

## 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 (C&AG) as per 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 improve 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 Bodies<sup>1</sup>.

### 1.2 Authority for Audit

The authority for audit by the C&AG and reporting to the Parliament is derived from Articles 149 and 151 of the Constitution of India respectively and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (Act). C&AG conducts audit of expenditure of Ministries/Departments of the Government of India under Sections 13<sup>2</sup> and Section 17<sup>3</sup> of the Act.

Bodies established by or under law made by the Parliament and containing specific provisions for audit by the C&AG are statutorily taken up for audit under Section 19(2) of the Act. Audit of other organisations (Corporations or Societies) are entrusted to the C&AG in public interest under Section 20 (1) of the Act. Besides, bodies or authorities, which are substantially financed by grants/ loans from the Consolidated Fund of India, are audited by the C&AG under the provisions of Section 14(1) of the Act.

<sup>1</sup> As on 31.03.2018, 62 CABs were under audit purview.

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

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

### 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 C&AG. 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 current reporting period 2017-18 and the preceding year in respect of 16 Economic and Service Ministries (Department-wise wherever applicable) and three 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	Percentage of unspent budget against budget provision	Budget Provision	Actual Expenditure	Unspent Budget	Percentage of unspent budget against budget provision
	<b>2017-18</b>				<b>2016-17</b>			
Ministry of Road Transport & Highways (MoRTH)	1,22,898.47	1,17,152.83	5,745.64	4.68%	1,41,590.14	94,752.09	46,838.05	33.08%
<b>Ministry of Finance</b>								
Department of Financial Services (DFS)	1,07,742.08	1,06,768.31	973.77	0.09%	37,341.94	31,068.88	6,273.06	16.80%
Department of Economic Affairs (DEA)	15,690.42	9,490.22	6,200.20	39.52%	28,447.59	15,092.16	13,355.43	46.95%
Department of Investment and Public Asset Management (DIPAM)	44.00	32.19	11.81	26.84%	40.00	14.11	25.89	64.73%
<b>Ministry of Chemicals and Fertilizers</b>								
Department of Fertilizers (DoF)	94,797.23	89,788.57	5,008.66	5.28%	74,139.40	70,130.19	4,009.21	5.41%

Department of Chemicals & Petrochemicals	658.28	612.11	46.17	7.01%	202.45	166.77	35.68	17.62%
Department of Pharmaceuticals	266.11	252.41	13.70	5.15%	311.42	307.57	3.85	1.24%
Ministry of Petroleum and Natural Gas	36,860.59	33,192.11	3,668.48	9.95%	31,691.78	30,231.29	1,460.49	4.61%
Ministry of Urban Development (MoUD)*	38,037.78	31,404.55	6,633.23	17.44%	35,531.57	32,297.61	3,233.96	9.10%
Ministry of Power (MoP)	17,966.44	15,017.90	2,948.54	16.41%	17,391.01	11,768.35	5,622.66	32.33%
Ministry of Housing and Urban Poverty Alleviation (MoHUPA)*	9,256.01	9,201.91	54.10	0.58%	5,411.05	5,220.99	190.06	3.51%
Ministry of Micro, Small and Medium Enterprises (MSME)	6,482.01	6,222.18	259.83	4.01%	5,168.71	3,650.07	1,518.64	29.38%
Ministry of Textiles	6,272.82	5,940.18	332.64	5.30%	6,784.28	6,227.50	556.78	8.21%
Ministry of Civil Aviation	2,789.29	2,664.12	125.17	4.49%	3,521.46	3,405.79	115.67	3.28%
Ministry of Shipping	2,116.76	1,862.53	254.23	12.01%	1,955.20	1,734.92	220.28	11.27%
Ministry of Tourism	1,840.80	1,766.09	74.71	4.06%	1,670.94	1,638.60	32.34	1.94%
Ministry of Coal (MoC)	1,445.11	1,411.19	33.92	2.35%	1,656.36	1,338.04	318.32	19.22%
Ministry of Mines	1,460.49	1,349.00	111.49	7.63%	1,213.51	1,075.97	137.54	11.33%
Ministry of Corporate Affairs (MCA)	588.85	526.42	62.43	10.60%	419.94	397.27	22.67	5.40%
Ministry of Steel	44.14	43.20	0.94	2.13%	748.15	437.80	310.35	41.48%
<b>Ministry of Heavy Industry and Public Enterprises</b>								
Department of Industrial Policy and Promotion (DIPP)	6,134.48	4,053.64	2,080.84	33.92%	3,037.72	1,995.15	1,042.57	34.32%
Department of Heavy Industry (DHI)	2,600.03	1,104.62	1,495.41	57.52%	8,376.44	8,350.41	26.03	0.31%
Department of Public Enterprises (DPE)	19.38	18.69	0.69	3.56%	20.42	17.09	3.33	16.31%
<b>Ministry of Commerce and Industry</b>								
Department of Commerce (DoC)	5,664.01	5,586.45	77.56	1.37%	4,571.50	4,512.33	59.17	1.29%
<b>Total</b>	<b>4,81,675.58</b>	<b>4,45,461.42</b>	<b>36,214.16</b>	<b>7.52%</b>	<b>4,11,242.98</b>	<b>3,25,830.95</b>	<b>85,412.03</b>	<b>20.77%</b>

