

## Chapter 1 Introduction

### 1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) on Government of Odisha 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 with due regard to ethics and equity.

This chapter provides the audited entity's profile, the planning and extent of audit, a synopsis of the significant audit observations. 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.

The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2011-12 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 2011-12 have also been included, wherever necessary.

### 1.2 Audited entity's 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. Of these, 24 Departments including PSUs / Autonomous Bodies / Local Bodies coming under these Departments are under the audit jurisdiction of the Accountant General (General and Social Sector Audit).

The comparative position of expenditure incurred by the Government of Odisha during 2011-12 and in preceding two years is given in **Table 1.1**.

**Table 1.1: Comparative position of expenditure**

**(₹ in crore)**

Particulars	2009-10			2010-11			2011-12		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
<b>Revenue Expenditure</b>									
General Services	80.83	9204.32	9285.15	78.77	9858.00	9936.77	80.38	10848.20	10928.58
Social Services	3236.51	6601.70	9838.21	4249.09	7672.92	11922.01	5568.84	8769.23	14338.07
Economic Services	2297.75	3464.65	5762.40	3064.81	4012.75	7077.56	4070.54	4661.93	8732.47
Grants-in-aid	#	405.82	405.82	#	431.61	431.61	#	661.11	661.11
<b>Total</b>	<b>5615.09</b>	<b>19676.49</b>	<b>25291.58</b>	<b>7392.67</b>	<b>21975.28</b>	<b>29367.95</b>	<b>9719.76</b>	<b>24940.47</b>	<b>34660.23</b>
<b>Capital Expenditure</b>									
Capital Outlay	3256.76	391.12	3647.88	4156.51	128.59	4285.10	60.66	4435.43	4496.09
Loans and Advances disbursed	23.98	88.50	112.48	205.67	109.02	314.69	2.34	618.67	621.01
Repayment of Public Debt	#	#	1488.69	#	#	2083.58	#	#	2327.76
Public Account disbursement	#	#	9849.43	#	#	11407.85	#	#	14022.62
<b>Total</b>	<b>3280.74</b>	<b>479.62</b>	<b>15098.48</b>	<b>4362.18</b>	<b>237.61</b>	<b>18091.22</b>	<b>63</b>	<b>5054.1</b>	<b>21467.48</b>
<b>Grand Total</b>	<b>8895.83</b>	<b>20156.11</b>	<b>40390.06</b>	<b>11754.85</b>	<b>22212.89</b>	<b>47459.17</b>	<b>9782.76</b>	<b>29994.57</b>	<b>56127.71</b>

# Figures for plan and non plan not available in the Finance Accounts  
(Source: Finance Accounts of the respective years)

### **1.3 Authority for audit**

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Services) Act, 1971. CAG conducts audit of expenditure of the departments of Government of Odisha under section 13<sup>1</sup> of the CAG's (DPC) Act 1971. CAG is the sole auditor in respect of 42 Autonomous Bodies<sup>2</sup> which are audited under section 20 (1) and 19 (3) of the said Act. Audit of Government companies were also conducted under Section 19(1) of the DPC Act. In addition, CAG conducts audit of 184 other Autonomous Bodies substantially funded by the State Government. CAG's audit jurisdiction also covers the Urban Local Bodies (ULBs) and Panchayati Raj Institutions (PRIs) as the State Government had entrusted (July 2011) audit of such bodies on CAG and to provide Technical Guidance and Support (TGS) to the Local Fund Audit for audit of ULBs and PRIs. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts 2007 issued by the CAG.

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

<sup>2</sup> 30 District Legal Services authorities, one State Legal Services Authority and one Odisha Forestry Sector Development Corporation, Odisha State Commission for Women and nine Development Authorities

#### **1.4 Organisational Structure of the Accountant General (General and Social Sector Audit), Odisha**

As a part of restructuring of State Audit Offices by the CAG, erstwhile office of the Accountant General (Civil Audit), Odisha became the Principal Auditor of the General Services and Social Services Departments of the Government of Odisha and was renamed as Accountant General (General and Social Sector Audit), Odisha from 2 April 2012. After restructuring, Audit of accounts of State Departments / Agencies / Public Sector Undertakings / Autonomous Bodies grouped under "General Sector" and "Social Sector" along with Technical Guidance and Support(TGS) functions relating to Audit and Accounts of Local Bodies remained under the purview of the Accountant General (General and Social Sector Audit), Odisha.

