

## Chapter I

### Introduction

#### 1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) on Government of Odisha covers matters arising from Performance Audit of selected programmes and activities and Compliance Audit of Government Departments.

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.

Compliance Audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of the audited entities. These are 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.

Chapter I of this Report provides a synopsis of the significant audit observations. Chapter II deals with the findings of three Performance Audits and Chapter III deals with Compliance Audit of various departments.

The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2016-17. The issues which had come to light in earlier years, but could not be dealt with in previous Reports are also included in the Report. Matters relating to the period subsequent to 2016-17, have also been included, wherever necessary.

#### 1.2 Audited entity's profile

There were 40 Departments in the State headed at the Secretariat level by Additional Chief Secretaries/ Principal Secretaries/ Commissioner-cum-Secretaries and assisted by Directors and subordinate officers. Of these, 25 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 2016-17 and in preceding two years is given in *Table 1.1*.

**Table 1.1: Comparative Position of Expenditure incurred by the Government of Odisha during 2014-17**

(₹ in crore)

Particulars	2014-15			2015-16			2016-17		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
<b>Revenue Expenditure</b>									
General Service	175.33	14353.53	14528.86	96.81	14961.85	15058.66	110.01	16604.43	16714.44
Social Service	10481.45	10482.69	20964.14	12471.63	12171.53	24643.16	13654.86	13945.09	27599.95
Economic Service	8220.31	6605.07	14825.38	10701.84	7486.28	18188.12	11565.83	8147.91	19713.74
Grant-in-Aid	0.00	817.37	817.37	0.00	915.76	915.76	0.00	1012.40	1012.40
<b>Total</b>	<b>18877.09</b>	<b>32258.66</b>	<b>51135.75</b>	<b>23270.28</b>	<b>35535.42</b>	<b>58805.70</b>	<b>25330.70</b>	<b>39709.83</b>	<b>65040.53</b>
<b>Capital Expenditure</b>									
Capital Outlay	11056.65	17.98	11074.63	17075.74	14.74	17090.48	18457.66	13.41	18471.07
Loans & Advances disbursed	259.52	98.48	358.00	241.89	94.64	336.53	0.00	254.10	254.10
Repayment of Public Debt	*	*	4111.45	*	*	2881.37	*	*	2962.04
Public account Disbursed	*	*	22511.40	*	*	28766.05	*	*	38080.45
<b>Total</b>	<b>**</b>	<b>**</b>	<b>38055.48</b>	<b>**</b>	<b>**</b>	<b>49074.43</b>	<b>**</b>	<b>**</b>	<b>59767.66</b>
<b>Grand Total</b>	<b>**</b>	<b>**</b>	<b>89191.23</b>	<b>**</b>	<b>**</b>	<b>107880.13</b>	<b>**</b>	<b>**</b>	<b>124808.19</b>

\*Public Debt and Public account figures are not segregated as Plan and Non-Plan

\*\* Totaling not made due to non-availability of figures above

(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 41 Autonomous Bodies<sup>2</sup>, which are audited under Section 20 (1) and 19 (2) of the

<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> One State Legal Services Authority, 30 District Legal Services Authorities, nine Development Authorities and Odisha Building and Other Construction Workers Welfare Board

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said Act. Audit of Government companies was also conducted under Section 19 (1) of the DPC Act. In addition, CAG conducts audit of 70 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). The State Government had entrusted (July 2011) audit of these bodies to CAG. CAG was also 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.

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

The Audit process starts with the risk assessment of the Department/Organisation as a whole and that of each unit based on i) expenditure incurred, ii) criticality/ complexity of activities, iii) level of delegated financial powers, iv) assessment of internal controls, v) concerns of stakeholders and vi) 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.

