

## Chapter I

### Introduction

#### 1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) on Government of Odisha relates to matters arising from Performance Audit of selected programmes and activities and Compliance Audit of Government Departments.

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 audit findings are expected to enable the executive to take corrective action as also to frame policies and directives that will lead to improved financial management of the organisations, thus contributing to better governance.

Compliance Audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of the audited entities to ascertain whether the provisions of the Constitution of India, applicable Rules, Laws, Regulations and various orders and instructions issued by the competent authorities are being complied with.

Performance Audit examines the extent to which the objectives of an organisation, programme or scheme have been achieved economically, efficiently and effectively.

Chapter I of this Report provides a synopsis of the significant audit observations, while Chapter II deals with the findings of four Performance Audits and Chapter III deals with Compliance Audit of various departments.

The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2015-16 as well as those which had come to light in earlier years, but could not be dealt with in previous Reports. Matters relating to the period subsequent to 2015-16, have also been included, wherever necessary.

#### 1.2 Audited entity's profile

There were 39 Departments in the State headed at the Secretariat level by Additional Chief Secretaries/Principal Secretaries/Commissioner-cum-Secretaries, assisted by Directors and subordinate officers. Of these, 24 Departments including PSUs/ Autonomous Bodies/ Local Bodies coming under these Departments are under the audit jurisdiction of the Accountant General (General and Social Sector Audit).

The comparative position of expenditure incurred by the Government of Odisha during 2015-16 and in preceding two years is given in Table 1.1.

**Table 1.1: Comparative Position of Expenditure incurred by the Government of Odisha during 2013-16**

(₹ in crore)

Particulars	2013-14			2014-15			2015-16		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
<b>Revenue Expenditure</b>									
General Service	151.76	13537.65	13689.41	175.33	14353.53	14528.86	96.81	14961.85	15058.66
Social Service	8642.47	10079.08	18721.55	10481.45	10482.69	20964.14	12471.63	12171.53	24643.16
Economic Service	6213.46	6101.13	12314.59	8220.31	6605.07	14825.38	10701.84	7486.28	18188.12
Grant-in-Aid	#	892.20	892.20	0.00	817.37	817.37	0.00	915.76	915.76
<b>Total</b>	<b>15007.69</b>	<b>30610.06</b>	<b>45617.75</b>	<b>18877.09</b>	<b>32258.66</b>	<b>51135.75</b>	<b>23270.28</b>	<b>35535.42</b>	<b>58805.70</b>
<b>Capital Expenditure</b>									
Capital Outlay	7598.59	157.81	7756.40	11056.65	17.98	11074.63	17075.74	14.74	17090.48
Loans & Advances disbursed	#	#	463.55	259.52	98.48	358.00	241.89	94.64	336.53
Repayment of Public Debt	*	*	2293.22	*	*	4111.45	*	*	2881.37
Public account Disbursed	*	*	31256.60	*	*	22511.40	*	*	28766.05
<b>Total</b>	<b>**</b>	<b>**</b>	<b>41769.77</b>	<b>**</b>	<b>**</b>	<b>38055.48</b>	<b>**</b>	<b>**</b>	<b>49074.43</b>
<b>Grand Total</b>	<b>**</b>	<b>**</b>	<b>87387.52</b>	<b>**</b>	<b>**</b>	<b>89191.23</b>	<b>**</b>	<b>**</b>	<b>107880.13</b>

# Figures for Plan and Non-Plan were not available in the Finance Accounts

\*Public Debt and Public account figures are not segregated as Plan and Non-Plan

\*\* Totalling not made due to non-availability of figures above

(Source: Finance Accounts of the respective years)

