

CHAPTER I: INTRODUCTION

1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from performance audit of selected programmes and activities and compliance audit of Government departments and autonomous bodies.

Compliance audit refers to examination of the transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with. On the other hand performance audit, besides conducting a compliance audit, also examines whether the objectives of the programme/activity/department are achieved economically and efficiently.

The primary purpose of the Report is to bring to the notice of the State Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the audit of transactions and follow up on previous Audit Reports. Chapter II of this report contains findings arising out of performance audit of selected programmes/activities/departments. Chapter III contains observations on audit of transactions in Government departments and autonomous bodies. Chapter IV presents an assessment of internal controls in the Chief Controlling Officer (CCO) based Audit of Animal Husbandry Department.

1.2 Auditee profile

There are 29 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers and 16 autonomous bodies, which are audited by the Principal Accountant General (Audit)-I, Mumbai and the Accountant General (Audit)-II, Nagpur.

The comparative position of expenditure incurred by the Government during the year 2009-10 and in the preceding two years is given in **Table 1**.

Table 1: Comparative position of expenditure

(₹ in crore)

Particulars	2007-08			2008-09			2009-10		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Revenue expenditure									
General services	377	23469	23846	384	26201	26585	214	31857	32071
Social services	7215	19558	26773	8286	22766	31052	11400	29605	41005
Economic services	2648	10589	13237	3668	13145	16813	5028	15344	20372
Grants-in-aid	35	889	924	71	1173	1244	95	1373	1468
Total	10275	54505	64780	12409	63285	75694	16737	78179	94916
Capital expenditure									
Capital Outlay	9467	2023	11490	12776	6097	18873	14668	2760	17428
Loans and Advances disbursed			1225			1281			1261
Repayment of Public Debt			2745			3221			3825
Public Accounts disbursement			27619			30507			31721
Total	9467	2023	43379	12776	6097	53882	14668	2760	54235
Grand Total			108159			129576			149151

Source: Report No 1, Report on State Finances for the year 2009-10

1.3 Authority for audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The C&AG conducts audit of expenditure of the Departments of Government of Maharashtra under Section 13¹ of the C&AG's (DPC) Act. The C&AG is the sole auditor in respect of 16 autonomous bodies which are audited under sections 19(2)², 19(3)³, and 20(1)⁴ of the C&AG's (DPC) Act. In addition, the C&AG also conducts audit of 434 other autonomous bodies, under Section 14⁵ of the C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

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

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

³ Audit of the accounts of a corporation established by law made by the Legislature of a State on the request of the Governor, in public interest

⁴ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed up on between the C&AG and the Government

⁵ Audit of all receipts and expenditure of a body or authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of the State in a financial year is not less than ₹ 1 crore

1.4 Planning and conduct of audit

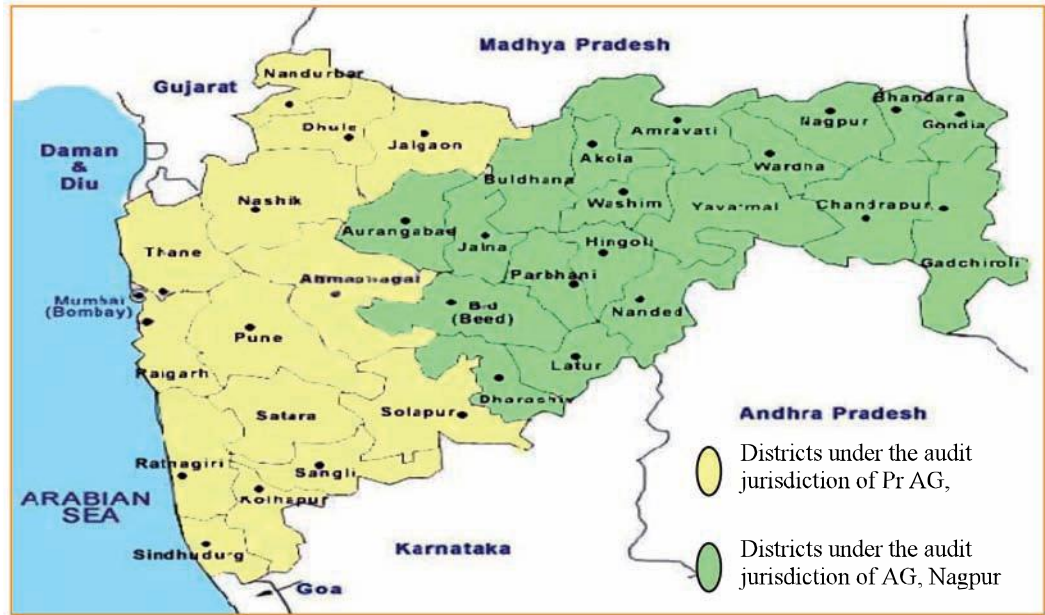
Audit process starts with the assessment of risk of the Department/Organisation as a whole and each unit based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An annual audit plan is formulated to conduct audit on the basis of such risk assessment. During performance audit, the audit objectives and audit criteria are discussed with the Department/Organisation before commencement of the audit.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the head of the unit. The units are requested to furnish replies to the audit findings within one month of receipt of the Inspection Report. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations pointed out in these Inspection Reports are processed for inclusion in the Audit Reports which are submitted to the Governor of Maharashtra under Article 151 of the Constitution of India.

