Making Government Accountable
An Introduction to CAG Reports

Avinash Celestine

April 2008
From The Indian Express, January 7, 2008:

**UPA guaranteed 100 days of work to poor, over 96% didn’t get it, says first audit**

…This startling revelation comes after a six-month performance audit conducted in the field under the aegis of the Comptroller & Auditor General of the NREGS in 513 Gram Panchayats spread across 68 randomly selected districts from 26 states.

‘…The performance audit...revealed significant deficiencies and scope for improvement,’ the report says highlighting a slew of instances from all states of alleged corruption, inefficiency, diversion and misutilisation of funds and unreliable figures.

From The Hindustan Times, March 16, 2008:

**CPM fires at Centre with CAG ammo on INS Jalashwa**

The reports of the Comptroller and Auditor General (CAG) often hit the headlines.

It was a CAG report in 2001 which revealed that the government overpaid for coffins during the Kargil war – and that around Rs 1,762 crore worth of supplies (over four-fifths of the total) to help fight the conflict were delivered more than six months after it ended. It was another CAG report that questioned a $50 million deal by the navy to buy a 37-year old US warship. And it was a CAG report, that, according to a news story, criticised the West Bengal government for excessive expenditure on acquiring land for the Tata Motors small car project in Singur. In March 2008 alone there have been at least 31 stories by different newspapers or news agencies based on reports by the CAG. Yet few know how the CAG functions or the range of information that can be obtained from the reports it releases.

This primer explains the functions of the CAG, the types of reports that it publishes, and how any concerned citizen or group can access them.

**The Comptroller and Auditor General**

The CAG is an official mandated by the Constitution to act as a watchdog on government finances and its functioning.1 He plays an essential role in making the government more transparent and accountable to the legislature as well as civil society. The Constitution tries to ensure that he has substantial autonomy from other arms of the government. He may be removed only by the same process as that for a Supreme Court judge; his salary and other benefits are protected; and he may not be appointed to any other government office after retirement.

The CAG audits the accounts of the central and state governments and those of institutions which are government-owned or government-funded. Like the auditor of a private company, its job is to ensure that correct standards have been used to account for financial transactions. But beyond this, it checks whether financial transactions conform to appropriate rules. The CAG also assesses the performance of different government departments, companies, pieces of legislation or even welfare schemes such as the National Rural Employment Guarantee Scheme and the Sarva Shiksha Abhiyan.

**How CAG reports can be used**

The CAG often checks whether a government scheme, institution, department or even a piece of legislation has been implemented properly and at the least possible cost. In the following examples we look at the kinds of information available to civil society groups, the media and indeed, any concerned citizen, from CAG audits.

**Example A**

In 2006, the CAG conducted an audit of the implementation of the Sarva Shiksha Abhiyan (SSA), a major government scheme to promote primary education. The objective of the SSA was to enrol all out-of-school children in schools, education guarantee centres, alternate schools and back to school camps by 2003. That deadline was subsequently revised to 2005. The CAG audit covered 26 states over the period 2001-02 to 2004-05. The main objectives, findings and recommendations are indicated on the next page.

