

Chapter 1

Introduction

1.1 About this Report

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

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

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

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

Chief Controlling Officer (CCO) based Audit of a Department is a comprehensive study and evaluation of efforts made by the Drawing and Disbursing Officers in fulfilling the Department's mandate/objectives as well as compliance with provisions of various Rules, Laws and Regulations framed by the Government and point out issues that need to be addressed at higher levels.

This chapter provides the auditee profile, the planning and extent of audit, a synopsis of the significant audit observations and follow-up on Audit Reports. Chapter 2 of this Report deals with the findings of Performance Audits and Chapter 3 deals with Compliance Audit of various departments and Autonomous Bodies. Chapter 4 contains observations on evaluation of Chief Controlling Officers based audit of Animal Resources Development wing of the Fisheries and Animal Resources Development Department. The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2009-10 as well as those which had come to light in earlier years but could not be dealt with in previous Reports. Matters relating to the period subsequent to 2009-10 have also been included, wherever necessary.

1.2 Auditee profile

There were 38 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Commissioner-cum-Secretaries, assisted by Directors and Sub-ordinate Officers. All the offices of these departments including 214 Autonomous Bodies were under the audit jurisdiction of the Principal Accountant General (Civil Audit) and Accountant General (Commercial, Works and Receipt Audit).

The comparative position of expenditure incurred by the Government of Orissa during 2009-10 and in preceding two years is given in table 1.1.

Table 1.1: Comparative position of expenditure

(Rupees 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	30.80	7196.41	7227.21	52.92	6908.95	6961.87	80.83	9204.32	9285.15
Social Services	2317.82	4098.69	6416.51	2598.00	5686.41	8284.41	3236.47	6601.70	9838.17
Economic Services	1740.46	1988.19	3728.65	2657.11	2893.97	5551.08	2297.75	3464.64	5762.39
Grants-in-aid	--	350.90	350.90	--	392.76	392.76	--	405.82	405.82
Total	4089.08	13634.19	17723.27	5308.03	15882.09	21190.12	5615.05	19676.48	25291.53
Capital Expenditure									
Capital Outlay	2656.19	187.22	2843.41	3570.63	208.54	3779.17	3256.76	391.12	3647.88
Loans and Advances disbursed	300.61	132.07	432.68	55.50	155.47	210.97	23.98	88.50	112.48
Repayment of Public Debt	--	--	1844.97	--	--	1492.61	--	--	1488.69
Public Account disbursement	--	--	8971.58	--	--	10895.52	--	--	9849.27
Total	2956.80	319.29	14092.64	3626.13	364.01	16378.27	3280.74	479.62	15028.27
Grand Total	7045.88	13953.48	31815.91	8934.16	16246.10	37568.39	8895.79	20156.10	40389.80

(Source: Finance Accounts of the respective years)

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 Services) Act 1971. C&AG conducts audit of

expenditure of the departments of Government of Orissa under section 13¹ of the C&AG's (DPC) Act 1971. C&AG is the sole auditor in respect of 31 Autonomous Bodies² which are audited under section 20(1) of the said Act. In addition, C&AG also conducts audit of 183 other Autonomous Bodies substantially funded by the State Government. C&AG's audit jurisdiction also covers the Urban Local Bodies and Panchayati Raj Institutions. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts 2007 issued by the C&AG.

1.4 Organisational Structure of the Principal Accountant General (Civil Audit) and Accountant General (CW&RA), Orissa

Under the directives of the C&AG, the expenditure audit of 33 out of 38 departments of the State Government and the Autonomous Bodies financed by the State Government are conducted by the office of the Principal Accountant General (Civil Audit). Audit of remaining five Departments³ are conducted by the office of the Accountant General (CW&RA). The audit of Urban Local Bodies and Panchayati Raj Institutions is being conducted by Senior Deputy Accountant General (Local Bodies Audit and Accounts) under the supervision of Principal Accountant General (Civil Audit).

