

CHAPTER I: INTRODUCTION

1.1 About this Report

Compliance audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of audited entities to ascertain whether the provisions of the Constitution of India and applicable laws, rules, regulations, orders and instructions issued by the competent authorities are being complied with and also to determine their legality, adequacy, transparency, propriety, prudence and effectiveness in terms of achievement of the intended objectives.

Audits are conducted on behalf of the Comptroller and Auditor General (CAG) as per the approved Auditing Standards. These standards prescribe the norms which the auditors are expected to follow in conduct of audit and require reporting on individual cases of non-compliance as well as on weaknesses that exist in systems of financial management and internal control of the entities audited. The audit findings/ observations are expected to enable the Executives to take corrective action(s), also to frame policies and procedures that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a brief analysis of the expenditure of the Economic and Service Ministries/ Departments as listed out in **Appendix-I** and their financial management. Chapters II to VIII present findings/ observations arising out of the compliance audit of the Economic and Service Ministries/ Departments and their Autonomous Bodies¹.

1.2 Authority for Audit

The authority for audit by the CAG and reporting to the Parliament is derived from Articles 149 and 151 of the Constitution of India and the CAG's (Duties, Powers and Conditions of Service) Act, 1971 (Act) respectively. CAG conducts audit of expenditure of Ministries/ Departments of the Government of India under Sections 13² and Section 17³ of the Act.

Bodies established by or under law made by the Parliament and containing specific provisions for audit by the CAG are statutorily taken up for audit under Section 19(2) of the Act. Audit of other organisations (Corporations or Societies) are entrusted to the CAG in public interest under Section 20 (1) of the Act. Besides, bodies or authorities, which

¹ As on 31.03.2019, 64 CABs were under audit purview.

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

³ Audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State.

are substantially financed by grants/ loans from the Consolidated Fund of India, are audited by the CAG under the provisions of Section 14(1) of the Act.

1.3 Planning and conduct of audit

Compliance audit is conducted in accordance with the principles and practices enunciated in the auditing standards promulgated by the CAG. The audit process commences with the assessment of risk of the Ministry/ Department as a whole and of each unit based on expenditure incurred, the criticality/ complexity of its activities, the level of delegated financial powers, and assessment of 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 is decided. An annual audit plan is thereafter formulated to conduct audit on the basis of such risk assessment. After completion of audit of selected/ planned units, Inspection Reports containing audit findings are issued to the head of the unit. The units are requested to furnish replies to the audit findings within one month of receipt of the Inspection Report. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are issued separately as draft paras to the heads of the Administrative Ministries/ Departments for their comments and processed for inclusion in the Audit Reports which are submitted to the President of India under Article 151 of the Constitution.

1.4 Budget and Expenditure

The comparative position of budget and expenditure during reporting period 2018-19 and the preceding year in respect of 16 Economic and Service Ministries (Department-wise wherever applicable) and two departments of Ministry of Finance is given in Table 1.1 below.

Table 1.1: Budget and Expenditure of Economic and Service Ministries/ Departments

(₹ in crore)

Ministry/ Department	Budget provision	Actual expenditure	Unspent budget	% of unspent budget against budget provision	Budget provision	Actual expenditure	Unspent budget	% of unspent budget against budget provision
	2018-19				2017-18			
Ministry of Road Transport & Highways	1,59,582.53	1,42,888.03	16,694.50	10.46	1,22,898.47	1,17,152.83	5,745.64	4.68
Ministry of Finance								
Department of Financial Services	1,17,097.21	1,16,088.58	1,008.63	0.86	1,07,742.08	1,06,768.31	973.77	0.09
Department of Investment and Public Asset Management	146.15	145.15	1.00	0.68	44.00	32.19	11.81	26.84