During 2009-10, 7,942 party-days were used to carry out audit of 1,426 units (compliance audit and performance audits) out of 8,086 units of the various departments/organisations. The audit plan covered those units/entities which were vulnerable to significant risk, as per our assessment.

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

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



1.6 Significant audit observations

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

1.6.1 Performance audits of programmes/activities/department

The present report contains two performance audits, one Information Technology (IT) audit and one CCO based Audit of a Government Department. The highlights of the performance/ IT/ CCO based audits are given in the following paragraphs.

1.6.1.1 Konkan Irrigation Development Corporation

Konkan Irrigation Development Corporation (KIDC) was formed in 1998 under the KIDC Act, 1997 in order to expedite completion of the ongoing irrigation projects in Konkan Region. During the period 1998-2007, 90 projects were transferred to the KIDC, of which only 13 were 'nearly completed' as of March 2010. The total expenditure incurred by the KIDC on these projects up to 2009-10 was ₹ 2,573 crore.

A review of working of the KIDC for the period 2005-10 revealed that the autonomy envisaged in the Act for raising funds, planning, execution and timely completion of irrigation projects was not given to the Corporation which adversely affected the completion schedule of the projects. Release of insufficient funds by the GoM led to non-execution of projects, delay in land

acquisition and payment of compensation to PAPs. Revenue generated from water charges was not given to Corporation as envisaged in the Act as such the KIDC became totally dependent on Government grants. Recommendations of the High Power Committee for prioritisation in allocation of fund to projects were not adhered to which led to non-completion of 85 *per cent* of the projects. Works were started without acquisition of required land, clearance from Forest Department and settlement of compensation claims of project affected persons, which contributed to abnormal delays in completion and cost overrun. The financial position of the KIDC was not reflected correctly in the Annual Accounts. The GoM had not released the entire share capital as envisaged in the Act. Works were executed beyond limits of administrative approvals. Irrigation potential and water storage created were well short of the projections. Created irrigation potential remained largely unutilised. Water users associations were not formed/ registered. The KIDC failed to undertake agriculture extension activities to educate the farmers about the benefits of the prescribed crop pattern. Monitoring of the projects by the Governing Council was inadequate. The Executive Committee had not met even once in the last nine years. Adequate follow up action was not taken after the pre/post monsoon inspections of the projects.

1.6.1.2 Government Medical Colleges and Hospitals in Maharashtra

Progressive improvement in medical education, research and health care with modern scientific methods is of great importance in every society. Director of Medical Education and Research under the Medical Education and Drugs Department is responsible for producing skilled medical and para-medical personnel. In Maharashtra, there are 41 medical colleges including 14 Government Medical Colleges (GMCs).

An audit review of the working of six GMCs along with the attached hospitals for the period 2005-10 revealed that there is no specific Government policy to improve medical education in the State. The number of medical seats in Government Medical Colleges and Hospitals remained stagnant for the last five years despite increase in the demand for doctors and constant rise in population. No new Government Medical College was opened during this period in any tribal district, though doctor to patient ratio in the tribal district Gadchiroli was significantly high at 1:11000. Neither the Government nor the Directorate of Medical Education and Research had drawn annual action plans to implement the programmes for improvement in medical education and health care. Research activity was inadequate. Shortages of teaching staff and para medical personnel affected the quality of medical education and services to patients. Non-approval of sanctioned PG courses by Medical Council of India too affected both the students and patient service. Super specialty medical facilities were not available in many hospitals. Many items of Machineries and Equipments procured continued to remain idle for want of repairs or supply of electricity. The hostels lacked facilities, effective

monitoring by Government or DMER was absent, and there were shortfalls in inspection and internal audit.

1.6.1.3 Budget Estimation, Allocation and Monitoring System (BEAMS) of the Government of Maharashtra

The objective of BEAMS is to build a transparent and effective system for transferring budgetary allocations and control over monthly expenditure. It also aimed at maintaining financial discipline to create effective Management Information System (MIS) for various departments of Government, Accountants General and general public and to develop a decision support system for monitoring the day to day financial position. The BEAMS started in Maharashtra from June 2007 and made functional from 2008-2009. The users of the system are Finance Department, Administrative Heads, Controlling Officers and drawing and disbursing officers (DDOs) of all the Departments of the State.