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 during 2017-18. However, the same were shown separately for the purpose of comparison.

The total expenditure of the above Ministries/Departments of the Government of India during 2017-18 was ₹4,45,461.42 crore as against ₹3,25,830.95 crore in 2016-17 viz. an increase of ₹1,19,630.47 crore (36.71 per cent). Of the total expenditure of ₹4,45,461.42 crore incurred by these Ministries/Departments during 2017-18, 26.30 per cent was

incurred by Ministry of Road, Transport & Highways followed by Department of Financial Services and Department of Fertilizers (23.97 per cent and 20.16 per cent respectively).

The actual expenditure of the above Ministries/Departments varied (increased/decreased) during 2017-18 as compared to 2016-17. As compared to last year a minimum to maximum range of increase and decrease in actual expenditure by 5.47 per cent<sup>4</sup> and 2.76 per cent<sup>5</sup> to 267.04 per cent<sup>6</sup> and 90.13 per cent<sup>7</sup> respectively was noticed.

The Ministries/Departments having significant increase in actual expenditure were the Department of Chemicals and Petrochemicals, Department of Financial Services, DIPAM, DIPP, HUPA and MSME during 2017-18 over the previous year. Marked decrease in expenditure was observed in Ministry of Steel, DHI and DEA during 2017-18 over the previous year.

With reference to the total budget provision of ₹4,81,675.58 crore during 2017-18, the Ministries/ Departments had an overall unspent budget of ₹36,214.16 crore which constituted 7.52 per cent of the total grant/appropriation as against the unspent budget of 20.77 per cent during 2016-17.

### 1.5 Utilisation Certificates

As per 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 2018) of the total number of 7,509 outstanding utilisation certificates (UCs) involving an amount of ₹21,342.11 crore in respect of grants released up to March 2017 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 7,509 utilisation certificates involving ₹21,342.11 crore, no assurance could be derived that the amount had actually been incurred for the purpose for which it was sanctioned/authorized 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:

**Table 1.2: Position of Outstanding Utilisation Certificates**

(₹ in crore)

Range of delay in number of years	Utilisation Certificates Outstanding as on 31 March 2018	
	Number	Amount
0-1	2,162	13,722.79
1-5	3,554	7,267.67
Above 5	1,793	351.65
	<b>7,509</b>	<b>21,342.11</b>

<sup>4</sup> Ministry of Coal:  $\frac{\text{₹}(1411.19 \text{ crore} - 1338.08 \text{ crore})}{1338.08 \text{ crore}} * 100$