1.5 Planning and conduct of audit

Audit process starts with the risk assessment of the Department / Organisation as a whole and that of each unit based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, 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.

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

During 2009-10, 12472 party-days were used for Compliance Audit of 1519 out of 5825 units of various departments/organisations/local bodies/autonomous bodies and 2062 party-days were utilised for Performance Audits in which 536 units were partly covered. The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

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 and loss accounts, balance sheets and other subsidiary accounts

² 30 District Legal Services authorities and one State Legal Services Authority

³ Works, Water Resources , Rural Development and Housing and Urban Development Department (Public Health Engineering Wing) , Forest and Environment.

1.6 Significant observations of performance audits

This report contains five Performance Audits including one IT Audit and one CCO based audit of a department. The focus has been on auditing the specific programmes/schemes and offering suitable recommendations, with the intention to assist the Executive in taking corrective action and improving service delivery to the citizens. Significant audit observations are discussed below:

1.6.1 Backward Region Grant Fund

Performance Audit on implementation of Backward Region Grant Fund (BRGF) programme in the State revealed that the core issue of convergence of all schemes/programmes and preparation of integrated district plan with involvement of grass root level for speeding up development process in backward districts remained unattended. There was total absence of institutional arrangements at Gram Panchayats (GPs), Panchayat Samitis (PSs) and District Planning Committee (DPC) levels as envisaged in the programme. Despite engagement of Technical Support Institutions (TSIs) for preparation of Annual Plans (AAPs) for 2007-10 and payment of consultancy fee of ₹ 1.57 crore, there was considerable delay ranging from 128 to 537 days in preparation of Annual Action Plans (AAPs) which deprived the State of the assistance of ₹ 449.78 crore by Government of India (GoI). Instances of delays upto 342 days in transferring funds of ₹ 108.13 crore by the State Government to District Rural Development Agencies (DRDAs) and local bodies, non submission of Utilisation Certificates (₹ 34.13 crore) to GoI by five districts and diversion of ₹ 4.11 crore to other schemes were noticed. In the test checked units, there were instances of irregular execution of 1822 works (₹ 34 crore) through middlemen in the guise of Village Labour Leaders (VLLs), execution of 165 inadmissible projects (₹ 6.39 crore), unfruitful expenditure on idle assets and incomplete projects, lack of transparency in tendering and contract management. Contrary to the instructions of State High Level Committee, seven line department executing agencies adjusted *prorata* supervision charges (₹ 1.65 crore) and deposited ₹ 73.98 lakh in Government account. Irregularities in purchase of stores, direct release of urban local bodies (ULBs) share of funds to line departments leading to elimination of the role of ULBs in monitoring activities, non observance of quality control in execution of works and transparency in payment of wages in departmental execution of works were the other important deficiencies. Programmes for capacity building were inadequate and there was irregular utilisation of ₹ 1.04 crore meant for capacity building on construction and furnishing of office buildings. Monitoring was inadequate and evaluation of the programme outcome was not done.

(Paragraph 2.1)

1.6.2 Land Acquisition and Management

Performance audit of land acquisition and management in selected districts revealed that in case of both acquisition of private land and leasing of Government land, fixation of market rates tend to benefit the buyers at the cost

of land owners. Under-assessment of compensation by ₹ 63.98 crore was noticed in 34 cases of acquisition of 3120.577 acres of land for 11 entrepreneurs/industries due to erroneous fixation of market value of land. In one district, due to such erroneous fixation of market value and additional payment as *ex-gratia* to the land owners, the State Government was deprived of charging establishment charges of ₹ 8.19 crore from the buyers. In respect of Government projects, there was avoidable expenditure of ₹ 2.83 crore on payment of additional compensation and interest due to delay in passing award by four to 35 months and delay in payment of compensation by seven to 44 years. Despite instructions, compensation money of ₹ 371.28 crore was retained in bank accounts without crediting into civil deposit accounts. Encroachment of Government land has become a routine feature as 19792 acres of Government land was under unauthorised occupation as per official records as on March 2010. No time limit was also prescribed for finalisation of lease cases. In 41 cases though 404.62 acres of land was under unauthorised occupation of 29 parties for five to 30 years yet lease cases applied were not finalised leading to non-realisation of ₹ 109.97 crore towards expected lease value of land. Test check also revealed that though 5061.523 acres of Government land leased during 1985-2004, was not utilised by seven entrepreneurs, no action was taken to resume the land to Government. Misutilisation of allotted land for other purposes was also noticed.

