

CHAPTER - I

GENERAL

Chapter-I GENERAL

1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) contains matters arising from Compliance Audit of four Departments, out of the five¹ audited Departments of the Government of Madhya Pradesh (GoMP) under the purview of the Office of Accountant General² (Audit-II), Bhopal.

The primary purpose of this Report is to bring to the notice of the State Legislature, significant results of Compliance Audit of the above Departments. The findings of audit are expected to enable the Executive to take corrective action, to frame appropriate policies as well as issue directives, that will lead to improved financial management of organisations, and contribute to better governance.

This Chapter explains the planning and coverage of audit, response of the Departments and Government to audit findings and follow-up action on previous Audit Reports.

1.2 Office of the Accountant General (Audit-II)

There are 54 Departments functioning under the Government of Madhya Pradesh. These Departments are headed by Additional Chief Secretaries/ Principal Secretaries, who are assisted by Heads of the Departments and subordinate officers under them.

The Office of Accountant General (Audit-II), Bhopal conducts the audit of 21 out of the 54 Departments. Besides, it also audits 58 Public Sector Undertakings, five Autonomous Bodies and two Statutory Corporations.

The Audit offices were restructured in June-July 2020, whereupon the concept of Audit Management Group (AMGs) was introduced.

After restructuring of the Audit Offices, the office of Accountant General (Audit-II), Bhopal is entrusted with the following departments:



Key Departments	Audit Management Group (AMG)
Forest & Environment, Science & Technology	AMG-I
Urban Local Bodies, Transport, Culture, Tourism	AMG-II
State Finance, Commercial Taxes, Mineral Resources, Industries, Commerce	AMG-III
Public Works, Public Health, Energy	AMG-IV

¹ Public Works Department, Public Health Engineering Department, Energy Department, Forest Department and Industrial Policy and Investment Promotion (Industries) Department.

² The Compliance Audit of Urban Development and Housing Department was also conducted by this office. However, the same is included in the combined Urban Local Bodies Report prepared by the office of Principal Accountant General (Audit-I), MP, Gwalior.

Audit of the Departments under these Groups includes audit of Administrative Offices of the State Government Departments, their subordinate offices, Public Sector Enterprises, Local Bodies and Autonomous Bodies under the administrative control of the Departments.

1.3 Expenditure details of the Auditee Departments

Expenditure of Departments

A summary of the expenditure incurred by the various Departments of Government of Madhya Pradesh falling within the audit purview of the Office of Accountant General (Audit-II), Bhopal, during the three-year period 2018-19 to 2020-21, is given in **Table 1.1** below:

Table 1.1: Expenditure of Other than Revenue Departments under audit purview of Office of AG (Audit –II), Bhopal

(₹ in crore)				
S. No.	Name of the Department	2018-19	2019-20	2020-21
1.	Forest	2,437.90	1,993.88	2,503.52
2.	Science and Technology	175.73	70.97	150.83
3.	Urban Development and Housing	5,739.50	4,608.33	5,661.58
4.	Culture	230.07	147.73	146.64
5.	Tourism	170.53	155.40	100.95
6.	Industrial Policy and Investment Promotion	767.22	850.43	895.30
7.	Micro, Small and Medium Enterprises	780.85	817.98	483.50
8.	Finance	12,280.90	12,288.40	15,010.41
9.	Cottage and Rural Industry	191.84	121.60	92.09
10.	Planning, Economics and Statistics	228.95	211.27	79.40
11.	Energy	12,682.46	8,177.02	10,818.55
12.	New and Renewable Energy	257.92	109.26	60.41
13.	Public Works	8,647.47	7,886.39	6,882.08
14.	Public Health Engineering	2,530.04	2,990.54	4,499.13
15.	Environment	54.74	27.15	41.02
16.	Spirituality	189.06	55.08	39.20
17.	Civil Aviation	27.79	26.84	25.10
18.	Overseas Indian	0.39	0.05	0.38
Total		47,393.36	40,538.32	47,490.09

Source: Data collected from Finance and Appropriation Accounts of GoMP for the relevant years.