Ministry of Chemicals and Fertilizers									
Department of Fertilizers	73,487.40	73,477.41	9.99	0.01	94,797.23	89,788.57	5,008.66	5.28	
Department of Chemicals & Petrochemical	399.65	339.86	59.79	14.96	658.28	612.11	46.17	7.01	
Department of Pharmaceuticals	579.71	523.46	56.25	9.70	266.11	252.41	13.70	5.15	
Ministry of Housing & Urban Affairs*									
Ministry of Housing & Urban Affairs*	50,254.47	40,874.26	9,380.21	18.67	47,293.79	40,606.46	6,687.33	14.14	
Ministry of Petroleum and Natural Gas	34,422.95	32,620.99	1,801.96	5.23	36,860.59	33,192.11	3,668.48	9.95	
Ministry of Power	20,233.67	19,850.10	383.57	1.90	17,966.44	15,017.90	2,948.54	16.41	
Ministry of Commerce and Industry									
Department of Commerce	6,215.32	6,159.52	55.80	0.90	5,664.01	5,586.45	77.56	1.37	
Department of Promotion of Industry and Internal Trade**	6,156.61	6,020.57	136.04	2.21	6,134.48	4,053.64	2,080.84	33.92	
Ministry of Civil Aviation									
Ministry of Civil Aviation	10,680.98	9,600.19	1,080.79	10.12	2,789.29	2,664.12	125.17	4.49	
Ministry of Textiles	8,660.82	6,695.47	1,965.35	22.69	6,272.82	5,940.18	332.64	5.30	
Ministry of Micro Small and Medium Enterprises	6,561.17	6,513.12	48.05	0.73	6,482.01	6,222.18	259.83	4.01	
Ministry of Shipping	2,729.75	2,321.63	408.12	14.95	2,116.76	1,862.53	254.23	12.01	
Ministry of Tourism	2,150.03	2,100.49	49.54	2.30	1,840.80	1,766.09	74.71	4.06	
Ministry of Mines	2,164.54	1,397.10	767.44	35.46	1,460.49	1,349.00	111.49	7.63	
Ministry of Heavy Industry and Public Enterprises									
Department of Heavy Industry	1,286.66	1,035.02	251.64	19.56	2,600.03	1,104.62	1,495.41	57.52	
Department of Public Enterprises	21.44	21.20	0.24	1.12	19.38	18.69	0.69	3.56	
Ministry of Coal									
Ministry of Coal	781.85	708.34	73.51	9.40	1,445.11	1,411.19	33.92	2.35	
Ministry of Corporate Affairs	643.98	610.41	33.57	5.21	588.85	526.42	62.43	10.60	
Ministry of Steel	154.90	154.64	0.26	0.17	44.14	43.20	0.94	2.13	
Total	5,04,411.79	4,70,145.54	34,266.25	6.79	4,65,985.16	4,35,971.20	30,013.96	6.44	

Source: Appropriation Accounts of the respective years

*Ministry of Housing and Urban Poverty Alleviation and Ministry of Urban Development were merged to form Ministry of Housing and Urban Affairs (MoHUA) during 2017-18. Thus, the figures for the year 2017-18 were clubbed under the MoHUA for the purpose of comparison.

** Erstwhile Department of Industrial Policy and Promotion (DIPP)

The total expenditure of the above Ministries/ Departments of the Government of India during 2018-19 was ₹4,70,145.54 crore as against ₹4,35,971.20 crore in 2017-18 viz. an increase of ₹34,174.34 crore (7.84 per cent). Out of the total expenditure of ₹4,70,145.54

crore incurred by these Ministries/ Departments during 2018-19, 30.39 per cent was incurred by Ministry of Road Transport & Highways followed by Department of Financial Services and Department of Fertilizers (24.69 per cent and 15.63 per cent respectively).

The actual expenditure of the above Ministries/ Departments varied (i.e. increase/decrease) in a minimum to maximum range of increase and decrease in actual expenditure by 0.66 per cent⁴ and 1.72 per cent⁵ to 350.92 per cent⁶ and 49.81 per cent⁷ respectively during 2018-19 as compared to 2017-18.