(Paragraph 2.2)

1.6.3 Pradhan Mantri Gram Sadak Yojana

Pradhan Mantri Gram Sadak Yojana (PMGSY) was launched in December 2000 with the objective of providing all weather road connectivity to all unconnected rural habitations with population of 1000 persons and above by the year 2003 and 500 persons and above by the year 2007. However, out of 10420 unconnected habitations⁴ only 5598 habitations (54 *per cent*) were connected with all weather road connectivity (July 2010). Out of 799 roads targeted for completion by March 2010 in the sample districts under different phases (IV to VIII), only 249 roads were completed and 550 roads remained incomplete at different stages. In the sampled districts, 31 roads constructed did not establish connectivity to respective habitations due to non-construction of bridges. Besides, execution of works deviating from prescribed specifications and norms led to extra expenditure of ₹ 178.11 crore. Cases of extension of undue benefit and non recovery of liquidated damages (₹ 139.47 crore) from the defaulting contractors were also noticed.

(Paragraph 2.3)

⁴ Habitations with 1000 persons and above (3703) and 500 persons and above (6717)

1.6.4 IT Audit of Student Academic Management System

The primary objective of module e-admission under Student Academic Management System (SAMS) to ensure admission into (+2) Junior Colleges with a hassle free, transparent selection process with zero errors was partially achieved. The other module e-administration was under partial implementation. The system lacked validation controls at many stages. Its design did not cater to the provisions as mentioned in the common prospectus. Selection process was not fully automated with the implementing agencies. The system also suffered from wrong data inputs which aided by weak process controls led to incorrect selection of applicants. Moreover, deficient system design and backend modification or deletion of data for correction of errors made the system prone to manipulations.

(Paragraph 2.4)

1.7 Significant audit observations of Compliance audit

Audit observed several significant deficiencies in critical areas which had adverse impact on effective functioning of the Government Departments/Organisations. Key Audit findings of Compliance issues reported are categorised as under:

- non-compliance with rules and regulations;
- audit against propriety/expenditure without justification;
- persistent and pervasive irregularities;
- failure of oversight/governance.

1.7.1 Non-compliance with rules and regulations

Non-compliance with the agreement conditions in consultancy services for the World Bank Assisted project of Bhubaneswar-Cuttack-Jagatpur section of National Highway 5, led to litigation and avoidable payment of ₹ 4.80 crore towards *pendent-lite* interest in National Highways Division, Bhubaneswar.

(Paragraph 3.1.1)

Contrary to Government instructions, the Director of Health and Family Welfare withdrew scheme funds of ₹ 1.87 crore from Civil Deposit and kept in shape of bank drafts for over three years during 2006-10.

(Paragraph 3.1.2)

Deliberate inclusion of the quantity of burrow area stripping under the items of earth dam on a river led to inadmissible payment of ₹ 1.83 crore to the contractor under the Ret Irrigation Division, Bhawanipatna.

(Paragraph 3.1.3)

Failure of the department to place the order within the validity of the offer in respect of construction work of a high level bridge over river Bada Nadi led to extra expenditure of ₹ 1.38 crore under Rural Works Division No.I, Ganjam.

(Paragraph 3.1.4)

Non-acceptance of lowest tender by the Chief Engineer and Basin Manager, Brahmani right basin within the validity period led to extra expenditure of ₹ 1.14 crore under Rengali Right Canal Division II, Dhenkanal.

