# Chapter 3

## Compliance Audit

Compliance audit of the Departments of Government, their field formations as well as that of the Autonomous Bodies brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety, persistency of irregularities and governance issues. These have been discussed in the succeeding paragraphs under broad objective heads.

## 3.1 Non-compliance with rules and regulations

For sound financial administration and control it is essential that expenditures conform to financial rules, regulations and orders issued by the competent authority. This not only prevents irregularities, misappropriations and frauds but helps in maintaining good financial discipline. Some of the audit findings on non-compliance with rules and regulations are discussed below:

***HEALTH AND FAMILY WELFARE DEPARTMENT***

### *3.1.1 Misappropriation of Government money*

**Non-observance of codal provisions in maintenance of cash book and relevant records of Medical Officer, PHC, Laing while dealing with Government money led to misappropriation of Rs 2.62 lakh.**

*Orissa Treasury Rules, provide that all monetary transactions should be entered in the cash book as soon as they occur and be got attested by the head of the office in token of check. The cash book should be closed regularly after verification of the totaling by the Drawing and Disbursing Officer (DDO) or by some responsible sub-ordinate officer other than the writer of the cash book and initial it as correct. At the end of each month, the head of office should verify the cash balance as shown in the cash book and record a signed and dated certificate to that effect.*

*Scrutiny of records (April 2008) of Medical Officer (MO), Primary Health Center, Laing revealed that a bank draft (3 July 2007) valuing Rs 1.62 lakh was shown as encashed (19 July 2007) and transferred to different subsidiary cash books maintained for different health programmes. However, the amounts were not shown as receipts in the concerned subsidiary cash book. It was further seen that the main cash book was not signed by the MO from 29 January 2007 to 6 February 2008 due to dispute over handing over of charge of accounts by Block Extension Educator. On an inquiry from the Bank, the MO confirmed (December 2007) about encashment of the demand draft. As many discrepancies were noticed by MO in the cash book, a new cash book was opened from 9 February 2008 with the permission of the Chief District Medical Officer (CDMO), Sundargarh. Besides, another case .of misappropriation of Rupees one lakh was also noticed by Additional District Medical Officer, Public Health (PH) during* *inspection indicating (February 2008) that two cheques drawn on 30 August 2007 and 4 October 2007 were not accounted for in the cash books.*

*Thus non-adherence to prescribed codal provisions despite encashment of drafts led to misappropriation of government money to the extent of Rs 2.62 lakh.*

*The matter was reported to Government in May 2009. In reply (August 2009) the Government stated that departmental enquiry is under progress and results would be intimated after completion of enquiry.*

## *HIGHER EDUCATION DEPARTMENT*

### *3.1.2 Overpayment of medical allowance in excess of prescribed rates*

**Payment of medical allowance in excess of the ceiling fixed by the Government to the employees of Berhampur University during 1992-2009 led to excess payment of Rs 1.82 crore.**

According to the State Government Resolution of June 1994, the employees of Berhampur University were entitled to medical allowance at the rate of Rs 1000 per annum per employee. The above decision was subsequently reiterated in the Government Resolution of July 1999 and the rates remained unchanged as of January 2009.

Scrutiny (February 2008 and February 2009) of records of the Registrar, Berhampur University, revealed that contrary to the Government Resolution June 1994 and July 1999, the University paid Rs 1.82 crore to its employees from April 1992 to March 2009 ***(Appendix 3.1)*** towards medical allowance at rates[1] in excess of rates approved by the Government. The Registrar of the University stated (March 2008) that the excess burden was met from the University's own sources as per decision of the Syndicate.

Government stated (October 2009) that instruction have been issued to the University authorities to pay medical allowance to their employees as per approved rate of Rs 1000 *per annum* and that action had been initiated for the settlement of the irregular payment already made.

[1] Rs 1320 for 1992-93, Rs 1500 for 1993-94, Rs 1800 for 1994-95, Rs 2000 for 1995-96, Rs 2500 from May 1996 to March 1999; Rs 3000 from April 1999 to March 2002; Rs 3300 from April 2002 to March 2005 and Rs 3000 from April 2005 to date.

## *HOUSING AND URBAN DEVELOPMENT DEPARTMENT*

### *3.1.3 Loss of interest*

**Premature encashment of term deposit receipts of Rupees three crore by NAC, Belpahar without any immediate requirement resulted in interest loss of Rs 56.25 lakh and avoidable payment of Rs 9.43 lakh towards commitment charges.**

Section 115 of Orissa Municipal Act, 1950 read with Rule 148 of Orissa Municipal Rules, 1953 provides that Municipality may invest any money not required for immediate use either in Government securities or in any form of securities approved by Government and the investment is permissible when no large project is in contemplation or the Municipality has no object for immediate application of the available fund.

Notified Area Council (NAC), Belpahar after its constitution in December 1993, levied octroi duty on materials procured by Tata Refractory Limited, Belpahar (TRL) but the TRL filed a case in 1995 before the Orissa High Court for quashing the said Government Notification. The High Court in interim orders (April 1996 / March 2001) instructed the petitioner to pay the claimed octroi charges and the NAC to keep the same in a separate account and not to withdraw and utilise the deposited amount till the final outcome of the case.

Scrutiny of records (January and March 2009) of NAC, Belpahar revealed that the TRL paid Rs 3.63 crore to the NAC during May 1996 to November 2000 and the same was kept in a separate Bank Account with SBI, Samada opened in May 1996 for the purpose. Of this, Rs 50 lakh each were invested on 15 September 1997 and 14 July 1998 for five year term(s) and rupees two crore on 17 February 2001 for one year term and were renewed from time to time.

But, after rejection (December 2005) of the TRL's case by the Court, the NAC authority without approval of the Council, encashed (January 2006) the term deposit receipts (TDRs) transferring Rs 3.88 crore (including interest) to current account despite the fact that NAC maintained minimum monthly cash balances of Rs 3.10 crore during February 2006 to February 2009 in the Personal Ledger (PL) account with the treasury and current account with the bank. Thus, there was no requirement for encashment of the TDRs. Besides, due to premature encashment of securities, the bank recovered a sum of Rs 9.43 lakh towards commitment charges.

Thus, injudicious encashment of term deposit receipts of Rs 3 crore before maturity without specific requirement and parking the same in current and PL account resulted in avoidable loss of interest of Rs 56.25 lakh calculated at a minimum rate of interest of 6.25 *per cent per annum* applicable on TDR up to January 2009. The Executive Officer, NAC, Belpahar stated that the TDRs were withdrawn for utilisation and that the matter would be placed before the Council for investment of surplus fund in term deposits.

Government also stated (September 2009) that there was no loss of revenue as the basic purpose was not to earn interest but to use the fund for development work of NAC. However, the reply does not explain the reasons for premature encashment of TDRs, when NAC has other sources of receipts and there was no immediate requirement of funds for application in development work.

## *PANCHAYATI RAJ DEPARTMENT*

### *3.1.4 Misappropriation of cash*

**Non-accountal of receipts in the cash book and lack of physical verification of closing balances by the GP/ Block authorities resulted in misappropriation of Government money of Rs 2.97 lakh.**

*Rule 154 of Orissa Gram Panchayats (GP) Rules 1968 provides that the Secretary of the GP shall record all transactions in the cash book on the same day on which money is received or paid. The Gram Panchayat Extension Officer is required to verify the cash book and cash in hand at least once in a month with reference to vouchers and case records. Rule 35 and 36 of Orissa Panchayat Samiti Accounting Procedure Rules 2002, stipulates that all cash transactions shall be entered in the cash book and at the end of each month, the Block Development Officer (BDO) shall verify cash balance in the chest with the balance mentioned in the cash books and record signed and dated certificate to that effect.*

*Scrutiny of records (between April 2007 and March 2009) of four GPs and two Panchayat Samities (PS) revealed that cash receipts of Rs 1.29 lakh was not accounted for in the cash book (three GPs) and an amount of Rs 1.68 lakh was found short during physical verification of cash balances done by the concerned officers in presence of audit (two PS and one GP). The details are given in* ***Appendix 3.2.***

*Thus, non-observance of the codal provisions facilitated the misappropriation of Government money of Rs 2.97 lakh.*

*The matter was reported to Government in April 2009, their reply had not been received (October 2009).*

### 3.1.5 Misutilisation of subsidised food grains

**Wage component rice of 20198 quintals costing Rs 2.89 crore issued under SGRY and NFFW programmes was utilised for non-wage purposes but cost thereof was recovered at subsidised price instead of at FCI market cost price which led to extension of undue benefit of Rs 1.62 crore being differential cost.**

Under Sampoorna Grameen Rojagar Yojana (SGRY) and National Food for Work programme (NFFWP), food grains as part of wages was distributed for protecting the real wages of the workers besides improving the nutritional standards of the families of the rural poor. The guidelines contemplated distribution of food grains preferably at worksites and placing effective safeguards to avoid leakages. The scheme prohibited utilisation of food grains for non-wage purposes.

Records of 11 Panchayat Samities (PSs)[2] and three Gram Panchayats(GPs)[3] revealed that as against the actual distribution of 8687 quintals of rice as part of workers wages as per the muster rolls, 28885 quintals was issued to the Village Labour Leaders (VLLs) / executants of the works under SGRY and NFFW programmes for distribution to the workers during 2004-07. There was no muster roll in support of distribution of excess quantity of 20198 quintals of rice and the cost thereof was recovered by the concerned BDOs at the subsidised rate valued at Rs. 1.27 crore against Food Corporation of India's (FCI) market cost price (economic cost price) of Rs 2.89 crore. This resulted in extending undue benefit of Rs 1.62 crore (details in ***Appendix 3.3)*** to the VLLs / executants.

While five Block Development Officers (BDOs) (Tirtol, Sukinda, Pattamundai, Kuliana and Tigiria) admitted (April 2009) issue of excess quantity of rice to avoid damages and deterioration of food grains etc., three BDOs (Tureikela, Phiringia and Bandhugaon) assured (June-October 2007) to examine the matter, other three BDOs did not furnish any specific reply. The Secretaries / Executive Officers of the GPs agreed to recover the differential cost.

The matter was reported to Government in May 2009; the reply had not been received (October 2009).