---

1 However, in this document, all references to the CAG are to the office of the Comptroller and Auditor General except in this paragraph
<table>
<thead>
<tr>
<th>Objectives</th>
<th>Findings</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whether all targeted children were enrolled in schools, education guarantee centres, alternate schools, and back-to-school camps by 2003</td>
<td>Out of 3.4 crore children as on April 1, 2001, 40% children in the age-group of 6-14 years remained out of school four years after the implementation of the scheme and after having incurred an expenditure of Rs 11,133.57 crore.</td>
<td>The ministry should examine the main reasons for non-enrolment in coordination with state governments. It should carry out community mobilisation campaigns to highlight the benefits of the scheme.</td>
</tr>
<tr>
<td>Whether the funds required for the programme were assessed carefully and adequately provided/released</td>
<td>The budget estimates/ revised estimates were less than the outlay approved by the department. The budget calendar was not implemented by the ministry leading to delays in the finalisation of the annual work plan of the states and the release of grants.</td>
<td>The ministry should ensure that funds are released in time. It should avoid the release of funds towards the end of the financial year and assess state requirements carefully to avoid unspent balances.</td>
</tr>
<tr>
<td>Whether planning for implementation of various components and identified agencies of the programme was efficient and result oriented besides being economical and effective</td>
<td>In 11 states, Rs 99.89 crore was spent on activities beyond the scope of the SSA. In 14 states, financial irregularities of Rs 472.51 crore were noticed. Five states / UTs failed to maintain the SSA norm of 1:40 for teacher-student ratio. 75,884 primary schools in 15 states had one teacher only and 6,647 schools in 7 states had none. Supervision and monitoring of the scheme was ineffective at national and state levels.</td>
<td>The ministry needs to re-assess the requirements for teachers and introduce a quarterly review of the status of supply and distribution of free text books. A comprehensive and time-bound infrastructure development plan with targets to convert all temporary structures and ‘buildingless’ schools into permanent structures is needed. Basic amenities for all schools needs to be developed.</td>
</tr>
<tr>
<td>Whether the major interventions under SSA were carried out as per the norms fixed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whether the elementary education provided was relevant and useful</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Example B**

In 2006-07, the CAG audited the performance of the Accelerated Rural Water Supply Programme (ARWSP) in Rajasthan between 2002-03 and 2006-07.2 The ARWSP is a scheme to provide drinking water to rural areas. The audit was conducted through a test check of the records of the Public Health Engineering Department and those of offices at district and divisional level in the state and covered 8,130 villages out of a total of 39753. Some highlights are as follows:

"...The Annual Action Plans were not complete as per scheme guidelines...The government was deprived of central assistance of Rs 188.59 crore due to slow spending. The State contribution towards matching share in Minimum Needs Programme was less by Rs 174.95 crore."

"More than 65,000 habitations did not have adequate drinking water as against about 38,000 in April 2002. More than 8,000 rural schools were yet to be provided with drinking water under the programme. Out of eight fluoride control projects planned in 1994 to cover 692 villages only two were completed covering the habitations already covered earlier."

"Inadmissible expenditure of Rs 140.05 crore was charged to the ARWSP fund in violation of the programme guidelines."

"The Field Testing Kits for water quality monitoring were not procured despite availability of funds..."

"Expenditure of Rs 4.62 crore was incurred on poor performance of pipeline and extra liability of Rs 8.70 crore was committed due to delays in issue of technical sanctions and finalising the tenders for the works. Sixty water supply schemes were lying incomplete after spending Rs 78.48 crore. Pipes valued Rs 3.46 crore were not used and 101 water supply schemes under Sector Reform were lying incomplete after spending Rs 5.67 crore."

"No Vigilance and Monitoring Committee was set up at State, district and village levels..."

As we can see, the CAG uses available government records and checks them against the original targets and aims of the project. The full report contains detailed information about each of the results from the audits.

**Example C**

In 2006-07, the CAG conducted an audit of the overall performance of the schemes and plans of the Medical, Health and Family Welfare Department of the Uttar Pradesh government with respect to health care in rural areas.3 The audit covered the years 2002-07 and was conducted between March 2007 and October 2007 through a test check of the records in 16 districts involving a total expenditure of Rs 1,116.83 crore. As in all CAG reports, the objectives of the audit as well as the criteria to be used were decided by the CAG after meeting with the relevant department.

---


3 The report can be found at: http://www.cag.gov.in/html/cag_reports/up/rep_2007/civil_chap_3.pdf (Go to page 59)
Audit objectives/criteria were discussed and agreed upon by… [Principal Secretary, Medical, Health and Family Welfare]… during an entry conference held in April 2007. The draft review was communicated to the Government (September 2007) and discussed on 16 October 2007 in the exit conference held with PS, MH&FW. Facts and figures were confirmed and recommendations accepted by the Government.