### 1.3 Authority for audit

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Services) Act, 1971. CAG conducts audit of expenditure of the departments of Government of Odisha under Section 13<sup>1</sup> of the CAG's (DPC) Act, 1971. CAG is the sole auditor in respect of 41 Autonomous Bodies<sup>2</sup>, which are audited under Section 20 (1) and 19 (3) of the said Act. Audit of Government companies was also conducted under Section 19(1) of the DPC Act. In addition, CAG conducts audit of 90 other Autonomous Bodies, substantially funded by the State Government. CAG's audit jurisdiction also covers the Urban Local Bodies (ULBs) and Panchayati Raj Institutions (PRIs) as the State Government had entrusted (July 2011) audit of these bodies to CAG and to provide Technical Guidance and Support (TGS) to the Local Fund Audit for audit of ULBs and PRIs. Principles and

<sup>1</sup> Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts

<sup>2</sup> One State Legal Services Authority, 30 District Legal Services Authorities, nine Development Authorities and Odisha Building and Other Construction Workers Welfare Board

methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts 2007, issued by the CAG.

#### **1.4 Planning and conduct of audit**

The Audit process starts with the risk assessment of the Department/Organisation as a whole and that of each unit based on expenditure incurred, criticality/ complexity of activities, level of delegated financial powers and assessment of internal controls, concerns of stakeholders and the likely impact of such risks. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An Annual Audit Plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Inspection Reports (IRs) containing audit findings are issued to the heads of the entities. The entities 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 pointed out in these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of Odisha under Article 151 of the Constitution of India.

#### **1.5 Significant observations of Performance Audit**

This Report contains four Performance Audits. The focus has been on auditing the specific programmes/ schemes and offering suitable recommendations, with the intention to assist the executive in taking corrective action and improving service delivery to the citizens. Significant audit observations are discussed below:

##### **1.5.1 Implementation of Integrated Child Development Services scheme**

Performance Audit on Implementation of Integrated Child Development Services (ICDS) scheme covering the period 2011-16 showed that the expenditure was less than the budgetary provision by ₹ 1,239.23 crore. Statement of Expenditure and Utilisation Certificates (UCs) submitted to GoI were based on treasury drawals and not on actual expenditure. In the sampled seven districts, ₹ 102.77 crore remained unutilised with the District Social Welfare Officers as of March 2016. Funds were also not provided for supply of medicine kits and pre-school education (PSE) kits, due to which the Department could not avail Central assistance of ₹ 81.75 crore.

Out of 38.39 lakh children considered eligible, 3.58 lakh (nine *per cent*) in the State were not provided Supplementary Nutrition. Supply of food stuff under the scheme was not managed properly, due to which instances of short/ non-supply of eggs and *rasi ladu* were observed. Quality control mechanism for Take Home Ration was not effective as sample test reports indicated supply of adulterated/ sub-standard/ unsafe *chhatua* to the beneficiaries. Stock management of wheat and rice under Supplementary Nutrition Programme

was deficient. Misappropriation of rice was observed in 12 Anganwadi Centres (AWCs) under Joda (T) Project.

Out of the 82.03 lakh enrolled children, 5.56 lakh children (seven *per cent*) did not attend pre-school education. PSE kits and *Nua Arunima* work books were not supplied regularly. Health check-up was provided to only 30 *per cent* of the eligible children, 56 *per cent* of the pregnant women and 50 *per cent* of the nursing mothers in the State during 2011-16. Only 46 *per cent* of the severely malnourished children were referred to hospitals for treatment.

Out of 71,306 AWCs in the State, only 28,187 (40 *per cent*) AWCs had dedicated ICDS buildings. The pace of construction of ICDS buildings was slow, as only 14,059 (53 *per cent*) out of 26,690 buildings, sanctioned for construction during 2010-16, were completed. Due to non-submission of UCs to GoI for the funds sanctioned during 2013-14 for construction of AWCs, the Department could not avail of Central assistance of ₹ 93.76 crore. The Department had not operationalised 1,281 AWCs even after 18 months of sanction under Anganwadi on Demand scheme. Seventy six *per cent* of AWCs had no toilet facilities. Infrastructure facilities at the AWCs were not adequate even after four decades of implementation of the scheme.

Thirty one *per cent* of the posts in Supervisor cadre and 63 *per cent* in Statistical Assistants cadre were lying vacant as of March 2016. Monitoring and Supervision of implementation of the scheme was also not adequate.

