

CHAPTER - VIII

Compliance Audit

Chapter-VIII

Compliance Audit

Compliance audit of Departments of Government and their field formations brought out several instances of lapses in management of resources. There were failures in observance of regularity and propriety. These have been discussed in the succeeding paragraphs.

COOPERATION DEPARTMENT

8.1 Assistance to farmers through Primary Agricultural Cooperative Societies

8.1.1 Introduction

Odisha is an Agrarian State with 56.91 lakh⁸² agricultural families comprising of almost 70 *per cent* of its population depending on agricultural income. The Cooperation Department was created with the basic objective of strengthening the cooperative movement in the State. The Department under the administrative control of the Commissioner-cum-Secretary to the Government is responsible for implementation of schemes which are administered by Registrar of Cooperative Societies (RCS) and Deputy Registrar of Cooperative Societies (DRCS)/Assistant Registrar of Cooperative Societies (ARCS). It facilitates the farmers to obtain adequate and timely credit for financing their agricultural and allied activities through Primary Agricultural Cooperative Societies (PACS).

The PACS are established under Odisha Cooperative Societies Act 1962 and registered with the RCS, Odisha. It has its own bye-laws for management of its day to day activities under an elected body consisting of 11 to 15 members. PACS is a grass root level institution with a three tier structure under Short Term Cooperative Credit Structure (STCCS) consisting of District Central Cooperative Banks (DCCB) at middle level and Odisha State Cooperative Bank (OSCB) at apex level. These cooperative credit institutions, with their wide outreach in the rural areas and accessibility to the small and marginal farmers, have been playing a vital role in dispensation of agriculture credit. It is the basic unit which provides short-term, medium-term, and long-term crop loans, acts as a hub for transacting agricultural produce of farmers and distribution of fertilisers, seeds, pesticides, *etc.* It also facilitates hiring of machineries on rental basis to farmers to ease cultivation and increase in agricultural production and productivity. PACS receive 0.5 *per cent* as margin money⁸³ for facilitating lending to borrowers. It also collects deposits from members and non-member farmers under its jurisdiction for its day to day functioning. As per information furnished by OSCB, of 56.91 lakh agricultural families in Odisha, 55.20 lakh (97 *per cent*) families⁸⁴ were enrolled in PACS to avail the benefits extended by the Government (March 2018).

⁸² Report containing the activities of Cooperative institutions under the Directorate of RCS, Odisha, 2018-19

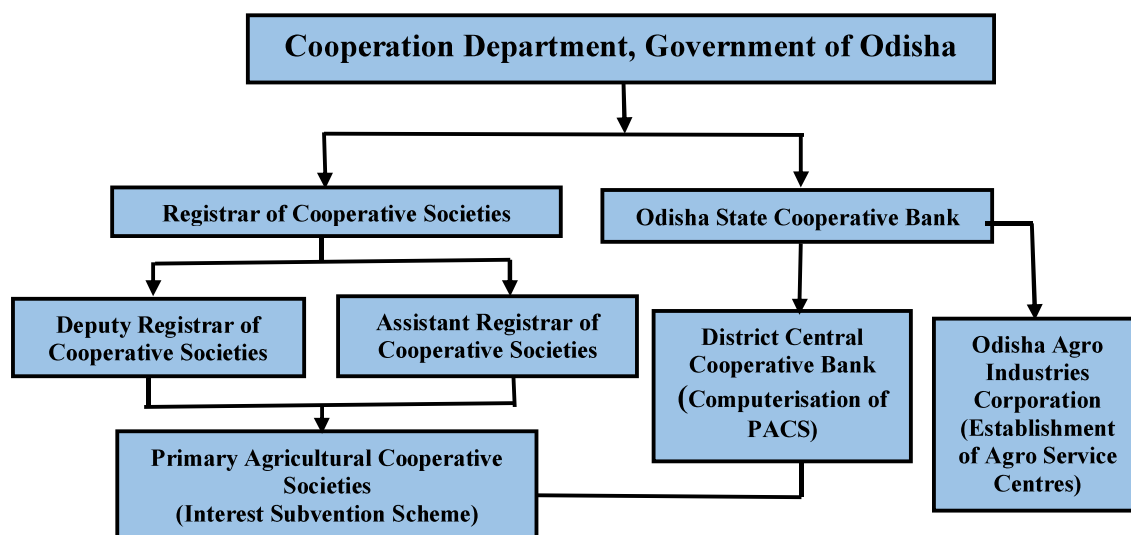
⁸³ Crop loan processing fees

⁸⁴ As furnished by OSCB

PACS undertake the following important functions which *inter alia* include implementation of various schemes/ activities

- To provide short term crop loans to farmers who are members of respective PACS, up to ₹3.00 lakh (per borrower) for seasonal agricultural operations through Interest Subvention Scheme (Scheme). The crop loans bear an interest rate of two *per cent* (interest rate of seven *per cent* less Government subsidy of five *per cent*) on timely repayment of the crop loans.
- To establish Agro Service Centres (ASC) through Odisha Agro Industries Corporation⁸⁵ (OAIC) by providing farm equipment to the farmers on hire basis to increase agricultural production and productivity.
- To maintain a Management Information System (MIS) on data related to the farmer families in the State, the finances of the PACS and monitoring of scheme implementation to facilitate proper functioning and better service delivery.

A flow chart of the entities responsible for implementation of the above activities is given below:



A Detailed Compliance Audit was conducted from June to September 2019 covering the period 2014-18. The records of Cooperation Department, Government of Odisha (GoO), RCS, OSCB and four⁸⁶ out of 17 DCCBs covering nine⁸⁷ out of 30 districts were reviewed. The units were selected through stratified random sampling method. Audit also test-checked the records of respective DRCS/ ARCS of concerned districts and 27 PACS⁸⁸ of

⁸⁵ A Corporation working under the Department of Agriculture and Farmers' Empowerment (DA&FE)

⁸⁶ Balasore, Berhampur, Cuttack, Nayagarh

⁸⁷ (1) Balasore, (2) Bhadrak, (3) Cuttack, (4) Gajapati, (5) Ganjam, (6) Jagatsinghpur, (7) Jajpur, (8) Kendrapara and (9) Nayagarh

⁸⁸ Arnabal, Kalei, Ranasahi, Sabaranga, Srirampur and Talamalagopinathpur (under DCCB Balasore), Bagada, Bommika, Gumma, Jammi, Nimakhandi Pentho, and Padmanavapur (under DCCB Berhampur), Bharatpur, Jamadhar, Kaduapada, Khairabad, Madhyakachha, Mudupur, Nathasahi, Panasa, Ostapur, Ramakrishnapur, Raisunguda, and Singhapur (under DCCB Cuttack) and Dianpada, Gobindpur, and Lenkudipada (under DCCB Nayagarh)

selected four DCCBs. Besides, information on establishment of ASC was also collected from OAIC. Audit findings were discussed on 7 January 2020 with Commissioner-cum-Secretary to the GoO, Cooperation Department. The views of the Government have been incorporated appropriately in the report.

8.1.2 Audit Findings

8.1.2.1 Planning Process

The Cooperative Credit Structure (CCS) has made significant strides in the field of rural credit for agricultural activities and rural development. The three tier STCCS in the State consists of 2,708 functional PACS including 214 Large-sized Adivasi Multipurpose Cooperative Societies (LAMPCS) and six Farmers' Services Cooperative Societies (FSCS), 17 DCCBs with their 341 branches and OSCB, a Scheduled Bank.

GoO fixes an annual target for disbursement of crop loans to farmers through STCCS with an increase of approximately 10 *per cent* every subsequent year. Further, the State Government emphasised to provide credit to new farmer members. Disbursement of crop loans and coverage of farmer members in the State and in test-checked PACS during 2014-18 is given in below mentioned table.