Some important results of the audit were as follows:

-Budget estimates were prepared without any proposals from Chief Medical Officers (CMOs) leading to inflated estimation and surrender of Rs 953.24 crore of which Rs 840.50 crore (88 per cent) related to provision for vacant posts during 2002-07.

-Health indicator targets under Family Welfare programme were not achieved mainly due to poor anti-natal care, lower institutional births or births through untrained personnel and non-supply of iron folic acid tablets. Medicines costing Rs 40.43 crore were distributed without testing their quality.

-Revised National T.B Control programme was implemented in the State without ensuring availability of T.B clinic buildings in 18 districts and District Tuberculosis Officers in 14 districts…

Finally, the conclusion and some important recommendations of the report were as follows:

**Conclusion**

“Budgetary control was weak as huge allotments were obtained on incorrect estimation… Health indicator targets under Family Welfare programme were not achieved and medicines were supplied to patients without testing. The Department failed to contain communicable and non-communicable diseases. Infrastructure built up in Rural Health Sector was poor. Shortage of medical and paramedical staff and absenteeism of available staff from work place made the position worse. No effective follow up action was taken on Internal Audit Reports.”

**Recommendations**

- Directorates should prepare budget estimates on the basis of inputs received from CMOs to avoid huge surrenders.
- The system of analyzing drug samples before consumption needs improvement to ensure supply of quality drugs to patients.
- Effective steps need to be taken to control communicable and non-communicable diseases by providing necessary infrastructure and inputs.
- A permanent disciplinary board needs to be constituted to check the menace of absenteeism.

CAG audits however, can also have a much wider scope than just the implementation of a scheme or the functioning of a government department. The next example looks at an audit of the implementation of a central government Act in Madhya Pradesh.

**Example D**

In 2006-07, the CAG conducted an audit of the implementation of the Forest (Conservation) Act, 1980 in Madhya Pradesh. Under the Act, prior permission of the central government is necessary to divert forest lands towards non-forest uses. If such permission is given, conservation measures such as compensatory afforestation have to be put in place to compensate for the loss in forest cover. Other project-specific conservation measures also have to be carried out, including catchment area treatment in water resource projects, creation of safety zones and reclamation of opened areas in mining projects and strip plantation in the case of highway projects.

The audit looked at whether the provisions of the Act were followed in diverting the use of forest land towards non-forest use and whether conservation measures were in fact put in place. Systems of financial management as well as the system to monitor compliance with the Act were also checked. Records in 17 forest divisions between 1997-98 and 2006-07 were examined between April and July, 2007. The audit concluded that the ‘objectives of the Act largely remain unachieved in the State.’ Some important results from the audit were as follows:

-In 43 cases, 1515.997 hectare forest land was illegally diverted without prior permission of the Government of India during last ten years.

-Compensatory afforestation (CA) was not carried out in 70 per cent of the projects where forest land was diverted for non-forest purposes during last ten years (1997-2007). Only 6 per cent of the funds received from user agencies on account of cost of CA were utilized during this period.

-53 out of the 56 compensatory afforestation plantations raised on Jhabua 'land bank' during the period 1997-2000 failed due to nonallotment of funds by the Government for maintenance and protection of plants, resulting in wasteful expenditure of Rs 2.04 crore.

-Department failed to recover Net Present Value amounting to Rs 350.99 crore from 9 user agencies in 18 projects.

-Catchment area treatment (CAT) was not carried out in six of the eight projects where it was stipulated by the GOI as a condition for diversion of forest land. Funds of Rs 30.51 crore on account of cost of CAT were not/short realised from the user agencies. Only 2.2 per cent of the total funds required for CAT had been spent.”

Apart from institutions such as government departments, the CAG also audits local bodies such as Taluk Panchayats and Zilla Panchayats in a number of states. The next example looks at the results of such an audit.

**Example E**

The Karnataka Panchayat Raj Act was enacted in 1993 to establish a three-tier Panchayati Raj system with Gram Panchayats at the village level, Taluk Panchayats at the taluk level, and Zilla Panchayats at the district level.