*(Paragraph 2.1)*

### **1.5.2 Implementation of Sewerage projects in the State**

The Orissa Water Supply and Sewerage Board (OWSSB) was established in 1991 to execute the sewerage projects in the State. Though OWSSB projected to lay 1,567.14 km of sewer lines and sewage treatment plants (STPs) with capacity of 379.20 MLD along with intermediary pumping stations at an estimated cost of ₹ 4,511.48 crore, it could not achieve the same by March 2016. No baseline data about full cycle of sanitation was created for any of the 110 Urban Local Bodies (ULBs) based on Odisha Urban Sanitation Strategy (OUSS), 2011. Sewerage projects were taken up without preparing City Sanitation Plan (CSP) and conforming to provisions of OUSS. As a result, the draft State Plan for implementing OUSS could not be prepared. There were deficiencies in preparation of Detailed Project Reports in respect of Cuttack and Talcher ULBs, resulting in execution of additional work and wasteful expenditure of ₹ 95.17 lakh. Due to slow progress of work, OWSSB could utilise only ₹ 1,336.54 crore out of ₹ 2,264.29 crore, available under different schemes. This also resulted in loss of Central assistance of ₹ 99.83 crore. Due to improper investment of unutilised funds, it had to forego interest amounting to ₹ 2.89 crore.

In respect of the projects at Puri, the work was awarded violating provisions of Orissa Public Works Department Code, on the grounds of urgency. However, the work was completed with a delay of three years and nine months. Despite this, liquidated damage was not levied on the contractor. Improper execution of work led to laying of additional 1.307 km sewer lines. Delay in acquisition of land resulted in time overrun with consequential cost overrun of ₹ 2.44 crore. A 33 MLD capacity Sewage Treatment Plant (STP), constructed

at Cuttack, was kept idle for 10 years as waste water did not flow into it. In Talcher, the construction of the other STP was delayed and the contracts were also rescinded and retendered. However, no penalty was levied on the contractor. In sewerage projects at Bhubaneswar, the contractor had delayed the construction and, therefore, the same was rescinded without levy of penalty. Due to delay in execution of the project, there was cost overrun by ₹ 228.22 crore.

The intended social benefit of ₹ 592.55 crore could not be derived due to delay in execution of the projects in Cuttack and Bhubaneswar cities. Environmental impact due to non-completion of these projects was observed in some of the upstream and downstream stretches of rivers, as the level of pollutants had not decreased in these areas.

*(Paragraph 2.2)*

### **1.5.3 Special interventions for development of Left Wing Extremism affected districts of the State**

A Performance Audit on ‘Special interventions for development of Left Wing Extremism (LWE) affected districts in the State’ showed that special intervention programmes in the areas of development, security and rights recognition were not implemented properly.

**Development:** Planning under Integrated Action Plan (IAP)/ Additional Central Assistance (ACA) for LWE districts was deficient due to belated preparation of Annual Action Plans (AAPs), inclusion of inadmissible projects and giving least priority to skill development and livelihood initiatives. Besides, there was a shortfall of ₹ 163.88 crore in allocation to LWE areas in test-checked districts.

Management of funds was deficient due to irregular diversion of funds, non-refund of savings and interest earned by the executing agencies, loss of Central assistance of ₹ 497.43 crore and non-adjustment of advances for years. Programme implementation was marred by delay in execution of works, 64 works left incomplete for one to four years despite spending ₹ 8.89 crore, expenditure of ₹ 6.20 crore on 43 completed projects that remained unused, execution of works of substandard quality (₹ 7.27 crore), *etc.* Inspection and monitoring of implementation of the scheme were inadequate.

**Security:** Execution of security related works by the Odisha State Police Housing and Welfare Corporation Limited (OSPHWC) was marred due to non-commencement as well as delayed execution of critical infrastructure projects like Special Operation Group hub at Koraput, hub for Central Reserve Police Force at Muniguda and additional fortification works, *etc.* Four security hubs, 20 barracks, staff quarters, approach roads to security camps, *etc.*, sanctioned during 2007-08 to 2011-12, were left incomplete after spending ₹ 14.76 crore for over one to four years, due to cost overrun of ₹ 12.70 crore and non-sanction of revised estimates, despite availability of interest income of ₹ 100.70 crore. At Koraput and Bhamini, security forces were, thus, staying in dilapidated and incomplete buildings for years without basic amenities. Anti-naxal support equipment was neither supplied nor available in the test-checked fortified Police Stations.