Table No 8.1: Statement showing coverage of farmers and disbursement of crop loans in the State and in test-checked PACS during 2014-18

Year	Disbursement of crop loan				Coverage of farmers in the State and test-checked PACS					
	Target (₹ in crore)		Achievement (₹ in crore)		Total Number of farmers enrolled (₹ in lakh)		Total Number of farmers who availed crop loan (percentage)		Total Number of new farmers who availed crop loan (percentage)	
	In the State	In test checked PACS	In the State (Percentage)	In test checked PACS (Percentage)	In the State	In test checked PACS	In the State (₹ in lakh)	In test checked PACS in numbers	In the State (₹ in lakh)	In test checked PACS in numbers
2014-15	8,000	108.67	8,351.11 (104.39)	98.64 (90.77)	54.66	0.61	30.29 (55.42)	36,568 (59.83)	1.24 (4.10)	670 (1.83)
2015-16	10,000	119.94	9,572.22 (95.72)	109.94 (91.66)	55.46	0.63	32.01 (57.72)	40,213 (63.60)	1.39 (4.34)	633 (1.57)
2016-17	11,000	125.81	10,204.81 (92.77)	115.73 (91.98)	56.10	0.64	31.44 (56.04)	40,147 (62.65)	0.71 (2.26)	631 (1.57)
2017-18	12,000	146.31	11,005.74 (91.71)	119.78 (81.86)	55.20	0.65	30.77 (55.74)	38,927 (59.54)	0.58 (1.88)	638 (1.64)
Total	41,000	500.73	39,133.88	444.09						2,572 (1.65)

(Source: Information furnished by OSCB and PACS)

It was observed from table above that the achievement of disbursement of crop loan ranged from 81.86 *per cent* to 91.98 *per cent* and number of farmers who availed crop loans ranged from 59.54 *per cent* to 63.60 *per cent* in the test-checked PACS which was commensurate with the overall figures achieved at the State level. Audit enquired on the pace of enrolment and grant of crop loans to new farmers. The State Government reiterated its efforts at enrolling and creating increasing awareness of the scheme, also citing shifting pattern of cultivation in rural areas from 'on farm' to 'off farm' activities and migration to urban areas as a current trend.

8.1.2.2 Kisan Credit Card

The OSCB introduced (1998-99) Kisan Credit Card (KCC) Scheme in the State for implementation through DCCBs and the PACS to simplify the procedure of granting loans. KCC guidelines provide that all KCC holders shall be sanctioned a cash credit limit, which would be determined on the basis of land holding, crops cultivated and scale of finance⁸⁹ fixed for the crops. Individual credit limits shall be fixed for each KCC holders for Kharif⁹⁰ and Rabi⁹¹ season.

Audit observed the following:

- **Shortfall in issue of Kisan Credit Card**

The Government instructed (April 2014) that DCCBs were required to prepare action plan to cover the left out agricultural families under cooperative network by issuing fresh KCC and extending crop loans with emphasis on small and marginal farmers. GoO/ OSCB fixed a target of issuing two lakh KCCs per year to the farmers for availing loan without any hindrance. As of March 2014, KCCs had been issued to 42.84 lakh farmers out of total 53.69 lakh members enrolled. The status of issue of KCCs during the period 2014-18 is given in table below.

Table No 8.2: Status of issue of Kisan Credit Cards as on 31 March 2018

Year	Farmers enrolled (in lakh)	KCC already issued (in lakh)	Farmers eligible for issue of KCC during the year (in lakh)	Target for issuing KCC during the year (in lakh/in per cent)	Achievement (in lakh/ in per cent)	Shortfall in achievement during the year (in per cent)
2014-15	54.66	44.52	10.14	2.00 (19.72)	1.67 (83.50)	16.50
2015-16	55.46	46.05	9.41	2.00 (21.25)	1.53 (76.50)	23.50
2016-17	56.10	45.00	11.10	2.00 (18.01)	0.89 (44.50)	55.50
2017-18	55.20	45.77	9.30	2.00 (21.51)	0.78 (39.00)	61.00

(Source: As per information furnished by OSCB)

It is apparent from table that during the years 2016-17 and 2017-18, the issue of KCCs decreased. OSCB stated that it was due to closure of non-functional accounts.

Further, the scheme *inter alia* fixed a target for issue of two lakh cards per year. These targets fell within a range of 18.01 to 21.51 *per cent* of the eligible farmers every year. However, these targets were not achieved, with shortfall

⁸⁹ It is the realistic assessment of expenditure on cultivation of various crops for determining the extent of crop loan

⁹⁰ Kharif cropping season from April to September

⁹¹ Rabi cropping season from October to March

ranging from 16.50 to 61.00 *per cent* during the said period⁹². This indicated that the farmer members, who had not been issued with KCCs, could not benefit from the scheme.

The Government stated (December 2019) that the OSCB had taken initiative to achieve the target by sensitising the members through awareness campaigns namely “Cooperative at your doorsteps” and “Krushak Samparka Abhiyan”.

- **Non-activation of RuPay Kisan Cards**

KCC scheme guidelines emphasised issue of RuPay Kisan Card to farmer members of PACS to draw funds from any ATM⁹³ of all banks across the State. Once the credit limits are sanctioned, a non-defaulter KCC holder can draw funds by using the smart card. Accordingly, OSCB launched RuPay Kisan Card in July 2017 and printed 18.48 lakh cards by incurring ₹17.43 crore having the month of expiry as January 2020 and provided such cards to DCCBs/ PACS for distribution to farmers.

Audit observed that OSCB failed to activate the 18.48 lakh RuPay Kisan Cards within the date of validity. Further, since the OSCB did not initiate any steps to subsequently revalidate such cards by extending the date of expiry, after lapse of more than two years, possibility of using such cards were very remote. As a result, farmer members of PACS and non-defaulter KCC holders were not only deprived of drawing funds as per stated policy/ instructions to OSCB/ DCCBs/ PACS, but the entire expenditure of ₹17.43 crore was rendered wasteful.

The Government stated (December 2019) that the cards could not be used in Core Banking Solution (CBS) mainly due to non-verification of data captured in respect of farmer members and poor network link at PACS level. In the exit conference, Secretary, Co-operation Department, stated that the issue of the RuPay Kisan Card without linking to the savings bank account did not serve any purpose. The PACS also do not have core banking solution. It was mentioned that requisite steps were being taken and cards would be revalidated or new cards issued. The old KCC was to be reviewed critically or scrapped.

It is recommended that the State Government should fix responsibility for the lapses and wasteful expenditure. The Department implemented a new system without ensuring the basic requirement of verification of farmer member details to use RuPay Kisan Cards, failed to activate them and ensure other necessary infrastructure requirements critical to the task which put an additional burden on the exchequer to the tune of ₹17.43 crore, which was rendered wasteful.

8.1.2.3 Sanction of crop loans without proper check of land details

KCC guidelines stipulated that the crop loan was sanctioned to a farmer based on his land possession and was valid for a period of five years. If the farmer

⁹² As reported in the Audit Report (Economic Sector) for year ended March 2015, in the Performance Audit (PA) on Schemes of Cooperation Department, actual achievement during 2012-13 and 2013-14 was 42 percent of the target (set as 5 lakh of eligible farmers)

⁹³ Automated Teller machine

member sells his land, acquires additional landed properties, changes the pattern of cultivation of various crops, the scale of finance undergoes change. The members of PACS should produce the land records to the Secretary of the PACS who would record the details of the land in the land register and take the signature of the member. The authorised official of the Revenue and Disaster Management Department (R&DMD) would also verify the correctness of the land details in the land register and would affix his signature for having them verified. The farmer members were supplied with Pass Books and Cheque Books to avail instant credit by drawing cash from branches of DCCB at the time of their need and repay the same at PACS or branches of DCCB as per their convenience or within crop season period.

Audit test-checked 6,991 out of 39,165 land records of farmer members in 27 PACS and noticed that no such verification had been done by Revenue Authorities in the land register. Audit scrutinised 171 land records of 55 farmer members as noted in the land register and found that, in 71 cases, the land details given by the farmers did not match with Bhulekh records maintained by the R&DMD.

The Government accepted the fact and stated (November 2020) that due to non-availability and reluctance of Revenue Officers this verification could not be done. The Government stated that steps would be taken for linking land records data of PACS with Bhulekh portal. Even though concerted effort has been made by the State Government to digitize the land records and store in dematerialised formats, PACS did not utilise these records before giving out crop loans.

It is recommended that the State Government may undertake the requisite steps to obtain assurance on the 71 cases pointed out by Audit where land details did not match and also identify other such cases which carry the risk of grant of crop loans to ineligible farmers. The State Government may also fix responsibility on the officers for disbursement of crop loans without due verification of land records of farmers in order to avert possible frauds.

Audit also notes that the same procedural/ process lacunae was pointed out as part of paragraph 2.1.6.3 of Audit Report (Economic Sector) for year ended March 2015, in the PA on Schemes of Cooperation Department, where the Department assured that the audit observation will be examined and action taken, yet the irregularity persists.

8.1.2.4 Delay in establishment of Agro Service Centres (ASC)

GoO sanctioned (November 2013) ₹9.00 crore for establishment of 150 ASCs in the PACS/ LAMPCS on Public Private Partnership (PPP) mode. The objective of ASC was to facilitate delivery of agriculture related services under one roof and to provide farm equipment to the farmers on hire basis to increase agricultural production and productivity. For this, the Cooperation department was to finalise the Standard Operating Procedure (SOP) *i.e.*, appointment of technical personnel, fixing of hire charges for equipment, engagement of watch and ward, construction of shed for keeping agricultural implements *etc.*, for effective utilisation of farm equipment.