(Paragraph 3.1.5)

1.7.2 Audit against propriety/expenditure without justification

Non-completion of canal system of Utalijore Minor Irrigation Project by Executive Engineer, Minor Irrigation Division, Padampur rendered expenditure of ₹ 6.52 crore unfruitful.

(Paragraph 3.2.1)

Advance procurement of pipes worth ₹ 5.05 crore by the Executive Engineer, Public Health Division II, Cuttack for augmentation of water supply project to Angul Municipality resulted in blockage of funds due to delay in completion of civil work.

(Paragraph 3.2.2)

Non-release of water from Baghalati Irrigation Project caused failure of Poichandia diversion weir and rendered the expenditure of ₹ 4.28 crore unfruitful under Chikiti Irrigation Division, Berhampur.

(Paragraph 3.2.3)

Two projects sanctioned for shifting of the water supply pipelines had not been executed due to non-acquisition of land resulting in blockage of funds of ₹ 3.25 crore under Executive Engineer, Public Health Division, Berhampur.

(Paragraph 3.2.4)

Inclusion of an unwarranted clause in the agreement for construction of a High Level Bridge over Rangamatia Nullah facilitated abandonment of the work by the contractor midway with sub-standard execution resulting in unfruitful expenditure of ₹ 99 lakh under the Executive Engineer, Roads and Buildings Division, Dhenkanal.

(Paragraph 3.2.5)

Due to non-finalisation of modalities of disengagement by the Government, Surplus 63 staff and 20 NMRs working in Water and Land Management Institute (WALMI) continued to draw Pay and Allowances for six years resulting in avoidable expenditure of ₹ 3.66 crore.

(Paragraph 3.2.6)

1.7.3 Persistent and pervasive irregularities

There was non-realisation of ₹ 7.70 crore towards cost of Wildlife Management Plan by the Divisional Forest Officers of Angul and Dhenkanal.

(Paragraph 3.3.1)

Despite default in execution, liquidated damages of ₹ 1.38 crore had not been recovered from two contractors by the Executive Engineer, Rengali Right Canal Division IV, Gudiakateni and Jambhira Canal Division No. I Laxmiposi.

(Paragraph 3.3.2)

1.7.4 Failure of oversight/governance

One time Central assistance of ₹ 4.66 crore received by two departments during 2005-07 for implementation of different schemes/projects remained unspent with executing agencies.

(Paragraph 3.4.1)

Hostel building constructed at ₹ 50 lakh for the SC/ST students of the Government Women's college, Sundargarh remained unused for want of electrical service connection and Rubberised coir plant set-up at Bhubaneswar at a cost of ₹ 4.17 crore remained idle for want of working capital for over four years.

(Paragraph 3.4.2)

Delay in implementation of watershed projects and non-furnishing of utilisation certificates within prescribed time led to forfeiture of GoI assistance of ₹ 2.89 crore in 20 DPAP watershed projects under DRDA, Dhenkanal.

(Paragraph 3.4.3)

Undue benefit of ₹ 2.68 crore was extended to Orissa Construction Corporation Limited due to non-deletion of overhead charges on materials, machinery and other components in-built in the item rates under Executive Engineer, Manjore Irrigation Division.

(Paragraph 3.4.4)

Sophisticated laboratory equipment costing ₹ 58.94 lakhs remained idle for want of technical manpower and repair due to which the contemplated testing of food and water samples could not be materialised.

