

# **CHAPTER - I**

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## CHAPTER I: INTRODUCTION

### 1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from performance audit of selected programmes and activities and compliance audit of Government departments and autonomous bodies.

Compliance audit refers to examination of the transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with. On the other hand, performance audit besides conducting a compliance audit, also examines whether the objectives of the programme/activity/department are achieved economically and efficiently.

The primary purpose of the Report is to bring to the notice of the State Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the audit of transactions and follow up on previous Audit Reports. Chapter II of this report contains findings arising out of performance audit of selected programmes/activities/departments. Chapter III contains observations on audit of transactions in Government departments and autonomous bodies. Chapter IV presents an assessment of implementation of schemes taken up in the district of Gondia.

### 1.2 State profile

There are 29 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers and 16 autonomous bodies, which are audited by the Principal Accountant General (Audit)-I, Mumbai and the Accountant General (Audit)-II, Nagpur.

The comparative position of expenditure incurred by the Government during the year 2010-11 and in the preceding two years is given in **Table 1**.

**Table 1: Comparative position of expenditure**

Particulars	2008-09			2009-10			2010-11		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
<b>Revenue expenditure</b>									
General services	384	26201	26585	214	31857	32071	147	37557	37704
Social services	8286	22766	31052	11400	29605	41005	11256	37026	48282
Economic services	3668	13145	16813	5028	15344	20372	5512	13773	19285
Grants-in-aid	71	1173	1244	95	1373	1468	12	1176	1188
<b>Total</b>	<b>12409</b>	<b>63285</b>	<b>75694</b>	<b>16737</b>	<b>78179</b>	<b>94916</b>	<b>16927</b>	<b>89532</b>	<b>106459</b>
<b>Capital expenditure</b>									
Capital Outlay	12776	6097	18873	14668	2760	17428	15654	2309	17963
Loans and Advances disbursed			1281			1261			959
Repayment of Public Debt			3221			3825			4774
Public Accounts disbursement			30507			31721			39556
<b>Total</b>	<b>12776</b>	<b>6097</b>	<b>53882</b>	<b>14668</b>	<b>2760</b>	<b>54235</b>	<b>15654</b>	<b>2309</b>	<b>63252</b>
<b>Grand Total</b>			<b>129576</b>			<b>149151</b>			<b>126504</b>

Source: Report No 1, Report on State Finances of the respective years.

### 1.3 Authority for audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The C&AG conducts audit of expenditure of the Departments of Government of Maharashtra under Section 13<sup>1</sup> of the C&AG's (DPC) Act. The C&AG is the sole auditor in respect of 16 autonomous bodies which are audited under sections 19(2)<sup>2</sup>, 19(3)<sup>3</sup> and 20(1)<sup>4</sup> of the C&AG's (DPC) Act. In addition, the C&AG also conducts audit of 434 other autonomous bodies, under Section 14<sup>5</sup> of the C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007, issued by the C&AG.

### 1.4 Planning and conduct of audit

The audit process starts with the assessment of risk faced by various departments of the Government, based on expenditure incurred, criticality/complexity of activities, the levels of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit

<sup>1</sup> Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts

<sup>2</sup> Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations

<sup>3</sup> Audit of the accounts of a corporation established by law made by the Legislature of a State on the request of the Governor, in public interest

<sup>4</sup> Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government

<sup>5</sup> Audit of (i) all receipts and expenditure of a body or authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of the State in a financial year is not less than ₹ one crore