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2 Panchayat Samities: Bandhugaon, Hindol, Jajpur, Kuliana, Pattamundai, Phiringia, Sinapali, Sukinda, Tigiria, Tirtol, Tureikela

3 Gram Panchayats: Barsar, Khaladi, Paliabandha

### *3.1.6 Misappropriation of food grains and damaged rice*

**Failure to conduct physical verification of stocks at storage godowns by the Block authorities, 4169 quintals of rice under SGRY and NFFW programmes was found short leading to misappropriation of Rs 57.11 lakh besides damage of 128 quintals of rice costing Rs 1.75 lakh.**

*Under Sampoorna Grameen Rozgar Yojana (SGRY) and National Food for Work Programme (NFFWP), food grains distributed to the workers form part of their wages for protecting the real wages of the workers, besides improving the nutritional standards of the families of the rural poor. Food grains allotted to the districts were retained in godowns at Panchayat Samities (PS) and Gram Panchayat (GP) level for issue to the executants for distribution to workers. Orissa Grama Panchayats (Amendment) Rules, 2002 provides that half yearly physical verification of stores was to be carried out by the Block Development Officer (BDO) / Additional BDOs to avoid instances of losses / shortages.*

*Audit (January-November 2008) of stock records of rice received under SGRY/ NFFWP by three PSs*[4] *and 20 GPs revealed that 4297 quintals of rice under SGRY/ NFFW/ Mission Danapani programmes were available as per the stock records. However, as per joint physical verification of stocks (January & November 2008) conducted by the Block and GP officials at the instance of audit, only 128 quintals of rice was found in the stock in damaged condition. Thus, there was shortage of 4169 quintals of rice as detailed in the* ***Appendix 3.4****. Non-conduct of physical verification of stocks at prescribed intervals by the Block authorities facilitated misappropriation of 4169 quintals of rice valued at Rs 57.11 lakh*[5] *at FCI market cost price (economic cost price) and damage of 128 quintals of rice costing Rs 1.75 lakh.*

*While BDO, Lakhanpur and Kantamal agreed to recover the amount (economic cost price of FCI: Rs 46.03 lakh) from the persons concerned, BDO, Madanpur Rampur stated that no final decision had been taken (June 2009) for recovery of the amount(FCI cost: Rs 11.08 lakh) from the concerned persons.*

*The Government stated (July 2009) that the comments would be furnished after receipt of replies from the concerned DRDAs.*

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4 (i) Lakhanpur of Jharsuguda district; (ii) M Rampur of Kalahandi district and (iii) Kantamal of Boudh district

5 4169 X Rs 1370 ( FCI market cost price for 2005-06) = Rs 57.11 lakh

## *RURAL DEVELOPMENT DEPARTMENT*

### *3.1.7 Extra cost due to departmental lapse*

**Non-compliance with codal provision and cancellation of a valid tender for a bridge work on ground of single participation after failing to finalise it within the validity period led to extra cost of Rs 4.05 crore.**

As per para 3.5.18 of Orissa Public Works Department code, the validity of a tender was for 90 days from the date of receipt unless extended. The processing and finalisation of the tender was to be completed by the Executive Engineer (EE), Superintending Engineer (SE), Chief Engineer (CE) and Government within the allotted 20, 15, 20 and 20 days respectively. The remaining 15 days were to be utilised by the EE for execution of the agreement.

The CE, Rural Works invited prequalification bids in February 2006 for construction of a high level bridge over river Tel at an estimated cost of Rs 7.16 crore. The Government pre-qualified (April 2006) the single bid of a contracting firm for the work and ordered for processing their financial bid of Rs 8.53 crore.

The price bid of the contracting firm was valid up to 1 June 2006 and was further extended up to 29 August 2006. The EE, RW Division, Bhawanipatana and the SE recommended the tender in July 2006. The CE retained the tender for negotiations with the contracting firm for reducing the rates and submitted the tender to the Government on 12 September 2006 after expiry of its extended validity. The Government, however, cancelled (October 2006) the tender on the ground of single participation. In response to the fresh tender notice, two bids were received (December 2006), one of which was of M/s Orissa Construction Corporation Ltd. (OCC). These were rejected (March 2007) by the Government considering them to be technically not qualified. Thereafter, the single bid of M/s OCC received for Rs 12.31 crore on the third occasion was again rejected (February 2008) on the ground of excessive bid rates. On re-tender in October 2008, the work was awarded (February 2009) to a single bidder who had not participated on the earlier occasions, at a cost of Rs 12.58 crore, for completion by June 2010.

Thus non-compliance with the rules and cancellation of a valid tender after expiry of the validity period on grounds of single participation resulted in extra cost of Rs 4.05 crore apart from time overrun by three years in commencing the work.

The matter was reported to the Government in March 2009; their reply has not been received (November 2009).

### *3.1.8 Extra cost due to non-finalisation of tender within the validity period*

**Failure of the department to place the order within the validity of the offer led to extra cost of Rs 1.42 crore.**

As per para 3.5.18 of the Orissa Public Works Department Code, the tender has a validity of 90 days from the date of receipt unless extended. The processing and finalisation of the tender was to be completed by the Executive Engineer (EE), Superintending Engineer (SE), Chief Engineer (CE) and Government within the allotted 20, 15, 20 and 20 days respectively. The remaining 15 days were to be utilised by the EE for execution of the agreement.

The CE, Rural Works (RW), Bhubaneswar invited (January 2008) tenders for construction of a high level bridge over river Subarnarekha at an estimated cost of Rs 10.40 crore. In response, a valid single tender was received from a contractor for Rs 11.74 crore.

Test check (November 2008) of records of RW Division, Jaleswar disclosed that the tender received on 13 February 2008 was valid up to 14 May 2008. It was evaluated and recommended by the SE on 13 March 2008 while the CE recommended it on 28 March 2008. The Government approved the tender only on 12 May 2008 just two days prior to the expiry of the validity of the tender. The CE for reasons not on record retained the approved tender for a further period of 14 days and forwarded the same to the EE on 26 May 2008, after expiry of the validity of the tender, for execution of the agreement. The contractor, who was notified on 30 May 2008 for execution of the agreement, expressed (June/ September 2008) his inability to execute the work at the quoted rates in view of expiry of the validity of the tender and hike in the cost of steel, cement and chips. The CE thereafter floated (October 2008) fresh tenders for the work and awarded (March 2009) the work to another contractor at a cost of Rs 13.16 crore for completion by July 2011. The award of the work to another contractor on re-tender involved extra cost of Rs 1.42 crore.

Thus, failure to finalise the tender within its validity period led to re-tender of the case involving extra cost of Rs 1.42 crore.

The matter was reported to the Government in March 2009; their reply has not been received (November 2009).

***SCHOOL AND MASS EDUCATION DEPARTMENT***

### *3.1.9 Avoidable expenditure on purchase of printing paper*

**The Director, TBPM while procuring papers for printing of NT books neither followed the tender procedure nor explored purchase through DGSD rate contract for ensuring purchases in economical manner leading to avoidable expenditure of Rs 1.33 crore during 2007-08.**

Orissa General Financial Rules (OGFR) provides that the purchases of store exceeding Rs 20,000 should be made by inviting open tenders giving wide publicity except for the articles obtained from firms on rate contract approved by the Director General of Supplies and Disposal (DGS&D), Government of India or Director of Export Promotion and Marketing of the State Government and from Co-operative Agencies.

Scrutiny (August 2008) of records of the Director, Text Book Production & Marketing (TBPM) revealed that the State Level Purchase Committee (SLPC) decided (August 2007) to procure papers for printing of Nationalised Text (NT) books for the academic session 2008-09 from approved vendor of earlier year M/S Hindustan Paper Corporation Limited, Kolkata (HPCL) which was approved (October 2007) by the Government. The Director, TBPM placed (December 2007-March 2008) purchase orders with the HPCL for supply of 3300 MT[6] of 60 GSM creamwove reel and 1770 MT[7] of 80/100/120 GSM Maplitho reel/sheet papers at the negotiated price of Rs 35945 and Rs 37250 per MT[8] respectively. Against the above purchase orders, the firm supplied 3299.46 MT of 60 GSM and 1778.45 MT of 80/100/120 GSM reel and sheet paper and was paid Rs 18.48 crore for the supplies. However, while making purchases, tender procedure was neither followed nor the prevailing DGS&D rates obtained for ensuring that the purchases were made in most economical manner. Comparison of HPCL's price with the prevailing DGS&D rate contracts of two firms[9] revealed that HPCL's prices were higher by Rs 3769[10] and Rs 499[11] per MT for 60 GSM and 80/100/120 GSM papers respectively. Thus, failure to procure the printing papers from the DGS&D rate contract firms led to avoidable expenditure of Rs 1.33 crore[12].

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6 December 2007 : 3000 MT and March 2008 : 300 MT

7 December 2007: 1570 MT and March 2008 : 200 MT

8 Inclusive of CST but exempted from Excise Duty as the paper was to be used for production of NT Books.

9 (i) Surya Chandra Paper Mills, Mandapeta, East Godavari District, Andhra Pradesh (DGS&D Rate contract No. PPWC/PP-5/RC-K10T0000/0108/P5/COAM /3048, dated 02 February 2007 valid from February 2007 to January 2008) **for 60 GSM Paper** at the rate of Rs 34471 inclusive of Excise Duty and CST and (ii) Satia Paper Mills, Bhatinda, Punjab (DGS&D rate contract No. PP-4/RC-K1070000/1207/p-4/02334/1313, dated 20 July 2007 valid from 20 July 2007 to 31 July 2008 **for 80/100/120 GSM Maplitho paper at the rate of** Rs 38000 per MT inclusive of Excise Duty.

10 60 GSM Paper: HPCL's price of **Rs 35945 *minus* Rs 32176** {Rs 34471 ***minus*** 12.37% Excise Duty (Rs 3795) ***plus*** freight @ Rs 1.5 per MT for 1000 km (Rs 1500)} = **Rs 3769 per MT** of Surya Chandra Paper Mills, Mandapeta

11 80/100/120 GSM paper: HPCL's price **Rs 37250 *minus* Rs 36751** {Rs 38000 ***minus*** 12.37% Excise Duty ***plus*** freight @ Rs 1.37 per km for 2142 Km - Rs 2934} = **Rs 499** of Satia Paper Mills, Bhatinda

12 (RS 3769 X 3299.46 MT) + (Rs 499 X 1778.45 MT) = Rs 1.33 crore

The Director, TBPM stated (April 2009) that the SLPC found HPCL's prices competitive. The Government stated (September 2009) that, as tender process takes its normal time delaying the production schedule of NT books, SLPC decided to purchase papers from M/s HPCL. The replies were not acceptable as the SLPC did not consider the feasibility of making purchases from DGS&D listed rate contract firms as required under the provisions of the OGFR. The reply also did not explain reasons for non inviting tenders to obtain competitive price.

