

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 and compliance audit of Government departments and autonomous bodies.

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. On the other hand performance audit, besides conducting a compliance audit, also examines whether the objectives of the programme/activity/department are achieved economically and efficiently.

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, significant audit observations made during the audit of transactions and follow up on previous Audit Reports. Chapter II of this report contains findings arising out of performance audit of selected programmes/activities/departments. Chapter III contains observations on audit of transactions in Government departments and autonomous bodies. Chapter IV presents an assessment of internal controls in the Fisheries Department.

1.2 Auditee profile

There are 29 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them and 13 autonomous bodies which are audited by the Principal Accountant General (Audit)-I, Mumbai and the Accountant General (Audit)-II, Nagpur.

The comparative position of expenditure incurred by the Government during the year 2008-09 and in the preceding two years is given in **Table 1**.

Table 1: Comparative position of expenditure

(Rupees in crore)

Particulars	2006-07			2007-08			2008-09		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Revenue expenditure									
General services	285	24821	25106	377	23469	23846	384	26201	26585
Social services	5304	18255	23559	7215	19558	26773	8286	22766	31052
Economic services	2595	9108	11703	2648	10589	13237	3668	13145	16813
Grants-in-aid	51	966	1017	35	889	924	71	1173	1244
Total			61385			64780			75694
Capital expenditure									
Capital Outlay	7982	2110	10092	9467	2023	11490	12776	6097	18873
Loans and Advances disbursed			2322			1225			1281
Payment of Public Debt			2042			2745			3221
Public Accounts disbursement			26975			27619			30507
Total			41431			43379			53882
Grand Total			102816			108159			129576

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 Maharashtra under Section 13¹ of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 13 autonomous bodies which are audited under sections 19(2)² and 20(1)³ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 434 other autonomous bodies, under Section 14⁴ 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 Planning and conduct of audit

Audit process starts with the assessment of risk of the Department/Organisation as a whole and each unit based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the

¹ 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 & loss accounts, balance sheets & other subsidiary accounts

² Audit of the accounts of Corporations (not being Companies) established by or under law made by the State Legislature in accordance with the provisions of the respective legislations

³ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed up on between the C&AG and the Government

⁴ Audit of 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 Rs 1 crore

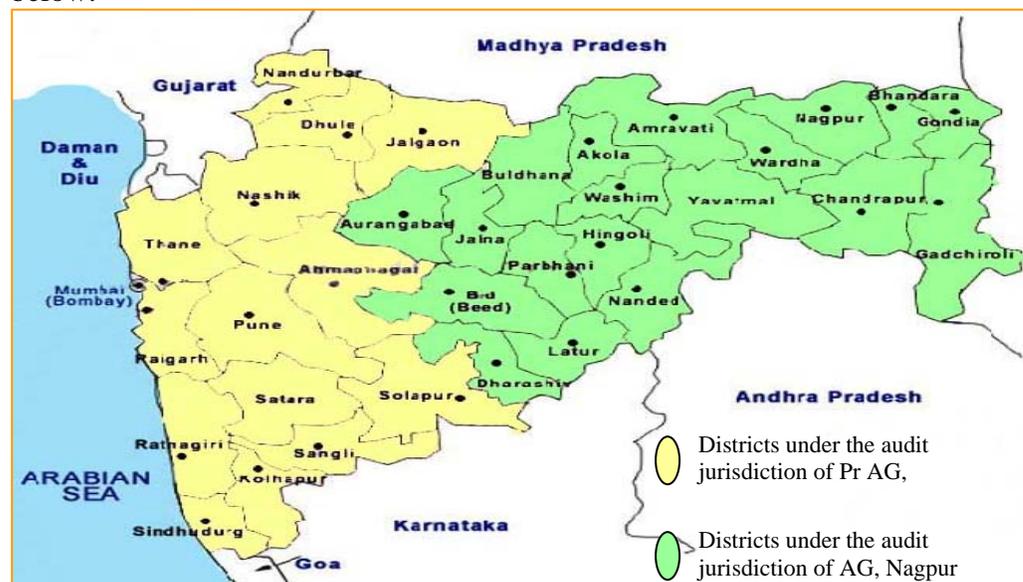
frequency and extent of audit are decided. An annual audit plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Inspection Reports 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 pointed out in these Inspection Reports are processed for inclusion in the audit reports which are submitted to the Governor of Maharashtra under Article 151 of the Constitution of India.

During 2008-09, 10,031 party-days were used to carry out audit of 1698 units (compliance audit and performance audits) out of 8591 units and of the various departments/organisations. The audit plan covered those units/entities which were vulnerable to significant risk, as per our assessment.

1.5 Organisational structure of the offices of the Principal Accountant General (Audit)-I, Mumbai and the Accountant General (Audit)-II, Nagpur

Under the directions of the C&AG, the offices of the Principal Accountant General (Audit)-I, Mumbai and the Accountant General (Audit)-II, Nagpur conduct the audit of the various Government Departments and offices/autonomous bodies/institutions under them. While 16 districts from Konkan and Western Maharashtra fall under the audit jurisdiction of the Principal Accountant General (Audit)-I, Mumbai, the remaining 19 districts from Vidarbha and Marathwada are under the audit jurisdiction of the Accountant General (Audit)-II, Nagpur, as shown in the map below.