The Ministries/ Departments having significant increase in actual expenditure were the Ministry of Civil Aviation, Ministry of Steel, Department of Investment and Public Asset Management (DIPAM), and Department of Pharmaceuticals during 2018-19 over the previous year. Marked decrease in expenditure was observed in Ministry of Coal, Department of Chemicals & Petrochemicals and Department of Fertilizers during 2018-19 over the previous year.

With reference to the total budget provision of ₹5,04,411.79 crore during 2018-19, the Ministries/ Departments had an overall unspent budget of ₹34,266.25 crore which constituted 6.79 per cent of the total grant/ appropriation as against the unspent budget of 6.44 per cent during 2017-18.

1.5 Utilisation Certificates

As per the General Financial Rules, certificates of utilisation in respect of grants released to statutory bodies/ organisations are required to be furnished within 12 months from the closure of the financial year by the concerned bodies/ organisations. The Ministry/ Department-wise details indicating the position (as on March 2019) of the total number of 5,660 outstanding utilisation certificates (UCs) involving an amount of ₹18,616.49 crore in respect of grants released up to March 2018 by 15 Ministries/ Departments that remained outstanding after 12 months from the end of the financial year in which the grants were released are given in **Appendix-II**. In respect of these 5,660 UCs involving ₹18,616.49 crore, no assurance could be derived that the amount had actually been incurred for the purpose for which it was sanctioned/ authorised by the Legislature. High pendency of utilisation certificates is fraught with risk of misappropriation of funds and fraud. The age-wise position of outstanding utilisation certificate is summarised in Table 1.2 below:

⁴ Ministry of Housing and Urban Affairs: ₹(40,874.26 crore-40,606.46 crore)/ 40,606.46 crore}*100

⁵ Ministry of Petroleum and Natural Gas: ₹(33,192.11 crore -32,620.99 crore)/ 33,192.11 crore}*100

⁶ DIPAM: ₹(145.15 crore -32.19 crore) / 32.19 crore}*100

⁷ Ministry of Coal: ₹(1,411.19 crore -708.34 crore)/ 1,411.19 crore}*100

Table 1.2: Position of outstanding UCs

(₹ in crore)

Range of delay in number of years	UCs outstanding as on 31 March 2019	
	Number	Amount
0-1	1,633	10,114.49
1-5	2,942	8,118.37
Above 5	1,085	383.63
Total	5,660	18,616.49

The outstanding UCs predominantly pertain to six Ministries/ Departments. These constitute 95.62 per cent of total outstanding UCs, value of which is 99.25 per cent of the total outstanding amount. The position of the outstanding UCs with significant money value relating to the six Ministries/ Departments, as on March 2019, is given in Table 1.3 below:

Table 1.3: UCs outstanding as on 31 March 2019

(₹ in crore)

Sl. No.	Ministry/ Department	Till March 2018 ⁸	
		Number	Amount
1.	Ministry of Housing and Urban Affairs	1,374	16,974.80
2.	Ministry of Textiles	3,608	871.66
3.	Department of Heavy Industry	46	185.52
4.	Ministry of Micro Small and Medium Enterprises	328	165.26
5.	Department of Promotion of Industry and Internal Trade	32	148.10
6.	Department of Commerce	24	132.02
	Total	5,412	18,477.36

1.6 Delay in submission of accounts by Central Autonomous Bodies (CAB)

The Committee on Papers Laid on the Table of the House had recommended in its First Report (1975-76) that every Autonomous Body (AB) should finalise/ prepare its accounts within a period of three months after close of the accounting year (Financial Year) and make them available for audit. This is also stipulated in Rule 237 of the General Financial Rules, 2017.

Table 1.4 below shows delay in submission of accounts for the year 2017-18 for audit by the CABs.

Table 1.4: Delay in submission of accounts

	Period of Delay			
	Up to 1 month	1-3 months	3-6 months	Beyond 6 months
No. of CABs	11	8	7	12

The details of CABs whose accounts were delayed beyond three months as of May 2020 are given in **Appendix-III**.

