

***CHAPTER -I***

***INTRODUCTION***

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#### **1.1 About this Report**

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

Compliance audit refers to the examination of transactions relating to expenditure of the audited entities, to ascertain whether the applicable laws, rules, regulations, orders and instructions issued by the competent authorities were being complied with. Performance audit on the other hand, in addition to compliance issues, also examines whether the objectives of the programme/activity/department were achieved economically and efficiently.

The primary purpose of this Report is to bring to the notice of the State Legislature, the important results of audit. Auditing Standards of the Indian Audit and Accounts Department require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The requirements have been complied with. The findings of audit are expected to enable the Executive to take corrective actions leading to improved financial management and better governance.

This Chapter, in addition to explaining the issues of planning and extent of audit, provides a synopsis of the significant achievements and deficiencies 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 long paragraphs of selected programmes/activities/departments, Chapter-IV contains an integrated audit of Minority Welfare Department while Chapter-V presents observations on compliance audit in Government departments and autonomous bodies.

#### **1.2 Audited entity profiles**

There are 44 departments in the State at the Secretariat level, headed by Principal Secretaries/Secretaries with the overall control and guidance being provided by the Chief Secretary. In the performance of their duties, the Principal Secretaries/Secretaries are assisted by Special Secretaries/Additional Secretaries/Directors and other subordinate officers. In addition, there are 9166 local bodies and 14 autonomous bodies substantially funded by the Government, which are audited by the Office of the Principal Accountant General (Audit), Bihar on behalf of the CAG.

The comparative position of expenditure incurred by the Government during the year 2011-12 and in the preceding year is given in **Table-1** below:

**Table 1:**  
**Summary of Current Year's Fiscal Transactions**

(₹ in crore)

Receipts	2010-11	2011-12	Disbursements	2010-11	2011-12		
					Non-Plan	Plan	Total
<b>Section-A: Revenue</b>							
Revenue Receipts	<b>44532.32</b>	<b>51320.17</b>	Revenue Expenditure	<b>38215.92</b>	<b>34012.66</b>	<b>12486.83</b>	<b>46499.49</b>
Tax revenue	9869.85	12612.10	General Services	15286.97	17569.44	160.28	17729.72
Non-tax revenue	985.53	889.86	Social Services	15089.42	9523.52	9205.26	18728.78
Share of Union Taxes/Duties	23978.38	27935.23	Economic Services	7836.28	6916.53	3121.29	10037.82
Grants from Government of India	9698.56	9882.98	Grants-in-aid and Contributions	3.25	3.17	-	3.17
<b>Section-B: Capital</b>							
Misc. Capital Receipts	0.00	0.00	Capital Expenditure	9195.94	39.59	8812.42	8852.01
Recoveries of Loans and Advances	11.86	22.51	Loans and Advances disbursed	1102.63	220.72	1685.36	1906.08
Public debt receipts	6032.42	6627.96	Repayment of Public Debt	2190.03	-	-	2922.46
Inter State Settlement Receipts	0.00	75.41	Inter State Settlement payments	0.00	-	-	1.39
Contingency Fund	1150.00	800.00	Contingency Fund	1150.00	-	-	800.00
Public Account receipts	17321.25	22302.61	Public Account disbursements	16749.02	-	-	21393.22
Opening Cash Balance	2291.13	2735.44	Closing Cash Balance	2735.44	-	-	1509.45
<b>Total</b>	<b>71338.98</b>	<b>83884.10</b>	<b>Total</b>	<b>71338.98</b>			<b>83884.10</b>

### 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 Service) Act, 1971. CAG conducts audit of expenditure of the departments of the Government of Bihar under Section 13<sup>1</sup> of the CAG's (DPC) Act 1971 and is the sole auditor in respect of 10 autonomous bodies which are audited under Sections 19(3)<sup>2</sup> and 20(1)<sup>3</sup> of the CAG's (DPC) Act. In addition, the CAG also conducts audit of other autonomous bodies, which are substantially funded by the Government, under