## *WOMEN AND CHILD DEVELOPMENT DEPARTMENT*

### *3.1.10 Misappropriation of cash*

**Non-accountal of advances, paid vouchers and bank draft in the Cash Book resulted in misappropriation of cash of Rs 5.16 lakh.**

*Orissa Treasury Rules stipulates that advances granted under special orders of competent authority to Government Officers for departmental or allied purposes shall be paid against due acknowledgement and accounted for in the register of advances. The moneys so paid is to be adjusted date-wise on submission of detailed accounts supported by vouchers within one month from the date of receipt or by refund of unutilised sum, as may be necessary.*

*Scrutiny of records (July 2008 and March 2009) revealed that the then Child Development Project Officer (CDPO) Boudh was relieved (13 November 2000) on transfer without handing over the charge of cash book to the successor. The closing balance of the cash book as on the date of relief showed balances of Rs 12.35 lakh [cash in hand Rs 0.04 lakh, paid vouchers Rs 0.90 lakh, advances to employees Rs 2.85 lakh, Bank Draft (BD) Rs 0.83 lakh and Bank Account Rs 7.73 lakh]. A new cash book was therefore opened on 14 December 2000 with nil opening balance by the CDPO in-charge and regular CDPO joined on 10 July 2002.*

*Cash in hand of Rs 0.04 lakh as on 13 November 2000 was brought to the cash book on 16 December 2004 after opening of the locked cash chest in the presence of police but the bank pass book and cheque book were taken over only on 20 December 2004. But neither details of advances of Rs 2.85 lakh was furnished nor BD (Rs 0.83 lakh) and paid vouchers ( Rs 0.90 lakh ) were physically handed over. Advance register was also not maintained. Besides, short accountal of Rs 0.58 lakh between the closing balance of 7 May 2004 and the opening balance on 11 June 2004 was noticed (March 2009) although there was no transaction during 8 May to 10 June 2004. This amount was shown as advance against employees on 6 May 2004 for which no acknowledgement as well as adjustment vouchers were available. As such, the total short accountal of money worked out to Rs 5.16 lakh.*

*In reply, the CDPO, Boudh while accepting (March 2009) non-inclusion of Rs 5.16 lakh in the cash book stated that the concerned CDPO would be requested to produce the details of advances, vouchers and cash.*

*Government while accepting the audit observation stated (June 2009) that appropriate action would be taken against the delinquent CDPOs for the lapses committed by them.*

***WORKS DEPARTMENT***

***3.1.11 Fictitious expenditure on works***

**Five Executive Engineers drew Rs 278.87 crore from the Treasury without immediate requirement to avoid lapse of budget and retained the amount in civil deposits in disregard of the financial rules.**

Rule 141 (3) of the Orissa Budget Manual prohibits drawal of money from the Treasury unless required for immediate disbursement. Drawing Officers are required to surrender the savings to allow re-appropriation for other purposes.

The Planning Commission approved (2008-09) construction of South-North corridor[13] covering 12[14] districts in Orissa with the objective of improving the socio-economic condition of the tribal people living around the corridor. The Government accorded permission to commence the works (September 2008) and allotted Rs 300 crore for the first phase of works between December 2008 and January 2009.

Test check (April 2009) of the records disclosed that funds for Rs 300 crore were provided for 15 stretches of road works out of which two works for Rs 99.48 crore were awarded (October 2008-February 2009) to two contractors and the remaining nine works were under various stages of approval. In the two works, the contractors executed works worth Rs 5.84 crore as of March 2009. Despite the remote prospect of utilisation of the entire provision of funds before close of the financial year, the Chief Engineer (CE) placed (March 2009) requisition for release of Letter of Credit (LoC) for Rs 284.71 crore as required for the works and simultaneously sought permission of the Government for transfer credit of the unspent LoC to Civil Deposit account to avoid lapse of funds and for utilisation later on. The Finance Department released the LoC in March 2009 and agreed to the proposal to keep the funds in Civil Deposit Account. The five[15] EEs in charge of execution of the road works drew Rs 284.71 crore in March 2009 and Rs 5.84 crore was disbursed to the contractors towards execution of the works. The unspent amount of Rs 278.87 crore was fictitiously debited (March 2009) to the works by contra credit to Civil Deposit account in gross violation of financial rules.

The Government stated (May 2009) that in the event of surrender of the unutilised amount, the project would have suffered for funds in the next year and therefore the unutilised amount was transferred to Civil Deposit Account. This

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13 Motu-Malkangiri to Tiringi-Mayurbhanj of Vijayawada-Ranchi Highway

14 Koraput, Rayagada, Gajapati, Ganjam, Phulbani, Sambalpur, Deogarh, Mayurbhanj, Balasore, Keonjhar, Nawarangapur and Bolangir.

15 EEs of R & B Divisions, Phulbani, Keonjhar, Sambalpur, Rairangapur and Bhanjanagar.

was not tenable in view of the fact that rules did not permit transfer of unutilised funds to Civil Deposit accounts to facilitate expenditure later on.

### *3.1.12 Suspect payment and undue benefit to a contractor*

**Reconstruction of the road work through other agencies by unjustified closure of the existing agreement resulted in undue benefit of Rs 44.05 lakh to the contractor. Besides, the payment of Rs 74 lakh to the contractor was suspect.**

The Executive Engineer (EE), Balasore (R&B) Division awarded the balance of the work of improvement to Jaleswar- Chandaneswar road from RD 12 to 20 km (February 2008) to a contractor for Rs 4.50 crore for completion by January 2009.

During the course of execution of the works, the black topped crust and the road flanks were washed out in the floods of June 2008 resulting in complete disruption of traffic on the road. The Chief Engineer (CE), inspecting the road in August 2008, directed undertaking repairs and reconstruction of the road with improved specification. As the contractor expressed inability to execute the revised scope of the work, three estimates for Rs 5.20 crore were sanctioned (November 2008) by the Superintending Engineer for reconstruction of the road with revised scope.

Test check (March 2008/May 2009) of the records disclosed that the defaulting contractor was paid Rs 84 lakh for the works executed up to June 2008. Even after the executed works were washed away and no further works were executed by the contractor after June 2008, as stated by him in October 2008, the Junior Engineer incorporated (October-November 2008) measurements in token of execution of further works for Rs 74 lakh and the bill for the gross value of Rs 1.58 crore was paid to the contractor in December 2008. The payment of Rs 74 lakh was thus fraudulent. Further, although the agreement provided that damages caused by natural calamities were to be redone by the contractor at his own cost, the repairs for restoration of traffic on the road were got executed (July-August 2008) through other agencies with expenditure of Rs 44.05 lakh. The CE closed (January 2009) the agreement without penalty and awarded the reconstruction works on fresh tender to two other contractors under three agreements at Rs 5.12 crore for completion by October 2009.

Thus the reconstruction of the road work through other agencies resulted in undue benefit of Rs 44.05 lakh to the contractor. Besides, Rs 74 lakh paid to the contractor was doubtful.

The Government stated (June 2009) that since the contractor was unwilling to execute the revised work, the CE closed the contract. It also stated that the payment of Rs 74 lakh for restoration of flood damaged works done by the contractor was not fraudulent and no undue benefit was extended to the contractor by payment of Rs 44.05 lakh to other agencies for reconstruction of the road. The reply was not tenable since as per the records no further work was executed by the contractor under the agreement after June 2008 and the repair and restoration of the damaged works were the responsibility of the contractor.

## *3.2 Audit against propriety/expenditure without justification*

Authorisation of expenditure from Public funds has to be guided by the principles of propriety and efficiency of public expenditure. Authorities empowered to incur expenditure are expected to enforce the same vigilance as a person of ordinary prudence, would exercise in respect of his money and should enforce financial order and strict economy at every step. Audit has detected instances of impropriety and extra expenditure, some of which are discussed below:

***FISHERIES AND ANIMAL RESOURCES DEVELOPMENT DEPARTMENT***

### *3.2.1 Avoidable extra expenditure in purchase of Bulk Milk Coolers*

**Purchase of Bulk Milk Coolers by OMFED from the fifth lowest bidder on negotiation basis led to an extra expenditure of Rs 35.89 lakh.**

As per Orissa General Financial Rules, all store purchases are to be regulated in strict conformity with the stores rules which *inter alia* provide for purchases to be made in most economical manner by observing sealed tender procedure etc. Normally, the offer of lowest valid tenderer (L1) is to be accepted.

Scrutiny (February 2009) of records of Orissa State Co-operative Milk Producers Federation Limited (OMFED) revealed that OMFED invited (October 2004) tenders for purchase of Bulk Milk Coolers (BMC) of 1000 litre capacity to implement the scheme ‘Strengthening Infrastructure for Quality and Clean Milk production’. The tender for purchase of BMC of 1000 litre was finalised in December 2004 and lowest offer of Rs 2.56 lakh per 1000 litre BMC was approved by the tender committee. But before placing purchase orders, at the request (17 January 2005) of General Manager, Cuttack Milk Union for purchasing imported BMCs, the tender committee decided (February 2005) to procure 1000 litre capacity imported BMCs from the fifth lowest bidder on negotiation basis for Cuttack Milk Union on the ground that all the existing coolers of the Union were imported ones. OMFED procured 49 such coolers from the fifth lowest bidder at higher cost of Rs 35.89 lakh[16] for 12 Milk Unions of the State. Purchase of BMCs at higher price from the fifth lowest bidder without following the codal provisions led to extra expenditure of Rs 35.89 lakh which was avoidable.

On being pointed out, the Government stated (September 2009) that although the purchase of imported BMC has not been mentioned in the tender notice, the same has been reflected in the minutes of the tender committee meeting dated

[16] {Rs 332646.60 (L5 price) - Rs 256460.00 (L1 price) } X 47 + {Rs 260796 (L5 price) - Rs256460 (L1 price) } X 2 = Rs 35.89 lakh

10 February 2005. The reply is not relevant as the tenders of October 2004 did not contain specific mention of imported BMCs and no tenderer had quoted for imported item including fifth lowest bidder.

### *HOUSING AND URBAN DEVELOPMENT DEPARTMENT*

### *3.2.2 Unfruitful expenditure on piped water supply project*

**Non-commissioning of the piped water supply to Rairangpur Municipality led to unfruitful expenditure of Rs 5.65 crore.**

The Government administratively approved (June 2003) augmentation of water supply to Rairangpur Municipality at an estimated cost of Rs 5.83 crore under Accelerated Urban Water Supply Programme (AUWSP) sponsored by Government of India (GoI) by drawing water from the Khadkhai Irrigation Project reservoir at Suleipat. The project was targeted for commissioning by 2005. As the AUWSP was scheduled for closure in 2006-07, GoI stipulated that in case the project was not completed by April 2007, no further funds would be provided and the amount already released was to be refunded with penal interest.