According to the 2001 Census, Karnataka had a total population of 5.29 crore, of which the rural population was 3.48 crore. As of March 2006, there were 27 Zilla Panchayats, 176 Taluk Panchayats and 5659 Gram Panchayats in the state.

The CAG audited Zilla Panchayats (ZPs) in Karnataka for the financial year 2005-06. The report consists of observations on the accounts and finances of the ZPs. It also reviews the performance of the 'Swachcha Grama Yojana' – a scheme launched in 2000 by the state government to improve roads, drainage and sanitation in the villages. Some of the main highlights of the report are as follows:

**Audit of Accounts**

“Inspite of the stipulation in the Karnataka Panchayat Raj Act and this being pointed out by Audit, delays persisted in forwarding the annual accounts to the Principal Accountant General for audit and the delay ranged from two to more than twelve months.”

“Prescribed internal controls were rendered ineffective as reconciliation of expenditure between Controlling Officers and Zilla Panchayats was in arrears. Cases of misappropriations involving Rs 30.40 crore were pending settlement.”

**Swachcha Grama Yojana**

“The scheme was launched without relevant data regarding the number of households in the villages and the selection of villages was improper which adversely affected the implementation of the scheme.”

“Physical achievement of works varied from 2 to 78 per cent in the test-checked Zilla Panchayats, whereas in Zilla Panchayat, Bangalore (Rural) no work had been completed even after five years of commencement of the scheme.”

“The roads laid at a cost of Rs 6.87 crore in 209 villages did not conform to the specifications prescribed.”

The CAG is also responsible for the audits of government companies. In the case of such companies, private auditors (acting under the auspices of the CAG) usually certify the accounts. For the year 2005-06, 289 government companies or deemed government companies (including 46 listed companies), and five statutory corporations submitted their accounts to the CAG. Following supplementary audits, 12 unlisted companies revised their accounts, with one company (Bharat Coking Coal) having to revise its profit down by as much as Rs 51.86 crore. Such ‘commercial’ audit reports also detail the kinds of issues that auditors raised with respect to the accounts of listed government companies in that year.

**Example F**

The Food Corporation of India is the main agency through which the government procures foodgrains for the Public Distribution System (PDS). The audit report of the CAG for the 2005-06 financial year made the following observation:

“Food Corporation of India... incurred extra expenditure of Rs 348.61 crore due to hiring of godowns from State Warehousing Corporations at... higher rates payable to Central Warehousing Corporation. The storage space acquired was also not properly utilised resulting in payment of rent amounting to Rs 287.90 crore for idle/surplus capacity for the period February 2002 to March 2006.”

The report goes into detail, not only about the extent of the problem and of the excess expenditure but also examines the justification provided by the FCI management for its decisions, and concludes that they are ‘not tenable’.

**Example G**

All the preceding examples have looked at audits of expenditure, but the CAG also audits revenues. It checks whether correct procedures and rules have been followed while collecting taxes for instance, but beyond this, it may also analyse the revenue implications of certain government policies.

The government introduced a policy for Special Economic Zones (SEZs) in 2000 and followed it up with the SEZ Act in 2005. 154 SEZs were notified after the Act came into force (and at the time of the CAG report) while 19 SEZs had existed before the Act. The CAG audit reviewed the performance of 370 functioning units and 180 non-

---

5 The report can be found at: http://www.cag.gov.in/html/LB/karn05_06/pri_cont.htm

6 The report can be found at: http://www.cag.gov.in/html/reports/commercial/2007_11reg/chap_7.pdf (Go to page 37)
functioning or ‘de-bonded’ units between July 2006- May 2007 to check whether the Customs Act and Rules had been followed and whether internal controls were adequate. The report made the following observations:

SEZ units had been achieving the prescribed (positive) NFE\(^7\) mainly through domestic sales defeating one of the sub-objectives of the scheme, which was to augment exports. Customs duty to the extent of Rs 1,043 crore was forgone on imports by these units.

