



**Chapter 1**

**Introduction**



## 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 falling under economic sector in the state of Madhya Pradesh.

Performance Audit (PA) is undertaken to ensure whether the Government programmes have achieved the desired objectives at the minimum cost and given intended benefit. In the last few years, Audit has reported on several significant deficiencies in implementation of various programme/activity through Performance Audit as well as audit of selected departments.

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 competent authorities are being complied with and 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. The findings of audit are expected to enable Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thereby, contributing to better governance.

This chapter in addition to explaining the profile of audited entities, 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-2 of this report contains findings arising out of performance audit and audit on selected themes and Chapter-3 of this report contains Department Centric audit of Narmada Valley Development Department. Chapter-4 deals with significant finding relating from the compliance audit of various departments under Economic Sector.

#### 1.2 Audited Entity Profiles

There are 56 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Commissioner/Directors and subordinate officers under them. Of these, 15 departments including Public Sector Units (PSUs)/Autonomous bodies/ Local Bodies coming under these departments, are under the audit jurisdiction of the Accountant General (Economic & Revenue Sector Audit) Bhopal. These departments were covered for audit for inclusion of audit findings in this Audit Report.

The comparative position of expenditure of the Government during the year 2011-12 and in the preceding two years is given in **Table-I** below:

**Table 1.1: Comparative position of expenditure**

(₹ in crore)

Disbursements	2009-10			2010-11			2011-12		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
<b>Revenue expenditure</b>									
General Services	123.81	11889.97	12013.78	112.70	14533.98	14646.68	137.53	16091.11	16228.64
Social Services	5712.12	7249.73	12961.85	7857.02	9488.38	17345.40	9836.94	10460.00	20296.94
Economic Services	3652.22	4719.15	8371.37	4394.59	5689.89	10084.48	5464.93	7499.98	12964.91
Grants-in-aid and contributions	349.53	2200.37	2549.90	546.41	2388.62	2935.03	577.15	2626.07	3203.22
<b>Total</b>	<b>9837.68</b>	<b>26059.22</b>	<b>35896.90</b>	<b>12910.72</b>	<b>32100.87</b>	<b>45011.59</b>	<b>16016.55</b>	<b>36677.16</b>	<b>52693.71</b>
<b>Capital Expenditure</b>									
Capital Outlay	7863.82	61.05	7924.87	8657.07	142.81	8799.88	9022.87	32.30	9055.16
Loans and advances disbursed	47.25	3769.63	3816.88	959.32	2755.41	3714.73	1079.25	14681.31	15760.56
Repayment of public debt (excluding transactions under ways and means advances)	-	-	2394.05	-	-	2529.23	-	-	3149.79
Inter-State settlement	-	-	2.78	-	-	1.85	-	-	3.70
Contingency fund	-	-	-	-	-	-	-	-	100.00
Public account disbursements	-	-	50871.84	-	-	62344.26	-	-	73279.04
<b>Total</b>	<b>7911.07</b>	<b>3830.68</b>	<b>65010.42</b>	<b>9616.39</b>	<b>2898.22</b>	<b>77389.95</b>	<b>10102.12</b>	<b>14713.61</b>	<b>101348.25</b>
<b>Grand Total</b>	<b>17748.75</b>	<b>29889.90</b>	<b>100907.32</b>	<b>22527.11</b>	<b>34999.09</b>	<b>122401.54</b>	<b>26118.67</b>	<b>51390.77</b>	<b>154041.96</b>

(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 Service) Act, 1971. C&AG conducts audit of expenditure of the Departments and Autonomous Bodies of Government of Madhya Pradesh under Section 13<sup>1</sup>, 14<sup>2</sup>, 15<sup>3</sup>, 19<sup>4</sup> and 20<sup>5</sup> of the C&AGs (DPC) Act. The 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 Accountant General (Economic and Revenue Sector Audit), Madhya Pradesh