Reimbursement of ₹ 81.90 crore under Security Related Expenditure had been disallowed by the Government of India due to hiring of a helicopter without obtaining prior approval, non-completion of infrastructure projects, *etc.* Instances of delay/non-payment of *ex-gratia* to the families of deceased security personnel and civilian victims were also observed. No mechanism was put in place to track the surrenderees to ascertain their integration with mainstream society.

**Rights Recognition:** Forest Rights Act was not implemented in the State in conformity with the provisions of the Act. Claims of Other Traditional Forest Dwellers were rejected for want of evidence in support of possession of forest land for 75 years. Thirty-five out of 51 test-checked claims were irregularly rejected and the claimants were not intimated about the reasons for rejection, thus, denying them the opportunity to file petition. Even after distribution of titles, records of rights/ revenue records were not corrected. Titles were not distributed even after finalisation. There was mismatch in reporting the progress of distribution of titles as well as implementation of FRA.

*(Paragraph 2.3)*

#### **1.5.4 Information Technology Audit on Implementation of Integrated Financial Management System**

Implementation of iFMS was running behind the schedule, as Government had not enforced the terms of agreement. SRS for 10 modules had not been finalised, even after three years of implementation. Hardware and software were procured in excess of need, rendering them idle. The decision to procure closed source Oracle suite contrary to NeGP guidelines, led to a situation of vendor lock-in. The Government had not exercised oversight over database administration by segregating duties or by putting compensating controls. The security features agreed to in Service Level Agreement (SLA) had not been provided with iFMS. Business Continuity Plan as well as Disaster Recovery Plan had not been prepared and critical financial operations of Government were at risk of disruption in case of disaster. The budgetary controls automated through iFMS could be bypassed. The purpose of reducing delays by using Teachers' Provident Fund module could not be achieved, as those were not relied on by users. Stamp module was incomplete. Cases of double payments through banks and treasuries were observed, indicating deficient controls. There were several issues of data integrity, as absurd time stamps existed in iFMS.

*(Paragraph 2.4)*

### **1.6 Significant audit observations of Compliance Audits**

#### **1.6.1 Neonatal/ paediatrics care in Government run hospitals**

Government did not have a clear vision for enunciating specific perspective and annual plan to address the issue of alarming Neonatal Mortality Rate and Infant Mortality Rate in the State, in spite of substantial expenditure incurred on health sector. Further, the district authorities were also not proactive for effective service delivery in health care to achieve the objectives on neonatal and infant mortality rate. The availability of physical infrastructure and human

resources was not in conformity with the prescribed guidelines. Government run hospitals did not enforce and adhere to the instructions and guidelines relating to neonatal and infant health issues. Monitoring and inspection by the State and District level authorities were absent, as a result of which due importance could not be given to the health component of neonatal and paediatrics care.

*(Paragraph 3.1)*

### **1.6.2 Modernisation of Judicial infrastructure in the State**

No action was taken by the Home and Law Departments to plan and provide required infrastructure in new courts and fill the infrastructure gaps in existing courts to upgrade the same to the level prescribed by the National Court Management System sub-Committee. Building projects were not completed in time. Estimation and contract management remained deficient, leading to extra expenditure and non-recovery of compensation for delayed execution. Management of 13<sup>th</sup> FC fund by Odisha State Legal Services Authority (OSLSA) remained deficient, leading to loss of interest, blockage of funds and non-construction of Alternative Dispute Resolution Centre (ADRC) buildings in 11 districts. Adequate quarters for judicial officers were not available, while citizen-centric infrastructure remained absent in existing courts.