1.4 Authority for Audit

The CAG's authority for audit is derived from Articles 149 and 151 of the Constitution of India and CAG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). The CAG audits the Government Departments and Public Sector Enterprises as per the following provisions:

- Audit of expenditure of the Departments is carried out under Section 13 of the DPC Act;
- Supplementary Audit of financial statements of Government Companies is carried out in accordance with the provisions of Section 143(6)(a) of the Companies Act, 2013;
- Audit of Receipts of the Departments is carried out under Section 16 of the DPC Act;

- Financial audit of Autonomous Bodies (ABs) is carried out as per Sections 19(2)³ and 19(3)⁴ of the DPC Act; and

Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, as well as guidelines, manuals and instructions by or on behalf of the CAG.

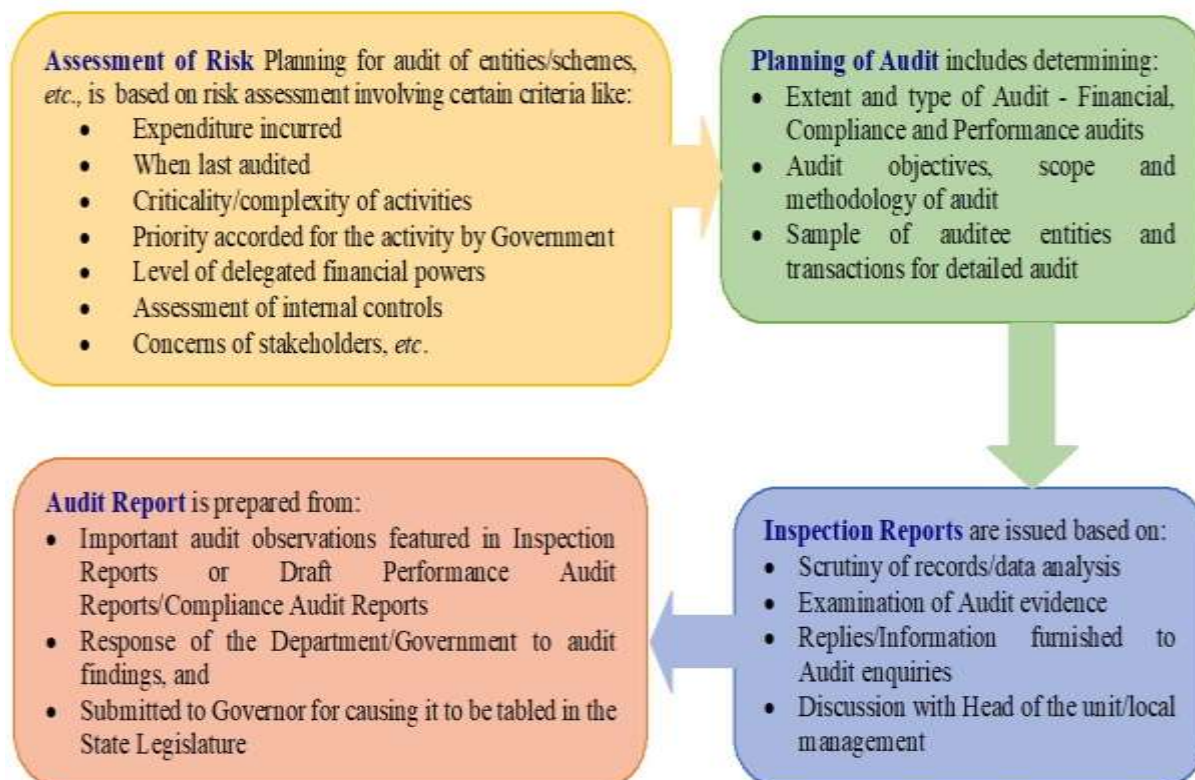
1.5 Planning and Conduct of Audit

During the year 2021-22, the office of Accountant General (Audit-II), Bhopal conducted compliance audit of 177 units out of a total of 1805 auditable units amongst 18 Departments (Other than Revenue Departments). This Report features findings on four audit topics under four departments (Para 2.1 to 5.12 of this Report).

Compliance Audit is an independent assessment of whether a given subject matter (an activity, financial or non-financial transaction, information in respect of an entity or a group of entities) complies in all material respects with the applicable laws, rules, regulations, established codes, *etc.*, and the general principles governing sound public financial management and the conduct of public officials.

