

## CHAPTER I: INTRODUCTION

### 1.1 About this Report

Compliance Audit refers to examination of 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 of India (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 Executive 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 **Annexure-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 as listed out in **Annexure-II**.

### 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 respectively and the CAG's (Duties, Powers and Conditions of Service) Act, 1971 (Act). CAG conducts audit of expenditure of Ministries/ Departments of the Government of India under Section<sup>1</sup> 13 and Section<sup>2</sup> 17 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<sup>3</sup> 19(2) of the Act. Audit of other organisations (Corporations or Societies) are entrusted to the CAG

---

<sup>1</sup> *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.*

<sup>2</sup> *Audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State.*

<sup>3</sup> *The duties and powers of the CAG in relation to the audit of the accounts of corporations (not being companies) established by or under law made by Parliament shall be performed and exercised by him in accordance with the provisions of the respective legislations.*

in public interest under Section<sup>4</sup> 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 CAG under the provisions of Section<sup>5</sup> 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 Audit paragraphs 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<sup>6</sup> during reporting period 2019-20 and the preceding year in respect of Economic and Service Ministries/ Departments (wherever applicable) is given in Table 1.1 below:

---

<sup>4</sup> *Where the audit of the accounts of any body or authority has not been entrusted to the CAG by or under any law made by Parliament, he shall, if requested so to do by the President or the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority*

<sup>5</sup> *Where any body or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union territory having a Legislative Assembly, the CAG shall, subject to the provisions of any law for the time being in force applicable to the body or authority, as the case may be, audit all receipts and expenditure of that body or authority and to report on the receipts and expenditure audited by him.*

<sup>6</sup> *Appropriation Accounts of the respective years*

**Table 1.1: Budget and Expenditure of Economic and Service Ministries/ Departments****(₹ in crore)**

Ministry/ Department	Budget Estimate (BE)	Actual expenditure	Unspent budget	% of unspent budget against BE	Budget Estimate (BE)	Actual expenditure	Unspent budget	% of unspent budget against BE
<b>2019 - 2020</b>					<b>2018 - 2019</b>			
Ministry of Road Transport & Highways	1,66,616.66	1,52,161.35	14,455.31	8.68%	1,59,582.53	1,42,488.04	17,094.49	10.71%
Ministry of Finance								
Department of Financial Services	83,884.03	83,233.52	650.51	0.78%	1,17,097.21	1,16,088.58	1,008.63	0.86%
Department of Investment & Public Asset Management	132.08	105.1	26.98	20.43%	146.15	145.15	1.00	0.68%
Ministry of Petroleum and Natural Gas								
Ministry of Petroleum and Natural Gas	45,501.86	42,812.23	2,689.63	5.91%	34,422.95	32,620.99	1,801.96	5.23%
Ministry of Housing & Urban Affairs								
Ministry of Housing & Urban Affairs	55,146.07	42,353.64	12,792.43	23.20%	50,254.47	40,874.26	9,380.21	18.67%
Ministry of Power								
Ministry of Power	22,900.29	21,135.10	1,765.19	7.71%	20,233.67	19,850.10	383.57	1.90%
Ministry of Commerce and Industry								
Department of Commerce	6,998.78	6,944.44	54.34	0.78%	6,215.32	6,159.52	55.80	0.74%
Department of Promotion of Industry and Internal Trade	6,510.54	6,423.29	87.25	1.34%	6,156.61	6,020.57	136.04	2.21%
Ministry of Micro Small and Medium Enterprises								
Ministry of Micro Small and Medium Enterprises	7,011.31	6,717.54	293.77	4.19%	6,561.17	6,513.12	48.05	0.73%
Ministry of Textiles								
Ministry of Textiles	4,857.33	4,455.19	402.14	8.28%	8,660.82	6,695.47	1,965.35	22.69%
Ministry of Civil Aviation								
Ministry of Civil Aviation	4,500.02	3,646.82	853.20	18.96%	10,680.98	9,600.19	1,080.79	10.12%
Ministry of Ports, Shipping & Waterways								
Ministry of Ports, Shipping & Waterways	2,653.67	2,193.46	460.21	17.34%	2,729.75	2,321.63	408.12	14.95%
Ministry of Mines								
Ministry of Mines	1,825.55	1,466.68	358.87	19.66%	2,164.54	1,397.10	767.44	35.46%
Ministry of Tourism								
Ministry of Tourism	2,189.24	1,399.21	790.03	36.09%	2,150.03	2,102.52	47.51	2.21%
Ministry of Heavy Industry and Public Enterprises								
Department of Heavy Industry	1,367.01	1,306.19	60.82	4.45%	1,286.66	1,035.02	251.64	19.56%
Department of Public Enterprises	22.64	21.09	1.55	6.85%	21.44	21.20	0.24	1.12%
Ministry of Coal								
Ministry of Coal	1,159.06	823.00	336.06	28.99%	781.85	708.34	73.51	9.40%
Ministry of Corporate Affairs								
Ministry of Corporate Affairs	639.84	582.11	57.73	9.02%	643.98	610.41	33.57	5.21%
Ministry of Chemicals and Fertilizers								
Department of Chemicals & Petrochemical	370.18	365.12	5.06	1.37%	399.65	339.86	59.79	14.96%
Ministry of Steel								
Ministry of Steel	241.29	194.33	46.96	19.46%	154.90	154.64	0.26	0.17%
<b>Total</b>	<b>4,14,527.45</b>	<b>3,78,339.41</b>	<b>36,188.04</b>	<b>8.73%</b>	<b>4,30,334.68</b>	<b>3,95,746.71</b>	<b>34,587.97</b>	<b>8.04%</b>

The total expenditure of the above Ministries/ Departments of the Government of India during 2019-20 was ₹3,78,339.41 crore as against ₹3,95,746.71 crore in 2018-19 viz., a decrease of ₹17,407.30 crore (4.40 per cent). Out of the total expenditure of ₹3,78,339.41

crore incurred by these Ministries/ Departments during 2019-20, 40.22 per cent was incurred by Ministry of Road Transport & Highways followed by Department of Financial Services and Ministry of Petroleum and Natural Gas (22.00 per cent and 11.32 per cent respectively).