*(Paragraph 3.2)*

### **1.6.3 Fire services in the State**

Though Odisha Fire Service is the first responder in all types of emergencies, a long term plan to progressively increase the number of Fire Stations, based on specific vulnerabilities of areas of State and to match the same with Standing Fire Advisory Council and National Disaster Mitigation Authority norm within a definite timeframe was not prepared. Even after sanction of Fire Stations in each block and provision of funds for building infrastructure, majority of projects remained incomplete or were not even taken up for years together due to non-finalisation of site, selecting unsuitable site, *etc.*, resulting in cost escalations and loss of Central assistance. Besides, lack of promptitude in preparing and approval of revised estimates and preparation of improper estimates also contributed to delays in completion of buildings. Procurement of equipment without completion of civil infrastructure not only rendered the procured equipment idle, but also affected the operational efficiency of fire service. Enforcement of the provisions of Orissa Fire Service Act for fire safety and prevention was lacking, as rules defining the modalities of enforcement and prosecution had not been framed even after 23 years of enactment of the Act.

*(Paragraph 3.3)*

### **1.6.4 Idle expenditure on incomplete jail building**

Execution of work without taking over possession of land and without resolving environmental issues led to non-completion of the works, thereby rendering the entire expenditure of ₹ 1.08 crore unfruitful, besides blocking of ₹ 3.09 crore.

*(Paragraph 3.4)*

### **1.6.5 Idle investment in drinking water project**

Non-completion of pre-execution formalities before commencing the drinking water supply project in Vyasaganar Municipality delayed its use for over five years, despite incurring expenditure of ₹ 8.22 crore.

*(Paragraph 3.5)*

### **1.6.6 Assessment, collection and utilisation of labour cess**

The objective of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996 to bring all the labourers to an organised set up had not been achieved, as the Board had not identified all establishments engaged in civil construction. The failure of the Development Authorities to adopt the provisions of the Orissa Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Rules, 2002 resulted in non-payment of labour cess by the establishments. The outreach of the welfare measures was not commensurate with the amount of cess collected, as only 10.23 *per cent* of available funds were utilised for the purpose. The Board failed to extend timely assistance to the beneficiaries.

*(Paragraph 3.6)*

### **1.6.7 Unfruitful expenditure in construction of bridge without approach road**

Award of work without ensuring availability of land led to unfruitful expenditure of ₹ 3.46 crore as well as depriving connectivity to the people, even after completion of bridge.

*(Paragraph 3.7)*

### **1.6.8 Loss of interest due to imprudent fund management**

Non-adherence to the instruction of the Finance Department to keep unutilised funds in flexi accounts by District Social Welfare Officer of Mayurbhanj, Odisha State Water and Sanitation Mission and the Cuttack Development Authority, resulted in loss of interest of ₹ 3.65 crore during 2011-16.

*(Paragraph 3.8)*

### **1.6.9 Follow-up Audit on 'Micro Projects for development of Particularly Vulnerable Tribal Groups' (PTG)**

Performance Audit was conducted in the year 2009 on Micro Project for development of Particularly Vulnerable Tribal Groups. Audit highlighted the deficiencies in implementation of various schemes for development of PTGs in the Performance Audit. Though the Government had accepted all the recommendations, none of the recommendations have been fully implemented, even after lapse of seven years.

A Follow-up Audit of the Performance Audit was conducted. Audit observed that shortage of manpower still persisted, which affected implementation of various projects. Supervision and monitoring was not adequate to address the bottlenecks in implementation of projects. Targeted numbers of projects under



Income Generation Scheme were not completed. Facilities like provision of road connectivity, drinking water, electricity, *etc.*, were not created adequately. Besides, there were deficiencies in addressing malnutrition, healthcare services, education, *etc.*

*(Paragraph 3.9)*

## **1.7 Recommendations**

This Report contains specific recommendations on a number of issues involving preparation of deficient plans, deficient funds management, non-observance of the prescribed internal procedure and systems, inadequate oversight upon implementation of schemes, *etc.*, compliance with which would help in promoting good governance and better oversight on implementation of departmental programmes and objectives at large.