

# CHAPTER I

## INTRODUCTION

### 1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from Performance Audit of selected programmes and activities, Compliance Audit of Government departments and autonomous bodies and Chief Controlling Officer based audit.

Compliance Audit refers to 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.

The Performance Audit, besides conducting a compliance audit, examines whether the objectives of the programme/activity are achieved economically and efficiently.

The Chief Controlling Officer based audit is an audit of a fair number of units in a department in an integrated manner to have common audit findings from the selected sample units. It assesses all aspects of functioning of a department such as financial management, planning and project management, human resources management, material/stores management, monitoring, internal controls, etc.

The primary purpose of the Report is to bring to the notice of the State Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives 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 synopsis of the significant deficiencies and achievements in implementation of selected schemes and significant audit observations made during the audit of transactions. Chapter II of this report contains findings arising out of Performance Audit of selected programmes/activities. Chapter III contains observations on audit of transactions in Government departments and autonomous bodies. Chapter IV contains findings arising out of Chief Controlling Officer based audit of Forest Department.

## 1.2 Profile of Audited entity

There are 37 departments in the State at the Secretariat level, headed by Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them, and autonomous bodies which are audited by the Principal Accountant General (Civil Audit), Tamil Nadu and Puducherry.

The comparative position of expenditure incurred by the Government during the year 2010-11 and in the preceding two years is given in **Table 1**.

**Table 1: Comparative position of expenditure**

(₹ in crore)

Disbursements	2008-09			2009-10			2010-11		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
<b>Revenue expenditure</b>									
General services	28	18,550	18,578	22	20,275	20,297	28	25,896	25,924
Social services	8,375	12,996	21,371	9,690	13,267	22,957	11,258	17,651	28,909
Economic services	1,846	7,815	9,661	2,773	9,349	12,122	2,473	9,749	12,222
Grants-in-aid and contributions	289	3,691	3,980	288	3,711	3,999	508	5,353	5,861
<b>Total</b>	<b>10,538</b>	<b>43,052</b>	<b>53,590</b>	<b>12,773</b>	<b>46,602</b>	<b>59,375</b>	<b>14,267</b>	<b>58,649</b>	<b>72,916</b>
<b>Capital Expenditure</b>									
Capital outlay	9,071	33	9,104	8,425	148	8,573	12,219	217	12,436
Loans and advances disbursed	910	1,920	2,830	633	2,368	2,290	292	1,960	2,252
Repayment of public debt (including transactions under ways and means advances)	*	*	2,216	*	*	2,512	*	*	3,297
Contingency fund	*	*	1	..	..	..	*	*	30
Public account disbursements	*	*	78,429	*	*	85,256	*	*	1,04,959
<b>Total</b>			<b>92,580</b>			<b>98,631</b>			<b>1,22,974</b>
<b>Grand Total</b>			<b>1,46,170</b>			<b>1,58,006</b>			<b>1,95,890</b>

\* Bifurcation of Non-Plan and Plan not available.

### 1.3 Authority for Audit

The authority for audit by the C&AG 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) Act, 1971. C&AG conducts audit of expenditure of the departments of Government of Tamil Nadu under Section 13<sup>1</sup> of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 34 autonomous bodies which are audited under sections 19(2)<sup>2</sup>, 19 (3)<sup>3</sup> and 20(1)<sup>4</sup> of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 1944 other autonomous bodies, under Section 14<sup>5</sup> of C&AG'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 C&AG.

### 1.4 Organisational structure of the Office of the Principal Accountant General (Civil Audit), Tamil Nadu and Puducherry

The Office of the Principal Accountant General (Civil Audit), Tamil Nadu and Puducherry conducts audit of Government Departments/Offices/Autonomous Bodies/Institutions under them which are spread all over the State. The Principal Accountant General is assisted by five Group Officers, each one looking after specific functions such as audit of Public Works, Inspection – Civil, Central Audit etc. Audit parties consisting of two to three persons visit the offices of various departments to conduct the audit. There are few Resident Audit Offices too, besides the branch office at Madurai.

### 1.5 Planning and conduct of audit

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

<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 & loss accounts, balance sheets & other subsidiary accounts

<sup>2</sup> 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

<sup>3</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>4</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 C&AG and the Government

<sup>5</sup> 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.

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 are decided.

After completion of audit, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. 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 processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India. During 2010-11, 2,525 units of various departments/organisations were audited.

## **1.6 Significant audit observations**

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in selected departments which impact the success of programmes and functioning of the departments. Similarly, the deficiencies noticed during compliance audit of the Government departments/organisations were also reported upon.