As a part of restructuring of State Audit Offices by the CAG, erstwhile office of the Accountant General (Works and Receipt Audit), Madhya Pradesh became the office of Accountant General of the Economic Services and Revenue Services Departments of the Government of Madhya Pradesh and was renamed as Accountant General (Economic and Revenue Sector Audit),

- 1 Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts.
- 2 Audit of expenditure
- 3 Audit of grants and loans
- 4 Audit of Government companies and corporations
- 5 Audit of accounts of certain authorities or bodies

Madhya Pradesh from 2 April 2012. After restructuring, audit of accounts of State Departments/Agencies/Public Sector Undertakings/Autonomous Bodies grouped under Economic Sector and Revenue Sector is conducted by Accountant General (Economic and Revenue Sector Audit). The Accountant General is assisted by four Group officers.

### **1.5 Planning and conduct of audit**

Audit process commences with the assessment of risk of the department/organisation/autonomous body/scheme, etc. 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 and an annual audit plan is formulated to conduct audit on the basis of such risk assessment. During 2011-12, 10560 party days were used to carry out audit of 781 units and to conduct one Performance Audit Review and two theme based audit & other audit of various departments.

After completion of audit of each unit, Inspection Reports (IRs) containing audit findings are issued to the head of the unit with a request to furnish replies within one month of receipt of the IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in the Government, are processed for inclusion in the Audit Reports which are submitted to the Governor of the State under Article 151 of the Constitution of India for causing them to be laid on the table of the State Legislature.

### **1.6 Significant Audit Observations**

In the last few years audit has reported 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.

#### ***1.6.1 Performance Audit and Thematic Audit***

The present report contains one performance audit review, and two thematic paragraphs. The highlights are given in the following paragraphs.

##### ***1.6.1.1 Development of Roads in Madhya Pradesh***

The road works in Madhya Pradesh are executed by the Public Works Department with the funding of CRF, NABARD and State Budget.

The fund management of works undertaken through CRF was deficient. The year wise targets were not fixed for effective monitoring of the programmes. There were instances of unfruitful expenditure without obtaining forest clearance. Execution of work was deficient as in large number of cases MORT&H specifications were disregarded. Tenders were accepted on unworkable rates resulting in slow progress of works under NABARD.

**(Paragraph 2.1)**

## **1.6.2 Thematic Paras**

### **1.6.2.1 Construction of minor irrigation schemes in Wainganga Basin**

Wainganga Basin of the Water Resources Department covers 1.62 lakh ha area through 778 MI schemes up to end of 2011-12. The basin covers eight districts, namely Balaghat, Chhindwara, Dindori, Jabalpur, Katni, Mandla, Narsinghpur and Seoni and consists of 12 water resources divisions.

The thematic study of construction of minor irrigation schemes in Wainganga Basin revealed that construction of minor Irrigation schemes was affected due to inadequate survey, non-synchronisation of process of land acquisition with tendering process and award of work in mid-way of acquisition of land. Performance of Lift Irrigation Schemes was poor due to lack of participation of users. Overlapping of command area of Minor Irrigation schemes with other Irrigation Schemes was not identified within time resulting in wasteful expenditure. Monitoring and quality control mechanism were deficient as basic records were not maintained and inadequate samples were being taken for testing.

**(Paragraph 2.2)**

### **1.6.2.2 Distribution Network of Rani Avanti Bai Lodhi Sagar Project**

Rani Avanti Bai Lodhi Sagar (RABLS) Project was initiated with the objective to irrigate 1.57 lakh hectare through Left Bank Canal (LBC). Construction of 135.50 km long left bank main canal along with its 1915.04 km distribution network was taken up in 1982 at a cost of ₹ 251.85 crore and was to be completed in 1990. The project was still incomplete after spending ₹ 1099.66 crore as of March 2012. Irrigation potential of 1.23 lakh hectare was created till January 2012 against the target of 1.57 lakh hectare.

