

OVERVIEW

This Audit Report contains 42 Audit Paragraphs and six Audit Reviews apart from comments on the Finance and Appropriation Accounts. As per existing arrangement, copies of the draft Audit Paragraphs and draft Audit Reviews are sent to the Principal Secretary/Secretary concerned to the State Government by the Principal Accountant General/Accountant General (Audit) demi-officially, with a request to furnish replies within six weeks. Despite such efforts, 41 out of 48 Audit Paragraphs and Reviews did not elicit any response from the Principal Secretary/Secretary concerned of the State Government.

I An overview of the Finances of the State Government

- The revenue receipts of the Government increased from Rs 21737 crore in 1998-99 to Rs 31103 crore in 2002-03 registering an average trend growth rate of 9.77 *per cent per annum*.
- Sales tax was the major source of State's own tax revenue having contributed 52 *per cent* of the tax revenue followed by stamps and registration fees (12 *per cent*). Of non tax revenue sources, interest receipts (39 *per cent*) and Dairy Development (18 *per cent*) were principal contributors. However, 90 *per cent* of the interest receipts (Rs 1777 crore) was only notional in nature arising out of book adjustments.
- The current levels of cost recovery in supply of merit goods and services by Government are 0.02 *per cent* for secondary education, 0.23 *per cent* for university and higher education, 5.23 *per cent* for technical education, 5.94 *per cent* in health and family welfare, 0.40 *per cent* in water supply and sanitation, 6.83 *per cent* in major and medium irrigation and 5.36 *per cent* in minor irrigation.
- The revenue expenditure increased from Rs 25663 crore in 1998-99 to Rs 40474 crore in 2002-03, showing an average trend growth rate of 13.02 *per cent per annum*. The increase in the revenue expenditure during 2002-03 was mainly due to assistance to Maharashtra State Road Development Corporation for payment of interest on bonds (off budget borrowings) under the head "roads and bridges" by Rs 868.36 crore (1208 *per cent*), interest payments by Rs 700.67 crore (11 *per cent*), taxes on sales, trades, etc by Rs 314.86 crore (18 *per cent*) and Other Rural Development programme by Rs 226.36 crore (62 *per cent*).

- The Revenue Deficit jumped from Rs 3926 crore in 1998-99 to an all time high of Rs 9371 crore in 2002-03. Fiscal Deficit has also nearly doubled from Rs 7463 crore in 1998-99 to Rs 14290 crore in 2002-03. Further, this is exclusive of off Budget borrowings taken by the Government in the past.
- The share of economic services and social services in total expenditure declined from 28.11 *per cent* and 32.94 *per cent* in 1998-99 to 24.25 *per cent* and 31.35 *per cent* in 2002-03 respectively, while the relative share of general services, grants-in-aid and loans and advances increased. General services including interest payments considered as non developmental, accounted for nearly 39 *per cent* of total expenditure in 2002-03 as compared to about 36 *per cent* in 1998-99.
- Non developmental expenditure viz. Salaries (Rs 14703 crore[^]), Interest payments (Rs 7130 crore) and Pension (Rs 2526 crore) alone consumed more than three-fourth (78 *per cent*) of the revenue receipts of the State during the year.
- Out of the total capital expenditure of Rs 3685 crore during the year, two third expenditure (Rs 2513 crore) was under the major head Irrigation and flood control on account of Special purpose vehicles created (five irrigation corporations) for raising the Off-Budget Borrowings.
- As on March 2003, 49 companies in which Government had invested Rs 1400.42 crore (Share Capital: Rs 650.53 crore, Loan: Rs 749.89 crore) were incurring losses and their accumulated losses amounted to Rs 1170.53 crore.
- The fiscal liabilities of the State increased from Rs 42886 crore in 1998-99 to Rs 85800 crore in 2002-03 at an average growth rate of 19.73 *per cent*. These liabilities as ratio to Gross State Domestic Product increased from 17.90 *per cent* to 1998-99 to 29.60 *per cent* in 2002-03. and stood at 2.76 times of its revenue receipts. In addition to these liabilities, Government had guaranteed loans of Rs 37521.19 crore (12.93 percent of Gross State Domestic Product) of its Corporations and others as of 31 March 2003.
- These fiscal liabilities, however, do not include the pension liabilities payable to serving/retired State employees, off budget borrowings/liabilities, risk weighted guarantees/contingent liabilities, power subsidies payable to Maharashtra State Electricity Board etc.