The following flowchart depicts the process of planning, conduct of audit and reporting the results of audit:

Chart 1.1: Planning, conduct of audit and reporting



After the completion of compliance audit of each unit, an Inspection Report (IR) containing audit findings is issued to the head of the unit with a request to furnish replies within one

³ Audit of accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations.

⁴ Audit of accounts of Corporations (not being Companies) established by or under law made by the State Legislature in accordance with the provisions of respective legislations.

month of receipt of the IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in Government, are issued as Draft Paragraphs/ Performance Audits/Compliance Audits to the Government for their response, before possible inclusion, after due consideration of the responses, in the Audit Reports. These Audit Reports are submitted to the Governor of Madhya Pradesh under Article 151 of the Constitution of India for causing them to be laid on the Table of the State Legislature.

1.6 Response of Departments to Audit findings

1.6.1 Response to previous Inspection Reports

Heads of Offices and next higher authorities are required to respond to the observations contained in Inspection Reports and take appropriate corrective action. Audit observations communicated in IRs are also discussed at periodical intervals in meetings at District/State levels by officers of the Accountant General's office with officers of the Departments concerned.

As of 31 March 2022, a total of 2,972 Departmental IRs and 18,186 paragraphs (excluding PSUs) pertaining to previous years were pending settlement as detailed below in **Table 1.2**.

Table 1.2: Details of outstanding IRs/paragraphs of other than Revenue Departments at the end of March 2022

S. No.	Name of the Department	IRs	Paras
1.	Forest	221	2,609
2.	Science and Technology	10	56
3.	Urban Development and Housing	1,614	9,426
4.	Culture	115	460
5.	Tourism	04	31
6.	Industrial Policy and Investment Promotion	05	19
7.	Micro, Small and Medium Enterprises	42	218
8.	Finance	319	854
9.	Cottage and Rural Industries	09	30
10.	Planning, Statistics and Economics	101	373
11.	Energy	32	100
12.	New and Renewable Energy	05	17
13.	Public Works	359	2,939
14.	Public Health and Engineering	80	850
15.	Environment	37	121
16.	Spirituality	04	12
17.	Civil Aviation	15	71
18.	Overseas Indian	00	00
	Total	2,972	18,186

Lack of action on IRs and audit paragraphs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports. It may also result in dilution of internal controls in the governance process, inefficient and ineffective delivery of public goods/ services, fraud, corruption and loss to public exchequer. Therefore, the State Government needs to institute an appropriate mechanism to review and take expeditious action to address the concerns flagged in these IRs and audit paragraphs.

1.6.2 Response of the Government to Audit observations

All Departments are required to send their responses to Draft Audit Paragraphs proposed for inclusion in CAG's Report within six weeks of their receipt. During December 2021 to February 2022 four Compliance audit paragraphs were forwarded to the Additional Chief Secretaries/Principal Secretaries/Secretaries of the Departments concerned, drawing their attention to the audit findings and requesting them to send their response within six weeks. It was brought to their personal attention that these paragraphs were likely to be included in the Audit Report of the CAG of India, which would be placed before the State Legislature and it would be desirable to include their comments/responses to the audit findings. The responses of the Government, wherever received, have been appropriately incorporated in the Report.

1.6.3 Response of the Government to Audit Paragraphs that featured in earlier Audit Reports

Administrative Departments are required to submit Explanatory Notes on paragraphs and Performance Audits included in Audit Reports, within three months of their presentation to the State Legislature, duly indicating action taken or proposed to be taken. For this purpose, the Departments are not required to wait for any notice or call from the Public Accounts Committee.

As of 31 March 2022, Explanatory Notes were yet to be received from two Departments (other than Revenue Departments) in respect of 04 paragraphs that featured in the Audit Reports for the years 2014-15 to 2018-19. Details are given below in **Table 1.3**.