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.

1.6.1 Performance audits of programmes/activities/department

The present report contains four performance audits, one Information Technology audit and an assessment of internal controls in a Government Department. The highlights of the performance audits are given in the following paragraphs.

(i) National Rural Health Mission

Even after four years of its launch in April 2005 and a mammoth spending of Rs 1130 crore, the Government of India sponsored National Rural Health Mission programme has still not been able to come out of its initial hurdles, such as lack of reliable beneficiary database, improper planning *etc.* The performance audit noted serious gaps in the delivery of mission objectives. Although the mission made considerable progress in achieving Revised National Tuberculosis Control Programme, Infant Mortality Rate and Total Fertility Ratio targets, these were overshadowed by suboptimal use of the available health care infrastructure such as mobile medical units. The Mission needs to seriously introspect into the functioning of the Rugna Kalyan Samitis besides upgrading the standards of PHCs and Sub-centres to the level of Indian Public Health Standards.

(ii) Development of Sports in Maharashtra

Physical Education and Sports form an integral part of the educational system. In recognition of this, in 2001, the State Government evolved its Sports Policy to develop and nurture a sports culture by creating suitable infrastructure at village, taluka and district levels. A review of the development of sports in the State revealed that the Government initiative in the development of sports lacked phase-wise planning and programme management. There were shortages of Physical Education Teachers in schools. Grants-in-aid given to non-Government organizations /institutions went unmonitored and the school level participation in games events was very low.

(iii) Working of DRDAs in Maharashtra

The District Rural Development Agency (DRDA) is responsible for supervision and monitoring of various poverty eradication schemes in rural areas. A performance review on the functioning of DRDAs in eight selected districts found that four major schemes delivered by them have raised certain

serious management issues at planning, budgeting, accounting and monitoring stages.

(iv) *Minor Irrigation (Local Sector) Projects*

Small irrigation works known as ‘Minor Irrigation (Local Sector)’ (MILS) projects are designed to reach the benefits of enhanced agricultural production from small patches of land in the quickest possible time. Audit of 541 MILS projects revealed that the projects were formulated without adequate survey and investigation of the ground realities. As a result, projects taken up remained incomplete for long periods without accrual of any benefits. Unviable projects were taken up and the irrigation potential envisaged was not created even after incurring huge expenditure. Formation of water users’ association was very slow in respect of most of the completed projects and as a result the upkeep of projects continued to remain with the Department. The irrigation potential created was underutilised. Assessment and recovery of water charges was also not satisfactory.

(v) *Computerisation in Police Department*

Information Technology audit of computerization in Police Department noticed that Crime and Criminal Information System and Common Integrated Police Application meant for crime data storage and retrieval did not deliver the desired output. The deficiencies in input controls and supervisory checks have resulted in incomplete and incorrect database, making the systems unreliable and thus not useful. No tangible benefits have thus accrued so far from the computerisation.

(vi) *Internal Control in Fisheries Department*

An evaluation of the internal controls in the Fisheries Department revealed delayed submission of budget proposals, large savings, non-surrender of savings, deficient cash management and non-maintenance of records. There were inadequacies in operational controls in the Department. Audit observed non-monitoring of schemes, dwindling fish production, non-operation of fish seed farms to optimum capacity *etc.* Implementation of the Centrally Sponsored Schemes for providing houses to fishermen, development of inland fisheries through construction of new ponds and for preservation, transport and marketing of fish by setting up of ice factories and purchase of trucks, was not satisfactory.

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. These are broadly categorised and grouped as (i) Fraudulent drawal/misappropriation/embezzlement/losses, (ii) Excess payment/wasteful/infructuous expenditure, (iii) Violation of contractual obligations, undue favour to contractors and avoidable expenditure, (iv) Idle investment/ idle

establishment/blocking of funds, delays in commissioning of equipments and diversion/misutilisation of funds of funds and (v) Regulatory issues and other points of interest.

Significant audit findings pointed out in this category are as follows:

- Medical reimbursement bills were passed without exercising proper checks by the Medical Superintendent, Rural Hospital, Parli Vaijanath (Beed) resulting in fraudulent payment.
(Paragraph 3.1.1)
- Payment of work advance of Rs 33.72 crore to two contractors on the approval of the VIDC, though not provided for in the contract, resulted in undue benefit to them.
(Paragraph 3.2.4)
- In Amravati Irrigation Division, sanction of extra item rate list for excess quantities instead of regulating them under Clause 38 of the contract resulted in extra contractual benefit of Rs 8.25 crore to the contractor.
(Paragraph 3.2.5)
- Due to adoption of basic price index of an old period for calculation of price escalation, there was an excess payment of Rs 1.13 crore to a contractor in Medium Irrigation Division, Gondia.
(Paragraph 3.2.7)
- Charging land premium for land actually allotted in December 2007 as per a defunct pricing policy, instead of the existing revised pricing policy of Maharashtra Housing & Area Development Authority resulted in loss of Rs 9.66 crore to the Authority.
(Paragraph 3.3.1)
- Allotment of the work of commercial exploitation of land owned by Regional Transport Officer, Andheri without tendering and incorrect valuation of the property for calculating the developer's income and profit by Public Works Department, resulted in undue benefit of Rs 73.45 crore to the developer.
(Paragraph 3.3.3)
- In Water Resources Department, mobilisation advance of Rs 15 crore was given to contractor in contravention of the contract conditions.
(Paragraph 3.3.5)
- Sanction and release of grant to Shivaji University by the Government for laying of synthetic track without specifying any time schedule for its utilization as well as improper survey of site and delay in finalization of the site by the University resulted in blockage of Rs 1.17 crore for over five years.
(Paragraph 3.4.1)
- Construction of office units without firm demand, contrary to the stipulation made in the administrative approval, by the Pune Housing