[^] Projected for 2003-04 in Medium Term Fiscal Plan of Government of Maharashtra

- The average rate of market borrowing during the year was 7.59 *per cent*. As on 31 March 2003, 75 per cent of the existing market loans, however, carried interest rate exceeding 10 *per cent*.
- During the past five years, all the four indicators of fiscal imbalances showed continuous deterioration over time indicating increasing unsustainability and vulnerability of State finances. Increasing ratio of fiscal liabilities to Gross State Domestic Product and revenue receipts, together with a growing revenue deficit indicated that the State is gradually getting into a debt trap. Similarly, the higher buoyancy of debt both with regard to its revenue receipts and own resource indicated its increasing unsustainability.

(Paragraph 1.1 to 1.12)

II Allocative Priorities and Appropriation

- The expenditure exceeded the budget provision in 12 grants and 17 appropriations by Rs 1361.49 crore and Rs 1181.38 crore respectively. The excess expenditure required regularisation by the State Legislature under Article 205 of the Constitution.
- The Supplementary provision of Rs 10897.31 crore constituted 16.88 *per cent* of the original provision of Rs 64564.96 crore. In 57 grants/appropriations, supplementary provision totalling Rs 1727.67 crore proved unnecessary.
- Supplementary grants and appropriations totalling Rs 7329.27 crore were obtained in 38 other grants/appropriations when the additional requirement of the fund was Rs 4044.40 crore only. Savings in each of these cases was in excess of Rs 1 crore.
- Supplementary grants totalling Rs 1647.34 crore in six grants/appropriations proved insufficient by more than Rs 1 crore in each grant/appropriation leaving an aggregate uncovered excess expenditure of Rs 2122.74 crore.
- Savings of Rs 1 crore and above in each grant/appropriation totalling Rs 1863.83 crore (17.46 *per cent* of total savings) in 39 grants and appropriations were not surrendered before the close of the financial year.
- Corpus of the Contingency Fund was temporarily increased from Rs 150 crore to Rs 600 crore with effect from 1 November 2002. Advances totalling Rs 36.85 crore made from the Fund were not recouped till the close of the financial year.
- Out of Rs 424 crore received as Central loan Assistance for Accelerated Irrigation Benefit Programme projects, Rs 367 crore was diverted for other purposes.

(Paragraph 2.1 to 2.8)

III Performance Review of Scheme/Project

1 Implementation of Drugs and Cosmetic Act, 1940

The Drugs and Cosmetics Act, 1940 and the Drugs and Cosmetics Rules, 1945 have been enacted by Government of India for regulation of import, manufacture, distribution and sale of standard and quality drugs and cosmetics through a system of licensing, inspection and testing. In Maharashtra, the Food and Drugs Administration administers the Act. Some of the important findings of the implementation of the Act are as follows:

- Licences in respect of 138 out of 1145 manufacturing units and 773 out of 4575 selling units were not renewed upto March 2003. In none of the test checked districts, master licence register recording the the name of the licensees, licence number, date of issue/ date of renewal etc was maintained.
- Shortfall in inspections of manufacturing and selling units of drugs ranged between 51 and 76 *per cent*. Norms for selecting units for inspections have not been fixed. As a result, some units are inspected repeatedly while others remained uninspected for years.
- A system of inspection of Registered Medical Practitioners records has not been introduced in the State.
- The age-wise analysis of 1395 pending prosecution cases was not available with the Food and Drugs Administration. In only 87 out of 213 prosecution cases decided during the period, accused persons were convicted.
- During the years 2001 and 2002 only 27 to 77 *per cent* samples were tested within the prescribed 90 days.
- There was acute shortage of technical persons at all levels. Sixty posts out of 223 remained vacant.