Duty of Rs 681.38 crore was foregone on the inputs used in the manufacture of mobile phones cleared into the DTA\(^9\) at ‘nil’ rate of duty. This duty could not be recovered, in the absence of provisions to pay back the duty foregone on inputs utilised for manufacture of such goods when cleared at ‘nil’ duty into the DTA.

Government Response to CAG reports

All CAG audit observations are sent to the concerned ministry, department or government company for a response. The ministry has to respond to such ‘draft paragraphs’ as each observation is called, within a fixed time frame and may also discuss them with officers of the CAG. Following the response, unresolved issues are included in an inspection report issued to the head of the audited entity (as well as the administrative head) with the most important issues being compiled into the audit report released to the public.

The final audit reports are then submitted to the Finance Ministry (or the state finance department) which then submits it to Parliament or the Governor of the State. All CAG reports are public documents. They are released with a time lag due to the time involved in compiling them – the audits for 2006-07 were released in February-March 2008.\(^{10}\) Ministries are also required to prepare ‘action taken’ notes on the various observations and recommendations made by the CAG and submit them to the Public Accounts Committee (a parliamentary committee which oversees government finances) or the Committee on Public Undertakings (which oversees the finances and functioning of government companies).

Types of CAG audit

While it may seem that the CAG conducts a wide range of audits, they can be broadly classified into three types – a transaction audit, a performance audit and a financial audit. Two different types of entities (government departments and autonomous bodies/government companies) – are audited, each at the central and state levels (See diagram below).

---


\(^8\) NFE – Net foreign exchange earning. NFE positive means the unit must be a net earner of foreign exchange

\(^9\) DTA – Domestic tariff area

\(^{10}\) Most audit reports are released during the Budget Session but stand alone reports, such as performance audits can be released anytime during the year.
## Illustrated List of Audit Reports

<table>
<thead>
<tr>
<th>Entity audited</th>
<th>Type of audit</th>
<th>Audit year(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schemes for education development of Scheduled Castes and Scheduled Tribes</td>
<td>Performance audit</td>
<td>2001-02 to 2005-06</td>
</tr>
<tr>
<td>Pradhan Mantri Gram Sadak Yojana</td>
<td>Performance audit</td>
<td>2000-01 to 2004-05</td>
</tr>
<tr>
<td>Management of foodgrains</td>
<td>Performance audit</td>
<td>2000-01 to 2004-05</td>
</tr>
<tr>
<td>Conservation and protection of Tigers in Tiger Reserves</td>
<td>Performance audit</td>
<td>2000-01 to 2004-05</td>
</tr>
<tr>
<td>Implementation of Consumer Protection Act and Rules</td>
<td>Performance audit</td>
<td>2000-01 to 2004-05</td>
</tr>
</tbody>
</table>

### Availability of CAG reports

CAG reports can be downloaded from the CAG website at [www.cag.gov.in](http://www.cag.gov.in). Physical copies can also be obtained from the CAG offices in Delhi and elsewhere in the country.

**Delhi**
Comptroller and Auditor General of India, 10 Bahadur Shah Zafar Marg, New Delhi 110 124
Phone: 23231440, 23231761

**Mumbai**
Principal Accountant General (Audit)-I, Maharashtra, 101, Pratishtha Bhavan, Maharishi Karve Marg, New Marine Lines, Mumbai 400 020
Phone: 22089900, 22037677, 22080421

**Kolkata**
Accountant General (A & E), West Bengal Treasury Buildings, No.2, Govt Place (West), Kolkata 700 001
Phone: 22487491-94

**Chennai**
Accountant General (A&E), Tamilnadu, 361, Anna Salai, Teynampet, Chennai 600 018
Phone: 24324500, 24324518

---

**DISCLAIMER:** This document is being furnished to you for your information. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgement of PRS Legislative Research (“PRS”). The opinions expressed herein are entirely those of the author(s). PRS makes every effort to use reliable and comprehensive information, but PRS does not represent that the contents of the report are accurate or complete. PRS is an independent, not-for-profit group. This document has been prepared without regard to the objectives or opinions of those who may receive it.