#### **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, and assessment of internal controls, concerns of stakeholders and the likely impact of such risks. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An Annual Audit Plan is formulated to conduct audit on the basis of such risk assessment.

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

#### **1.6 Significant observations of Performance Audits**

This report contains two Performance Audits. The focus has been 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 Resources and Revenue sharing arrangement in PPP model Port projects in the State***

Performance audit of 'Resources and Revenue sharing arrangement in PPP model Port projects in the State' revealed that five Minor Port projects (Astaranga, Chudamani, Dhamra, Gopalpur, and Subarnarekha ) were taken up by Government for development through Public-Private Partnership (PPP) during 1998-2012 with a projected private sector investment of ₹ 12594.02

crore. Audit noticed several deficiencies in policy formulation, implementation, institutional arrangements, design and enforcement of the concession agreement, revenue model etc. Despite requirement under the Port Policy, Odisha Maritime Board (OMB) was not constituted to plan and act for maritime development in the State as well as to monitor the Port projects in PPP model. Though two out of the five Port projects with project cost of each exceeding ₹ 500 crore were taken up after the High Level Clearance Authority (HLCA) was set up and Concession Agreements were executed, yet approval of HLCA was not obtained, that too when private promoters were selected in these cases through MoU route. Out of five Port projects, in only one case (Gopalpur) private promoter was selected on competitive bidding route though the Port policy also permits for adopting International Competitive Bidding for selection of private Developers. In this case also, the revenue sharing was accepted at 0 to 7.5 per cent which was below the reserve percentage of five to eight per cent and Developer with no experience in core sector was selected.

There was delay in obtaining environmental clearance leading to delay in completion of projects. In case of Dhamra Port, the commencement date was fixed after 13 months of due date on the ground of delay in handing over of acquired land though such delay was attributable solely to the Developer as land acquisition process in 66 villages lapsed due to non-payment of the cost of compensation in time as well as delay in taking over possession of acquired land despite repeated requests. This led to an extra expenditure of ₹ 30.86 crore. Due to delay in execution of Dhamra Port, Government was deprived of revenue share of ₹ 99.26 crore.

Provisions of Model Concession Agreement (MCA) prescribed by the Planning Commission in January 2008 was not followed though no State specific MCA was prepared and the PPP cell of Planning and Co-ordination Department viewed that MCA should be treated as a Guiding document and so to avoid duplication State specific MCA is not required to be prepared. Concession period of three ports were allowed to be 34 years without examining the Return on capital employed, traffic trend and expected break-even point, Internal Rate of Return etc. against the recommended period of 30 years in MCA, which resulted in extension of undue benefit to the Developers. Contrary to the provisions of Concession Agreement, major partners exited during the lock-in-period selling their shares to other partners and other companies. Neither Independent Engineers were engaged excepting in case of Gopalpur to oversee drawing and design as well as quality parameters nor Financial and Operational Auditors were engaged by the Government to validate the gross revenue generated and Government's revenue share as intimated by the port. Escrow account was not maintained by the Developer of Dhamra Port while such provision was not even included in the Concession Agreements of other ports.

Fixation of tariff was left to the Developer at Dhamra Port and tariffs fixed were found to be 153 to 799 per cent higher than that prescribed by Tariff Authority for Major Ports and charged by Paradip Port Trust. Monitoring of implementation of PPP projects was poor as Project Monitoring Units as well as Performance Review Unit were not set up at Project / Government level. Despite provision in the Concession Agreement for allowing inspection to

Government whenever required during construction and operation stages, yet Developer of Dhamra Port did not allow joint inspection of the Ports premises by the Government representative and Audit (October 2012).