Table 1.3: Pending departmental replies on the paragraphs included in CAG Audit Report

Year of Audit Report	Department	Departmental replies pending as of 31.03.2022	Date of presentation in the State Legislature	Due date for receipt of Departmental Replies
2014-15	Forest	01	17 March 2016	16 June 2016
2018-19	Public Works	03	21 September 2021	20 December 2021
Total		04		

1.6.4 Response of the Government to recommendations of the Public Accounts Committee (PAC)

Administrative Departments are required to submit Action Taken Notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) within six months from the date of receipt of the recommendations. As of 31 March 2022, 35 ATNs in respect of various Departments (other than Revenue Departments) of the Government of Madhya Pradesh were yet to be received. Details are given in **Appendix 1.1**.

1.6.5 Response of the Government to recommendations of the Committee on Public Sector Undertakings (CoPU)

As of 31 March 2022, a total of 344 IRs and 2,316 paragraphs of the PSUs (other than Revenue Departments) pertaining to previous years were pending settlement, whereas, Explanatory Notes in respect of ten paragraphs of the Audit Reports for the period from 2016-17 to 2018-19 have not been received as per the details given in the **Table 1.4 below**.

Table 1.4 Details of Paragraphs to which Explanatory Notes were not received

Name of the Department	2016-17 (No. of paragraph and Para no.)	2017-18 (No. of paragraph and Para no.)	2018-19 (No. of paragraph and Para no.)
Industrial Policy and Investment Promotion	1 (3.9)	--	1 (4.1)
Public Works	1 (3.1)		--
Energy	--	2 (2.1, 2.3)	2 (4.4, 4.5)
Finance	--	1 (5.1)	--
Forest	--	--	1 (4.2)
Tourism	--	--	1 (4.3)
Total	02	03	05

After issue of Recommendation Reports⁵ by the CoPU, the Action Taken Notes in respect of 17 of the Audit Reports (33 ATNs and 157 paragraphs) for the period 1973-74 to 2015-16 pertaining to five departments were not received as of March 2022 as detailed in **Appendix 1.2**.

1.7 Significant audit observations

Compliance audit of the Departments of Government of Madhya Pradesh, brought out instances of non-compliance with applicable rules, codes and manuals, lapses in management of public resources and failure to adhere to norms of propriety.

This Report contains findings of four Compliance Audits pertaining to four Departments of the State Government during 2021-22.

1.7.1 Fund Management and Construction & Upgradation of Major District Roads Through New Development Bank Loan in Madhya Pradesh.

(Public Works Department)

Audit examined the records relating to Construction & Up-Gradation of Major District Roads carried out through the loan assistance from the New Development Bank during the period 2018-19 to 2020-21 in seven Public Works Divisions.

Audit could not derive assurance that the processes to be followed for selection of roads were actually followed. In four Divisions, contrary to the specification, the Dense Bituminous Macadam surface was covered by the next course, Bituminous Concrete after a lapse ranging between one month and 15 months, without laying any other course in between to protect the Dense Bituminous surface. This resulted in below specification work worth ₹ 54.15 crore.

Audit noticed in one Division that an incorrect quantity of materials consumed had been recorded in the Measurement Books and an amount of ₹ 1.49 crore was irregularly paid to the contractor in this regard.

⁵ Received between December 2004 to March 2022 in this Office.

1.7.2 Implementation of State Rural Drinking Water Programme in Madhya Pradesh.

(Public Health Engineering Department)

Audit examined the records related to State Rural Drinking Water Programme in 10 Public Health Engineering Divisions out of 55 Divisions of the Department and 18 Schemes out of 58 Schemes being executed by the Jal Nigam Maryadit covering the period from 2018-19 to 2020-21.

The Department had failed to adhere to the Scheme Guidelines. Audit noticed cases of improper estimation which led to additional cost. Audit noticed huge delays in execution of the works/ schemes. Out of 147 works (116 completed and 31 ongoing) in 10 Divisions only eight works were completed in time whereas the median delay in completed works was of 257 days, while in on-going works, it was 851 days. Out of 18 schemes, 12 Schemes were completed with a median delay of 586 days and six ongoing Schemes were delayed by median 756 days from the date of their scheduled completion.

Audit noticed that the contractors have been benefitted through inadmissible payments, non-recovery of liquidated damages, irregular advance payment, irregular release of Performance Security/ Security Deposit, etc. In two schemes, Bank Guarantee of ₹ 14.53 crore was released to the contractors even before completion of the works. In 50 works of four Divisions, Bank Guarantee worth ₹ 2.44 crore was released either before completion of 24 months of operation & maintenance period or before completion of the works.