and Area Development Board resulted in idling of office units costing Rs 1.57 crore for over a period of seven years.

(Paragraph 3.4.4)

- Commencement of the work without ascertaining the status of land acquisition, delays in execution of work by the contractors, delays in termination of the contracts in case of failure to carry out the work by the contractor resulted in an idle investment of Rs 1.21 crore, in Public Works Division No.2, Solapur.

(Paragraph 3.4.7)

- Due to change in scope of the work after issue of the work order, lack of funds and delay in sanction of the revised estimate by Maharashtra Jeevan Pradhikaran, a water supply scheme in Kopargaon Taluka remained incomplete for more than 10 years after spending Rs 8.21 crore.

(Paragraph 3.4.9)

1.7 Budget and expenditure controls

A summary of Appropriation Accounts for 2008-09 in respect of the State Government is given in **Table 2**.

Table 2: Summary of Appropriation Accounts for 2008-09

(Rupees in crore)

	Nature of expenditure	Original grant/appropriation	Supplementary grant/appropriation	Total	Actual expenditure	Saving (-)/Excess (+)
Voted	I Revenue	67822.19	12545.99	80368.18	63749.05	(-)16619.13
	II Capital	15625.94	6979.00	22604.94	22627.69	(+)22.75
	III Loans and Advances	2332.02	360.44	2692.46	1398.14	(-) 1294.32
Total Voted		85780.15	19885.43	105665.58	87774.88	(-)17890.70
Charged	IV Revenue	13673.18	598.15	14271.33	14109.74	(-) 161.59
	V Capital	3.25	0.10	3.35	0.24	(-) 3.11
	VI Public Debt-Repayment	6145.67	0.00	6145.67	4124.51	(-) 2021.16
Total Charged		19822.10	598.25	20420.35	18234.49	(-)2185.86
Appropriation to Contingency Fund (if any)		650.00	..	650.00	650.00	..
Grand Total		106252.25	20483.68	126735.93	106659.37	(-)20076.56

Note: The expenditure includes the recoveries adjusted as reduction of expenditure under revenue expenditure Rs 2,164.87 crore and capital expenditure Rs 3872.27 crore.

The overall saving of Rs 20,076.56 crore, which constitutes 15.84 per cent of the total grant/appropriation (Rs 1,26,735.93 crore) was the result of saving of Rs 22,465.94 crore in 131 grants and 52 appropriations under Revenue Section, 78 grants and 14 appropriations under Capital Section, offset by excess of Rs 2,389.38 crore in 15 grants and 8 appropriations under Revenue Section and 23 grants and one appropriation under Capital Section.

1.7.1 Excess expenditure over available provisions

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularized by the State Legislature. The regularization of excess expenditure is done after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee (PAC). However, excess expenditure amounting to Rs 6,666.17 crore for the years 2002-2008 was yet to be regularized. During 2008-09, excess amounting to Rs 2,244.87 crore was noticed in case of 37 grants which require regularization under Article 205 of the Constitution.

1.7.2 Unnecessary/excessive/inadequate supplementary provision

Supplementary provision aggregating Rs 796.51 crore obtained in 34 cases during the year proved unnecessary as the expenditure did not come up to the level of original provision. The supplementary provision obtained in each of these 34 cases was Rs 10 lakh or more. In 6 cases, supplementary provision of Rs 2,100.96 crore proved insufficient by more than Rs 1 crore each leaving an aggregate uncovered excess expenditure of Rs 286.02 crore.

1.8 Response of the departments to draft paragraphs

The draft paragraphs are forwarded demi-officially to the Principal Secretaries/Secretaries of the concerned Departments between March and July 2009 with the request to send their responses within six weeks. Despite this, the departments did not send their replies to five out of the six performance audits and 23 out of 26 paragraphs featured in this Report. The replies wherever received, have been suitably incorporated in the report.

According to instructions issued by the Finance Department in March 1981, administrative departments were required to furnish Explanatory Memoranda duly verified by Audit to the Maharashtra Legislature Secretariat in respect of paragraphs included in the Audit Reports, within one month of presenting the Audit Reports to the State Legislature. The administrative departments did not however, comply with these instructions and 194 Explanatory Memoranda pertaining to the period from 1988-89 to 2007-08 were outstanding. Department-wise details are given in **Appendix 1.1**.