The project commenced from February 2004 and the major components like the water pumping systems, the underground and overhead reservoirs and raw water conveying main for four kilometers were completed by July 2006. When the laying of the remaining 12 km long conveying main pipeline was about to be taken up, the local villagers protested (July 2006) and did not allow further execution on apprehension that the water in the reservoir would not be adequate to irrigate their agricultural lands after release of water for the drinking water scheme. Further works on the project were not allowed to be executed as of January 2009 calling for refund of the central share of Rs 2.92 crore with penal interest. Thus, the expenditure of Rs 5.65 crore on the project remained unfruitful as of January 2009 including cost of 11,816 metres of ductile iron pipes for Rs 1.34 crore purchased for the raw water main pipeline.

Test check (December 2007) of the records of the Public Health and Irrigation Divisions at Baripada disclosed that though the Khadkhai Irrigation Project had the designed irrigation potential of 7990 ha, the certified irrigated area since 2002-03 was 6069 ha which indicated inadequate availability of water at the source. Thus, commencement of the work on the piped drinking water supply project without proper study of availability of water at the source resulted in suspension of the works due to public agitation and rendered the expenditure of Rs 5.65 crore unfruitful. Besides, the people of Rairangpur town were deprived of the much needed drinking water.

The Government stated (April 2009) that the existing infrastructure could be utilised by changing the source to an intake point 12.5 km downstream from the reservoir where there was ponding of water and the ductile iron pipes could be diverted to other works. The reply was not tenable since the matter was still under consideration of the Government (November 2009).

***RURAL DEVELOPMENT DEPARTMENT***

### *3.2.3 Unfruitful expenditure on rural roads*

**Substandard execution and non-completion of four rural roads led to unfruitful expenditure of Rs 2.12 crore.**

Construction of four rural roads[17] covering 14.11 km under Pradhan Mantri Gram Sadak Yojana (PMGSY) was awarded (February 2006) to a contractor under two agreements at a cost of Rs 3.03 crore to be completed by November 2006. The agreements provided that in case of failure to complete the works as per the specifications within the stipulated time, the agreements were to be terminated with imposition of penalty of 20 *per cent* of the value of the leftover works.

Test check (November 2008) of the records of Rural Works Division, Bargarh disclosed that the progress of the work was slow and disproportionate to the completion schedule. Further, the works executed by the contractor in two roads (NH 6 at Kamco Chhak to Srigida and Dasmile Chhak to Jatla) were sub-standard due to use of poor quality materials. Despite issue of notices, the contractor did not rectify the defective works and finally abandoned all the works in a haphazard condition in July 2007. He was paid Rs 2.12 crore for the works executed. The agreements were neither rescinded with penalty nor were the balance of the works got executed through any other agency as of January 2009. As a result, the entire black topped surface of all the four roads became worn out and the berms were washed out rendering the expenditure of Rs 2.12 crore incurred on the works unfruitful.

The Executive Engineer stated (November 2008) that the agreements would be processed for closure as per the relevant clauses and the damaged portion would be redone at the cost of the agency. The agreements have however not been closed and the damaged road portion remained unrectified as of November 2009.

The matter was reported to the Government in January 2009; their reply has not been received (November 2009).

### *3.2.4 Unfruitful expenditure on rural roads*

**Excess payment to a contractor and subsequent steps for recovery led to abandonment of the work resulting in unfruitful expenditure of Rs 1.26 crore.**

For providing all weather road connectivity to five rural habitations, improvement of two[18] roads alongwith maintenance thereof was awarded (January 2006) to a contractor at a cost of Rs 2.77 crore under Pradhan Mantri Gram Sadak Yojana (PMGSY) for completion by September 2006. After

[17] Dasmile Chhak to Jatla, NH 6 to Kendumundi, NH 6 at Kamco Chhak to Srigida and PWD road to Birmal.

[18] (A) - PS Road to Dengini and (B) - RD Road to Jeera - Debirisingi

executing the works valuing Rs 1.26 crore, the contractor abandoned the works midway in September 2007.

Test check (November 2008) of the records of Rural Works Division, Rayagada disclosed that the actual lead for obtaining moorum for execution of granular sub-base (GSB) and water bound macadam (WBM) items of the road 'A' was 5 km. The Chief Engineer (CE), however, sanctioned the detailed project report (DPR) in September 2005 for Rs 2.56 crore providing lead of 45 kms for obtaining moorum for the works. The work was awarded (January 2006) to the contractor with premium of 8.05 *per cent* over the estimate. The rates for the GSB and WBM items were inbuilt with 45 km lead for obtaining moorum. The contractor received payment of Rs 97.28 lakh till January 2007 for both the road works including GSB/WBM items of Road - 'A' at the agreement rates. After noticing the adoption of excess lead in the unit rates of Road – 'A', the EE withheld Rs 20.86 lakh from the dues of the contractor and referred (December 2007) the matter to the CE for a decision. The contract was neither terminated nor the balance works executed as of November 2009.

**RD road to Debirisingi**

**PS road to Dengini**

Physical inspection of the roads by audit in February 2009 disclosed that the roads were in a deplorable condition with metals/aggregates floating on the road surfaces along with large pot holes and depressions.

Thus, the erroneous adoption of excess lead in the agreement and the subsequent corrective measures of the department led to abandonment of the works midway by the contractor leaving the roads in a deplorable condition. The all weather connectivity to the habitations was not established as of November 2009 rendering the expenditure of Rs 1.26 crore incurred on the roads unfruitful and non-achievement of the objective of PMGSY. No responsibility was fixed for the erroneous computation of the item rates (November 2009).

The matter was reported to the Government in January 2009; their reply has not been received (November 2009).

### *3.2.5 Extra cost and non-recovery of penalty from a defaulting contractor*

**Non-completion of works under Pradhan Mantri Gram Sadak Yojana by a contractor involved extra cost of Rs 6.03 crore. Despite that, penalty for Rs 1.74 crore was not recovered from the defaulting contractor.**

In order to provide all weather road connectivity to 12 habitations under the Pradhan Mantri Gram Sadak Yojana, the work of construction and maintenance of nine[19] rural roads was awarded (April 2005-January 2006) to a contractor under two agreements at a total cost of Rs 10.66 crore for completion by January-December 2006. Despite receiving (April 2005-March 2006) mobilisation advance of Rs 47 lakh, the contractor did not deploy required men and machinery for the work and was slow in execution. The contractor finally abandoned the works in May-July 2006 by which time he was paid Rs 1.96 crore for 18.38 *per cent* of the works executed. Due to default in execution, the Government terminated the contracts in February 2008 and awarded (January 2009) the balance of the works after re-tender to four other contractors at a total cost of Rs 14.73 crore for completion by December 2009.

Test check (February 2009) of records of the Executive Engineer (EE), Rural Works Division, Bhawanipatna disclosed that of the Rs 1.96 crore paid to the defaulting contractor, Rs 37.27 lakh pertained to execution of sub-standard works which were ordered for dismantlement. Neither were the sub-standard works rectified nor was any penalty imposed for the faulty execution. Instead, the sub-standard items of works were measured and paid to the contractor.

Further, as per the conditions of the agreements, in case of termination of the contracts due to default in execution, 20 *per cent* of the value of works not completed by the contractor was to be realised as penalty. Accordingly, Rs 1.74 crore was recoverable from the defaulting contractor towards penalty. Against the above, his dues of Rs 17 lakh on account of security and withheld amount was available with the EE for possible adjustment. Despite lapse of more than two and a half years from the date of abandonment of the works, no action was taken (November 2009) to forfeit the available dues and to realise the remaining Government dues of Rs 1.57 crore.

Thus, non-completion of the works resulted in extra cost of Rs 6.03 crore due to re-tender apart from delaying the establishment of all weather road connectivity to the habitations. Besides, penalty of Rs 1.74 crore was not recovered from the defaulting contractor.

The matter was reported to the Government in March 2009; their reply has not been received (November 2009).

### *3.2.6 Avoidable expenditure on rural roads*

**Although execution of Water Bound Macadam by mechanical means was more economical, execution of the item by manual means for construction of the roads resulted in avoidable extra expenditure of Rs 8.31 crore.**

The Rural Roads Manual of the Government of India (GoI) prescribed that the sub-base of the roads constructed under the Pradhan Mantri Gram Sadak Yojana (PMGSY) was to be executed providing Water Bound Macadam (WBM) spread uniformly and evenly upon the base preferably by mechanical means so as to minimise their manipulation by hand.

[19] (i) RD road-Sirjapati (ii) RD road – Dongapat (iii) RD road-Kuten (iv) PWD road-Siripur (v) Rupra- Palsapada (vi) Artal-Dumeria (vii) Parelsinga-Balsi (viii) Kadamguda-Panimunda - Ulisirka-Narla (ix) Kadamguda-Sikerkupa

Test check of the records of Chief Engineer, Rural Works disclosed (February 2009) that though the execution of the WBM item by mechanical means was cheaper by Rs 18.99 per cum compared to execution by manual means, the Executive Engineers worked out the item rates providing for execution by manual means. The National Rural Roads Development Agency, co-coordinating / monitoring the implementation of PMGSY at the GoI level, observed (September 2008) that the rate for WBM was high due to adoption of execution by manual means and directed for providing execution of the item by mechanical means. Consequently, from phase VII onwards, the item specification provided for execution by mechanical means. But execution of the WBM items by manual means in the 981 packages already finalised up to phase VI involved an extra expenditure of Rs 8.31 crore.

The Government stated (July 2009) that though execution of WBM works by manual means was costlier, it was adopted to provide employment to rural labour. This was not tenable since generation of rural employment was not the objective of PMGSY.

### *SCHOOL AND MASS EDUCATION DEPARTMENT*

### *3.2.7 Wasteful expenditure on incomplete school buildings*

**Twenty nine school buildings undertaken for construction during 2003-06 under RSB programme remained incomplete as the dispute between the Headmasters and the VECs remained unresolved and these abandoned works could not be resumed after cancellation of work orders which led to an unfruitful expenditure of Rs 81.30 lakh.**

Reconstruction of School Building Programme (RSBP) with DFID[20] assistance was taken up (October 2003) by Orissa Primary Education Programme Authority (OPEPA) for providing school buildings along with ancillary facilities such as drinking water, toilets, electricity and child friendly elements. Under the programme, OPEPA provided (October 2003 to May 2006) funds to the Village Education Committees (VECs) as advance for construction of school buildings in 13 coastal districts affected by the super cyclone 1999.