(Paragraph 3.1)

2 Working of Public Works Department

Public Works Department is responsible for planning and construction of roads, bridges, buildings (residential and non residential) etc including their maintenance. At the end of March 2002 a net work of road length of 2.23 lakh kilometre, and residential/non-residential buildings, monumental buildings with the built up area of 1.56 crore square metre was under its control. Some of the important findings on the working of the department are as follows:

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- Budgetary control was deficient during 1998-2002. Despite surrender of funds of Rs 1858 crore there was excess under revenue and capital head.
 - Letter of Credit system was ineffective. In five divisions excess Letter of Credit of Rs 12.38 crore was granted by Superintending Engineer over final modified grant. In seven divisions, excess expenditure over budget allotment was met through non Letter of Credit cheques of Rs 13.94 crore during 1999-2003.
 - A total of 1122 works under plan and 1883 under non plan, costing Rs 39.03 crore and Rs 29.83 crore respectively were executed by 19 divisions during 1999-2003 without ensuring availability of funds.
 - Presidency Division, Mumbai incurred expenditure of Rs 20.31 crore during 1999-2002 on maintenance and repairs in excess of prescribed norms.
 - Government of India withheld/disallowed reimbursement of Rs 99.31 crore pertaining to period 1998-2003 due to non-compliance of objections raised by Pay and Accounts Office, National Highway, Mumbai.

(Paragraph 3.2)

3 Prevention and Control of Fire

Fire prevention and related safety measures are integral part of town planning and building construction. The subject fire services has been included as a municipal function in the XII schedule of the Constitution of India. It is for the State Government to ensure that municipalities fulfill their functions effectively. Some of the important findings of the implementation of fire control measures in the State are as follows:

- Standing Fire Advisory Council circulated a draft Fire Force bill in 1958 to all State Governments for enactment. The State Government has neither enacted the said bill nor enacted any Provision/Act/Rules to regulate the activities of fire services.
- In Mumbai in 40 *per cent* out of 3250 high rise buildings, constructed after 1975, the fire fighting system was not in working condition or was non-existent.
- Fire engines took 10-90 minutes as against five minutes response time to reach the site.
- Fire stations were located in crowded places like market areas or adjacent to schools, colleges or in narrow by-lanes in violation of the norms.

- As against the requirement of 220 fire stations in eight Municipal Corporations, there were only 54 fire stations. There were only 386 fire engines against the requirement of 506 in all the Municipal Corporations and Municipal Councils.
- In nine test-checked Municipal Corporations, the shortfall of fire services personnel was 1456, which works out to 35 *per cent* of the requirement.

(Paragraph 3.3)

4 Integrated Watershed Development Programme

The Water Conservation Programme was launched in August 1992 with a view to increase the productivity of dry land agriculture, provide more drinking water facilities at village level and to prevent soil erosion. Since more thrust was given to water conservation activities during 1992-1995, Government in January 1996 restructured the Water Conservation Programme as "Integrated Watershed Development Programme" by integrated approach in planning and implementation with people's participation and co-ordination. Some of the important findings are:

- Against the targeted completion of 21835 watersheds during 1998-2003 achievement was almost negligible (1535).
- Though the expenditure of Rs 45.87 crore was incurred against the projected cost of Rs 16.07 crore, none of Taluka Agriculture Officers could complete targeted four watersheds.
- Instruction to execute the work from upper reaches to lower reaches to avoid the possibilities of siltage was not adopted in 117 watersheds test-checked.
- Due to mistake in rate list of Employment Guarantee Scheme, extra expenditure of Rs 69.75 lakh was incurred by 19 Taluka Agriculture Officers.

(Paragraph 3.4)

IV Audit Paragraphs

Loss of Government money

- Irregular payment of financial assistance of Rs 97.48 lakh to ineligible beneficiaries under *Bhoomihin Shetmajoor* Assistance Scheme.