Scrutiny of records revealed (October 2019) that since the entrustment of such works to a private partner on PPP mode did not materialise, RCS entrusted the work to OAIC through OSCB. The RCS deposited (November 2013) an amount of ₹9.00 crore in OSCB and subsequently decided (February 2017) for establishment of only 100 ASCs at PACS/ LAMPCS level with stipulated date of completion as March 2017. In addition, National Bank for Agriculture and Rural Development (NABARD) also sanctioned ₹5.43 crore to OSCB towards establishment of ASC. OSCB released (June 2018) total amount of ₹14.43 crore to OAIC for establishment of 100 ASCs.

Audit observed that OAIC supplied (January to February 2019) agricultural implements at a cost of ₹5.19 crore to 31 out of 100 PACS/ LAMPCS. However, no ASC could be established even after five years of implementation of the scheme. The department also failed to finalise the SOP and the equipment supplied to the 31 PACS/ LAMPCS could not be utilised as intended. Thus, the objective of facilitating delivery of agriculture related services to increase agricultural production and productivity could not be achieved.

The Government agreed (December 2019) that agricultural implements had been supplied to 31 PACS/ LAMPCS only and stated that supply of the same to remaining 69 PACS/ LAMPCS would be made soon after sanction of loan by NABARD. However, in the exit conference, Secretary, Co-operation department stated that the scheme will be critically appraised as there were presently a number of other schemes for inputs/ machinery.

Audit recommends that the review of the scheme may be completed on priority so that the unspent fund of ₹9.24 crore with OAIC which was not utilised with intended objective as of December 2019, can be put to optimal use. Optimal utilisation of equipment worth ₹5.19 crore given to 31 PACS/ LAMPCS should also be ensured or alternative use determined so as to avoid loss.

8.1.3 Efficacy in extension of subvention to farmers

8.1.3.1 Non-extension of relief to calamity affected farmers

As per Para 4 read with Para 9 of NABARD guidelines (August 2015), in the event of a natural calamity like drought, flood *etc*, the State Government issues 'Annewari'⁹⁴ certificate based on scientific assessment of crop yields in the affected areas by Revenue Authorities. The State Government would also declare remission/suspension of land revenue and other dues from farmers to the Government so that the bank could consider extending relief to the affected farmers by conversion/ rephasing/ rescheduling of loans. While converting Short-Term Loans (STL) to Medium-Term Loans (MTL), the banks would allow maximum period of repayment of two to five years. Banks may not levy any additional interest and consider waiving off such interest if already charged in respect of loans converted/rephased/rescheduled by them.

⁹⁴ A certificate issued by R&DMD on the basis of crop yield (yield less than 50 per cent of the average yield in a normal year) after a natural calamity like drought, flood, *etc*.

Scrutiny of records revealed that R&DMD *vide* notification (11 March 2016) declared 29,077 villages under 233 blocks and 404 wards of 55 Urban Local Bodies in 27 districts of the State as drought affected and having sustained crop loss of 33 *per cent* and above during Kharif season 2015. The District Collectors were required to issue ‘annevari’ certificates within 31 March 2016, thereby enabling the farmers to avail the benefit of MTL.

However, it was observed that except Bargarh, no other district had completed the required formalities to issue ‘annevari’ certificate within 31 March 2016 *i.e.*, within the currency period for Kharif 2015.

As a result, STL disbursed for Kharif 2015 could not be converted to MTL. Further, it was observed that the RCS with the approval (31 March 2016) of Cooperation Department extended the last date of repayment of crop loan financed during Kharif 2015, to 30 September 2016. The OSCB assessed (October 2015) that STL worth ₹2,500 crore advanced during Kharif 2015 would be converted as MTL in affected districts. In the meantime, out of 32.01 lakh expected beneficiary farmers, 24.06 lakh farmers (75.16 *per cent*) had already repaid their loans to avoid penal interest liability as furnished by OSCB. Thus, due to non-issue of ‘annevari’ certificate by the District Collector, conversion of STL of ₹2,500 crore to MTL under the scheme could not be carried out and thus, denied the benefits of conversion to the loanee farmers.

The Government accepted the fact and stated (December 2019) that since annevari was not declared in time, conversion of loans could not take place in spite of extensive damage to the standing crops. Government further stated that farmers were not interested in conversion of short term loan to medium term due to higher interest rates as per NABARD policy. Audit recommends that the reply and position may be reviewed since the guidelines do not stipulate levy of additional interest if already charged in respect of loans converted. Also, the Government, in-principle, on an earlier similar occasion, assured to provide guarantee to NABARD and interest free loans to OSCB during Kharif 2010 crop loss/ damage due to natural calamity. This was reported as part of paragraph 2.1.6.8 of CAG’s Report⁹⁵ for the year ended March 2015.

Audit also recommends that the position of non-coordination between Cooperation Department and District Collector under R&DMD, which is still persisting, needs to be addressed urgently as the benefit of conversion and relief is not being provided to farmers affected by natural calamities. The lack of co-ordination and non-issue of ‘annevari’ certificate in time (post cyclone and heavy unseasonal rain in October 2010 and severe cyclone in 2013) was pointed as part of paragraph 2.1.6.8 of Audit Report (Economic Sector) for year ended March 2015, in the PA on Schemes of Cooperation Department, where the Government had assured that co-operation and co-ordination of the Departments would be ensured. However, the issue still persists after all these intervening years.

8.1.3.2 Sanction of crop loans to farmers without transfer of money and irregular claim of interest subvention

Audit scrutinised the day book of nine branches of DCCB and 27 PACS in nine test-checked districts and observed that an amount of ₹445.26 crore was shown as disbursed to 1,56,024 farmers as agriculture loans during 2014-18. Of the above, an amount of ₹172.96 crore (38.84 *per cent*) was disbursed during the said period for repayment of earlier crop loans to 59,696 farmers. In this process, the adjustment of old loan was made by sanctioning a new loan with book adjustment without actual outflow of money. Consequently, achievement of fresh crop loan disbursement had been reported by OSCB taking such instances into account (**Appendix-III**).

On Audit's interaction with 405 farmers (15 farmers in each test-checked PACS), it was conveyed that there was no transfer of money to them towards sanction of fresh crop loan amount. The Secretary/ Chief Executive (CE) of Panasa PACS admitted that this procedure was to facilitate repayment of crop loan by farmers and consequent claims of interest subvention by banks (case study).

Case study

In Panasa PACS, the Secretary/ CE prepared a list of 155 farmers from whom the crop loan and the interest amounting to ₹49,48,851.00 was due (19 June 2017) for repayment to the Cuttack Central Cooperative Bank (CCCB), Jajpur Branch. On the same day, the amount was shown as deposited in bank through a challan without actual receipt of principal with interest from those farmers. The bank sanctioned fresh crop loans for the same amount in respect of each farmer as was the amount due for repayment of the previous crop loan. Audit verified the supplementary day book of the CCCB, Jajpur branch and found that the crop loan with interest of ₹49,48,851.00 was accounted as received from Panasa PACS and a similar amount was shown as disbursed to the same PACS on behalf of the farmers as fresh crop loans on the same day. The Secretary/ CE also made entries for receipt and disbursement of loan amount in KCC and loan ledgers of the respective farmers without actual transactions.

The Government accepted the fact and stated (December 2019) that the PACS were fixing the due date of the crop loan based on the harvesting season of the crops, with the aim that the sale proceeds of the crops would be deposited in the loan account of the farmers. Since the sale proceeds of the crops were not routed through the loan account of the farmers at the time of procurement, the loan accounts would become overdue because the farmers had no other source of income to repay the loan. Besides, farmers would have to pay penal interest if they default. The loan accounts would also turn into NPA. In case of natural calamities, the insurance claim was also not routed through the loan account of the farmers. Under the circumstances, most of the farmers repay the old loan accounts from the proceeds of the new loan.

In the exit conference, Secretary, Co-operation Department, stated that necessary action has been initiated to ensure that the entire transactions of the farmers are being carried out through farmers savings bank account.

In view of the replies above, State Government needs to review immediately the institutional steps (whether a common savings bank account, or other forms of support) that need to be taken to address the issue comprehensively, both from the banks' and farmers' point of view. The risk of some loans converting to NPA needs to be examined separately for efficiency of operations of OSCB and other banks. Sanctioning new loans to repay old loans cannot be prudent lending by any means and carries the inherent risk of perpetuating indebtedness for farmers and turning into NPAs for co-operative banks at the time they are finally reckoned with. The State Government should review all such cases for legitimate grant of interest subvention and all such cases of evergreening of loans in other PACS too.