In five Divisions 1,914 habitations out of 11,248 habitations (March 2019) and under three Divisions 493 habitations out of 10,829 habitations (March 2020) have slipped back from the category of fully covered habitations due to non-ensuring sustainability of water source. The Department had also failed to provide water of adequate quality and quantity due to deficient Monitoring and Operation & Maintenance of the works/ schemes.

1.7.3 Construction and Operation & Maintenance of Power House-II of Shree Singaji Thermal Power Station (SSTPS), Khandwa of Madhya Pradesh Power Generating Company Limited

(Energy Department)

Audit covered the construction and operational performance of the PH-II of the Shree Singaji Thermal Power Station (SSTPS), Khandwa since preparation of feasibility study in the year 2009-10 by consultant till the commissioning 28 March 2019 and plant including operational performance till 31 March 2021.

The Company (MPPGCL)⁶ lost the benefit of additional Return on Equity amounting to ₹ 120.75 crore on account of delayed project completion and disallowances of Interest During Construction and Incidental Expenditure During Construction by Madhya Pradesh Electricity Regulatory Commission amounting to ₹ 215.03 crore. Imprudent planning resulted in avoidable payment of ₹ 67.80 crore towards water charges. The Company assumed additional burden of ₹ 102.32 crore as it procured power at costlier rates to mitigate the shortfall during the period of delay.

Major outages in the newly commissioned plant led to generation loss of 9036.55 Million Units and non-recovery of fixed cost of ₹ 1055.54 crore. The SSTPS, Power House-II neither met the operational parameters determined by MPERC resulting in loss of generation, excess

⁶ MPPGCL- Madhya Pradesh Power Generating Company Limited.

consumption of fuel and non/ under recovery of fixed cost nor adhered to the various environmental norms of Ministry of Environment, Forest and Climate Change (MoEFCC) regarding stack emission, disposal of ash and water consumption, having adverse impact on the environment.

1.7.4 Diversion of Forest Land and Management of Compensatory afforestation funds in Madhya Pradesh

(Forest Department)

Audit examined the records related to diversion of forest land and the expenditure from Compensatory Afforestation Funds in the office of the PCCF (CAMPA) and 17 Divisions out of 100 Divisions for the period from 2017-18 to 2019-20.

Audit noticed preparation of defective Detailed Project Reports and erroneous selection of site for afforestation. Audit noticed that the procedure for diversion of forest land had not been followed by the Department. In 122 cases {total area of 60.01 Hectare (Ha)} involving less than one Ha of forest land each were approved without obtaining certificates of Gram Sabhas and District Collectors. The Department diverted 2,731 Ha of forest land in favour of Narmada Valley Development Corporation for Sardar Sarovar Project in September 1987. However, 2,809.943 Ha Forest land was indeed submerged under the project. After lapse of several years due to laxity in pursuance, revised sanction of MoEFCC could not be obtained.

Audit also noticed failure of plantations under compensatory afforestation. In five project/plantation sites out of 2,79,790 saplings planted, only 1,02,320 survived. This resulted in infructuous expenditure of ₹ 86.77 lakh. The Department irregularly incurred expenditure of ₹ 53.29 crore on ineligible activities which could not be linked to any of the activities envisaged for compensatory afforestation. Besides this, an expenditure of ₹ 29.58 crore was irregularly incurred on plantation of teak which was a commercial activity not permissible under compensatory afforestation. Further, the Department had failed to recover compensatory afforestation costs amounting to ₹ 4.05 crore from the user agencies.

Audit noticed in 678 land diversion cases of 13 Divisions that self-monitoring reports had not been obtained by the Department from the user agencies. This indicates inefficient monitoring and indifference towards restoration of damages to the ecology and environment on account of diversion of forest land.

1.8 Acknowledgement

The Office of the Accountant General (Audit-II), Madhya Pradesh wishes to acknowledge the co-operation and assistance rendered by the officials of the Public Works Department, Public Health Engineering Department, Energy Department and Forest Department of the State Government during the course of audit of the respective Departments.