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

2 *Audit of accounts of such corporation, established by law made by the Legislature, on the request of the Governor for which the Governor is of opinion that it is necessary in public interest so to do.*

3 *Save as otherwise provided in section 19, where the audit of accounts of any body or authority has not been entrusted to the CAG, he shall, if requested so to do, by the President or the Governor, undertake the audit of accounts of such body or authority on such terms and conditions as may be agreed upon between the CAG and the Government.*

Section 14<sup>4</sup> of the CAG's (DPC) Act. The principles and methodologies for conducting various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts issued by the CAG in 2007.

#### **1.4 Planning and conduct of audit**

The audit process starts with the assessment of risks faced by various departments of the Government. This risk analysis is based on the expenditure incurred, criticality or complexity of its activities, the level of delegated financial powers, assessment of overall internal controls and concerns of the stakeholders. The previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the heads of the offices audited with copies to the next higher authorities. They are requested to furnish their replies to the audit findings within six weeks of receipt of the Inspection Reports. Based on replies received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State of Bihar under Article 151 of the Constitution of India.

During 2011-12, 1488<sup>5</sup> party-days were used to carry out transaction audit of 152 units and to conduct two performance audit reviews, three long paragraphs and integrated audit of Minority Welfare Department. The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

#### **1.5 Significant audit observations**

In the last few years, audit has reported on several significant deficiencies in the implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in the selected departments. Similarly, the deficiencies noticed during compliance audits of the Government *departments/organisations have also been reported upon.*

##### **1.5.1 Performance audits of programmes/activities/departments**

The present Report contains two performance audits of the Flood Control Measures and Major Districts Roads. The highlights of these audits are given in the following paragraphs:

##### **1.5.1.1 Implementation of Flood Control Measures in Bihar**

Bihar is India's one of the most flood-prone States, with 73 *per cent* of the geographical area (i.e. 68.80 lakh hectare out of total geographical area of

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

5 *General Sector 3 units (24 party days), Social Sector-I 23 units (208 party days), Social Sector II 22 units ( 218 party days) and Economic Sector 104 units ( 1038 party days).*

94.16 lakh hectare) of Bihar is under the threat of every year flood. It was however revealed that the financial management was ineffective, marred by utilisation of funds (11 to 44 per cent). Despite increase in plan allocations the Department did not execute long term plans while the short-term measures also included deficiencies like irregular award of contract, non-adherence of flood calendar, infructuous, excess and unfruitful expenditure. There was also shortage of key cutting edge manpower and the Department could construct only 61.47 Kms. of embankment against target of 1535 Kms.

### **1.5.1.2 Major District Roads in Bihar**

The Major District Roads (MDRs) are infrastructural link enabling the easy communication of people with the areas of production and market within a district and connecting it with the major towns, villages, areas of cultural, historical, tourist interest and with national and state highways passing through the district. The performance audit of MDRs revealed instances of deficient planning, inadequate financial management, insufficient manpower deployment and dismal programme implementation.

### **1.5.2 Long Para on programmes/activities**

The present Report contains three Long paragraphs on Working of Patna University, State Compensatory Afforestation Fund Management and Planning Authority and Acquisition and Allotment of Land for Industrial Purposes in Bihar. The highlights of these audits are given in the following paragraphs:

#### **1.5.2.1 Working of Patna University**

Patna University (PU), the first University in Bihar, was established in the year 1917 with a vision to provide quality higher education in the State. Presently, it had 31 Post Graduate (PG) Departments, four institutes<sup>6</sup> and six allied units<sup>7</sup>. PU has 10 constituent colleges under its administration. The existing number of students in the PG Departments, Colleges and Institutes were more than 18 thousand. The sanctioned post of teachers was 1004 against which 448 teachers were working. At present the teacher student ratio was 1:42 as against UGC norm of 1:10 to 1:30 for different programmes. The functioning of University was affected by the prevailing financial disorder was evident from the non-maintenance of University Fund, non-preparation of annual accounts, non-maintenance of cashbooks, underutilisation/lapse of UGC funds and lack of internal control. The tendering process lacked fairness and transparency and undue aid was provided to the contractors. Further, lapse on the part of administration in exercising financial prudence resulted in incurring avoidable liability.