Though the Authority had no financial constraints between 1996-97 and 2009-10, the canal construction work could not be completed within the targeted date due to delay in award of work, delay in acquisition of land and slow progress of works. The RABLS project rescheduled to be completed by 2015 has not achieved the desired objectives of providing irrigation due to non-synchronisation of work of distribution system and field channels with the main canal, as only 29,721 ha out of the created IP of 1.23 lakh ha was utilised as of March 2012. Abnormal delay in execution of main canal from km 130.67 to km 135.50 and its distribution network would be a major bottleneck in achieving the objective of irrigating 34,382 ha in Narsinghpur district. Contract management at the field level was defective and as a result, progress was not achieved as targeted.

**(Paragraph 2.3)**

### **1.6.3 Department Centric Audit**

This report contains department centric audit on Narmada Valley Development Department. The highlights are given in the following paragraphs:

NVDA incurred expenditure of ₹ 5472.40 crore against allotment of ₹ 6014.88 crore for creation of infrastructure to utilise Narmada water during 2007-12. There were delays in approval of DPRs from CWC, obtaining

environment clearances and award of work. There were further slippages in execution of dams as well as canals. So far, 11 dams for 13 major projects across the Narmada and its tributaries for storage of 9.114 MAF water and canal system for utilisation of 3.157 MAF water only could be completed.

NVDA could not complete canal network of any major project during 2007-12. Ineffective monitoring, non-preparation of alternative plans and award of works to ineligible contractors resulted in delays in construction. Assessment of requirement of fund for completion of the remaining projects was also inadequate.

NVDA may be able to complete construction of remaining dams and canal works of major projects by the review year only if works are awarded and taken up immediately and execution of works is monitored meticulously. Further, remaining medium projects may be completed by the review year if all the medium projects are identified immediately, clearances are obtained in minimum time, funds required for the projects are tied up and other activities are meticulously planned, monitored and executed.

Audit analysis revealed that preparedness for tapping and utilisation of Narmada water as per NWDT award is tardy as present progress was not found satisfactory. Effective action would be required to achieve the targets, else MP will be lagging behind in getting its due share of Narmada water.

**(Paragraph 3.1)**

#### ***1.6.4 Audit of transactions***

Audit has also reported on several significant deficiencies in critical areas which impact the effective functioning of the Government departments/organisation. These are broadly categorised and grouped as:

- Non-compliance with rules.
- Expenditure without propriety.
- Persistent and pervasive irregularities.
- Failure of oversight/ governance.

##### ***1.6.4.1 Non-Compliance with rules***

For 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 helps in maintaining good financial discipline. This report contains instances of non-compliance with rules involving ₹ 36.79 crore. Some significant audit findings are as under:

- *Belated deposit of ₹ 34.97 crore towards forest development cess by MP Forest Produce (Trade & Development) Co-operative Federation Ltd. in violation of rules resulted in loss of interest of ₹ 4.94 crore to the Government.*

**(Paragraph 4.1.1)**

- *Khair wood was auctioned below upset price resulting in loss of revenue of ₹13.82 lakh.*

**(Paragraph 4.1.2)**

- *The department spent ₹2.17 crore on promotion of Eco-tourism in forest area in violation of Forest (Conservation) Act, 1980 and without obtaining approval from Central Government.*

**(Paragraph 4.1.3)**

- *Amounts allocated for Joint Forest Management Committee in the budget were drawn and kept in bank accounts instead of in Personal Deposit Account in violation of MP Financial Code.*

**(Paragraph 4.1.4)**

- *Amount of ₹1.32 crore was paid to DGS&D for procurement of wireless sets and peripherals without obtaining license under Indian Telegraph Act, 1885 and returned amount was kept in Personal Deposit Account of DFO instead of remitting to the Government account.*