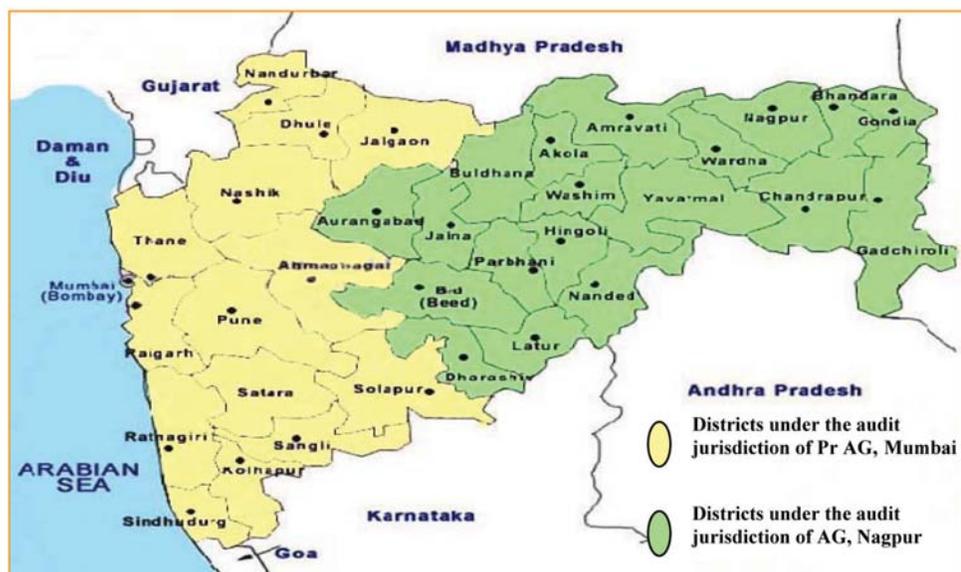
findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the heads of the departments. The departments are requested to furnish replies to the audit findings within six weeks of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports which are submitted to the Governor of the State of Maharashtra under Article 151 of the Constitution of India.

During 2010-11, 8,664 party-days were used to carry out audit of 1,359 units (compliance audit and performance audits) out of 9,026 units of the various departments/organisations. The audit plan covered those units/entities which were vulnerable to significant risks, as per our assessment.

### 1.5 Organisational structure of the offices of the Principal Accountant General (Audit)-I, Mumbai and the Accountant General (Audit)-II, Nagpur, Maharashtra

Under the directions of the C&AG, the offices of the Principal Accountant General (Audit)-I, Mumbai and the Accountant General (Audit)-II, Nagpur conduct the audit of the various Government departments and offices/autonomous bodies/institutions under them. While 16 districts from Konkan and Western Maharashtra fall under the audit jurisdiction of the Principal Accountant General (Audit)-I, Mumbai, the remaining 19 districts from Vidarbha and Marathwada are under the audit jurisdiction of the Accountant General (Audit)-II, Nagpur, as shown in the map below.



### 1.6 Significant audit observations

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in selected departments. Similarly,

the deficiencies noticed during compliance audit of the Government departments/organisations were also reported upon.

### **1.6.1 Performance audits of programmes/activities/departments**

The present Report contains five performance audits and one district-centric audit. The highlights of these performance audits are given in the following paragraphs.

#### **1.6.1.1 Slum Rehabilitation Schemes in Mumbai**

The Maharashtra Slum Areas (Improvement, Clearance and Redevelopment) Act, 1971 (Slum Act) was amended (December 1995) for the establishment of a Slum Rehabilitation Authority (SRA) for the planning and design of Slum Rehabilitation Schemes. The schemes to be formulated and cleared by SRA were to be governed by the Development Control Regulations. SRA was vested with the responsibility of conducting surveys and reviewing the existing slum areas and formulating schemes for rehabilitation of slum dwellers. SRA was to provide free houses to 40 lakh eligible slum dwellers whose names appeared in the electoral roll as on 1 January 1995. The slums which came up after 1 January 1995 were to be evicted as per the scheme. A self contained tenement having carpet area of 225 sq ft (raised to 269 sq ft from April 2008) was to be provided free of cost. We noticed that there was no evaluation of developers and the quality of the construction was left to their discretion. Beneficiaries in the approved Annexure II lists were found to be ineligible during re-verification. SRA did not have any database of slums to decide whether Governmental intervention was required for redevelopment of non-viable slums. The developer for the Mumbai International Airport Slum Rehabilitation Project was granted huge concessions. The Dharavi Redevelopment Project was still to take off even after seven years of its approval. Special township projects were sanctioned to developers even though all prerequisite requirements had not been fulfilled by them. As against the targeted rehabilitation of 8.05 lakh slum dwellings within five years, only 1.27 lakh slum dwellings could be rehabilitated in 15 years of implementation of the scheme.