#### **1.5.2.2 State Compensatory Afforestation Fund Management and Planning Authority**

The State Compensatory Afforestation Fund Management and Planning Authority (CAMPA) was constituted in Bihar in January 2010 on the direction

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<sup>6</sup> *Institute of Library and Information Science, Institute of Music, Institute of Psychological Research & Services and Institute of Public Administration.*

<sup>7</sup> *Central Dispensary, Computer Centre, Guest House, PU Central Library, PU Press and Works Department,*

of Hon'ble Supreme Court in July 2009. The objectives of CAMPA were (a) conservation, protection, regeneration and management of natural forests (b) conservation, protection and management of wildlife and its habitat within and outside protected areas (c) compensatory afforestation (d) promotion of agricultural forestry and environmental services like grazing, tourism, wildlife protection and life support and (e) research, training and capacity building. The planning aspect was deficient as APOs were either not prepared or prepared with delay and *Ad-hoc* CAMPA did not ensure that release of funds was based on the APOs. There was no mechanism where-by the status of proposals for diversion of forest land for non forest activities by various agencies could be watched. Further, the unspent funds of CA were not deposited into the CAMPA thereby depriving the State of the funds to be utilized for various environmental programmes. No activities of research and agro forestry were undertaken from the CAMPA funds. The CAMPA had also not evolved an independent system for concurrent monitoring and evaluation of the works implemented in the State. Thus, the objectives of conservation, protection, regeneration and management of natural forests were yet to be achieved by the CAMPA.

#### ***1.5.2.3 Acquisition and allotment of Land for Industrial Purpose***

The Bihar Industrial Area Development Authority (BIADA), which came into being, subsequent to reorganisation in 2003, was responsible for planning, acquisition, development, maintenance and allotment of land. Audit assessment of acquisition and allotment of land for industrial purposes in Bihar revealed that the State Government did not formulate a perspective plan for acquisition and transparent policy for allotment of land in the state though the demand of industrial land increased with introduction of Industrial Incentive Policy, 2006. Though the State Government had taken sincere initiative, for industrial growth with announcement of Industrial Incentive Policy, Bihar 2006, there was no long term planning for acquisition of land and development of industrial infrastructure in the State. The land records were not being maintained at department as well as authority level. Acquired lands were not being utilised for the specified purposes and lands were de-notified irregularly in favour of entrepreneurs. Land was allotted for non-industrial purposes, allotment norms were not adhered in allotment, lands were transferred irregularly and records were manipulated in favour of agencies. The land rates were not revised and the funds of BIADA were not managed properly.

#### ***1.5.3 Integrated audit of Minority Welfare Department.***

The Minority Welfare Department is responsible for implementation of various developmental schemes especially those relating to welfare and upliftment of the status of minority communities. Integrated audit of the department brought out gaps in planning, financial management and programme management. The department had not formulated any specific plans to uplift the minorities. The *ad-hoc* arrangement of the department without its infrastructure at district level, welfare schemes meant for Minority had suffered. The department had not established Directorate even after twenty years of its establishment and full strength of sanctioned staff was not there. The financial management of the department was deficient as the

department could disburse/utilise only 61 *per cent* of its allotted funds. Due to ineffective functioning of the department, every welfare scheme for Minority remained partially implemented or unimplemented.