### **1.6.1 Performance Audit of programmes/activities**

The present report contains three Performance Audits, including one on Information Technology Audit. The highlights of audit findings are given in the following paragraphs.

#### **1.6.1.1 *Functioning of Public Distribution System***

Public Distribution System (PDS) is a major instrument of the Government's economic strategy for ensuring availability of food grains to the public at affordable prices as well as for enhancing food security to the poor. While the overall responsibility of management of food grains in the country vested with Government of India, the State Governments were responsible for their effective distribution through the PDS. In Tamil Nadu, the State Government adopted the Universal PDS (UPDS) instead of the Targeted Public Distribution System (TPDS) for supply of rice with no distinction between Above Poverty Line and Below Poverty Line families. The PDS was implemented by the Co-operation, Food and Consumer Protection Department in the State. During the period 2006-11, the State Government incurred an expenditure of ₹ 14,550 crore towards subsidy of food grains under PDS.

A Performance Audit of the implementation of PDS in Tamil Nadu disclosed the following deficiencies:

Allotment of rice to the districts for supply under PDS was in excess of the requirement and the excess allotment ranged between 19 and 28 *per cent*.

The total quantity of food grains distributed monthly to the cardholders under the PDS in the State was less than the quantity fixed by Government of India under the TPDS.

Despite periodical attempts to eliminate the bogus cards, the number of persons included in the family cards in circulation in the State as of March 2011 was more than the population of the State.

The Department paid subsidy of ₹ 6.60 crore in excess to the cooperative societies during 2006-07 to 2009-10 and it remained to be recovered.

There were instances of delay in disposal of cases relating to seizure of smuggled commodities, non realisation of fines and delay in disposal of the seized vehicles involved in smuggling of the PDS commodities.

*(Paragraph 2.1)*

#### **1.6.1.2      *Functioning of the Seawater Desalination Plant at Chennai***

To bridge the gap between demand and supply of drinking water and to augment reliable water supply in the Chennai Metropolitan Area, the Chennai Metropolitan Water Supply and Sewerage Board (Board) set up a 100 million litres per day (mld) capacity seawater desalination plant at Minjur, Chennai on 'design, build, own, operate and transfer'(DBOOT) basis. A Performance Audit of setting up of the desalination plant disclosed the following:

The Detailed Project Report for setting up of the desalination plant was not prepared. Comparative cost benefit of implementing the project by other alternative modes vis-à-vis the Public-Private Partnership mode was not worked out before deciding to set up the plant on DBOOT basis.

As per the agreement with the private developer, the Board has to purchase the contracted quantity of desalinated water throughout the year for 25 years, irrespective of the storage position in the surface water sources.

Due to non-revision of water charges by the Board, the entire cost of purchase of the desalinated water at ₹ 48.66 per kilo litre had to be borne by the Government resulting in additional annual financial burden of ₹ 180 crore to the Government.

An avoidable expenditure of ₹ 6.95 crore was incurred by the Board on electricity charges due to delay in getting the tariff changed from industrial

tariff to the tariff applicable for the high tension electricity connection for municipal water supply scheme.

The Board surrendered 44.56 acres of surplus land to Tamil Nadu Industrial Development Corporation in December 2009. But neither the value of land (₹ 96 lakh) was received back nor equal area of alternate land was obtained from the Corporation.

*(Paragraph 2.2)*

### **1.6.1.3 Computerisation in Tamil Nadu Water Supply and Drainage Board**

The Tamil Nadu Water Supply and Drainage Board (TWAD) resolved (March 2005) to introduce an integrated online computer system named “TWAD Integrated e-Governance System (TWADNEST)” encompassing all its administrative and functional activities. Funded wholly by the Government of India under the National Rural Drinking Water Programme, development of TWADNEST was entrusted to National Informatics Centre (NIC), Chennai. A Performance Audit of Computerisation in Tamil Nadu Water Supply and Drainage Board revealed that the Project TWADNEST remained incomplete even after six years with a cost overrun of ₹ 76.40 lakh on the software development. The important points noticed by Audit are given below:

As of May 2011, an amount of ₹ 92.50 lakh had been deposited with National Informatics Centre, Chennai without getting the final product.

In contravention of the guidelines, computers and infrastructure valued at ₹ 3.22 crore were procured even before the TWADNEST was developed. The computers and other equipment are likely to become obsolete due to passage of time.