Scrutiny (March 2009) of records of the State Project Director (SPD), OPEPA revealed that 29 buildings taken up for construction under the programme during 2003-07 remained incomplete after incurring an expenditure of Rs 81.30 lakh due to disputes between the Headmasters and respective VECs remaining unsolved (18 works), land disputes (two works) and abandonment of the works as per orders of higher authorities (nine works). The prospect of buildings lying incomplete seem to be remote as the programme has since been discontinued from March 2008. As such investment of Rs 81.30 lakh made on these buildings rendered wasteful. Besides the unutilised amount of Rs 36.98 lakh out of total advance of Rs 1.18 crore paid to the VECs during 2003-06 was also lying unadjusted with Head Masters/VECs as of March 2009.

[20] Department for International Development

On this being pointed out, the SPD, OPEPA stated that steps would be taken to adjust the advances paid to VECs and close the account. The reply did not explain the time schedule for completion of incomplete works and put the assets for intended use.

The matter was referred to Government in May 2009, the reply had not been received (October 2009).

***WATER RESOURCES DEPARTMENT***

### *3.2.8 Extra payment to a corporation*

**Acceptance of higher offer of Orissa Construction Corporation for de-silting/ dredging of debris involved extra payment of Rs 7.51 crore.**

As per the procedure prescribed (June 2002) by the Government, for execution of allotted works through Orissa Construction Corporation Limited (OCC), the corporation was to quote the rates on the basis of fair assessment of the market rates.

De-silting and dredging works in the leading channel between the head regulator of Sasan Main Canal and Hirakud Reservoir were awarded (April 2008) to OCC at Rs 37.18 crore for completion by October 2008. The corporation was paid Rs 6.87 crore for the work executed till July 2008.

Test check of the records of the Executive Engineer, Main Dam Division, Burla disclosed that the corporation quoted (March 2008) Rs 248.60 per cum for de-silting/dredging work, adopting the capital cost of dredgers and pipelines as Rs 10.75 crore without any supporting documentary evidence or market analysis to justify the rate. The Indian Institute of Technology (IIT), Chennai which was the consultant for such type of works in the State, however, worked out (January 2008) the rate of Rs 168.85 per cum adopting the capital cost of dredger and pipelines as Rs 6 crore in its analysis. The rate recommended by the IIT was based on the market rates for similar nature of de-silting / dredging works. Such works were also executed in the State during the same period through contractors at rates varying between Rs 145 and Rs 178 per cum. Despite the unreasonableness of the rate quoted by OCC, the Government accepted the offer of OCC resulting in extra payment of Rs 7.51 crore to the corporation.

The Government stated (May 2009) that on the basis of fair assessment of market rates, the capital cost of the dredger specifically suitable for dredging works inside Hirakud reservoir was finalised. The reply was not tenable since the rates derived by the IIT, Chennai were based on rates prevailing in different States for similar nature of dredging works, but the OCC offered rate was not supported by any documentary evidence or market analysis.

### *3.2.9 Unfruitful expenditure on a Minor Irrigation Project*

**Non-supply of water for irrigation from a Minor Irrigation Project rendered the expenditure of Rs 5.34 crore spent on the project unfruitful.**

The Katangnullah Minor Irrigation Project was approved (1998-99) for loan assistance of Rs 1.96 crore from NABARD under Rural Infrastructure Development Fund (RIDF - III) for completion at a cost of Rs 2.18 crore including State share for upliftment of tribal villages.

Test check (March 2009) of the records of the Executive Engineer (EE), Minor Irrigation Division, Sundargarh disclosed that though the head works were completed in May 2000 at a cost of Rs 2.45 crore, the canal system taken up in patches was incomplete till closure of the loan in March 2004. The EE submitted (March 2004) the project completion report for an expenditure of Rs 4.31 crore with the canal system remaining incomplete at various stages due to delay in getting possession of the land free from unauthorised encroachments along the canal alignment. Further expenditure of Rs 1.03 crore was incurred on the project under State Plan till February 2009 for execution of the incomplete canals.

Physical inspection (July 2009) of the site by audit along with the Engineer-in-charge of execution disclosed that the main canal for 90 metres was not excavated to the designed section. Further, the canals excavated earlier were silted up beyond recognition, requiring resection/further execution of work for providing irrigation.

**Incomplete branch canal system**

Thus, despite completion of the head works of the project for the last nine years, no irrigation could be provided due to non-completion of the canal system rendering the expenditure of Rs 5.34 crore spent on the project unfruitful. Besides there was cost overrun of Rs 3.16 crore.

The Government stated (May 2009) that the project was completed and ready for providing irrigation from the kharif season of 2009-10. This was not factually correct as observed during the physical inspection of the site by audit.

### *3.2.10 Avoidable flood damage repairs and blockage of funds*

**Non-commencement of drainage congestion remedial work despite advance payment to the agency resulted in blockage of Rs 5.77 crore with loss of interest of Rs 1.04 crore. Besides, there were avoidable flood damage repairs for Rs 2.04 crore.**

Rivers Daya, Bhargavi and their tributaries which outfall into Chilika lagoon had got silted over a period of time. This choked the normal discharge from the rivers into the lagoon leading to flooding of vast cultivable lands.

Although the drainage congestion was a critical issue, only after one year of the approval of the project by the Government in March 2007, sectioning/dredging of river Luna (9 km) and river Daya (5.60 km) was allotted (March 2008) to Orissa Construction Corporation Limited (OCC) at a cost of Rs 7.69 crore under two agreements at 37.57 *per cent* excess over the estimated cost of Rs 5.59 crore for completion by October 2008.

The agreements provided that payment was to be made based on the output achieved in dredging. There was no provision in the agreements for any advance payment. Test check (January 2009) of the records of Drainage Division, Bhubaneswar, however, disclosed that immediately after execution of the agreements on 29 March 2008, the Executive Engineer (EE) paid Rs 5.77 crore on 31 March 2008 (75 *per cent* of the work value) to the Corporation without execution of any work, just to utilise the letter of credit. Even after receiving such irregular advance, OCC did not commence the work as of April 2009. As a result, during the monsoon in 2008, more than 14000 ha of cultivable land in the Daya Bhargavi Doab were water logged necessitating flood damage repairs at an estimated cost of Rs 2.04 crore. No action was initiated against the Corporation for the default.

Thus, non-commencement of the drainage congestion remedial measures even after receiving advance payment led to blockage of Rs 5.77 crore with loss of interest of Rs 1.04 crore as of March 2009. Non-execution of the work contributed to water logging during the rainy season necessitating extra liability of Rs 2.04 crore to be incurred for flood damage works.

The Government stated (April 2009) that OCC could not locate agencies having dredgers despite its best efforts and the advance payment to the Corporation was as per payment schedule approved by the CE. It was further stated that the flood damage was due to havoc created by floods and the investment had positive results in combating water logging problems. The reply is not tenable since OCC failed to arrange dredgers throughout the contract period despite the work being urgent in nature. Payment of such huge works advance to OCC without provision in the contract and merely to utilise the LoC was irregular.

## 3.3 Persistent and Pervasive Irregularities

An irregularity is considered persistent if it occurs year after year. It becomes pervasive when it is prevailing in the entire system. Recurrence of irregularities despite being pointed in earlier audits is not only indicative of non-seriousness on the part of the executive but is also an indication of lack of effective monitoring. This, in turn, encourages willful deviations from observance of rules/regulations and results weakening of the administrative structure. Some of the cases reported in audit about persistent irregularities have been discussed below.

***WATER RESOURCES EPARTMENT***

### *3.3.1 Misappropriation of subsidy on rice*

**Subsidised rice of 2250 MT was shown as issued to labourers through contractors long after completion of the works indicating suspected misappropriation of subsidy of Rs 1.64 crore**

*As per the norms of the Food for Work (FFW) programme, rice supplied by Government of India (GoI) was to be distributed directly to the labourers at subsidised rates as part of wages and was not to be used for non-wage purposes. To ensure that the benefit of subsidy reached the beneficiaries, the rice was to be supplied to the labourers at the worksite along with cash component on Nominal Muster Rolls (NMR) in the presence of local Gram Panchayat representatives. As per Rule 3 of Appendix XIV Orissa Public Works Department Code (Vol. II), NMR forms were to be numbered, registered and issued by the EE for disbursement of wages to the labourers deployed for particular work. A certificate was to be endorsed in each form by the Disbursing Officer with regards to identification of the labourer and actual payment of wages. The EE was to monitor the progress of works ensuring proper utilisation of the rice allotted and furnish an utilisation certificate (UC).*

*Mention was made vide paragraphs 4.1.1, 4.1.1 and 4.1.2 and 4.1.1 of the Reports of the Comptroller and Auditor General of India for the years ended 31 March 2006, 2007 and 2008 respectively regarding misappropriation of subsidy on rice.*

*Further check of records revealed that the Executive Engineer (EE), Drainage Division, Chandikhol commenced and completed renovation of 16 drainage clearance works in June 2005, five other such works in May 2006 and another five in June 2006 in Jajpur, Kendrapara and Cuttack districts involving execution of 7.17 lakh cubic meter of earth work for Rs 1.98 crore under 414 split up agreements through 49 contractors, limiting value of each agreement within Rs 50000 finalised locally at his level without obtaining competitive bids. The EE lifted 2250 MT of rice from Food Corporation of India (FCI), Cuttack in 10 phases during May 2006 and showed (May - July 2006) the entire quantity as issued to the contractors engaged for the renovation of drainages reportedly completed in June 2005, May / June 2006.*

*NMR forms of five works were made available to audit in support of evidence of distribution of rice to the labourers. Audit noted that these documents were suspect as they were neither issued by the EE nor were registered/authenticated* *and also not certified by the Disbursing Officer regarding identification of the labourers and payment of actual wage/rice components. They did not contain the dates of issue of rice to the labourers. Further, the dates of actual commencement and completion of two of the five works were different from those shown in the NMR forms. Besides, in 15 cases, persons other than the labourers had received the wages /rice and in 36 cases no acknowledgements were obtained from the labourers. No local representative was present at the time of distribution of rice to the labourers. Further, there was remote possibility of such large number of labourers being available at site for distribution of rice after one to 12 months of completion of the works. The EE, however, submitted (July 2006) the UCs reporting utilisation of the full quantity of rice by distribution to the 3.76 lakh labourers deployed in the works for 25 days in June 2005 and 24 days during May/June 2006. He further certified that the UCs were issued after verification of the stock registers and being satisfied that the physical and financial performances were as per the parameters prescribed under the norms of the programme.*