*(Paragraph 2.1)*

### **1.6.2 Implementation of Integrated Action Plan (IAP) in the State**

Performance Audit of Integrated Action Plan (IAP) revealed that the projects were selected in consultation with line departments and local MPs and MLAs without taking any input from Gram Panchayat (GP) level institutions such as Gram Sabhas/ Palli Sabhas. Critical gaps were not properly assessed. 249 projects with an estimated cost of ₹ 35.18 crore were cancelled as they were finalised without proper examination of their feasibility and ground reality. Instructions of Planning Commission for inclusion of livelihood projects was not carried out by all test checked districts excepting Koraput though ₹440 crore was received by eight districts and 8040 projects were planned during 2010-12. Eight District Level Committees undertook 602 inadmissible projects with estimated cost of ₹ 20.90 crore under IAP, of which an amount of ₹ 13.86 crore was spent as of March 2012.

Out of the total 8040 projects sanctioned in the test checked districts, 2256 projects (28 *per cent*) were not completed by March 2012. The incomplete works included 592 projects which were sanctioned during 2010-11 and not completed even after lapse of one year

Sixty six projects having road and minor irrigation works with an estimated value of ₹ 8.21 crore were executed in non-Left Wing Extremism (LWE) affected GPs under four blocks of Nuapada district which were subsequently stopped leading to unfruitful expenditure of ₹ 2.61 crore and 28 projects were abandoned after incurring expenditure of ₹ 1.47 crore.

Though periodic monitoring of the programme was being made by Planning Commission and the State Government, physical inspection of the works by the State level officers remained inadequate.

*(Paragraph 2.2)*

## **1.7 Significant audit observations of compliance audits**

### **1.7.1 Procurement and distribution of dal under Supplementary Nutrition Programme (SNP) and Mid Day Meal (MDM) scheme**

Review of 'Procurement and distribution of dal under Supplementary Nutrition Programme (SNP) and Mid-Day Meal (MDM) scheme' revealed that household survey was not carried out every year for assessment of the actual number of beneficiaries to be covered under the SNP programme. The projected figure of 2010-11 of the Department for budget preparation and coverage under SNP included 3.66 lakh non-existent beneficiaries. The decentralised system for procurement of dal involving village level organisations, local bodies, SHGs etc. as envisaged in scheme guidelines was unreasonably delayed and dal was procured at district level through tender process up to March 2011 in deviation from the scheme guidelines.

The Government fixed the ceiling price of ₹ 75 per kg for the best quality of *arhar dal* without, however, defining the specification for ‘best quality’ *dal*. We found that 12 districts procured *arhar dal* at the ceiling price of ₹ 75 per kg and 11 districts procured *dal* at marginally less than the price of ₹ 75 per kg. Collectors of the six test checked districts mentioned this ceiling price as the Government fixed price in tender call notices for procurement of *dal*. In three out of six test checked districts, even the bidders were asked not to quote any rate but to submit samples only. Invitation of tender at such ceiling price negated competitive price discovery.

The Department did not take any step for revision of prices despite the fact that the ceiling price of ₹ 75 per kg fixed under SNP was valid for six months (March 2010) and the wholesale market price of *arhar dal* consistently remained below ₹ 75 per kg during January 2010 to March 2011. This helped the bidders to quote higher price than the prevailing market price causing loss of ₹ 43.61 crore to the state exchequer, calculated on the basis of highest wholesale market price (₹ 62.09 per kg) prevailing during January 2010 to March 2011 as per the records of Food Supplies & Consumer Welfare Department. The loss would be ₹ 65.75 crore, if we consider average annual wholesale market price (₹ 56.99 per kg) of the said period.

The lowest bidder for supply of *dal* was not selected in Khordha district on the ground that the cooked *dal* of highest bidder “tasted better”, though quality testing by taste of the cooked food was not a prescribed test even under Prevention of Food Adulteration (PFA) Act and this led to an irregular and avoidable expenditure of ₹ 0.76 crore.

Before finalisation of tender, the tender committees had neither conducted the seven tests prescribed under PFA Act nor conducted all the four tests prescribed by the Department. In absence of conducting requisite tests, there was no evidence on record about purchase of 109357.24 quintals of best quality ‘*arhar dal*’ in six test checked districts during 2009-11 at the district level. In Mayurbhanj district, the suppliers selected (October 2007) for supply of *arhar dal* under SNP and MDM programme were permitted (February 2010) to supply *arhar dal* at the rate ₹ 75 per kg up to March 2011 without fresh tendering.