⁸ For grants released till March 2018

1.7 Delay in presentation of audited accounts of CABs before both Houses of Parliament

The Committee also recommended that the audited accounts of ABs be laid before Parliament within nine months of the close of the accounting year i.e. by 31 December of the subsequent Financial Year.

Status of laying of the audited accounts before the Parliament as on May 2020 is as mentioned in Table 1.5:

Table 1.5: Status of laying of the audited accounts in the Parliament

Year of account	Number of CABs for which audited accounts were issued but not presented to Parliament	Number of audited accounts presented after due date
2012-13	1	1
2013-14	2	5
2014-15	2	4
2015-16	1	8
2016-17	1	18
2017-18	5	25

The particulars of the CABs whose audited accounts had not been laid or laid after due dates before the Parliament are given in **Appendix-IV** and **Appendix-V** respectively.

1.8 Results of certification of audit

Separate Audit Reports for CABs audited under Sections 19(2) and 20(1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, are appended to the certified final accounts that are to be tabled by respective Ministries in Parliament.

Significant observations on the Annual Accounts of CABs for the year 2018-19 are given in **Appendix-VI**. Some of the important deficiencies noticed during the audit of Annual Accounts of CABs for the year 2018-19 are as mentioned below:

- a) Internal audit was not conducted in 17 CABs (**Appendix-VII**);
- b) Physical verification of the fixed assets was not carried out in 21 CABs (**Appendix-VIII**);
- c) Physical verification of the inventories was not carried out in 10 CABs (**Appendix-IX**);
- d) Accounting for grants on realisation/ cash basis was found inconsistent with the common format of accounts as prescribed by the Ministry of Finance in three CABs (**Appendix-X**);
- e) Accounting for Gratuity and other retirement benefits was not carried out on basis of actuarial valuation in five CABs (**Appendix-XI**); and
- f) Accounts of six CABs were revised as a result of audit (**Appendix-XII**).

1.9 Status of pending ATNs

The Public Accounts Committee (PAC), in its one hundred & fifth Report (Tenth Lok Sabha – 1995-96) which was presented to the Parliament on 17 August 1995, had recommended that Action Taken Notes (ATNs) on all paragraphs of the Reports of the CAG should be furnished to the Committee through the Ministry of Finance (Department of Expenditure) within a period of four months from the date of laying of the Audit Reports on the Table of the House starting from 31 March 1996 onwards. Subsequently, a Monitoring Cell was created under the Department of Expenditure which is entrusted with the task of coordination and collection of the ATNs from all the Ministries/ Departments concerned duly vetted by Audit and sending them to PAC within the stipulated period of four months from the date of presentation of the Audit Report to the Parliament.

A review of the position of the ATNs on paragraphs included in CAG's Compliance Audit Reports Union Government (Economic & Service Ministries), for the period ended March 2018 disclosed that there were six ATNs under various stages of correspondence with the concerned Ministries/ Departments (November 2018). Out of six ATNs, four ATNs had been submitted to PAC while two ATNs are still in correspondence stage (May 2020). Details of the outstanding ATNs are indicated in **Appendix-XIII**.

1.10 Response of Ministries/ Departments to Draft Paragraphs

The Ministry of Finance (Department of Expenditure), on recommendations of PAC, issued directions to all Ministries in June 1960 to send their responses on the Draft Audit Paragraphs proposed for inclusion in the Report of the CAG within six weeks. The time frame has also been prescribed under Para 207 (1) of Regulations on Audit and Accounts, 2007, made by the CAG. The Draft Paragraphs are forwarded to the Ministries/ Departments concerned drawing their attention to the audit findings and requesting them to send their response within six weeks. This report contains 14 audit paragraphs. The replies of concerned Ministries/ Departments were received in respect of eight paragraphs. The responses received have been suitably incorporated in the Report (May 2020).