*Thus, the issue of rice to the labourers not being supported by the procedure of rules and proper documentary proof was suspect and could be fraudulent. This led to misappropriation of the Government subsidy of Rs 1.64 crore on 2250 MT of rice.*

*The Government stated (May 2009) that the release of rice was late which was beyond the control of the EE and that the deficiencies in the distribution of rice were unavoidable and due to procedural failure. This was not tenable in view of the following:*

- *Such a large number of labourers were not supposed to be available at site for distribution of the rice after one to 12 months of completion of the works.*
- *The NMR forms were not registered / authenticated and did not contain the dates of issue of rice to the labourers.*
- *There was no local representative present at the time of distribution of rice.*
- *In response to an audit query the EE stated (April 2009) that no muster rolls indicating deployment of labourers in the works were available in his office.*

*Audit had raised this issue several times, but the irregularity is still persisting. The Government should take steps to arrest this problem by ensuring strict compliance with the rules and procedures so that the poverty alleviation programme benefits the least advantaged persons in society.*

### *3.3.2 Unfruitful expenditure and extra cost on an Irrigation Project*

**Mahanadi Chitrotpala Island Irrigation Project approved for providing irrigation to 15342 ha of cultivable command area remained incomplete rendering the expenditure of Rs 221 crore unfruitful. Besides, there was extra cost of Rs 8.96 crore for renovation of the abandoned works.**

Mahanadi Chitrotpala Island Irrigation Project, a major irrigation project, was approved (May 1989) by the Planning Commission for Rs 39.94 crore for providing irrigation to 19542 ha of cultivable command area (CCA). The works were started in 1988-89 under the State Plan and expenditure of Rs 45.81 crore was incurred on the project till 1995-96. The project was included under the Orissa Water Resources Consolidation Project (OWRCP-World Bank Project) in September 1995 for completion at an estimated cost of Rs 124.72 crore by March 2003 with reduced scope of 15342 ha of CCA. Undue benefits extended to contractors, inadmissible payments and default in execution by the contractors in two canals were highlighted in the Reports of the Comptroller and Auditor General of India vide paras 3.12.2, 4.2.1 and 4.4.3 for the years ended 31 March 2002, 2004 and 2005 respectively.

Damaged Manaour minor of Paika Rt distributary

**Silted up Olagada sub-minor of Mahanadi left distributary**

Further examination of the records of the Executive Engineer (EE), Mahanadi Barrage Division, Cuttack disclosed that till closure of the OWRCP in 2004, additional expenditure of Rs 174.51 crore was incurred on the project. Canal excavation was executed with gaps and missing links in the main canal while minors/sub-minors for 77.30 km remained incomplete due to non-acquisition of land and default in execution by the contractors. The works on the project were suspended from 2004 with the closure of the World Bank assistance. Though the department claimed to have created capacity of irrigating 7287 ha of CCA, no assured irrigation was provided as of April 2009 due to the distribution system remaining incomplete.

Further, due to abandonment of the project works and non-maintenance of the completed works, the canals excavated were completely damaged, silted up and the embankments flattened requiring renovation. The EE spent Rs 69 lakh on renovation works between 2007 and 2009 and placed (April 2009) requisition for further funds of Rs 8.27 crore for the renovation works which was still to be sanctioned as of April 2009.

Thus, the project commenced in 1988-89 at a cost of Rs 39.94 crore for providing irrigation to 15342 ha remained incomplete even after 20 years with only 63 *per cent* physical progress despite incurring an expenditure of Rs 221 crore on the project as of March 2009. Abandonment without maintenance of the assets created, rendered the canals unsuitable for carrying the designed discharge of water warranting avoidable extra cost of Rs 8.96 crore on removal of silt and re-excavating the canals. The projected benefit cost ratio (BCR) of 2.14 had declined to 1.55 and was likely to decrease further with increase in cost of the project due to additional cost involved in renovation of the damaged canals. The intended benefits from the project could not be achieved even after lapse of five years.

The CE, Drainage, Cuttack stated (June 2009) that works on the canal system remained incomplete due to financial closure of OWRCP and the executed canals had lost their designed shape due to non-maintenance and therefore could not provide irrigation in the existing condition of the canals. The leftover works have been proposed for completion under Asian Development Bank loan. The fact however, remains that failure to complete the project by March 2003 resulted in non-achievement of the objective of providing irrigation, rendering the expenditure unfruitful.

The matter was referred to the Government in April 2009; their reply has not been received (November 2009).

## *FISHERIES AND ANIMAL RESOURCES DEVELOPMENT DEPARTMENT*

### *3.3.3 Theft of Government property*

**Delay in disposal of the 'Jagatjore-Banapada shrimp culture project' lying defunct since 2004-05 led to loss of Government property worth Rs 2.54 crore due to theft. Further expenditure of Rs 41.83 lakh was incurred towards pay and allowances of the idle staff.**

Mention was made in paragraph 3.12.4 of C&AGs Audit Report for the year ended 31 March 2002 on World Bank Aided Shrimp and Fish Culture Project on failure of shrimp production. The 'Jagatjore-Banapada shrimp culture project', of Kendrapara district was established during 1994-2000 at a cost of Rs 26.41 crore with the objective to increase shrimp production in the State. The project suffered a serious set back due to attack of white spot disease and became defunct since 2004-05.

Scrutiny (June 2008 & April 2009) of the records of Director of Fisheries, Orissa, Cuttack and District Fisheries Officer, Kendrapara revealed that though the Government decided (September 2004 and June 2005) to sell out the project, but decision for valuation of assets by an agency was taken only in March 2007. The Director of Fisheries (March 2007) was asked to invite tenders and finalise the Terms of Reference (TOR) with the approval of the Government. The appointment of the consultancy firm/agency for valuation of the assets was yet to be materialised (April 2009).

In the meanwhile electro-mechanical accessories valued Rs 34.30 lakh and major parts of installations worth Rs 2.20 crore were stolen. The police was intimated regarding theft of assets from time to time between December 2003 and March 2008, but no details as to registration of the cases, final report of police were available. Also no departmental enquiry was conducted to ascertain the circumstances leading to such theft. Further, expenditure of Rs 41.83 lakh was also incurred during 2005-09 towards pay and allowances of the staff of the defunct project.

Thus, delay in appointment of consultancy firm for valuation of assets at Government level and finalisation of the terms of reference resulted in loss of Government property worth of Rs 2.54 crore.

The matter was reported to Government in April 2009; the reply had not been received (October 2009).

## *PANCHAYATI RAJ DEPARTMENT*

### *3.3.4 Unfruitful expenditure*

**Due to lack of proper planning and monitoring, 112 projects taken up for execution in five Panchayat Samities under different schemes remained incomplete which led to an unfruitful investment of Rs 1.92 crore.**

Government of India (GoI) and the State Government provide funds under different programmes/schemes like Sampoorna Grameen Rozgar Yojana (SGRY)/National Food For Work Programme (NFFWP)/Member of Parliament Local Area Development Scheme (MPLADS)/Member of Legislative Asssembly Local Area Development Scheme (MLALADS) for ensuring wage-employment, infrastructure development and food security in the rural areas and creation of need based economic and community assets. For this purpose those works which can be completed in a period of year or two would be selected and there should be proper planning and monitoring for effective implementation and timely completion of the projects.

Scrutiny (September 2007 to March 2008) of records of five Panchayat Samities[21] and information collected later (March-April 2009) revealed that 112 projects at an estimated cost of Rs 2.96 crore taken up for execution under SGRY/NFFWP/ MPLAD/MLALAD schemes during 2002-06 remained incomplete so far (March 2009) even after incurring an expenditure of Rs 1.92 crore . As the assets created could not be gainfully utilised, the expenditure of Rs 1.92 crore incurred remained unfruitful. Monitoring and inspection of these works through regular visits to worksites was completely missing.

The BDOs of Panchayat Samities stated (March-April 2009) that improper monitoring of the work, difference of opinion of the public and consequential dispute and shortage of funds were the reason for non-completion of the projects. The replies were not acceptable as no records in support for disputes among public were produced to audit and the verification of cash book/PL account revealed availability of required funds.

[21] Panchayat Samities : (i) Tangi Choudwar ( Dist: Cuttack), (ii) Reamal (Dist: Deogarh), (iii) Barpali (Dist: Bargarh), (iv) Tureikela (Dist: Bolangir), (v) Gudvella (Dist: Bolangir)

The matter was reported to Government in April 2009; the reply had not been received (October 2009).

### *SCHOOL AND MASS EDUCATION DEPARTMENT*

### *3.3.5 Misappropriation of cash*

**Non-accountal of amount withdrawn from Non-Government and Government Account and non adherence to procedures regarding maintenance of supporting vouchers and stock register led to misappropriation of Rs 2.64 lakh.**

*Orissa Treasury Rules provide that the Head of the Office or some responsible subordinate other than the writer of the cash book should verify the totalling of the cash book and initial it as correct. At the end of each month, the head of the office should verify the cash balance and record a signed and dated certificate to that effect. Where a Government officer deals with both Government and non-Government money in his official capacity, the Non-Government money and transactions should be accounted for in a separate set of books and kept entirely out of Government Account. Rules further provide that a Government Officer entrusted with the payment of money shall obtain for each payment he makes, a voucher setting forth full and clear particulars of the claim and all information necessary for its proper classification and identification in the accounts. Similarly, Orissa General Financial Rules also provide that the Officer receiving the materials should record details in the appropriate stock register after verification of quality and quantity received.*

*Records of the Headmaster, Secondary Training School, Parlakhemundi revealed (March 2008 and April 2009) that, the school maintained a postal savings bank account for crediting moneys collected from students towards fee for games, library, laboratory, work-shops, caution money etc. The Ex-Headmaster who expired on 26 June 2006 withdrew Rs 1.81 lakh from the said Non-Government Account and Rs 2500 from Government Account between November 2005 and May 2006. Out of these drawals, Rs 1.30 lakh was not accounted for in the cash books and Rs 0.51 lakh was charged to cash books without keeping supporting vouchers. Further the withdrawal of Rs 0.35 lakh was made, while the HM was availing summer vaccation ( 1 May 2006 to 23 June 2006) and Assistant Teacher was holding charge of HM. The in-charge HM however, intimated (July 2006) to the Government regarding non-accountal and suspected misappropriation of the money. District Inspector of Schools, Paralakhemundi after conducting Special Audit suggested (May 2009) for recovery of the amount from the dues payable to dependants of the deceased Head Master.*

*In another case the Headmaster had withdrawn Rs 1.84 lakh from the non-Government account during October 2006 to May 2007 to meet office expenses and purchase of stores. The above amount was accounted for in the cash book but vouchers in support of expenditure of Rs 0.31 lakh were not made available. Further, an expenditure of Rs 0.46 lakh booked against purchase of sports materials and agriculture equipments during March-April 2007 appeared doubtful in absence of stock entries and physical availability of the stores.*

*Besides, vouchers for Rs 0.06 lakh, were neither passed for payment by the Headmaster nor stock entry recorded. This led to suspected misappropriation of a further amount of Rs 0.83 lakh. The Headmaster confirmed (April 2009) the facts.*

*The Government stated (June 2009) that the Director, TE&SCERT[22] had enquired both the cases in June 2009 and suggested for recovery of the amount from the Death-cum-Retirement Gratuity of late HM in the first case and that in the second case the Director TE&SCERT was instructed to take necessary action for recovery of amount from the HM responsible for misappropriation.*

## 3.4 Failure of oversight/governance

The Government has an obligation to improve the quality of life of the people for which it works towards fulfillment of certain goals in area of health, education, development and upgradation of infrastructure and public services etc. However, Audit noticed instances where funds released by Government for creating public assets for the benefit of the community remained unutilised/blocked and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. A few such cases have been discussed below.