**(Paragraph 4.1.5)**

- *The component of 'open trough' costing ₹48.32 crore was deleted from the scope of an on-going composite contract. After absorbing an amount of ₹21.15 crore in substituted items of work, the resultant cost saving of ₹27.17 crore was also paid by increasing the rates of other items in the work instead of reducing the over all contract price.*

**(Paragraph 4.1.6)**

- *Recovery of ₹1.05 crore was not made for the excavated hard rock required in four canal construction works.*

**(Paragraph 4.1.7)**

#### ***1.6.4.2 Expenditure without propriety***

Authorisation of expenditure from public funds is 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 and should enforce financial order and strict economy at every step. Audit has detected instances of impropriety, extra and infructuous expenditure, some of which are mentioned below:

- *A contractor showing skewed progress of work was sanctioned cash incentive of ₹11.68 crore (paid ₹5.84 crore) for early achievement of financial milestones despite failure to achieve the specified physical milestones and continued delayed execution.*

**(Paragraph 4.2.1)**



- *Excess payment of ₹ 85.59 lakh to a contractor towards price adjustment towards price adjustment due to adoption of incorrect ratio of Petrol Oil Lubricant and Material component.*

**(Paragraph 4.2.2)**

- *Delay in sanction and execution of a 35 kilometer road under Twelfth Finance Commission grants resulted in abandoning the work mid way due to expiry of scheme period and stoppage of funds, and consequential nugatory expenditure of ₹ 4.94 crore.*

**(Paragraph 4.2.3)**

- *The total command area of 1628 hectares of Rajapur Lift Irrigation Scheme in Rewa district, taken up in 2007, overlapped with the command area of another major Lift Irrigation Scheme at Teonthar resulting in wasteful expenditure of ₹ 1.63 crore.*

**(Paragraph 4.2.4)**

#### **1.6.4.3 Persistent and pervasive irregularities**

An irregularity is considered persistent if it occurs year after year and it becomes pervasive, when it is prevailing in the entire system. Reoccurrence of irregularities despite being pointed out in earlier audits, is not only indicative of non-seriousness on the part of the Executive but is also an indication of lack of effective monitoring. This, in turn, encourages willful deviations from observance of rules/regulations and results in weakness of the administrative structure. Cases of persistence irregularity reported in audit are discussed below:

- *Additional Security Deposit of ₹ 3.56 crore were not deducted from contractors against the unbalance rates.*

**(Paragraph 4.3.1)**

- *Extra payment of ₹ 9.33 crore on account of escalation was made to contractors by adopting revised factor for price escalation prior to approval of the Government*

**(Paragraph 4.3.2)**

#### **1.6.4.4 Failure of oversight/governance**

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

- *Undue financial aid to contractors of ₹ 8.48 crore and loss to Government of ₹ 43.92 lakh occurred due to non-deduction of additional security deposit for unbalanced rate items.*

**(Paragraph 4.4.1)**

- *Loss to Government ₹ 1.68 crore occurred due to non-recovery of liquidated damages for delay on part of contractors in execution of seven works.*

**(Paragraph 4.4.2)**

- *Excess payment was made to contractor ₹ 81.71 lakh due to adoption of higher rates for steel in calculating price adjustment and payment for work not done.*

**(Paragraph 4.4.3)**

- *Deficient planning and non-synchronisation of nalla closure work with waste weir construction led to idle expenditure of ₹ 1.53 crore.*

**(Paragraph 4.4.4)**

- *Earth work was done without watering and rolling resulted in substandard work costing ₹ 49.59 lakh.*

**(Paragraph 4.4.5)**

- *Increase in quantities of item of work due to improper survey and estimation resulted in extra cost of ₹ 57.55 lakh.*

**(Paragraph 4.4.6)**

**1.6.4.5 Recoveries at the instance of Audit**

As a result of audit during the year 2011-12, amount of ₹ 124.89 crore was accepted by the audited entities for affecting recoveries. During the same period audited entities of four departments<sup>6</sup> recovered ₹ 5.07 crore. Instances of significant recoveries are given below:

- *Excess payment of ₹ 58.41 lakh made to contractor on account of inflated measurement of work was recovered.*

(Water Resources Department)

- *Payment of ₹ 25.71 lakh made to contractor for work not done was recovered.*

(Water Resources Department)

**1.7 Lack of responsiveness of Government to Audit**

**1.7.1 Inspection reports outstanding**

The Heads of Offices and next higher authorities are required to comply with the observations contained in the Inspection Reports (IRs), promptly rectify the defects/omissions and report their compliance to the Accountant General Economic & Revenue Sector Audit (AG) within four weeks of their receipt. The AG also bring serious irregularities to the notice of the Heads of Departments.

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<sup>6</sup> Forest, Public Works, Water Resources, Madhya Pradesh Rural Road Development Authority.

As of 30 June 2012, 4831 IRs (19054 paragraphs) were outstanding against civil departments<sup>7</sup>. Of these, 2730 IRs (8499 paragraphs) were pending settlement for more than five years. Year wise details of IRs and paragraphs outstanding are detailed in **Appendix-1.1**. Financial rules of the Government needs to be modified to include provisions and appropriate deterrence to ensure speedy compliance/response to audit observations

### ***1.7.2 Constitution of Audit Committee***

The Government while accepting the recommendations of Shakhdar Committee (High Powered Committee) constituted a High Power Committee (May 2000) for monitoring the follow-up action on audit observations. The Government constituted an Apex Level Committee (April 2009) and 44 Departmental Level Committees (DLCs) for speedy settlement of audit observations. But no periodicity of meeting of Apex Level Committee was prescribed in the order. However, departmental level committees are required to meet once in three months.

***While Apex Level State Audit Committee did not meet, only three meetings of DLC<sup>8</sup> were held during 2011-12 in the Economic Sector Departments.***

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

As per instructions issued (November 1998) by the Madhya Pradesh Vidhan Sabha Secretariat, the departments are to intimate the Public Accounts Committee (PAC) and the PAG/AG about the action taken or any action proposed by them in respect of Audit Report paragraphs within three months of presentation of the Audit Report in the State Legislature.

A review of the audit paragraphs pertaining to six Audit Reports disclosed that departmental replies to 11 paragraphs were still awaited (September 2012) as per details given in **Appendix-1.2**.

### ***1.7.4 Paragraphs for discussion by the Public Accounts Committee***

Details of paragraphs (excluding General and Statistical) pending discussions by the Public Accounts Committee as of 30 June 2012 are detailed in **Appendix-1.3**.

### ***1.7.5 Government response to PAC's recommendations***

The Chief Secretary, Government of Madhya Pradesh issued (November 1994) instructions to all the departments to inform PAC about the action taken or the action proposed by them in respect of PAC's recommendations within six months of presentation of PAC's report in the State Legislature. The copies of action taken notes are also to be endorsed to the PAG/AG for his comments.

The departments did not furnish ATNs on PAC's recommendations on 300 Audit Report paragraphs (September 2012). ATNs had not been furnished on the recommendations made on the Audit Reports for the year as early as 1986-87. Department-wise and year-wise details are given in **Appendix-1.4**.

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<sup>7</sup> As per Appendix 1.1

<sup>8</sup> DLC meetings of MPRRDA, PWD and NVDA were held on 30.6.2011 5.12.11 and 15.12.11 respectively

Pending position had been brought to the notice of the Chief Secretary (November 2012) and requested to issue suitable instructions to the departments concerned.

***1.7.6 Response of the departments to Draft Audit Reports***

Draft Paragraphs and Performance Audit are forwarded to the Principal Secretary, Finance and Principal Secretaries of different departments demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. Out of 19 Draft Paragraphs, one Performance Audit Reports, two Thematic paras and one department centric audit forwarded to the various departments between June and October 2012, the Government had replied to only 10 draft paragraphs.