(Paragraph 3.4.6)

1.8 Chief Controlling Officer based audit of Fisheries and Animal Resources Development Department (Animal Resources Development Wing)

Chief Controlling Officer (CCO) based audit of Animal Resources Development Wing of Fisheries and Animal Resources Development Department revealed that Orissa State Livestock Sector Policy 2002 was not operationalised and perspective plans for 2002-07 and 2007-12 were not prepared. Internal Control Mechanism including monitoring of activities were almost absent. Due to ineffective budgetary controls there were savings of ₹ 109.39 crore during 2005-10 of which ₹ 106.47 crore was surrendered only on the last day of respective financial years. Provisions of financial rules and treasury code were not complied with by various Drawing and Disbursing Officers leading to parking of funds in civil deposits and current accounts, diversion and misutilisation of funds etc. Implementation of schemes suffered due to non-achievement of targets fixed in Annual Plans, shortfall in Artificial Insemination and production of vaccine. Provisions of “Prevention of Cruelty to Animals Act” were not enforced in 23 districts. District Diagnostic laboratories were not made functional; equipments worth ₹ 1.11 crore remained idle since their procurement. Expenditure of ₹ 2.49 crore was incurred in purchase of equipment without adhering to codal provisions and contract terms. Fifty one *per cent* of the Gram Panchayats of the State did not have any Livestock Aid Centres (LACs). While 85 Veterinary Dispensaries (VDs) and 1076 LACs did not have their own buildings; 27 VDs and 65 LACs were functioning without regular Veterinary Assistant Surgeons (VAS) and Livestock Inspectors (LIs) respectively.

(Paragraph 4.1)

1.9 Response of the Departments to draft paragraphs

As per the instructions issued by the Finance Department on 20 May 1967 and provision of C&AG’s Regulation on Audit and Accounts 2007, the departments are required to send their response to the draft audit paragraphs proposed to be included in the C&AG’s Audit Report within six weeks. The draft paragraphs are forwarded to the Secretaries of the concerned departments drawing their attention to the audit findings and requesting them to send their response within six weeks. Draft paragraphs and Performance Audit Reports proposed for inclusion in this report were forwarded to the Secretaries concerned between June 2010 and October 2010 through letters addressed to them demi-officially. Concerned Departments did not send replies in respect of 12 out of 30 paragraphs featured in this report. The response of the concerned departments received in respect of 18 paragraphs has been suitably incorporated in the report.

1.10 Follow up action on Audit Report paragraphs

Serious irregularities noticed in audit are included in the Reports of the Comptroller and Auditor General that are presented to the State Legislature. The Administrative Departments are required to furnish explanatory notes on

the paragraphs/reviews included therein within three months. However, in respect of Audit Reports from the year 1997-98 to 2008-09, 18 out of 38 departments did not submit compliance notes in respect of 61 individual paragraphs and 27 review paragraphs as of October 2010. Similarly, out of 1353 recommendations made by the Public Accounts Committee (PAC) in its First Report of 10th Assembly (1990-95) to 40th Report of 13th Assembly (2004-09), final action was awaited in respect of 1148 recommendations where Action Taken Notes (ATNs) were received. In case of remaining 205 recommendations of PAC relating to 16 departments, ATNs were not received (November 2010) though ATNs are required to be submitted by Government Departments within six months⁵ after PAC reports are laid before the Legislature. Besides, proceedings of Departmental Monitoring Committees (DMCs) meetings were not received from 22 out of 38 departments during 2009-10 despite formation of DMCs in all the departments of the Government to monitor the follow up action on Audit Reports and recommendations of the PAC. In addition, 38681 paragraphs relating to 12324 Inspection Reports (IRs) in respect of 3926 offices of 35 departments remained outstanding at the end of June 2010. Of these 3783 IRs containing 9844 paragraphs remained unsettled for more than 10 years for want of proper compliance. Even first reply from the Head of the Office was not received in respect of 2044 IRs issued up to March 2010. A total of 51 Triangular Committee meetings were held during 2009-10 in which 214 IRs and 963 paragraphs relating to 320 offices of seven departments were settled.

1.11 Recommendations

This Report contains specific recommendations on a number of issues involving non-observance of the prescribed internal procedures and systems, compliance with which would help in promoting good governance and better oversight on implementation of developmental programmes and objectives at large. The State Government is impressed upon to take cognisance of these recommendations in a time bound manner.

⁵ Revised to four months in April 2005