***HEALTH AND FAMILY WELFARE DEPARTMENT***

### *3.4.1 Abnormal delay in setting up of the Trauma Care Centre*

**Objective of providing emergent care facilities to road accident victims remained unfulfilled due to delay in setting up trauma care centre at Burla**

In order to upgrade and strengthen emergency care facilities in selected State Government Hospitals located on National Highways for providing resuscitative measures to road accident victims, GoI sanctioned and paid (May - June 2006) grants- in - aid of Rs 1.50 crore to the Superintendent, VSS Medical College and Hospital, Burla for setting up a trauma care centre at the attached Hospital of the said medical college. Funds sanctioned were to be spent on construction of building (Rs 63 lakh), purchase of equipment and furniture (Rs 66 lakh), ambulance fitted with required equipments (Rs 20 lakh) and communication system (Rupees one lakh). The civil works was to be completed and funds were to be utilised within 12 months from the date of release of funds by GoI i.e. by June 2007.

Scrutiny of records (March 2009) of the Superintendent revealed that due to non-availability of land, the construction of the centre was planned above the ground floor of the proposed casualty department. The Executive Engineer, R&B Division, Bargarh (EE) was requested (August 2006) to prepare the plan and estimate of the proposed building which was submitted by the EE only in November 2007. Administrative approval of the plan and estimates for Rs 68.85 lakh was accorded by the Director, Medical Education and Training,

[22] Teachers Education and State Council of Educational Research and Training

Orissa in January 2008. The Superintendent deposited (February 2008) Rs 63 lakh with the EE for construction of the building and retained an amount of Rs 87 lakh in bank account meant for other purposes. The additional requirement of funds of Rs 5.85 lakh for construction of building was to be borne by the State Government for which sanction of Government was awaited (March 2009).

It was however noticed (March 2009) in audit that the civil construction work of trauma care centre started only in March 2009 and pillar structures above the first floor of the casualty building of the hospital were found raised. Action for procurement of equipments, communication systems and ambulance contemplated in GoI sanction was yet to be materialised (March 2009).


Thus, due to delay in construction of building, 5042 road accident victims admitted in the hospital during 2007-09, did not receive contemplated emergent and resuscitative medical care.

The Superintendent while admitting the facts stated (March 2009) that the delay was due to non-completion of ground floor/first floor of Casualty building due to delay in preparation of plan and estimate. The Government stated (July 2009) that construction work of the building was under progress and tender for procurement of ambulance with equipments was under process.

## *PANCHAYATI RAJ DEPARTMENT*

### *3.4.2 Extra expenditure on construction of houses under Indira Awas Yojana*

**Incorrect decision of the Government to categorise two districts under hilly/difficult areas for construction of IAY houses led to extra expenditure of Rs 1.51 crore which denied 1935 beneficiaries of availing IAY houses.**

Indira Awas Yojana (IAY) aimed at providing houses free of cost to members of Scheduled Caste/ Scheduled Tribes (SC/ST) , free bonded labourers in rural areas and non-SC/ST rural poor below the poverty line. The ceiling of assistance per unit was Rs 20000 for plain areas and Rs 22000 for hilly/difficult areas, and the same was revised (December 2003) to Rs 25000 and Rs 27500 respectively. As per para 3 of GoI instruction (December 2003), the State Government with the approval of State Level Co-ordination Committee categorised (May 2004) all the Tribal Area Sub-Plan blocks as hilly/diffficult areas and issued instruction for allowing Rs 27500 per unit in these blocks. The GoI, however, turned down (October 2005) the request (September 2005) of the State Government to allow Rs 27500 per beneficiary in TASP blocks on the ground that all the 19 States including Orissa had been placed under plain areas for allocation of funds under IAY.

Scrutiny of records (April and October 2008) of Project Directors(PDs), District Rural Development Agency (DRDA) Koraput and Sundergarh revealed that the State Government had allocated (April 2004) Rs 16.64 crores for construction of 7986 IAY houses in these districts during 2004-05 of which 80 *per cent* of the allocation was to be utilised towards new construction (5324 houses) at the unit cost of Rs 25000. The DRDAs however paid Rs 27500 per beneficiary based on Government decision (May 2004). As a result, only 6051 houses under IAY against the target of 7986 could be constructed during 2004-06 with the allocated amount of Rs 16.64 crore.

Thus, incorrect decision of the Government to categorise the TASP blocks under hilly/difficult areas without aproval of GoI, by raising the unit cost to Rs. 27500 resulted in extra expenditure of Rs 1.51[23] crore which also denied 1935 beneficiaries of availing the benefit of IAY houses.

The Government stated (July 2009) that comments would be furnished after receipt of compliance from DRDAs.

***WATER RESOURCES DEPARTMENT***

### ***3.4.3 Extra cost and excess payment to a corporation***

**Payment for disposal of debris 20 km away despite actual disposal between five and eight km distance involved extra cost of Rs 8.12 crore for payment to OCC. Besides, there was inadmissible payment of overhead charges for Rs 81 lakh.**

The work of de-silting and dredging of debris in the leading channel between the head regulator of Sasan Main Canal and Hirakud Reservoir was allotted (April 2008) to Orissa Construction Corporation Limited (OCC) at a cost of Rs 37.18 crore for completion by October 2008 which was extended up to September 2009, with 15 *per cent* overhead charges payable over and above the value of work executed.

Test check (August 2008) of the records of Main Dam Division, Burla disclosed that as per the agreement 7.39 lakh cum of debris were to be dredged at the rate of Rs 248.60 per cum inclusive of all charges. 60 *per cent* (4.43 lakh cum) of the debris was to be transported and disposed of at a distance of 20 km with additional payment at Rs 244.10 per cum. OCC transported 0.28 lakh cum of debris as of July 2008 and dumped these at locations which were only five to eight km away from the worksite. Despite this, the corporation was paid Rs 68 lakh at the quoted unit rate resulting in excess payment to OCC. For the 4.43 lakh cum of debris to be transported as per the agreement, the excess payment would work out to Rs 8.12 crore.

Further, as per the procedure prescribed (June 2002) by the Government for execution of allotted works, OCC was not to sub-contract the works and the overhead charges of 15 *per cent* were payable only for the works executed by the corporation itself. Though the corporation sub-contracted the de-silting/dredging

[23] Rs 2500 (Rs 27500-Rs 25000) X 6051 = Rs 1.51 crore

work to one contractor and the work of disposal of the debris to another contractor it was allowed overhead charges of Rs 81 lakh till August 2008.

Thus, payment to the corporation for the disposal of debris 20 km away despite actual disposal being only between five and eight km away from the worksite involved extra cost of Rs 8.12 crore. Besides, there was inadmissible payment of overhead charges of Rs 81 lakh.

The Government stated (June 2009) that the debris was initially dumped at a distance of five to eight km and after allowing it to dry up, the same was again transported and dumped at a distance of around 20 km. Further, the overhead charges of 15 *per cent* were allowed to OCC as per orders of the Government. The reply was not tenable since the specifications of execution provided for directly disposing the debris at a distance of 20 km and not for carrying it in a piecemeal fashion. The measurements did not indicate carriage of debris in instalments. Further, since OCC had sub-let the entire work, payment of overhead charges to it was not admissible.

## *WORKS DEPARTMENT*

### *3.4.4 Excess payment to contractors*

**Road improvement work using lesser quantity of material than the approved quantity as per specifications led to excess payment of Rs 1.43 crore to the contractors.**

Improvement works of two State highways[24] were technically sanctioned (November 2004/August 2006) by the Chief Engineer (Design, Planning, Investigation and Roads) for Rs 16.41 crore. The sanctioned estimates provided, *inter alia*, execution of Wet Mix Macadam (WMM), Water Bound Macadam (WBM) and Granular Sub-Base (GSB) items. The item rates were computed adopting metal/chips/crusher dust for 0.20 cum per sqm of WMM, 0.116 cum per sqm of WBM and 1.28 cum per cum of GSB works. The works inbuilt with the above provisions were floated to tender and were awarded (February 2005-March 2007) to two contractors at a cost of Rs 16.60 crore for completion by January 2006 - February 2008. The contractors were paid Rs 15.65 crore for the works as of February 2008.

Test check (January 2008-February 2009) of the records of Rairangpur and Khordha (R&B) Divisions disclosed that the contractors had actually executed the above items using 0.155 cum of metal/chips/crusher dust per sqm of WMM work, 0.102 cum of metal per sqm of WBM and 1 cum of granular materials for 1 cum of GSB. Despite less consumption of materials than the approved specifications, the item rates in the agreements were not correspondingly scaled down. This led to excess payment of Rs 1.43 crore to the contractors as per the agreement quantities.

[24] 1. Bisoi – Rairangapur-Tiring – Tata road – from 30/00 to 65/00 km and 2. Nayagarh – Odagan – Laukhal – from 12/750 to 24/00 km

The Government stated (July 2009) that the contractor for Bisoi – Rairangapur road had executed the items with required quantities of materials in loose volume and the material consumption statement for the other work was tentative. The reply was not factually correct since the materials for the specified quantities as per the specifications were to be used void free and not in loose volume. The actual material consumption statement in respect of the other work was not made available to audit.