The Project Monitoring software representing the core activity of the Board was not developed by NIC. Data relating to few modules of TWADNEST under implementation, lacked integrity due to absence/failure of controls.

The Project Monitoring System, developed in-house, failed to provide reliable Management Information System due to incorrect/incomplete data.

*(Paragraph 2.3)*

### **1.6.2 Compliance audit of transactions**

Audit has also reported on several significant deficiencies in critical areas which impact the effective functioning of the Government departments/organisations. The audit of financial transactions, test-checked in various departments of the Government and their field offices, revealed instances of wasteful expenditure, avoidable expenditure, blocking of funds and other

irregularities. Some of the important transaction audit findings are given below.

Failure of the Executive Engineer to substitute during the course of execution of work, the agreed item of earthwork excavation in the old bund by earthwork excavation without the component of watering and consolidation resulted in overpayment of ₹ 0.99 crore to a contractor.

***(Paragraph 3.1.1)***

Department's failure to maintain the Jatropha plantations led to poor survival of Jatropha seedlings raised by incurring ₹ 8.35 crore.

***(Paragraph 3.1.2)***

Due to ineffective implementation of the scheme of artificial recharge to ground water through dug wells, the department could not ensure utilisation of the subsidy amount by the farmers for the intended purpose.

***(Paragraph 3.1.3)***

Lack of proper instructions by the Government to the department regarding methodology for the release of subsidy amount resulted in unfruitful expenditure of ₹ 2.07 crore.

***(Paragraph 3.1.4)***

Extra expenditure of ₹ 12.44 crore was incurred on road maintenance works due to delay in evaluation and approval of the bids.

***(Paragraph 3.2.4)***

Government of India grant of ₹ 4.80 crore sanctioned for construction of houses for the tribal groups remained unutilised for over two years due to failure of the department to identify the implementing agencies.

***(Paragraph 3.3.1)***

Due to acceptance of the bank guarantee from a foreign bank in violation of the agreement condition and failure to confirm its encashability in India, performance guarantee for ₹ 1.58 crore could not be encashed on termination of contract.

***(Paragraph 3.4.2)***

### **1.6.3 Chief Controlling Officer based audit of the Forest Department**

Tamil Nadu has a recorded forest area of 22,877 square kilometres (sq.km.) which represents 17.59 *per cent* of the total geographical area of the State. The Forest Department is responsible for carrying out afforestation works to bring the available area under forest cover, soil and water conservation works and conservation and management of wildlife. The Chief Controlling Officer based audit of the department revealed some areas of concern in financial management, programme management, internal control and monitoring. The important audit findings are highlighted below:

The State has not prepared its own forest policy despite passage of five years since recommendation of the National Forest Commission to frame the state's own forest policy.

As against the Union Planning Commission's recommendation of four *per cent* allocation for forestry and wildlife sector, the State's allocation for the sector in the Eleventh Five Year Plan was 1.51 *per cent* only. Government released ₹ 693 crore only for forestry activities in the four years (2007-11) out of the allocation of ₹ 1,285 crore for the Plan period (2007-12).

Arrears of lease rent of ₹ 105.20 crore remained to be collected from three Public Sector Undertakings under the control of the department. The progress of declaring the lands as reserve forest was tardy and 1,12,386 hectares of land remained to be notified.

In 12 test-checked divisions, 9,547 cases of encroachment involving an area of 10,197 hectares of forest land were pending eviction as of March 2011.

As per the Reports of the Forest Survey of India, forest and tree cover of the State showed a marginal decrease from 28,665 sq.km. in 2005 to 28,306 sq.km. in 2009 and the decrease was mainly due to decrease in tree cover area from 5,621 sq.km to 4,968 sq.km, despite spending of ₹ 471.61 crore during 2002-07 on social and farm forestry activities.

As against the Eleventh Plan target of bringing seven lakh hectares under tree cover outside the forest areas, the achievement during the four years (2007-11) of the Plan period was 49,194 hectares (seven *per cent*) only.

In 23 test-checked divisions, the survival rate of plantations was less than 40 *per cent* in majority (59 *per cent*) of the plantations.

**(Paragraph 4.1)**

## **1.7 Response of departments to the draft paragraphs**

The Draft paragraphs/Performance Audit findings were forwarded demi-officially to the Principal Secretaries/Secretaries of the departments concerned between March and November 2011 with the request to send their responses within six weeks. The departmental replies for three out of four Performance Audit and Chief Controlling Officer based audit and 9 out of 15 paragraphs featured in this Report have been received. The replies, wherever received, have been suitably incorporated in the Report.