(Paragraph 4.1.1)

Violation of contractual obligations/undue favour to contractors

- Non-observance of tender procedures, and extending other favours by the Maharashtra Housing and Area Development Authority resulted in undue benefit of Rs 82.25 crore to a private developer.
(Paragraph 4.3.1)
- Irregular transfer of shops to unauthorised occupants resulted in a loss of Rs 5.46 crore to Mumbai Housing and Area Development Board.
(Paragraph 4.3.2)
- Undue favour extended to an allottee resulted in a loss of Rs 3.18 crore to Mumbai Housing and Area Development Board.
(Paragraph 4.3.3)
- Delay in finalisation of final sale price of tenements and arbitrary waiver of 60 *per cent* of the differential sale price entailed loss of revenue of Rs 1.42 crore to Pune Housing and Area Development Board.
(Paragraph 4.3.4)
- Non-eviction of superannuated employees of Government Central Press, Mumbai from staff quarters resulted in non-recovery of rent of Rs 1.36 crore.
(Paragraph 4.3.7)
- Irregular payments beyond contractual terms amounted to Rs 2.81 crore due to inclusion of rates for machinery/equipment in the basic rate.
(Paragraph 4.3.8)

Avoidable/excess/unfruitful expenditure

- Unfruitful expenditure of Rs 4.43 crore on procurement of four boats by the Commissioner of Fisheries due to their grounding and Rs 9.06 lakh on maintenance of inoperative boats.
(Paragraph 4.4.1)
- Improper planning by the Directorate of Information Technology led to extra procurement of 2000 Lotus software costing Rs 60 lakh and on obsolete software application package valuing Rs 31 lakh.
(Paragraph 4.4.3)
- Non-compliance of Government orders regarding handing over of completed project by the Executive Engineer, Minor Irrigation Division No. 1, Ahmednagar to a co-operative sugar factory resulted in avoidable expenditure of Rs 3.15 crore.
(Paragraph 4.4.5)

- Irregular sanction of extra item rate lists by the Executive Engineer Medium Project Division, Nashik resulted in excess payment of Rs 3.01 crore to a contractor.

(Paragraph 4.4.6)

- Non-functioning of Digital Water Level Recorders procured by the Groundwater Survey and Development Agency, Pune for disseminating data for surface and ground water resulted in unfruitful expenditure of Rs 2.94 crore.

(Paragraph 4.4.18)

- Unilateral decision taken with retrospective effect by the Government/Maharashtra Jeevan Pradhikaran resulted in avoidable expenditure of Rs 2.66 crore on interest payment and legal charges/arbitration cost.

(Paragraph 4.4.19)

- Supply of substandard food under a Government Scheme resulted in non-achievement of its objectives and also rendered the expenditure of Rs 29.82 crore largely unfruitful.

(Paragraph 4.4.20)

Idle investment/idle establishment/blockage of funds

- Improper planning in execution of a project by the Maharashtra University of Health Sciences, Nashik resulted in blocking of Rs 8.29 crore on incomplete buildings and recurring rental liability of Rs 6.5 lakh for hired premises.

(Paragraph 4.5.3)

- Failure of Government to assess the feasibility of the project resulted in blocking of Rs 5.19 crore paid as compensation for land acquired for barrage and pump house on Wardha river for Thermal Power Project.

(Paragraph 4.5.5)

- Non-adherence to rules, non-payment of dues and non-provision of funds by Maharashtra Jeevan Pradhikaran resulted in blockage of funds of Rs 11.09 crore on three water supply schemes.

(Paragraph 4.5.6)

V Internal Audit Systems in Government Departments

- Internal audit is responsible for examination and evaluation of the level of compliance to the departmental rules and procedures and assure the senior management of the adequacy of risk management and internal control of the department. Some important findings in the departments

of Medical Education and Drugs and Revenue were reviewed and the results are as given below:

- Expenditure/importance of the scheme was not given weightage while preparing the Annual Audit Plan.
- Internal Audit did not bring out significant audit observations on the adequacy and effectiveness of internal controls necessitating corrections in the existing system.
- No Manuals of Internal Audit or Auditing Standards exist.
- There was no system for training Internal Audit Personnel.
- Audit was in arrears for periods ranging from three to six years.

(Paragraph 5.1 to 5.3)