### *3.4.5* Undue benefit to a contractor

**Execution of repair and maintenance works of a State Highway through other agencies during the currency of improvement and maintenance contracts of the road led to extension of undue benefit of Rs 5.92 crore to a contractor.**

Improvement to Cuttack-Paradeep road was awarded (June/July 2007) to a contracting firm under two agreements for Rs 224.81 crore[25] for completion by May-June 2009. The agreements provided that the work was to be carried out with running traffic on the existing two lane road. The agreements comprised both improvement as well as maintenance works of the road during the execution period.

Test check (May 2008) of the records of Jagatsinghpur (R&B) Division disclosed that the road had been handed over to the contractor from the start date of the improvement works and thus, the contractor was responsible for maintaining the road during the currency of the agreements. Considering the contract provisions, the Executive Engineer (EE) reported (August 2007) to the Chief Engineer (CE) that maintenance works on the road stretches as were being done prior to execution of these agreements ought not to be taken up on the road anymore. The CE, however, instructed (November 2007-August 2008) for continuance of the maintenance works through other agencies. The EE accordingly carried out maintenance and repairs to the road for Rs 5.92 crore between June 2007 and March 2009 through 1239 split up agreements, each limited to below Rs 50000, finalised at his level.

Thus, execution of repair and maintenance works of the State Highway through other agencies during the currency of the agreements for improvement works which included the road maintenance led to extension of undue benefit of Rs 5.92 crore to the contractor**.**

The Government stated (June 2009) that the Bill of Quantity in the agreement did not provide for maintenance of the road stretch. The maintenance was carried out on the road stretch not handed over to the contractor. This was not tenable since as per the agreements, the work comprised both improvement and maintenance of the road during construction. Further, the entire road stretch was handed over to the contractor from the start date of the improvement works.

## 3.5 GENERAL

[25] Package I for 43 km for Rs 112.70 crore and package II for 39 km for Rs 112.11 crore.

***FINANCE DEPARTMENT***

### *3.5.1 Lack of response to audit*

Timely response to audit findings is one of the essential attributes of good governance as it provides assurance that the Government takes its stewardship role seriously.

Principal Accountant General (Civil Audit) and Accountant General (Commercial, Works and Receipt Audit), Orissa conduct periodical inspection of Government departments to test check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed by Inspection Reports (IRs) sent to the heads of offices and the next higher authorities. The defects and omissions are expected to be attended promptly and compliance reported to the Principal Accountant General (Civil Audit)/Accountant General (Commercial, Works and Receipt Audit). A half-yearly Report of pending IRs is sent to the Secretary of each department to facilitate monitoring of the audit observations and their compliance by the departments.

A review of the IRs issued up to March 2009 pertaining to 3939 offices of 33 departments showed that 46183 paragraphs relating to 14486 IRs were outstanding at the end of June 2009. Of these, 5083 IRs containing 13720 paragraphs had not been settled for more than 10 years ***Appendix 3.5***. Year-wise position of the outstanding IRs and paragraphs are detailed in ***Appendix 3.6***. Even first reply from the Heads of Offices within six weeks was not received in respect of 1972 IRs issued up to March 2009. As a result, many serious irregularities commented upon in these IRs had not been settled as of June 2009 ***Appendix 3.7*** facilitating persistence of serious financial irregularities and loss to the Government.

Triangular Committee (TC) meetings consisting of the representatives of the departments, the Financial Advisors of the departments and the representatives of the Principal Accountant General (Civil Audit), were held at different districts headquarter to settle outstanding Inspection Reports and paragraphs. A total of 73 TC meetings were held during 2008-09 in which 574 IRs and 2213 paragraphs relating to 632 offices of 12 departments were settled ***Appendix 3.8.***

It is recommended that Government should step up their efforts to ensure that (a) submission of reply to audit on the spot or well within stipulated period of six weeks from the date of receipt of Inspection Reports, (b) holding of meeting of District level/ Regional level Officers to discuss audit observations and for taking immediate corrective action and (c) recover loss/outstanding advances/overpayments pointed out in audit in a time bound manner.

Government in reply (December 2009) stated that Administrative Departments had been instructed time and again for convening TC meetings to settle the outstanding IRs and also to give compliance/first replies to the new IRs .

### *3.5.2 Follow up action on earlier Audit Reports*

Serious irregularities noticed in audit are included in the Reports of the Comptroller and Auditor General (Audit Reports) that are presented to the State Legislature. According to the instructions issued (December 1993) by the Finance Department, Government of Orissa, the Administrative Departments are required to furnish explanatory notes on the paragraphs/reviews/Performance Audits included in the Audit Reports within three months of their presentation to the legislature.

It was noticed that in respect of Audit Reports from the years 1997-98 to 2007-08 as indicated below, 17 departments out of 38 departments which were commented upon, did not submit explanatory notes on paragraphs and reviews as of October 2009.

**Table 3.1 : Position of reviews and paragraphs**

| Year of Report | Total Paragraph | Total individual paragraphs/reviews/ others | | | Number of individual paragraphs/reviews for which explanatory notes were not submitted | |
|---|---|---|---|---|---|---|
| | | Individual Paragraphs | Reviews | Others | Individual paragraphs | Reviews |
| 1997-98 | 97 | 58 | 06 | 33 | - | 02 |
| 1998-99 | 92 | 58 | 06 | 28 | 01 | - |
| 1999-2000 | 83 | 48 | 06 | 29 | 01 | 01 |
| 2000-01 | 83 | 47 | 07 | 29 | 01 | 01 |
| 2001-02 | 61 | 29 | 04 | 28 | 03 | 01 |
| 2002-03 | 59 | 33 | 06 | 20 | 01 | 03 |
| 2003-04 | 60 | 31 | 06 | 23 | 05 | 02 |
| 2004-05 | 49 | 21 | 06 | 22 | - | 01 |
| 2005-06 | 61 | 29 | 07 | 25 | 02 | 02 |
| 2006-07 | 64 | 36 | 05 | 23 | 08 | 03 |
| 2006-07 | 01 | Stand Alone Report | 01 | - | - | 01 |
| 2007-08 | 59 | 29 | 06 | 24 | 23 | 06 |
| **Total** | **769** | **419** | **66** | **284** | **45** | **23** |

The department-wise analysis is given in the ***Appendix 3.9*** which shows that the departments largely responsible for non-submission of explanatory notes were Water Resources, Health and Family Welfare, Works, Women and Child Development, Forest and Environment followed by Panchayati Raj and Fisheries and Animal Resources Development departments and others. Letters have been issued (September 2009) to the Finance department as well as administrative department concerned to expedite submission of explanatory notes on paragraphs/reviews.

### *Response of the departments to the recommendations of the Public Accounts Committee*

The PAC Reports/Recommendations are the principal medium by which the Legislature enforces financial accountability of the Executive to the legislature and it is appropriate that they elicit timely response from the departments in the form of Action Taken Notes (ATNs).The Orissa Legislative Assembly (OLA)

Secretariat issued (May 1966) instruction to all departments of the State Government to submit Action Taken Notes (ATNs) on various suggestions, observations and recommendations made by Public Accounts Committee (PAC) for their consideration within six months after presentation of PAC Reports to the Legislature. The above instruction were reiterated by Government in Finance Department in December 1993 and by OLA Secretariat in January 1998. The time limit for submission of ATNs had since been reduced to four months in stead of six months by OLA (April 2005).

However, out of 1353 recommendations ***Appendix 3.10*** relating to Audit Report (Civil) made by PAC in first Report of tenth Assembly (1990-95) to fortieth Report of thirteenth Assembly (2004-09) final action was awaited (October 2009) on 1108 recommendations where Action Taken Notes were received. Of the balance 245 recommendations, the departments largely responsible for non-submission of ATNs (***Appendix 3.11)*** were Water Resources, Health and Family Welfare, Rural Development , Food, Civil Supplies and Consumer Welfare, Works, followed by General Administration, Law and other departments.

***Monitoring***

The following Committees have been formed at the Government level to monitor the follow up action on Audit Reports and PAC recommendations.

***Departmental Monitoring Committee***

Departmental Monitoring Committees (DMC) formed (between May 2000 and February 2002) in all the departments of the Government under the Chairmanship of the Departmental Secretary to monitor the follow up action on Audit Reports and PAC recommendations, are required to hold the meetings in each quarter and send the proceedings of such meetings to audit. Out of 38 departments of the State Government, no proceedings have been received from 30 departments for the year 2008-09. The list of defaulting departments is indicated in ***Appendix 3.12***

***Review Committee***

A Review Committee was formed (December 1992) comprising Principal Secretary, Finance Department, Principal Accountant General (Civil Audit) / Accountant General (Commercial, Works and Receipt Audit) and Secretary of the concerned administrative department. The function of the committee is to ensure timely submission of approved notes of compliance to Reports of Comptroller and Auditor General of India and Public Accounts Committee and strengthen the purpose of audit. It would meet periodically and review the progress of compliance to Audit Reports as well as adequacy of action taken on the recommendations of PAC in order to facilitate the examination of such Reports/recommendations by the Public Accounts Committee.

The Committee met on 14 May 2008. The meeting was chaired by the Chief Secretary who reviewed the position of compliances to the outstanding paragraphs of Comptroller and Auditor General's Audit Reports and PAC recommendations.

It was decided that all the Administrative Departments should reconcile the position of pendency of compliance with AG, Orissa on Action Taken Notes, Audit Paras of C & AG(Civil & Revenue Receipts) and list of excess expenditures pending for regularisation for different years.

Chief Secretary observed that non-submission of compliance on Action Taken Notes relating to observations of PAC and compliance to Audit Paras of C & AG (Civil & Revenue Receipts) within the time frame will warrant initiation of disciplinary proceeding against the Financial Advisers/Assistant Financial Advisers and concerned officials who are primarily responsible for preparation and submission of such compliance.

***Apex Committee***

An Apex Committee comprising of eight members was formed (December 2000) at the State level under the Chairmanship of the Chief Secretary, with the Secretary, Finance Department as permanent member and Secretaries of five other departments (Water Resources, Home, Panchayati Raj, Agriculture and Revenue) as members. The Special Secretary/Additional Secretary of Finance Department acts as member convener. The function of the Committee is to (i) review the functioning of the Departmental Monitoring Committees and to ensure timely submission of compliance to Accountants General, Orissa and Public Accounts Committee, (ii) review periodically the action taken on C & AG Reports by the departments of the Government and (iii) sort out bottlenecks for prompt action to be taken by all departments of the government on audit paras. The committee would sit half-yearly. The Committee in its meeting reviewed ( 6 January 2009) the position of pending Action Taken Notes on PAC recommendations and compliances to audit paragraphs of C & AG Reports and reiterated the decision taken in the review meeting held on 14 May 2008.