#### **1.5.4 Compliance audit**

The Report highlights several significant deficiencies in critical areas which impacted the effective functioning of Government departments and organisations. These can be broadly categorised as:

- *Non-compliance with rules.*
- Propriety audit/excess/wasteful/infructuous expenditure.
- *Irregular, avoidable/unjustified expenditure.*
- *Failure of oversight/governance.*

##### **1.5.4.1 Non-compliance with rules**

For the sound financial administration and financial control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authority. This not only prevents irregularities, misappropriation and frauds, but also helps in maintaining good financial discipline. This Report contains instances of non-compliance with rules involving ₹ 275.76 crore. Some of the significant audit findings are given below:

Due to non-adherence of rules relating to cash management and failure of officials to do their assigned duties, the Rural Works Department incurred a loss of ₹ 3.82 crore on account of non-remitted missing bank drafts (₹ 0.89 crore) and loss of interest (₹ 2.93 crore).

***(Paragraph 5.1.1)***

Non-adherence of codal provisions and non-compliance of order of the Vigilance Department led to fraudulent payment of ₹ 0.21 lakh and doubtful payment of ₹ 19.56 lakh on muster roll in execution of works in 12 departmental works under Rural Development Department. Beside there were dubious payment of ₹ 2.01 crore on fake invoices.

***(Paragraph 5.1.2)***

Passing of a bill twice by the Civil Surgeon-cum-Chief Medical Officer on two different occasions for the supply of same items led to fraudulent payment of ₹ 4.78 lakh to private firm under Health Department.

***(Paragraph 5.1.3)***

Due to non-adherence of laid down norms for purchase of medicines and injudicious decision to purchase the Anti Haemophilic Factor-VIII on higher rates resulted in loss to the Government of ₹ 97.20 lakh under Health Department.

***(Paragraph 5.1.4)***

In Social Welfare Department, imprudent decision to invest the funds of ₹ 268.71 crore allocated under the Mukhya Mantri Kanya Suraksha Yojna in a mutual fund without instituting any monitoring mechanism exposed the scheme to market risks.

***(Paragraph 5.1.5)***

**1.5.4.2 Audit against propriety/Excess/Wasteful/Infructuous expenditure**

Audit detected instances of impropriety and excess/wasteful/infructuous expenditure involving ₹ 1249.30 crore, which are highlighted below:

Abandoning of work by the agency midway and non-rescission of contract by the department resulted in infructuous expenditure of ₹ 96.83 lakh on incomplete road works under Rural Works Department.

**(Paragraph 5.2.1)**

Due to lack of proper survey and non-inclusion of work of construction of bridges across the rivers intersecting the road in the Detailed Project Report the objective of providing connectivity to unconnected habitations as envisaged in PMGSY could not be achieved and the expenditure of ₹ 1.18 crore incurred on construction of road was rendered unfruitful under Rural Works Department.

**(Paragraph 5.2.2)**

Irregular award of works worth ₹ 853.45 crore to the ineligible contractors resulted in dismal programme implementation of Pradhan Mantri Gram Sadak Yojna in seven divisions and even after a lapse of two to 22 months from the stipulated dates of completions, not even a single road was fully completed after incurring expenditure of ₹ 119.77 crore under Rural Works Department.

**(Paragraph 5.2.3)**

Due to irregular award of contracts worth ₹ 232.79 crore to an ineligible contractor, the objective of providing uncontaminated drinking water to the rural population as envisaged under the scheme, remained unachieved under Public Health Engineer Department.

**(Paragraph 5.2.4)**

The failure of department in processing the tender document transparently resulted in irregular award of the contract of ₹ 157.59 crore to an ineligible joint venture agency under Public Health Engineer Department.

**(Paragraph 5.2.5)**

Irregular purchase of medicines and equipment in violation of State Health Society's prescribed procedures resulted in excess payment of ₹ 1.33 crore under Health Department.

**(Paragraph 5.2.6)**

The department, without verifying the veracity of place of upliftment of earth, irregularly sanctioned extra-lift leads in the revised estimate of a work leading to excess differential payment of ₹ 1.19 crore and undue favour to the contractor under Road Construction Department.