8.1.3.3 Excess claim of interest subvention by OSCB

The objective of the interest subvention scheme was to make available agricultural credit for short term crop loans at an affordable subsidised interest rate to farmers to give a boost to agricultural productivity and production in the country. The GoO was compensating the subsidised interest rates to Cooperative Banks in the form of interest subvention.

The State Government approved (December 2013) the new policy of interest subvention with the following modalities *viz.*, (a) interest subvention of 3.75 *per cent* per annum to the STCCS at flat rate on the NABARD refinance component, (b) interest subvention of 5.5 *per cent* per annum to the STCCS at flat rate on own resources of Cooperative Banks.

As per the guidelines for submission of interest subvention claims, PACS were required to prepare a statement showing borrower-wise sum total of product⁹⁶ of crop loan issued during the year and OSCB, in turn, will submit the claim to GoO. The due dates of repayment for Kharif and Rabi crop loans were 31 March and 30 June respectively. The banks may submit their claim on half yearly or on annual basis.

During the period 2014-18, OSCB disbursed ₹39,133.88 crore (NABARD refinance ₹19,155.77 crore and ₹19,978.11 crore from own resources of OSCB & DCCB) towards crop loans to farmers as detailed in the table below.

⁹⁶ For calculation of interest, the loan amount multiplied by the number of days (from the date of loan disbursed to the date of repayment/ due date of repayment whichever is earlier subject to a maximum period of one year) is considered as product of crop loan

Table No 8.3 Statement showing excess claim of interest subvention by OSCB

(₹ in crore)

Year	Crop loan disbursed	NABARD Refinance	Own resources (OSCB and DCCB)	Total subvention claimed to GoO by OSCB	Total subvention admissible	Total Excess claimed by OSCB	Subvention amount paid by GoO to OSCB	Total excess already paid to OSCB
2014-15	8,351.11	4,450.00	3,901.11	323.38	252.95	70.43	323.38	70.43
2015-16	9,572.22	4,200.00	5,372.12	413.70	317.77	95.93	413.70	95.93
2016-17	10,204.81	5,875.00	4,329.81	459.03	343.85	115.18	424.65	80.80
2017-18	11,005.74	4,630.77	6,375.07	489.52	379.00	110.52	489.52	110.52
Total	39,133.88	19,155.77	19,978.11	1,685.63	1,293.57	392.06	1,651.25	357.68

(Source: Compiled by Audit)

It is seen from the above table that the OSCB had claimed interest subvention of ₹1,685.63 crore for crop loan disbursed at ground level for the above four years which includes ₹392.06 crore as excess claim beyond the due dates. Out of the excess claim of ₹392.06 crore, a sum of ₹357.68 crore had already been paid by Government to OSCB as of October 2019 which resulted in extension of undue benefit to the OSCB.

On this being pointed out on earlier occasion in Paragraph 2.1.6.6 of the Report No.5 of Comptroller and Auditor General of India on Economic Sector for the year ended March 2015, in the PA on Schemes of Co-operation Department, Government had assured (October 2015) to revise the procedure. However, the Government endorsed the reply given by OSCB which stated (December 2019) that OSCB has to repay the entire funding irrespective of the repayments from grassroots levels and remittance by PACS, as the loan outstanding at the level of DCCB and OSCB were kept for a period of 12 months from the date of disbursement. Hence, interest subvention was calculated on the total outstanding dues. The reply is not tenable since interest subvention is required to be calculated from the date of disbursement of crop loan at ground level till the period of actual repayment or within the due date of repayment, whichever was earlier and not for a period beyond 12 months. It is recommended that the OSCB may be instructed to calculate the interest subvention on the basis of actual loan outstanding period at the ground level. Besides, the State Government may initiate a suitable mechanism to verify the claims sent by OSCB.

8.1.4 Computerisation and Networking facilities

8.1.4.1 Delay in computerisation of PACS

Finance Department, GoO approved (June 2014) scheme for computerisation of 2,528 PACS with an objective to maintain an MIS on data related to the farmer families in the State and finances of the PACS to facilitate its proper functioning as well as better delivery of services through computerised operations to the farmer members. The computerisation of PACS would enable operationalisation of the core banking system and in turn would benefit the members to avail e-banking facility, calculation of interest subvention accurately *etc.* Accordingly, RCS released funds of ₹48.77 crore to OSCB during the period 2013-14 and 2014-15 for implementation of the computerisation scheme of PACS within the stipulated period *i.e.*, by

March 2015. The OSCB had incurred an expenditure of ₹47.23 crore on procurement of computer hardware, CBS software, engagement of data entry operators *etc.*, as of September 2019.

Audit checked the records in four DCCB out of nine sampled districts and noticed that, computer system had been supplied to 1,069 out of 1,116 PACS only. Though the voucher entry/ data migration had been completed in 1,025 PACS, no day to day online transaction was being carried out in these PACS due to poor network connectivity (August 2019). Since none of the test-checked 27 PACS were computerised or having any networking system, Audit noticed that

- the farmers visited the branches of PACS personally for withdrawing the money
- PACS maintained manual ledger systems without shifting to MIS data base
- PACS also verified the records of farmers manually for drawing of loan amount sanctioned for agricultural purposes.

Besides, due to non-computerisation of PACS, the Chief Executive Officers of two DCCB branches reported (December 2017 and 2018) instances of misappropriation in disbursement of crop loan.

Two case studies are given in the following box:

Case studies

I. During Kharif season 2018, Japa PACS under Jagatsinghpur district renewed (August 2018) crop loan in favour of nine farmer members. As per the loan drawn statement (Form 17), the PACS sanctioned (August 2018) loan for ₹3,54,750 towards renewal of loan. However, the Secretary Japa PACS had submitted (August 2018) the loan recovery statement (Form 22) for the previous crop loan of these nine farmers to CCCB, Ersamma Branch for ₹25,750 instead of ₹3,54,750 by manipulating the amount. Thus, Secretary, Japa PACS misappropriated an amount of ₹3,29,000, the enquiry of which is under process.

II. As per the procedure under KCC guidelines, a loanee member is required to present the cheque before the branch manager for withdrawal of loan amount with proper identification. The then Secretary of Dahunda PACS in Balasore district, with the support of the Bank Manager of DCCB, Bhogarai branch, withdrew ₹4.67 crore sanctioned to the loanee farmers, during the years 2011 to 2015, by presenting fake withdrawal slips instead of withdrawing the loan amounts through cheques. The entire amount was reported as misappropriated by the then Secretary, Dahunda PACS in connivance with concerned bank manager and a vigilance enquiry is under progress.

Total number of cases of misappropriation though sought for from RCS, were not provided to Audit (December 2019).

Computerisation in PACS needs to be completed at the earliest and put to CBS platform with the facility of e-banking etc., to enable a more robust system with key validations for transactions. Additionally, action must be taken against officials responsible for the frauds.

8.1.4.2 Non-completion of connectivity through VSAT for computerisation in PACS

VSAT⁹⁷ connectivity in PACS enable farmers to access ATMs through RuPay Kisan Cards. A sum of ₹12.65 crore was sanctioned (January 2017) under Rashtriya Krishi Vikas Yojana (RKVY) towards implementation of the project. RCS released ₹7.50 crore (April 2018 - ₹4.50 crore and April 2019 - ₹3.00 crore) to OSCB to provide 581 VSAT to the PACS within a stipulated period of three years.

Scrutiny of records revealed that OSCB had already placed (March 2018) purchase order to a supplier through tender for supply, installation, commissioning and management of 581 VSATs. Out of 581 VSATs, 553 had been installed as of September 2019 for ₹4.13 crore.

During field visit it was revealed that even after installation of VSATs, PACS were not working online for day to day activities (real time transaction) of the society on account of slow network. Due to lack of monitoring, the connectivity of PACS to data centre through VSAT could not be completed rendering an expenditure of ₹4.13 crore infructuous.

The Government accepted the fact and stated (December 2019) that steps had been initiated for connecting all PACS through 581 VSATs.

8.1.5 Monitoring and Evaluation

The following deficiencies were noticed by Audit in monitoring by the Department and other agencies:

- The GoO, Cooperation Department ordered⁹⁸ (April 2014) that the field officers of both DA&FE (including Horticulture) and Cooperation Departments should conduct joint inspections within their jurisdictional area to ensure that the crop loan through STCCS were utilised for productive purposes and not misutilised. Audit scrutiny in DRCS/ ARCS revealed that no physical verification was conducted in nine test-checked districts during the period 2014-18. Consequently, the envisaged mechanism could not assure utilisation of the crop loan through STCCS for productive purposes. GoO stated (December 2019) that Cooperative Extension Officers of the blocks and Village Agricultural Workers had been made accountable for ensuring utilisation of crop loans.