Audit noticed that the objectives of BEAMS were largely not achieved. The delay in releasing grants by the Administrative Department and the Controlling Officers to the DDO defeated the very purpose of quick online release of grants. Due to low capacity of server, the system failed at the fag end of every financial year and thus stored incomplete data. The deficiency in system design resulted in reversing of expenditure after payment and thus creation of unreliable data in BEAMS database. The system also failed to maintain cash-flow within prescribed norms/limits. The system was found prone to high risk of hacking due to non-encryption of data. Thus, the data stored in BEAMS was incomplete, unreliable and could not be used for MIS purpose.

1.6.1.4 Audit of Animal Husbandry Department

Development and protection of livestock are the primary objectives of the Animal Husbandry Department. Major activities of the Department include genetic improvement of livestock to increase productivity, prevention and control of livestock diseases, scientific research on breeding and feeding of livestock, poultry development and providing assistance to the weaker sections of the society, particularly in suicide prone and drought prone areas.

Audit of Animal Husbandry Department for the period 2005-10 revealed institutional weakness in planning, monitoring and internal control. The Department had not drawn up annual and detailed plans though a five year plan was prepared for 2007-12. In many cases, reconciliation of cash book balances with bank balances and surprise cash verification were not done. Internal audit was not conducted as per the norms due to shortage of manpower. The Department's non-compliance with the rules and orders resulted in deficiencies in financial management. Budget estimates for Plan schemes were finalised without obtaining inputs from field offices. Budgetary grants were surrendered or lapsed due to deficient budgetary management.

Grants were released to the Zilla Parishads without ensuring utilisation of grants paid earlier. Monitoring of the recovery of loans paid to poultry societies was deficient. Equipment procured for manufacturing vaccines, for analysis of blood samples and for measuring impurities in animal feed were lying idle due to poor planning, lack of trained manpower and chemical reagents. Service delivery by the Department was also far from satisfactory. There were shortages of life saving drugs in veterinary dispensaries. The Department did not achieve the targets set for castration, vaccination, operation and infertility treatment. Central assistance for modernisation of laboratories remained unutilised. Compensations paid to the farmers/contractors of *Bird Flu* affected poultries were irregular. The objectives of special package for drought prone areas were not achieved due to poor monitoring. Acute shortage of manpower in core cadres adversely affected the implementation of animal health care programmes.

1.6.2 Compliance audit of Government transactions

During compliance audit significant deficiencies were noticed in critical areas, which impact the effectiveness of the State Government. Some important findings of compliance audit (25 paragraphs) have been included in this Report.

The major observations relate to:

- Fraud/misappropriation
- Non-compliance with rules and regulations
- Audit against propriety and cases of expenditure without adequate justification
- Persistent and pervasive irregularities.
- Failure of oversight/governance.

1.6.2.1 Fraud and misappropriation

- In District Soil Survey and Soil Testing office, Nanded, ₹ 10 lakh was misappropriated by tampering with the copies of the treasury challans of cash remittances and making inflated entries in the cash book, due to failure of the DDOs in exercising the prescribed checks.

(Paragraph 3.1.1)

1.6.2.2 Non-compliance with rules and regulations

For sound financial administration and control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authority. This helps in maintaining financial discipline and prevents irregularities, misappropriation and frauds. This report contains instances of non-compliance with rules and regulations involving ₹ 22.22 crore. Some important audit findings are as under:

- Commencement of work by Public Works Division, Alibag, without ensuring possession of land resulted in unfruitful expenditure of ₹ 8.87 crore on an incomplete road, a pilot road and a bridge at Vaisheni. Besides, mangroves were destroyed for road construction, in violation of the Coastal Regulation Zone Notification.

(Paragraph 3.2.3)

- Social Justice and Special Assistance Department released (April 2005) assistance of ₹ 4.80 crore to a sick society for modernising a Khandasari factory at Shirol in Kolhapur District, though the stipulated conditions were not fulfilled. The factory could not be fully operationalised, resulting in undue benefit to the society.

(Paragraph 3.2.4)

- Mumbai Metropolitan Region Development Authority adopted an incorrect method for calculating payments for quantities executed beyond 125 *per cent* of the estimated quantities, which resulted in excess payments to 11 contractors to the tune of ₹ 3.59 crore.