**(Paragraph 5.2.7)**

In Water Resources Department, initiation of a work without prior land acquisition and midway stoppage resulted in unfruitful expenditure of ₹ 80.66 lakh on incomplete works, besides denial of intended benefits to the targeted beneficiaries as envisaged under the scheme.

**(Paragraph 5.2.8)**

**1.5.4.3 Irregular/avoidable/unjustified expenditure**

An expenditure is deemed as irregular if there is a deviation, willful or otherwise, from the rules and norms prescribed by the competent authority



while incurring the same. This indicates lack of effective monitoring which may encourage willful deviations from observance of rules/regulations leading to avoidable/unjustified expenditure. A few cases of such irregularities involving ₹ 172.53 crore are highlighted below:

Due to improper monitoring and lackadaisical attitude of the department an avoidable expenditure of ₹ 30.59 crore was incurred on delayed construction of Anganwadi Centre buildings under Social Welfare Department.

***(Paragraph 5.3.1)***

Violation of the Central Vigilance Commission guidelines and general conditions of contracts has led to irregular payment of mobilisation advance of ₹ 31.91 crore and machinery advance of ₹ 35.42 crore to private contractors under Rural Works Department.

***(Paragraph 5.3.2)***

The non-adjustment of advances of ₹ 8.20 crore lying with Gram Panchayats and reluctance of Gram Panchayat representative to furnish utilisation certificates was indicative of probable misappropriation of Government money, besides non-achievement of objectives of Swajaldhara scheme and Total Sanitation Campaign under Public Health Engineer Department.

***(Paragraph 5.3.3)***

In violation of the codal provision as well as agreement clause, mobilisation advance of ₹ 33.18 crore were given to the executing agencies after a delay of five to eight months after its sanction, thereby defeating the very purpose of advance intended for and resulting in undue financial aid to the agencies under Public Health Engineer Department.

***(Paragraph 5.3.4)***

Non-adherence of codal provisions and departmental order led to irregular payment of ₹ 75.95 lakh under Rural Development Department.

***(Paragraph 5.3.5)***

Failure of internal control mechanism in the State Health Society (SHS) coupled with non adherence of terms and conditions prescribed in the drug-rate-contract of the SHS led to purchase and distribution of medicines worth ₹ 25.07 crore among the patients without quality test report under Health Department.

***(Paragraph 5.3.6)***

Machines/equipment of ₹ 4.41 crore were not put to use for the benefit of patients and kept idle due to non-availability of required chemicals/reagent and specialist doctors under Health Department.

***(Paragraph 5.3.7)***

Due to imprudent decision of initiating a work without conducting Physical Model Test, proper survey and studies before commencement of work the Government incurred an avoidable loss of ₹ 2.99 crore under Water Resources Department.

***(Paragraph 5.3.8)***

#### ***1.5.4.4 Failure of oversight/governance***

The Government has an obligation to improve the quality of life of the people for which it works towards fulfilment of certain goals in the areas of health,

education, development and upgradation of infrastructure *etc.* Audit, however, noticed instances where funds released by Government for creating public assets for the benefit of the community aggregating ₹ 922.23 crore remained unutilised/blocked for six years and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and lack of concerted action at various levels as mentioned below:

Owing to injudicious withdrawal of ₹ 921.32 crore without proper planning and implementation arrangement the funds destined for intended purposes kept shuttling in the bank accounts of implementing agencies at the cost of health care facilities to the rural populace under Health Department.

*(Paragraph 5.4.1)*

Due to lack of planning, coordination and monitoring by the State Health Society Bihar, the Special Newborn Care Units (SNCU) in the earmarked districts could not be commissioned and the equipment worth ₹ 90.57 lakh purchased for the same remained idle depriving the targetted people of SNCU facilities under Health Department.