#### **1.5 Significant observations of Performance Audit**

This Report contains three Performance Audits. The focus had been on auditing the specific programmes/ schemes and offering suitable recommendations. The intention was to assist the executive in taking corrective action and improving service delivery to the citizens. Significant audit observations are discussed below:

##### ***1.5.1 Implementation of Pradhan Mantri Gram Sadak Yojana in the State***

The objective of Pradhan Mantri Gram Sadak Yojana (PMGSY) was to provide all-weather connectivity to the eligible unconnected habitations. Performance Audit on implementation of PMGSY in the State revealed the following:

- Under PMGSY, out of 18,176 habitations included in the Core Network of rural roads, road connectivity to 6,048 habitations (33 per cent) had not been given as of March 2017.

***(Paragraph 2.1.6)***

- Under PMGSY, the length of 121 rural roads under Core Network differed from the Detailed Project Reports. Due to the mismatch, these roads were not approved for construction. As a result, the State Government lost Central assistance of ₹ 155.33 crore.

*(Paragraph 2.1.7.1)*

- The Detailed Project Reports did not consider requirement of land or forest clearance. As a result, 441 kilometre roads sanctioned during 2003-17 could not be completed despite utilisation of ₹ 53.54 crore.

*(Paragraph 2.1.10.1)*

- The Executive Engineer, Rural Works Division, Sundargarh awarded 13 works to the contractors whose bidding capacity was inadequate. The contractors could not complete the works, which resulted in cost overrun of ₹ 5.47 crore.

*(Paragraph 2.1.9.2)*

- During 2012-17, 19,203 roads required maintenance. Against this, only 7,496 roads (39 per cent) were actually maintained.

*(Paragraph 2.1.12)*

- The State Level Standing Committee, chaired by the Chief Secretary, did not monitor implementation of the scheme adequately.

*(Paragraph 2.1.14)*

**Even after 16 years of implementation of the programme, connectivity to 33 per cent of the eligible habitations was not provided. Adequate preparatory and survey works were not carried out in preparing Detailed Project Reports. Routine maintenance of PMGSY roads was not ensured. Monitoring of implementation of the scheme was not adequate.**

### ***1.5.2 Implementation of National Cyclone Risk Mitigation Project and Odisha Disaster Recovery Project in the State***

Odisha State Disaster Management Authority (OSDMA) of the State Government implemented National Cyclone Risk Mitigation Project (NCRMP) with a project cost of ₹ 1,093.79 crore for increasing preparedness for natural disasters. Odisha Disaster Recovery Project (ODRP) was implemented with a project cost of ₹ 1,352 crore to rehabilitate persons affected in the cyclone *Phailin* and reconstruct damaged civil infrastructure. Performance Audit on implementation of NCRMP and ODRP revealed the following:

- Under NCRMP, 56 Multi Purpose Cyclone Shelters (MPCSs) were additionally constructed violating the recommendation of IIT, Kharagpur. This resulted in extra expenditure of ₹ 77.84 crore.

*(Paragraph 2.2.10)*

- For construction of saline embankments, soil was transported from borrow pits that were situated within 500 metres of the embankments. However, the contractors were paid considering distance of transportation as five kilometres, resulting in excess payment of ₹ 7.37 crore.

*(Paragraph 2.2.12)*

- In construction of 46 approach roads and 45 MPCSs by the Rural Development Department, the Executive Engineers prepared estimates as per the State Analysis of Rate (SAR). The agreements executed with the contractors followed Indian Standard (IS) specifications, which provided for use of less quantity of cement. However, in execution of 99,802 cubic metre of reinforcement cement concrete works, quantity was calculated as per the SAR instead of IS, which led to excess payment of ₹ 6.31 crore.

*(Paragraph 2.2.14)*

- The recommendation of the Indian Institute of Technology, Kharagpur and National Disaster Management Authority guidelines prescribed circular/ hexagonal/ octagonal shaped buildings in order to improve the aerodynamics of the structure. In five sampled districts, all the 43 MPCSs were rectangular in shape. Also, the MPCSs were not equipped with essential equipment and electricity.

*(Paragraph 2.2.10)*

- The State Level Project Steering Committee, headed by the Chief Secretary, under NCRMP had not conducted any meeting after November 2013. Thus, monitoring of implementation of the programme was inadequate.