(Paragraph 3.2.5)

1.6.2.3 Audit against propriety and cases of expenditure without adequate 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 own money. Audit scrutiny revealed instance of impropriety and extra expenditure involving ₹ 5.84 crore as under:

- Lack of monitoring by District Rural Development Agency and the Rural Development Department resulted in a Cattle Breeding Dairy Farm Project implemented by a non-government organisation remaining incomplete. Investment of ₹ 4.93 crore was rendered unfruitful for want of sufficient cows. The objective of developing income source for poor villagers was also not achieved.

(Paragraph 3.3.1)

1.6.2.4 Persistent and pervasive irregularities

An irregularity is considered persistent if it occurs year after year. It is deemed pervasive when prevalent in the entire system. Recurrence of irregularities, despite being pointed out in earlier audits, is indicative of slackness on the part of the executive and lack of effective monitoring. Audit observed instances of persistent and pervasive irregularities of ₹ 51.67 crore as follows :

- Inordinate delay in procurement of patrolling boats defeated the Government's objective of strengthening the police force in the aftermath of "26/11 Mumbai attacks". Out of ₹ 60.50 crore drawn on abstract contingent bills in March 2009, ₹ 34.02 crore remained unutilised for 21 months and expenditure of ₹ 26.48 crore rendered unfruitful due to non-supply of the boats, leaving the Maharashtra coast vulnerable to sea based threats.

(Paragraph 3.4.1)

- Incorrect inclusion of Central excise duty on cost of steel for the fabrication at work site in the tender by the Executive Engineers of five divisions resulted in undue benefit of ₹ 15.18 crore to the contractors.

(Paragraph 3.4.3)

1.6.2.5 Failure of oversight/governance

Government has an obligation to improve the quality of life of the people in the area of health, education, development and upgradation of infrastructure, public services etc. Audit noticed instances where funds released by the Government for creating public assets remained unutilised/ blocked or proved unfruitful/ unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. Test-check of cases revealed failure of oversight/governance involving ₹ 168.67 crore. Some important audit findings are as under:

- Co-operation, Marketing and Textiles Department sanctioned (March 2007-March 2008) share capital of ₹ 20 crore and a loan of ₹ 100 crore to Nanded District Central Co-operative Bank Limited (NDCCB), on which Reserve Bank of India had imposed sanctions (October 2005). Subsequent conversion of the loan and share capital of ₹ 10 crore into grant and waiver of interest, resulted in injudicious expenditure of ₹ 118.50 crore as there was no improvement in NDCCB's financial condition and loan disbursements to farmers.

(Paragraph 3.5.2)

- Failure of the Public Health Department to ensure the availability of personnel concurrently with completion of the hospital building in March 2008 at Malvani, Malad and purchase of equipment, medicines etc., in anticipation of commencement of functions, resulted in idle investment of ₹ 4.09 crore.

(Paragraph 3.5.6)

- Delay in settlement of contractor's claims, failure to observe the provision of Arbitration and Conciliation Act, 1996 and advice of legal advisor not to contest the arbitration award resulted in avoidable payment of ₹ 2.75 crore on account of interest by Godavari Marathwada Irrigation Development Corporation, Aurangabad.

(Paragraph 3.5.9)

- Savlaj and four other Regional rural water supply schemes in Sangli District completed (May-July 2004) by Maharashtra Jeevan Pradhikaran (MJP) at a cost of ₹ 22.21 crore remained idle. Neither the MJP nor the Zilla Parishad, Sangli ran the schemes even during the droughts of 2008 and 2009. Supply of piped potable water remained an elusive goal for the drought prone area.

(Paragraph 3.5.10)

1.7 Response of the departments to draft paragraphs and performance reviews

The draft paragraphs and performance reviews were forwarded demi-officially to the Secretaries of the concerned departments between March and July 2009 requesting to send their responses within six weeks. Tardy response of the departments was brought to the notice of the Chief Secretary to Government of Maharashtra demi-officially in November 2010. However, replies to only 6 out of 25 draft paragraphs were received. While Government reply to CCO based Audit of Animal Husbandry Department was received, the departments concerned did not respond to any of the three performance audit reviews incorporated in this Report. Even the Government (Finance Department and Medical Education and Drugs Department) did not respond to the repeated requests for holding exit conference to discuss two performance audit reviews. Government replies, wherever received have been suitably incorporated in the Report.

According to the instructions issued by the Finance Department in March 1981, administrative departments were required to furnish Explanatory Memoranda duly verified by Audit to the Maharashtra Legislature Secretariat in respect of paragraphs (including performance reviews) included in the Audit Reports, within one month of presenting the Audit Reports to the State Legislature. The administrative departments did not however, comply with these instructions and 174 Explanatory Memoranda pertaining to the period from 1988-89 to 2008-09 were outstanding. Department-wise details are given in **Appendix 1.1**.