*(Paragraph 5.4.2)*

## 1.6 Recoveries at the instance of Audit

During 2011-12 an amount of ₹ 146.83 lakh<sup>8</sup> was recovered from 10 units at the instance of audit.

## 1.7 Lack of responsiveness of the Government to Audit

### 1.7.1 *Insufficient response of the Government to Audit*

The Principal Accountant General (PAG) (Audit), Bihar conducts periodical inspections of Government departments to check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed by the issuance of Inspection Reports (IRs). The heads of offices and the next higher authorities are required to comply with the observations contained in the IRs, rectify the defects promptly and report their compliance to the Audit Department.

However, a review of IRs issued during the period 2005-06 to 2011-12 relating to 36 departments revealed that 29830 paragraphs relating to 5300 IRs remained outstanding at the end of October 2012 as shown in the **Table no. 1.**

**Table no. 1**

### Outstanding IRs/Paragraphs

Outstanding IRs/Paragraphs for the year								
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total
IRs	696	810	766	980	1005	847	196	5300
Paragraphs	3870	4938	4204	5551	5609	4368	1290	29830

The year-wise and department-wise breakup of outstanding IRs and paragraphs is mentioned in *Appendix 1.1*

<sup>8</sup> ₹ 17.06 lakh (RCD, Purnia) + ₹ 25.72 lakh (RCD, Bettiah) + ₹ 22.00 lakh (RCD, Nawada), + ₹ 9.19 lakh (RCD, Chapara) + ₹ 0.09 lakh (Finance Dept. Patna) + ₹ 0.35 lakh (BDO, Triveniganj) + ₹ 1.00 lakh (BDO, Basantpur) + ₹ 71.05 lakh (BDO, Chatapur) + ₹ 0.22 lakh (ITI, Sitamadhi), + ₹ 0.15 lakh (PHC, Gwalpara, Madhepura)

The pendency of such large numbers of IRs/paragraphs indicates lack of responsiveness of the Government departments towards audit observations.

### **1.7.2 Non-submission of Explanatory (Action Taken) Notes**

The Manual of Instructions (1998) of the Finance Department, Government of Bihar envisaged that the Secretaries to Government of the concerned departments submit explanatory notes to the Assembly Secretariat on audit paras and reviews included in Audit Reports (AR). Such notes were required to be submitted after vetting in audit within two months from the date of presentation of the ARs to the State legislature without waiting for any notice or call from the Public Account Committee (PAC). They were also required to indicate therein, the circumstances and reasons for occurrence of such irregularities and deviations from the prescribed norms and the action proposed to be taken to make good the losses and to prevent recurrence of such instances.

Further, Regulation 213 of the Regulations on Audit and Accounts (November 2007) envisaged that the Union, the States and the Union Territories having legislative assemblies, where legislative committees were functioning or where the Government desires the Comptroller and Auditor General to vet the Action Taken Notes (ATN), the concerned Secretaries to Government should send two copies of the draft self-explanatory ATN to the PAG (Audit) for vetting along with the relevant files and documents, properly referenced and linked. This was to be done within such period of time as might be decided for submission of the self-explanatory ATNs prescribed by the PAC.

It was noticed that as of October 2012, 16 departments had not submitted the ATN in respect of five review and 39 paragraphs pertaining to the years 2002-2011 (*Appendix 1.2*).

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

Regulation 212 and 213 of the Regulations on Audit and Accounts envisage the settlement of paragraphs featured in the Audit Reports of the Comptroller and Auditor General of India. Departments were required to furnish ATNs to the PAC within two months from the date of the recommendations made by the PAC in their reports.

Review of the outstanding ATNs on the paragraphs included in the earlier Reports of the Comptroller and Auditor General of India for the Government of Bihar revealed that the ATNs in respect of the PAC Reports pertaining to the period from November 2002 to October 2012, in respect of 408 paragraphs involving 30 departments remained outstanding as of October 2012 (*Appendix 1.3*).