There was also short supply of *arhar dal* resulting in interruption of feeding programme and damage of *dal* at feeding centres. It was noticed that weighing machines were not available in all the feeding centres for measurement and cross checking the quantity of *dal* received from the suppliers.

The monitoring and supervision in implementation of the programmes was not adequate and effective for ensuring supply of the ‘best quality *dal*’ to the beneficiaries.

***(Paragraph 3.1)***

### **1.7.2 Functioning of Blood Banks in the State**

Blood Banks (BB) / Blood Storage Centres (BSC) were largely not available in rural areas. About 84 *per cent* of BBs both in Government, PSUs and private sector were functioning without valid license for years together as the licenses were not renewed and joint inspections by Drug Controller and Central License Approving Authority were not conducted even once in five years. Donor safety was compromised. Blood was collected from ineligible donors while data on age, weight, hemoglobin content etc were not recorded in the donor's records in many cases. Quality Assurance Managers were not posted in major Blood Banks to exclusively deal with quality parameters. Calibration of equipment were not ensured at regular intervals. Department of Transfusion Medicine was not established in any of the three Government Medical Colleges of the State. Separate cadre for Blood Transfusion Service was not created. Vigilance Cell as well as separate Blood Bank Cell with trained officers and Inspectors for proper inspection of BBs was not set up. Internal Audit system was not introduced in BBs. Although specific rules were framed for ensuring the safety of blood donors, a majority of the BBs test checked in audit flouted the rules. Non-compliance with the Rules and ineffective monitoring by Drug Inspectors had resulted in several deficiencies, which may endanger the safety of both the donor and the patients.

*(Paragraph 3.2)*

### **1.7.3 Functioning of Trauma Care Centres on National Highways**

Setting up Trauma Care Centres (TCCs) in State hospitals situated near National Highways progressed in the State in snails' pace. There was delay ranging from two to five years in completion of civil works of three TCCs. Besides, two TCCs remained incomplete even after lapse of more than four years of sanction and utilising ₹ 97 lakh thereon as of March 2012. Contrary to the terms of sanction and MoU signed with the GoI, ₹ 39.62 lakh was utilised for routine expenditure not connected with the TCCs. Departmental prorata charges of ₹51.16 lakh was charged by Public Works Divisions on works fully funded by Central Government. Out of ₹ 14.29 crore released by GoI during 2003-12 for procurement of equipment, while ₹ 7.01 crore remained unutilised as of March 2012, there was delay in procurement of equipment worth ₹ 7.28 crore. Utilisation of TCC grants of ₹ 1.87 crore for purchase of inadmissible equipment (worth ₹ 0.81 crore) and excess number of equipment (worth ₹ 1.06 crore) were also noticed.

*(Paragraph 3.3)*

### **1.7.4 Functioning of Eklavya Model Residential Schools in the State**

No survey was conducted to identify the beneficiaries, location, curriculum and level of schools etc. There was four to nine months delay in release of funds to the Project Implementing Agencies (PIAs). Utilisation of funds during 2007-12, ranged from 16 *per cent* to 54 *per cent* of the total funds available during the years. Utilisation Certificate (UC) for ₹ 21.47 crore was submitted to GOI as against the actual expenditure of ₹ 12.71 crore. Inadequate class rooms, non-availability of cots in hostels, non-maintenance

of the schools and hostels, poor sanitation condition in hostels, student staying in class rooms due to non-completion of hostel buildings etc came to notice in audit. Pass out rate in these schools though remained above the State average, yet were found to be below that of nearby schools.

*(Paragraph 3.4)*

#### ***1.7.5 Diversion of TPDS rice***

Under the Centrally-sponsored Targeted Public Distribution System, rice allotted by GoI for BPL families at the scale of 35 kilogram/month during 2002-12 was distributed at reduced scale of 25 kilogram depriving the BPL families 10 kilogram of rice every month leading to diversion of central subsidy of ₹ 2655.61 crore.

*(Paragraph 3.5)*

### **1.8 Recommendations**

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