*(Paragraph 2.2.17)*

**Early Warning Dissemination System could not be made operational even after six years of commencement of the project. Multi Purpose Cyclone Shelters were not provided with essential equipment and electricity. Cases of excess payment and undue favour to contractors in construction of embankments were also observed. Monitoring was deficient.**

### ***1.5.3 Information Technology Audit on Works and Accounting Management Information System***

Works and Accounting Management Information System (WAMIS) was implemented to bring efficiency and effectiveness in the functioning of engineering department. Information Technology Audit on Works and Accounting Management Information System revealed the following:

- Rural Development Department had instructed all divisions to process Running Account (RA) bills and submit monthly accounts to Accountant General (A&E) through WAMIS from 2012. However, the divisions processed RA bills of only 12 *per cent* works through WAMIS as of March 2017. Remaining bills were processed manually.

*(Paragraph 2.3.5.1)*

- Rural Development Department had proposed some changes in the software design and incorporation of additional features in WAMIS. However, the changes proposed for incorporation in the system were not ensured, which created inconsistencies in electronic workflow.

*(Paragraph 2.3.5.3)*

- The Department was required to frame Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP). However, Back up Plans were not framed and WAMIS was running without any BCP/ DRP even after seven years of its implementation.

*(Paragraph 2.3.5.4)*

- Required oversight over database administration was absent. As a result, unauthorised users accessed the database, logs were deleted, contractor's details were tampered with and records of vital tables were deleted.

*(Paragraph 2.3.5.5)*

**The objective of implementing WAMIS was not achieved due to non-implementation of all modules. Due to design deficiencies and weak management controls, the system was not reliable. Due to lack of validation controls, non-mapping of business rules and non-provision of digital signature, there was deviation of codal provisions and passing of bills.**

## **1.6 Significant audit observations of Compliance Audits**

### ***1.6.1 Management and distribution of custom milled rice***

The Odisha State Civil Supplies Corporation Limited (OSCSC), procured paddy from farmers and the same was milled through millers. The custom

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milled rice was distributed through the Public Distribution System. Audit of Management and distribution of custom milled rice revealed the following:

- During 2015-16, four districts transferred 0.72 lakh MT to FCI and at the same time received 0.15 lakh MT from other districts. The cost of transportation of rice received was ₹ 2.93 crore. Hence, transfer of CMR to FCI disregarding own requirement was imprudent.

Similarly, 11 other districts received 1.92 lakh MT of CMR and at the same time transferred 0.71 lakh MT of CMR to FCI. The quantity of CMR transferred to FCI could have been utilised by the districts instead of receiving from other districts. As such transportation cost of ₹ 10.08 crore involved in transferring rice to FCI could have been avoided from other districts to meet their requirement.

*(Paragraph 3.1.2.1)*

- Surplus custom milled rice was to be delivered to FCI. After delivery, FCI was to reimburse expenditure incurred towards commission to the paddy procurers, joint custody and maintenance fees, market fees and transport cost on the basis of supplementary bills raised by the District Offices. However, the District Offices did not furnish supplementary bills for which FCI withheld ₹ 183.55 crore.

*(Paragraph 3.1.4)*

**The plan for lifting of CMR and issue to FCI did not take into account the demand and supply position of respective districts. Steps for preferring bills against FCI for settlement of dues was inadequate.**

### *1.6.2 Administration of jails in the State*

The primary function of prisons was to reform, rehabilitate and reintegrate prisoners with society. Audit of Administration of jails in the State revealed the following:

- The reforms suggested in the Model Prison Manual had not been adopted.

*(Paragraph 3.2.2)*

- The Home Department did not submit Utilisation Certificate for the amount of ₹ 75 crore received from the Thirteenth Finance Commission. As a result, Government of India did not release the balance amount of ₹ 25 crore, which was a loss to the State exchequer.

*(Paragraph 3.2.3)*

- The jail authorities had kept 472 convicts and 1,988 under trial prisoners in the same ward without separate enclosure. This was against the provision of the Odisha Jail Manual.