<sup>5</sup> Ministry of Urban Development:  $\frac{\text{₹}(32297.61 \text{ crore} - 31404.55 \text{ crore})}{32297.61 \text{ crore}} * 100$

<sup>6</sup> Department of Chemicals and Petrochemicals:  $\frac{\text{₹}(612.11 \text{ crore} - 166.77 \text{ crore})}{166.77 \text{ crore}} * 100$

<sup>7</sup> Ministry of Steel:  $\frac{\text{₹}(437.80 \text{ crore} - 43.20 \text{ crore})}{437.80 \text{ crore}} * 100$

The 7,509 outstanding utilisation certificates amounting to ₹21,342.11 crore predominantly pertain to seven Ministries/ Departments given in Table 1.3. These constitute 97.71 *per cent* of total outstanding UCs, value of which is 99.60 *per cent* of the total outstanding amount. The position of the outstanding utilisation certificates with significant money value relating to seven Ministries/Departments, as on March 2018, is given in Table 1.3 below:

**Table 1.3: Utilisation Certificates Outstanding as on 31 March 2018**  
(₹ in crore)

Sl. No.	Ministry/Department	Till March 2017	
		Number	Amount
1.	Ministry of Housing and Urban Affairs	1,352	17,656.50
2.	Ministry of Textiles	5,533	2,882.71
3.	Ministry of Tourism	47	302.05
4.	Ministry of Shipping	32	141.72
5.	Department of Commerce	28	124.20
6.	Department of Heavy Industry	22	75.10
7.	Ministry of Micro Small and Medium Enterprises	323	74.23
	<b>Total</b>	<b>7,337</b>	<b>21,256.51</b>

### 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 2016-17 for audit by the CABs.

**Table 1.4: Delay in submission of accounts**

Delay period	Delay up to one months	Delay of one to three months	Delay of three to six months	Delay beyond six months
No. of CABs	15	7	6	5

The details of CABs whose accounts were delayed beyond three months as of December 2017 are given in **Appendix-III**.

### 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 September 2018 was as shown in Table 1.5:

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

<b>Year of account</b>	<b>Number of CABs for which audited accounts were issued but not presented to Parliament</b>	<b>Number of audited accounts presented after due date</b>
2012-13	1	1
2013-14	2	4
2014-15	2	4
2015-16	2	5
2016-17	4	12

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 audit certification**

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 2017-18 are given in **Appendix-VI**. Some of the important deficiencies noticed during the audit of Annual Accounts of CABs for the year 2017-18 were as below:

- a) Internal audit was not conducted in 10 CABs (**Appendix-VII**);
- b) Physical verification of the fixed assets was not carried out in 11 CABs (**Appendix-VIII**);
- c) Physical verification of the inventories was not carried out in five 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 four CABs (**Appendix-X**);
- e) Accounting for Gratuity and other retirement benefits was not carried out on basis of actuarial valuation in 12 CABs (**Appendix-XI**);
- f) One CAB i.e. New Manglore Port Trust, has not provided depreciation on fixed assets; and
- g) Accounts of five CABs were revised as a result of audit (**Appendix-XII**).

### **1.9 Status of pending ATNs**

The Public Accounts Committee (PAC), in its 105<sup>th</sup> 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 C&AG 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 Audit Report Union Government (Civil), up to the period ended March 2017 disclosed that there were six paragraphs on which ATNs were required to be submitted by the Ministries/Departments to Audit. Subsequently these ATNs were submitted to Audit, however, none of the ATNs had been settled as on 30 November 2018 and were under various stages of correspondence with the concerned Ministries/Departments.

Year wise details of the outstanding ATNs as on 30 November 2018 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 C&AG within six weeks. The time frame has also been prescribed under Para 207 (1) of Regulations on Audit and Accounts, 2007, made by the C&AG. 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 24 audit paragraphs. The replies of concerned Ministries/Departments were received in respect of 16 paragraphs. The responses received have been suitably incorporated in the Report (September 2019).