The reply is not acceptable since ARCS in the test-checked districts confirmed that no such joint inspections had been conducted.

- Though there was a prescribed column in the Loan Ledger of PACS to record the product of the loan financed based on the credit period, this

⁹⁷ Very Small Aperture Terminal is a two-way satellite ground station with a dish antenna for the provision of satellite internet access to remote location

⁹⁸ Order No.2890/Coop. dated.02.04.2014

was not recorded in the column of the register of the test-checked PACS. All nine Branch Managers of four test-checked DCCBs agreed that the interest subvention was not calculated based on individual loan account. Due to lack of monitoring by the ARCS in directing the PACS to maintain their ledgers accordingly, Audit could not derive assurance regarding the correctness of subvention claimed by the DCCBs through OSCB.

- It was observed that Cooperation Department had not maintained MIS for monitoring financial and physical progress, achievement of schemes as against the targets fixed, generate reports on activities enunciated in the scheme guidelines *etc.*

As computerisation of PACS remained incomplete, there was no link with banks to ascertain the real-time financial progress of crop loans disbursed, repayments effected, veracity of the claims of interest subvention, non-activation of RuPay Kisan Card, *etc.*

The Government did not provide any reasons for non-maintenance of MIS at Cooperation Department but stated (December 2019) that OSCB had a Data Centre from where they can easily monitor the physical progress of achievement of the scheme.

The Data Centre of OSCB has been linked to its branches and DCCBs but not with all the PACS. Unless all the PACS are computerised and linked and brought under CBS platform, comprehensive monitoring of physical and financial progress of the Scheme would be constrained.

There was no provision in the Scheme guidelines for evaluation of Scheme benefits. Government stated (December 2019) that evaluation of benefits of the Scheme could be assessed from the fact that production of major crops has increased. Increase in production of crops is dependent on several factors. Continuous and systematic monitoring of the scheme would have addressed many of the issues brought out by Audit.

8.1.6. Conclusion

Audit noticed that in 27 test-checked PACS the land documents of the KCC holders, who had been sanctioned loans, were not verified as envisaged. So, the genuineness of the land details recorded in the land register and veracity of the farmers availing crop loans could not be ensured, which is a persisting irregularity. It was seen in the test checked PACS that 38.84 *per cent* of loans were shown as new loans disbursed to farmers, without any actual disbursement.

Though OSCB printed 18.48 lakh RuPay Kisan Cards at the cost of ₹17.43 crore, none of the cards could be activated within the date of validity denying farmers the opportunity/ facility to draw funds from any ATM or bank branches. It also entailed loss of ₹17.43 crore on account of printing of these cards.

Owing to lack of monitoring, the computerisation in PACS and connectivity through VSAT was also delayed for which the farmers were deprived of e-banking and access to ATMs contributing to overall failure of use of RuPay Kisan Cards.

Audit found that no ASC could be established even after more than two years from the stipulated date of completion depriving the farmers of the facility of obtaining agricultural equipment on hire basis, despite OSCB releasing ₹ 14.43 crore for the project to OAIC.

Interest subvention had been claimed by OSCB on fresh loans not actually disbursed but refinanced.

In spite of reporting various lapses under the Scheme in the earlier audit report of C&AG of India, measures for rectifying the defects were not initiated.

8.1.7 Recommendations

- Necessary steps should be put in place immediately to address and rectify the recurrent failure to issue ‘annevari’ certificate timely. Oversight over the co-ordination was needed between the Co-operation department and R&DMD. This may be instituted on priority for grant of timely and due relief to farmers affected by natural calamities.
- Government may carry out impact evaluation studies/ surveys/ utilise the social audit mechanism etc. to systematically assess the impact of the Scheme.
- The system adopted by the Societies/ Cooperative Banks for facilitating repayment of crop loans by the farmers by sanctioning fresh crop loans year on year without actual disbursement, needs to be reviewed and addressed on priority. The risk of some loans advanced in this manner, converting to NPA needs to be examined separately for efficiency of operations of OSCB and other banks. The State Government should review all such cases for legitimate grant of interest subvention and all such cases of evergreening of loans in other PACS too.
- The State Government may at the earliest initiate a suitable mechanism to verify interest subvention claims of OSCB and revise the procedure of interest subvention claims to curtail the persisting excess payments.
- On account of the huge outlays on computerisation in PACS and VSAT connectivity, its link to Bhulekh portal and necessary systems may be completed for monitoring physical and financial progress of the scheme, verifying proof of land records as submitted by farmers, utilisation of crop loans for intended purposes, repayments by farmers and addressing the risk of loans being advanced without meeting the eligibility conditions as also to avoid frauds.

FOREST AND ENVIRONMENT DEPARTMENT

8.2 Non-disposal of Timber and Poles

The Divisional Forest Officers failed to take timely action for disposal of timber, poles and salvage materials which resulted in blocking of revenue of ₹1.49 crore

The Government of Odisha, Forest and Environment Department instructed (August 2005) for early disposal of seized forest produce in undetected (UD)

forest offence either by public auction or by prompt delivery to the Odisha Forest Development Corporation (OFDC) Limited on payment of royalty. Timber and poles were to be disposed of within two months from the date of seizure to avoid loss of revenue and deterioration in quality and consequent value reduction on account of prolonged storage. The Government fixed the rate of royalty on timber, poles and firewood for the year 2018-19 in October 2018.

Audit test checked 13 out of 50 forest divisions⁹⁹ and found that 8,593.22 cubic feet (cft) of timber (logs and size) and 957 poles worth ₹25.33 lakh seized during 2017-18 relating to 399 UD cases were lying un-disposed (July 2019).

Additionally, in Bonai Forest Division, salvaged materials i.e. 44,740.116 cft of timber and 376.50 stacks of firewood worth ₹1.24 crore pertaining to the period from 2010-11 to 2017-18 remained undisposed (December 2018). All Range Officers in Bonai Forest Division were instructed (October 2018) to deliver the timber and firewood to OFDC and raise the demand for royalty against OFDC.

On this being pointed out, the Principal Chief Conservator of Forest (PCCF) stated (July 2019) that ₹1.13 crore¹⁰⁰ had been realised towards disposal of salvaged materials. Further, the PCCF stated that the DFO, Bonai Division had been directed to dispose of the remaining materials. The reply was silent as regards to the disposal of seized materials by other forest divisions.

The matter was reported to Government (July 2019) and reply was awaited (October 2020).

DEPARTMENT OF WATER RESOURCES

8.3 Infertuous expenditure due to overlapping of culturable command area

Lack of coordination within the department in execution of two irrigation projects in one block led to overlapping of the culturable command area and resulted in infertuous expenditure of ₹64.68 crore

Irrigation projects utilise numerous small rivers, dams and reservoirs for providing irrigation through Canal Distribution Network for the purpose of carrying water mostly through gravity up to outlets and from outlets to agricultural field through field channels. Mega lift projects aim for providing irrigation to the farmers in the upland area by lifting water from rivers and reservoirs which cannot be irrigated by normal means of flow irrigation. The benefit of a Mega lift project *inter alia* is requirement of less land since irrigation is provided by lifting water by pumps from sources through pressurised networking distribution system.

⁹⁹ Athagarh, Baliguda, Baripada, Bonai, Boudh, Ghumsur(N), Karanjia, Keonjhar, Khordha, Malkanagiri, Phulbani, Rairakhol and Rairangpur

¹⁰⁰ Fire Wood (₹ 1,11,50,781.30) + Timber (₹1,32,002.50) = ₹1,12,82,783.80

In March 2012, Department of Water Resources (DoWR) approved 174 independent Mega Lift Irrigation Schemes to provide irrigation to 2.14 lakh ha spread over 23 districts. Construction of nine Mega Lift Irrigation Projects in Narasinghpur Block of Cuttack district, at an estimated cost of ₹430.64 crore was part of the aforesaid scheme. These projects *inter alia* stipulated for providing 16750 ha of culturable command area (CCA) with water intake point in the river Mahanadi having nine pump house locations. The work was awarded (December 2015) to a contractor through tender at a cost of ₹382.95 crore with stipulation to complete the work by June 2018. The work was almost completed by providing irrigation on trial basis with an expenditure of ₹369.89 crore (November 2020).



