs are processed for inclusion in the CAG's Audit Reports, which are submitted to the Governor of Tamil Nadu under Article 151 of the Constitution of India for being laid before the State Legislature.

1.5 Response to Audit

1.5.1 Draft Paragraphs and Performance Audit

One draft Performance Audit and 17 draft Paragraphs were forwarded demi-officially to Additional Chief Secretaries/Principal Secretaries/Secretaries of the departments concerned between May 2019 and January 2020, requesting them to furnish their responses within six weeks. Government replies for one Performance Audit and 10 draft Paragraphs were received. The replies received are suitably incorporated in the Report. Replies of Heads of Department and the views expressed by the representatives of the Government during Exit Conferences/Exit meetings were also considered while finalising the Report.

1.5.2 Pendency of Inspection Reports

A review of the IRs issued up to 30 September 2018 revealed that 19,215 paragraphs relating to 4,464 IRs remained outstanding for more than six months at the end of March 2019, as detailed in **Appendix 1.1**.

Large pendency of IRs 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 in the IRs.

1.6 Recommendations

This Report contains specific recommendations on a number of issues involving non-observance of the prescribed internal procedure and systems, compliance with which would help in promoting good governance and better oversight on implementation of departmental programmes and objectives at large. The State Government is requested to take cognizance of these recommendations and take appropriate action in a time bound manner.

1.7 Follow-up on Audit Reports

The Committee on Public Accounts of the Legislature prescribed a time limit of two months from the date of placement of the Audit Reports for furnishing Explanatory Notes by Government departments on the audit observations included in the Audit Report. The Explanatory Note should indicate the corrective action taken or proposed to be taken by them.

The position of pendency of paragraphs/Performance Audits, for which Explanatory Notes were not received as of 31 December 2019 is shown in **Table 1.2**.

Table 1.2: Paragraphs/PAs for which Explanatory Notes not received

| Details of number of Paragraphs/Performance Audits for which Explanatory Notes are awaited | Audit Report | | |
|--|---------------|---------|---------|
| | Up to 2014-15 | 2015-16 | 2016-17 |
| General and Social Sector | 38 | 28 | 8 |
| Local Bodies | 96 | 18 | 9 |

Further, Government departments are to submit Action Taken Notes (ATNs) on the recommendations of PAC. As of December 2019, Government departments did not furnish ATNs on 1,799 recommendations made by PAC in respect of Audit Reports on Civil, State Finances, General and Social Sector and Local Bodies pertaining to the period 1973-74 to 2015-16.