A review of variation of the actual expenditure for the year 2019-20 of the above Ministries/ Departments showed that Ministry of Petroleum and Natural Gas had maximum increase (31.24 per cent) and Ministry of Micro, Small and Medium Enterprises had minimum increase (3.14 per cent) in expenditure over the last year i.e., 2018-19. Similarly, Ministry of Civil Aviation had maximum decrease (62.01 per cent)<sup>7</sup> and Department of Public Enterprises had minimum decrease (0.52 per cent) in expenditure over the last year i.e., 2018-19.

The Ministries/ Departments having significant increase in actual expenditure were the Department of Heavy Industry, Ministry of Steel, Ministry of Coal, and Department of Commerce during 2019-20 over the previous year. Marked decrease<sup>8</sup> in actual expenditure was observed in Ministry of Textiles, Ministry of Tourism and Department of Financial Services during 2019-20 over the previous year.

With reference to the total budget provision of ₹4,14,527.45 crore during 2019-20, the Ministries/ Departments had an overall unspent budget of ₹36,188.04 crore which constituted 8.73 per cent of the total grant/ appropriation as against the unspent budget of 8.04 per cent during 2018-19.

### **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 2020) of 4,865 outstanding utilisation certificates (UCs) involving an amount of ₹18,181.39 crore in respect of grants released up to March 2019 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 **Annexure-III**. In respect of these 4,865 UCs involving ₹18,181.39 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:

---

<sup>7</sup> *High decrease in expenditure was mainly on account of reduction in budget (2019-20) under central sector schemes viz. Turnaround plan of Air India Ltd., Regional Connectivity Scheme and other central sector expenditure.*

<sup>8</sup> *Expenditure/budget provision (2019-20) was reduced mainly in central sector schemes viz. Amended Technology Upgradation Fund Scheme, Textile Infrastructure, Tourism Infrastructure and Support to Financial Institutions.*

**Table 1.2: Position of outstanding UCs**

(₹ in crore)

Range of delay in number of years	UCs outstanding as on 31 March 2020	
	Number	Amount
0-1	1,490	7,421.99
1-5	2,516	10,291.18
Above 5	859	468.22
<b>Total</b>	<b>4,865</b>	<b>18,181.39</b>

The outstanding UCs predominantly pertain to six Ministries/ Departments. These constitute 89.19 *per cent* of total outstanding UCs, value of which is 95.93 *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 2020, is given in Table 1.3 below:

**Table 1.3: UCs outstanding as on 31 March 2020**

(₹ in crore)

Sl. No.	Ministry/ Department	Till March <sup>9</sup> 2019	
		Number	Amount
1.	Ministry of Housing and Urban Affairs	1,594	12,666.14
2.	Department of Financial Services	39	3,067.63
3.	Ministry of Textiles	2,582	796.35
4.	Department of Heavy Industry	54	396.51
5.	Department of Chemicals & Petrochemicals	22	292.09
6.	Ministry of Tourism	48	223.23
	<b>Total</b>	<b>4,339</b>	<b>17,441.95</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 2018-19 by the CABs for audit.

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

	Period of Delay			
	Up to 1 month	1-3 months	3-6 months	Beyond 6 months
<b>No. of CABs</b>	8	8	7	4

The details of CABs whose accounts were delayed as of March 2021 are given in **Annexure-IV**.

<sup>9</sup> For grants released till March 2019

### 1.7 Delay in presentation of audited accounts of CABs before Parliament

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

Status of laying of the audited accounts before the Parliament as on March 2021 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
2013-14 to 2016-17	1
2017-18	3
2018-19	4
Year of account	Number of CABs for which audited accounts were laid after the due date
2018-19	14

The particulars of the CABs whose audited accounts had not been laid or laid in the Parliament after the due date are given in **Annexure-V** and **Annexure-VI** 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 the Parliament. Some of the significant observations issued on financial statements of CABs for the year 2019-20 are given in **Annexure-VII**. Some of the other important deficiencies noticed during the audit of Annual Accounts of CABs for the year 2019-20 are as mentioned below:

- a) Internal audit was not conducted in 16 CABs (**Annexure-VIII**);
- b) Physical verification of the fixed assets was not carried out in 16 CABs (**Annexure-IX**);
- c) Physical verification of the inventories was not carried out in 13 CABs (**Annexure-X**);
- 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 12 CABs (**Annexure-XI**);
- e) Accounting for gratuity and other retirement benefits was not carried out on the basis of actuarial valuation in 16 CABs (**Annexure-XII**); and
- f) Accounts of four CABs were revised as a result of audit (**Annexure-XIII**).
- g) Airport Economic Regulatory Authority did not provide depreciation on fixed assets during the year 2019-20.

### 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 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 (Civil-Economic & Service Ministries), revealed that 39 ATNs were due but only 30 were received out of which four have been finalised while remaining were under various stages of correspondence with the concerned Ministries/ Departments (September 2021). Details of the outstanding ATNs are indicated in **Annexure-XIV**.

### **1.10 Response of Ministries/ Departments to Draft Audit 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 draft Audit paragraphs are forwarded to the Ministries/ Departments concerned drawing their attention to the Audit findings and requesting them to send their response within prescribed time period. 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 (September 2021).