Overlapping of CCA of Hadua Irrigation Project with Mega lift Project (MLP)

Audit noticed that the Central Water Commission (CWC) had approved the Hadua Irrigation Project in March 2001, with an estimated cost of ₹65.14 crore to provide irrigation to 3948 ha CCA in the same Narasinghpur Block of Cuttack District. DoWR had accorded administrative approval for ₹95.44 crore in the year 2006. This project work was in progress and the Executive Engineer, Hadua Irrigation Division had incurred expenditure of ₹64.68 crore upto March 2020. As per the Department, delay in completion was attributable to delay in land acquisition/ forest clearance.

Audit observed (March 2019) that while planning the Mega Lift Irrigation project, the Project Director-cum-Chief Engineer, Mega Lift Project overlooked the execution of Hadua irrigation scheme and included its CCA in Mega Lift Projects in Narasinghpur Block. Consequently, there was an overlapping of CCA of Hadua Irrigation project with that of the Mega Lift Project. The Chief Engineer and Basin Manager (CE & BM), Samal, also confirmed (December 2017) in a correspondence with Engineer-in-Chief, Water Resources, Odisha, that the entire CCA of Hadua Irrigation Project was a part of the CCA of the Mega Lift Irrigation Project except for an area of 270 ha. CE & BM, Samal further intimated that a High Level Technical Committee reviewed the proposal and suggested (November 2017) that the Hadua project was not economically viable. The Committee also directed to take further extensive survey to cover more CCA for maximum utilisation of the available water under Hadua Project. However, no action taken in this regard was found on record (March 2019).

Therefore, the Mega lift irrigation scheme is to provide irrigation to the same CCA that was planned to be covered under Hadua Irrigation project in the block. On this being pointed out in audit, the Government stated (October 2019) that there was vast CCA for irrigation in rabi season on both sides of the river Hadua and about 1000 ha of alternate CCA had already been identified in

Baramba Block and 1200 ha CCA of a minor irrigation project were to be stabilised.

The reply is not tenable since the Hadua irrigation project was designed to provide irrigation to 3948 ha of its independent CCA alongwith stabilising the existing Kharod Minor Irrigation (MI) project. The entire project was to provide irrigation to 6093 ha of CCA, against which alternate CCA identified is about 1000 ha only and stabilization of 1200 ha of ayacut of MI projects. In fact, both the implementing agencies failed to co-ordinate in identifying separate CCA to be covered under the Mega Lift project and this led to overlaps in the CCA.

Thus, due to lack of coordination between implementing agencies within the same department, the entire expenditure of ₹64.68 crore incurred on CCA of Hadua irrigation project became infructuous.

8.4 Short recovery of cost of stone

The Executive Engineer recovered the cost of stone retrieved from excavation at a lesser rate and issued to the contractor at the site of the work for use. Besides, the cost of transportation of the stone was also not recovered resulting in short recovery of ₹8.05 crore

Odisha Public Works Department Code (Para 3.4.10) stipulates that while submitting the estimates for sanction, the Divisional Officer should certify that the estimates have been prepared by using the sanctioned Schedule of Rates (SoR) for most economical and safe way of executing the work. The SoR stipulates that during excavation of hard rock for construction of spillway¹⁰¹ and earthen dam, the retrieval rate of hard rock was 70 per cent of the excavated quantity. The basic cost of stone and transportation cost brought from quarry was estimated at ₹375 per cum and ₹561 per cum, respectively. The stone products required for cement concrete items in the work were to be obtained from an average lead of 49 km. Accordingly, the cost of stone available at site and issued to the contractor should have been recovered at a contracted rate of ₹936 per cum.

A work on construction of spillway including earthen dam of Deo Irrigation project was awarded (December 2012) to Odisha Construction Corporation Limited (OCC), a Government of Odisha enterprise, for ₹49.97 crore for completion by December 2015 as per the design approved in the Detailed Project Report (DPR). The scope of work provided for excavation of 48,260 cum of hard rock through blasting. The work could not be completed as hard rock for finalisation of foundation level of spillway was not available. Work was also impacted due to resistance from local people for non-payment of rehabilitation and resettlement assistance. The design of spillway was also changed due to defective preparation of DPR, which was done without proper survey and investigation. Accordingly, the Government approved (January 2019) the revised agreement value of work of ₹127.50 crore wherein the quantity of excavation of hard rock was increased to 1.84 lakh cum¹⁰². The work was in progress with an expenditure of ₹80.76 crore as of March 2019.

¹⁰¹ A spillway is a structure used to provide the controlled release of water from a dam to a downstream area

¹⁰² Quantity of hard rock through blasting (83,513 cum) and excavation through rock breaker (1,00,937 cum)

The details of short recovery in execution of work are given in the table below:-

Table No.8.4: Statement showing details of work executed, quantity of hard rock issued and the balance amount recoverable from the contractor

Description of item	Quantity excavated in cum	Quantity retrieved in cum (percentage)	Cost recovered per cum (in ₹)	Total cost recovered (₹ in crore)	Cost recoverable per cum (in ₹)	Total cost recoverable (₹ in crore)	Short recovery (₹ in crore)
Excavation of hard rock through blasting	81,183	56,828 (70)	195	1.11	936	5.32	4.21
Excavation of hard rock without blasting.	77,712	51,825 (67)	195	1.01	936	4.85	3.84
Total	1,58,895	1,08,653		2.12		10.17	8.05

(Source: Compiled by Audit)

From Table 8.4, Audit observed that:

- The Executive Engineer retrieved 70 per cent of hard rock excavated through blasting and 67 per cent of hard rock excavated through rock breaker as blasting was not possible. The quantity retrieved was 1.09 lakh cum of hard rock against actual quantity to be retrieved of 1.11 lakh cum (70 per cent).
- The useful stone retrieved from the excavation was issued to the contractor. This was confirmed by Executive Engineer during joint physical inspection in March 2019.



Crossing of hard rock of Deo Spillway

Since the hard stone was available at the site, the cost and transportation charges of ₹10.17 crore were to be recovered from the contractor at a rate of ₹936 per cum as per the estimate. However, the EE recovered ₹2.12 crore at the rate of ₹195 per cum as decided during Project Level Tender Committee (PLTC) meeting which resulted in short realisation of ₹8.05 crore from the contractor.

On this being pointed out in Audit, the Government stated (October 2019) that the entire hard rock was issued to the contractor, of which, 22,205 cum was crushed and the balance quantity was utilised in different foundation work for construction machinery such as Crusher, Batching plant, haul road, generator room, labour colony, stockyard etc. The cost of stone at ₹195 per cum was recovered as per the rate finalized by the PLTC and the transportation cost at ₹459 per cum was to be recovered from the contractor. The retrieval of stone was made at 50 per cent for the excavation of hard rock without blasting as per MoRTH analysis.

The reply is factually incorrect since the retrieval of stone was made at 67 per cent of excavated rock without blasting and the MoRTH analysis for retrieval of stone at 50 per cent was applicable for road works. As the

contractor had utilised the stone in the project work itself, the transportation cost along with differential basic cost amounting to ₹8.05 crore had to be recovered from the contractor for the work executed as of March 2019.

8.5 Short realisation of licence fee

Executive Engineer allotted water to an industry from Irrigation source and levied licence fee applicable for drawing water from Government source which resulted in short realisation of ₹4.57 crore

Odisha Irrigation Rules stipulate that any industrial unit using water can draw water either from Government source¹⁰³ or from irrigation source¹⁰⁴ on payment of water charges as per the rates prescribed in the rule.

As per Revenue & Disaster Management (R&DM) Department Gazette Notification (October 2010), licence fee for use of water (more than 5 cusecs) for industrial purpose was to be levied at ₹5.60 per 1,000 litres drawn from irrigation source and at ₹4.50 per 1,000 litres drawn from Government water source. Further, the R&DM department notified (September 2016), to increase licence fee at 10 *per cent* each year from first day of April. Accordingly, the rate per 1,000 litres of water was revised to ₹6.20 from April 2017 and to ₹6.80 from April 2018.

The State Government executed (August 2014) an agreement with Indian Metals and Ferro Alloys Ltd. (IMFA), an industrial establishment, for drawing of 10.332 cusecs of water at Chasapada from the upstream of the Mahanadi Barrage and downstream of Naraj Barrage which is an irrigation source. The drawing of water was reduced to 5.98 cusecs with effect from May 2018.

Audit observed (December 2018) that the place from where water was lifted by IMFA was located between Mahanadi Barrage (a reservoir project) and Naraj Barrage¹⁰⁵. Naraj Barrage had no independent ayacut for irrigation. As such, irrigation was provided through canals upstream of Mahanadi Barrage. As IMFA was drawing water from river Mahanadi charged with water of Naraj Barrage, it was liable to pay licence fee at the rates applicable to the water drawn from irrigation source.