*(Paragraph 3.2.4)*

- Installation of 2G cell phone jammers in five jails failed to block 3G signals. This rendered the expenditure of ₹ 3.91 crore on jammers unfruitful.

*(Paragraph 3.2.5)*

- Out of 873 walkie-talkies purchased at a cost of ₹ 59.74 lakh, 257 were non-functional from the date of receipt.

*(Paragraph 3.2.5)*

- In 11 jails, 96 out of 234 rifles were unserviceable. No arms and ammunition was supplied to five jails. During 2014-17, 21 prisoners managed to escape due to insufficient security.

*(Paragraph 3.2.5)*

**The institutional mechanism suggested in the Model Prison Manual had not yet been adopted. The investments made in strengthening the security systems also became unfruitful due to various lapses.**

### ***1.6.3 Implementation of National Rural Drinking Water Programme***

Government of India launched National Rural Drinking Water Programme with the vision of “Safe drinking water for all, at all times in rural areas”. Audit of implementation of National Rural Drinking Water Programme revealed the following:

- Against the target of providing water connection to 35 per cent households by 2017, only 3.70 per cent households were given connections.

*(Paragraph 3.3.4.1)*

- Priority was to be given to surface water based piped water supply. However, out of 15,357 piped water supply schemes, only 1,471 (9.58 per cent) schemes were surface water based.

*(Paragraph 3.3.4.1)*

- Non-conduct of feasibility study before drilling of tubewells resulted in wasteful expenditure of ₹ 3.76 crore.

*(Paragraph 3.3.4.7)*

- Against requirement of at least 317 testing laboratories in the State, only 77 laboratories were available.

*(Paragraph 3.3.5)*

**Priority had not been given to the least covered and quality affected habitations though required as per the guidelines. The targets fixed under Strategic Plan to be achieved by 2017 were largely not achieved. Water quality monitoring and surveillance was inadequate.**



**1.6.4 Excess expenditure in construction of staff quarters**

Odisha State Police Housing and Welfare Corporation Limited constructed 643 staff quarters with plinth area in excess of that prescribed in the Orissa Public Works Accounts Code. This led to extra expenditure of ₹ 26.76 crore.

(Paragraph 3.4)

**1.6.5 Imprudent management of funds leading to loss of interest of ₹15.39 crore**

Unutilised scheme funds were retained in saving/ current accounts instead of flexi accounts in violation of the instructions of the Finance Department. This resulted in loss of interest of ₹ 15.39 crore.

(Paragraph 3.5)

**1.6.6 Undue favour to a firm for setting up of language laboratories**

The decision to award work of setting up of Language Laboratories in 108 colleges of the State to a private firm on nomination basis was not in order. Further, after spending ₹ 22.88 crore on the project, there was no enrolment in 42 colleges where Language Laboratories were set up at the total cost of ₹ 8.64 crore.

(Paragraph 3.6)

**1.6.7 Illegal occupation of Government property**

The prison authorities failed to take possession over a Government property valuing ₹ 4.86 crore, meant for children of prisoners. This led to illegal occupation of the property by a Non-Government Organisation.

(Paragraph 3.7)

**1.6.8 Unfruitful expenditure on idle equipment**

Failure of the hospitals to impart training to the doctors to use sophisticated equipment and to provide suitable space led to idling of equipment apart from rendering the expenditure of ₹ 4.49 crore unfruitful.

(Paragraph 3.8)

**1.6.9 Absence of financial propriety in the arrangements for Nabakalebar festival**

Fraudulent payment of ₹ 44.19 lakh was made by the Chief District Medical Officer, Puri from the funds allocated for Nabakalebar festival.

(Paragraph 3.11)

***1.6.10 Misappropriation of Government revenue***

The Tahasildars did not adhere to the codal provisions in handling Government revenue and maintaining cash books. This resulted in misappropriation of ₹ 6.13 lakh and doubtful expenditure of ₹ 0.58 lakh.

*(Paragraph 3.12)*