On scrutiny of the licence fee demand register during the period from October 2014 to March 2019, it was noticed in audit that the EE had allocated 385.52 lakh litres¹⁰⁶ of water to IMFA and raised demand for ₹18.32 crore towards licence fee considering water drawn from Government water source instead of irrigation source. This resulted in short realisation of licence fee of ₹4.57 crore as detailed in the table given below:

¹⁰³ water structures existing naturally such as rivers, nallas, springs, streams, *etc.*, which is the property of the Government

¹⁰⁴ Includes all reservoirs, tanks, anicuts, dams, weirs, canals, barrages, channels *etc.*, constructed for irrigation purpose

¹⁰⁵ Naraj Barrage was constructed to divert water of River Kathajodi to Mahanadi for ponding of water at Mahanadi Barrage to be used for irrigation

¹⁰⁶ One unit equal to 1,000 litre of water

Table No.8.5: Statement showing short realization of licence fee.

Period	Quantity of water allocated (in KL)	Amount to be recovered		Amount recovered		Short-realised (₹ in crore)
		Rate per KL (in ₹)	Total (₹ in crore)	Rate per KL (in ₹)	Total (₹ in crore)	
October 2014 to March 2016	13,852.892	5.60	7.76	4.50	6.23	1.53
April 2016 to March 2017	9,226.835	5.60	5.17	4.50	4.15	1.02
April 2017 to March 2018	9,226.835	6.20	5.72	4.95	4.57	1.15
April 2018 to March 2019	6,245.261	6.80	4.24	5.40	3.37	0.87
Total	38,551.823		22.89		18.32	4.57

(Source: compiled by Audit)

On this being pointed out, the Government accepted (January 2020) the factual position and stated that a Committee had been constituted to study the site so as to ascertain the category of source of drawing of water by the agency. The Government further stated that necessary steps were also being initiated to recover the licence fee as pointed out by Audit.

8.6 Avoidable extra expenditure

Executive Engineer adopted manual excavation of earth in the estimate instead of mechanical excavation which inflated the estimated cost leading to avoidable extra expenditure and undue benefit of ₹6.90 crore to the contractors

Para 3.4.10 of Odisha Public Works Department Code stipulates that estimates should be prepared in the most economical manner adopting State Schedule of Rates (SoR) and Analysis of Rates (AoR). The special items for irrigation works of AoR (2006) provided for excavation of any approved type of soil in approved burrow¹⁰⁷ area, loading and transportation of the excavated soil by mechanical means. It did not provide for excavation of earth manually and transportation of the excavated earth through mechanical means, separately. In the detailed tender call notices, it was specified clearly that the contractor has to arrange burrow earth at his own cost and responsibility. No compensation whatsoever for change in distance and locations of the burrow area, and variation in depth of excavation for getting suitable earth shall be paid to the contractor. The Department of Water Resources (DoWR) agreed (September 2017) in an Exit Conference¹⁰⁸ to adopt only mechanical excavation in respect of earth works.

Chief Engineer and Basin Manager (CE & BM), Lower Mahanadi Basin sanctioned estimates costing ₹124.25 crore for 14 works of restoration, improvement, protection to embankment and stabilization works of lost ayacut¹⁰⁹ during 2012 to 2016 (**Appendix-IV**). These works were awarded for

¹⁰⁷ To obtain soil/earth either from Government land or from private land by the contractor

¹⁰⁸ Exit Conference on Performance Audit on "Contract Management in Department of Water Resources" reported in paragraph No 2.1.13.1 of C&AGs Audit Report for 2015

¹⁰⁹ Due to non-maintenance of canals there were breaches and also seepage of water for which water could not reach the tail end. Repair and renovation of such works are called stabilization works of lost ayacut

₹136.08 crore between April 2013 and March 2017 to be completed between March 2014 and February 2018. The contractors offered tender discount ranging from 7.92 per cent to 14.99 per cent in six works and tender premium ranging from 4.99 per cent to 19.40 per cent in eight works. The competent authority accepted the tender for execution of these works. The works were under progress with an expenditure of ₹111.83 crore as of March 2019.

Audit noticed that while preparing the estimates, the Executive Engineer (EE), Jajpur Irrigation Division provided for manual excavation and mechanical transportation of 24.86 lakh cum of earth from burrow area in all these works. The rate for excavation of earth manually in the estimates varied between ₹33.15 and ₹77.28 per cum whereas the rate for mechanical excavation was ₹16.55 per cum. Since the EE included the item of excavation of earth by manual means and the CE & BM approved the estimates, inclusion of such item in all the works in violation to the AoR inflated the rates ranging from ₹16.60 per cum and ₹60.73 per cum. This resulted in excess payment of ₹6.90 crore for execution of 19.25 lakh cum as detailed in the **Appendix-IV**. On the basis of estimated quantity, the undue benefit would work out to ₹9.87 crore.

On this being pointed out in audit, the Government assured (December 2019) to take steps to adopt the procedure of avoiding inclusion of manual excavation in the estimates for work. Audit observed that the irregularity still persisted and no action was initiated against the executives for allowing incorrect estimates which resulted in avoidable expenditure of ₹ 6.90 crore.

8.7 Loss of revenue due to non-levy of licence fee

Failure of Executive Engineers in executing agreements with the industries/projects abstracting ground water and consequent non-levy of licence fee resulted in loss of revenue of ₹6.77 crore

The Environment (Protection) Act, 1986, vested Central Ground Water Authority (CGWA) the responsibility of regulation and control of groundwater development and management in the country. Accordingly, CGWA issues No Objection Certificates (NOCs) to industries/ projects seeking abstraction of groundwater.

Orissa Irrigation (Amendment) Rules, 2010 read with notification issued during October 2010 authorised Executive Engineers (EEs) of Department of Water Resources (DoWR) to execute agreements with the industries/ projects for abstracting groundwater. They were also required to ensure installation of a Water Flow Metre or a suitable measuring device within 90 days from the date of issue of licence or such order at the cost of the concerned industries/ projects or other establishments under their jurisdiction. Thereafter, EEs were to assess the fee to be charged on water drawn or allocated, whichever was higher. The rate of licence fee to be charged was ₹7.48 per 1,000 litres during 2017-18 and ₹8.16 per 1,000 litres during 2018-19. Chief Engineer (CE) (Water Services), DoWR was to monitor and finalise collection of licence fee.

Test check of records of Regional Director (Eastern Region), Central Ground Water Board (CGWB), Bhubaneswar revealed that CGWA issued NOCs to 520 industries/ projects of the State for abstraction of ground water during 2017-18 to 2018-19 (up to December 2018). Of these, 75 industries had paid licence fee and the execution of agreements/ installation of flow metres and collection of licence fee for the remaining 445 industries/ projects were pending with EEs as of January 2019. However, such industries/ projects continued (December 2018/ January 2019) to abstract ground water without payment of licence fee.

On scrutiny of NOCs issued by CGWA, Audit noticed that these 445 industries/ projects had drawn 83.92 lakh cum¹¹⁰ of groundwater during April 2017 to December 2018 and were liable to pay licence fee of ₹ 6.77 crore¹¹¹. Joint physical verification conducted (December 2018/ January 2019) by Audit team alongwith the representatives of CGWB in 17 projects evidenced abstraction of groundwater as per NOC without paying licence fee to the State Government.

As the CE (Water Services), DoWR failed to monitor and finalise collection of licence fee by execution of agreements with industries/ projects through respective EEs of irrigation divisions, industries/ projects drew groundwater unauthorisedly without paying the required licence fee of ₹6.77 crore rendering revenue loss to the Government.

On this being pointed out, the Government stated (January 2020) that the CE (Water Services) had been intimated to instruct the concerned EEs to bring the industries/ projects/ commercial organisations within the ambit of the Rules after field verifications. As of November 2019, EEs had registered 115 cases for collection of licence fee and had instructed to take effective action in the remaining 330 cases. However, the reply is silent about recovery of licence fee for unauthorised drawal of ground water from these 445 industries/ projects.

8.8 Undue benefit to contractors

Executive Engineers adopted output of Dozer incorrectly in the estimates and utilised higher capacity Roller for compaction of earth contrary to the prescribed recommendations which resulted in undue benefit of ₹7.10 crore to the contractors

OPWD Code stipulated that the estimates should be prepared in most economical manner and also on the basis of Schedule of Rates (SoR) and Analysis of Rates (AoR).

The Divisional Officer while preparing estimates for the works, should ensure that estimates were prepared based on the items provided in the sanctioned SoR and AoR which are most economical and safe for executing the work. Special item 2 of State AoR for irrigation works like construction of embankments, flood protection *etc.*, stipulated machineries such as Dozer for spreading of earth and Sheep Foot Roller (SFR) for compaction of earth. The

¹¹⁰ 1 cum = 1,000 litres

¹¹¹ Calculated on the quantity of water allocated as per NOC

SoR provided hire charges for Dozer at ₹2,463.54 for spreading of 300 cum of earth per hour. Similarly, the hire charges for sheep foot roller was at ₹77.86 for compaction of 100 cum of earth per hour.



Representational photos of Dozer, Sheep Foot Roller and Vibratory Roller

During 2016-17 to 2017-18, a sum of ₹146.66 crore had been sanctioned for execution of 29 works in four Irrigation Divisions¹¹². These works were awarded at a cost of ₹128.57 crore during November 2016 and June 2018 with a stipulation to complete between September 2017 and December 2019. The agreements executed with the contractors *inter-alia* provided for compaction of 46.41 lakh cum of earth in flood protection and improvement of river embankments. As of March 2019, these works were in progress with an expenditure of ₹74.75 crore in which 31.93 lakh cum of earth had been compacted.

Test check of records of these works revealed that the Executive Engineers (EEs) while preparing estimates, recorded the output of dozer as 100 cum per hour instead of 300 cum per hour for spreading of earth without reducing the hire charges of dozer proportionately. Similarly, though the SFR provided the same output of Vibratory Road Roller (VRR) at a lesser cost, three divisions¹¹³ did not include the SFR in their respective estimates. Audit noticed that the EE, Bhanjanagar Irrigation Division adopted the approved SoR / AoR rate of SFR for compaction of earth in one of the works. The rate adopted in the estimates for spreading and compaction of earth by using dozer and VRR ranged between ₹ 26.50 per cum and ₹41.36 per cum. Considering the output as 300 cum by dozer and 100 cum by SFR for spreading and compaction of earth respectively, the cost worked out to ₹10.76 per cum¹¹⁴.

As such, due to non-considering the proportionate hire charges of dozer and SFR as approved in the AoR/ SoR, the cost for spreading and compaction of 31.93 lakh cum of earth was paid in excess of ₹7.10 crore to the contractors as of March 2019. Based on the estimated quantity, the excess amount would be ₹11.99 crore as detailed in the **Appendix -V**.

¹¹² Bhanjanagar Irrigation Division; Bolangir Irrigation Division; Jajpur Irrigation Division and Mahanadi North Division

¹¹³ Bolangir Irrigation Division, Jajpur Irrigation Division and Mahanadi North Division

¹¹⁴ Basic cost- ₹9.00 (Dozer- ₹ 2,463.54/300 and SFR- ₹ 77.86/100)+ ₹1.35 (7.5 percent over head charges + 7.5 per cent contractors' profit), three per cent water charges and one per cent for labour cess totalling to ₹10.76 per cum

In reply to the Audit observation, the Government accepted the fact and stated (November 2019) that as per SoR the effective output of Dozer was 300 cum per hour for spreading loose earth. It also stated that the embankments taken up were mostly located in difficult areas where accessibility and availability of land was a major bottleneck for execution. The effective output was reduced due to the provision of extra width on either side of the embankment to facilitate compaction of loose earth. Hence, the output was considered as 100 cum per hour. For use of VRR, the Department stated that the works were carried out in areas where the type of soil available were mostly gravel and fines, silt-gravel and sandy clay gravel.

The reply was not acceptable as the rate of hire charges of Dozer was fixed by the Rate Board taking the output as 300 cum per hour for spreading earth considering all the factors. Hence, consideration of lesser capacity was not in order. As regards use of VRR, the reply was not tenable as the earth works carried out were of approved type of soil and not as claimed as silty gravel, clay gravel *etc.* Therefore, provision of VRR instead of SFR in these eight works were only to extend undue benefit to the contractors. Besides, though the Principal Secretary, Department of Water Resources during Exit Conference (September 2017) on a Performance Audit on “Contract Management” assured to follow the AoR in response to same observation featured in Paragraph No. 2.1.13.2 of C&AG Report on Economic Sector for the year ended March 2017, the irregularity persisted.

WORKS DEPARTMENT

8.9 Excess Payment to a contractor

Failure of the Executive Engineer to effect change in scope of work led to excess payment of ₹4.86 crore to the contractor for the portion of works not executed under a contract

Article 13 of the contract agreement stipulates that during execution, if any modification/alteration to the works (change of scope) is necessitated, the authority shall give instruction or request the contractor to submit a proposal for change of scope involving additional cost or reduction in cost.

The Chief Engineer, World Bank Projects approved (December 2013) an estimate for construction of a high level bridge over River Mahanadi in the district of Cuttack for ₹121.86 crore under NABARD¹¹⁵ assistance. The work was awarded (October 2015) to a contractor¹¹⁶ for ₹142.41 crore for completion by April 2018 on Engineering Procurement and Construction (EPC)¹¹⁷ mode. The scope of work of contract agreement also included construction of approach road to the bridge for a length of 400 metres having contract price of ₹7.12 crore *i.e.* five *per cent* of contract price. The work was completed in March 2018 and the contractor had been paid ₹142.41 crore.

¹¹⁵ National Bank for Agriculture and Rural Development

¹¹⁶ M/s SP Singla Construction

¹¹⁷ In EPC contract, the contractor has to make their own survey, investigation and design for the work and quote their bid price for execution of the work

On scrutiny of Running Account and final bills, Audit observed (February 2019) that the contractor executed approach road of 127 metres only. Audit further observed that, the authority neither instructed the contractor to submit a revised proposal for change of scope of work nor the contractor proposed for reduction in the contract price as per the provisions of the contract. As such, the contractor was to be paid ₹2.26 crore (calculated proportionately) for the length of road actually executed. But, the EE paid full contract price of ₹7.12 crore for the entire length as delineated in agreement. This resulted in excess payment of ₹4.86 crore to the contractor.

In reply, the Government stated (November 2019) that only 127 metres of approach road was constructed and the balance 273 metres of road was being executed in another work of raising of existing four-lane road.

The reply is not acceptable since execution of equivalent length of 273 metres in another work was neither the part of the contract nor supported with any supplementary agreement showing the revised scope of the work and hence utilising payments from this work towards another work is highly irregular. A work that costs close to ₹4.86 crore needed to be awarded separately following due process, which was not done in this case.

FINANCE DEPARTMENT

8.10 Response to Audit

Timely response to audit findings is one of the essential attributes of good governance as it provides assurance that the Government takes its stewardship role seriously.

Accountant General (Audit-II), Odisha conducts periodical inspection of Government departments and their field offices to test check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed by Inspection Reports (IRs) sent to the Heads of offices and the next higher authorities. Defects and omissions are expected to be attended promptly and compliance reported to the Accountant General. A half-yearly Report of pending IRs is sent to the Secretary of each department to facilitate monitoring of the audit observations and their compliance by the departments. Apart from the above standing mechanism, Audit Committee Meetings, consisting of representatives of administrative departments, the office of the Accountant General (Audit-II) and representative from Finance Department are also held, for settlement of outstanding IRs and paragraphs after detailed deliberation and verification of records.

A review of IRs issued upto March 2019 pertaining to 12 departments showed that 9,828 paragraphs relating to 2,981 IRs were outstanding at the end of June 2019. Of these, 1,131 IRs containing 2,488 paragraphs were outstanding for more than 10 years (**Appendix-VI**). Even first reply from the Heads of offices which was to be furnished within one month has not been received in respect of 347 IRs issued upto March 2019. Year-wise position of the outstanding IRs and paragraphs is detailed in **Appendix-VII**.

Serious irregularities commented upon in these IRs have not been settled as of June 2019 (**Appendix-VIII**). Number of paragraphs and amount involved in these irregularities is categorised in Table 8.6.

Table No. 8.6: Category of irregularities, number of paragraphs and amount

Sl. No.	Category of irregularities	Number of paragraphs	(₹ in crore)
			Amount
1	Non-compliance with rules and regulations	48	2.09
2	Audit against propriety/ expenditure without justification	35	8.85
3	Persistent/ pervasive irregularities	07	1.92
	Total	90	12.86

(Source: Compiled by Audit)

Bhubaneswar

The: 18 FEB 2021

(BIBHUDUTTA BASANTIA)
Pr. Accountant General (Audit-II), Odisha

Countersigned

New Delhi

The: 19 FEB 2021

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