#### **1.6.1.2 Role of Maharashtra Pollution Control Board in Prevention and Control of Water Pollution in Maharashtra**

Water pollution means contamination of water or alteration of the physical, chemical or biological properties of water by discharge of various kinds of wastes into water, directly or indirectly, which renders water harmful for public health, health of animals, plants, aquatic organisms *etc.* The Maharashtra Pollution Control Board (MPCB) is responsible for implementation of various Acts and Rules to mitigate pollution of any kind in the State, including water pollution. MPCB is also responsible for issuing consents to operate industries in the State and to ensure that the consented standards are maintained by the industries to minimize pollution.

A performance audit covering the period 2005-11, revealed that the MPCB had not formulated any framework to identify the sources contributing to

water pollution in the State. There were substantial delays at its level in finalization of applications received for grant or renewal of consents. In the jurisdiction of the test-checked regional offices, a majority of urban local bodies were found to be discharging domestic effluents into water bodies without treatment. The existing Common Effluent Treatment Plants (CETPs) and Effluent Treatment Plants (ETPs) were found to be inadequate to treat industrial effluents. Consented standards in respect of treated effluents were also not maintained by the CETPs and ETPs. Though polluted river stretches in the State had increased from 23 to 28 during the last eight years, MPCB had not taken any action to prevent further deterioration. Assessment of lake water quality by MPCB was found to be inadequate. Increase in water-borne diseases in the State during 2006-11 substantiated the diminishing standards of potable water. MPCB had not adhered to its own norms prescribed for collection of samples from industries to monitor pollution levels. The Integrated Management Information System introduced by Maharashtra Pollution Control Board with a view to systematize pollution control functions did not yield the desired results. The deficiencies in the implementation of Acts and Rules for water pollution control had not only affected the health of human beings but also polluted the environment.

#### **1.6.1.3 Working of Vidarbha Irrigation Development Corporation**

The Government established the Vidarbha Irrigation Development Corporation (VIDC) under the VIDC Act in 1997. VIDC started functioning from April 1997. Besides transfer of 10 ongoing projects being implemented by the erstwhile Irrigation Department in 1997, 86 new projects were transferred in 1998, 141 in 2007 and 83 in 2008 totalling 320 projects, of which only 58 projects were nearly completed as of March 2011. VIDC failed to ensure completion of the projects in hand which were at an advanced stage. This was despite a High Power Committee's recommendations to the contrary. Projects with VIDC suffered due to insufficient release of funds by the Government at the initial stage and transfer of additional projects. Works were commenced without acquisition of private as well as forest land, contributing to time and cost overruns. Monitoring of the projects by the Governing Council and the Executive Council was inadequate. Against the targeted irrigation potential (IP) of 15.46 lakh hectare, IP of only 3.82 lakh hectare at a cost of ₹ 11,732 crore was created. The utilization of the IP was very low.

#### **1.6.1.4 Implementation of Soil and Water Conservation Programme by Agriculture Department**

The State of Maharashtra comprises an area of 307.58 lakh hectares (ha), of which 159 lakh ha is drought-prone, due to scanty rains and leaching out of moisture content from the soil surface. The deficiency of water and soil erosion is caused by highly erosive rains, high wind velocity and generally shallow soil. Consequently, the soil becomes infertile for agriculture.

Performance audit of the 'Implementation of Soil and Water Conservation Programme by Agriculture Department' was conducted to assess the status and impact of implementation of selected soil and water conservation schemes. Audit scrutiny revealed that watershed projects were implemented with inadequate project plans. Release of funds was maximum in the month of March indicating avoidable rush of expenditure. Farm ponds under the

National Agriculture Development Programme were not serving the intended purpose of percolation of water. The Vidarbha Watershed Development Mission was not successful. Components were not executed in the prescribed sequence by adopting 'ridge to valley' strategy for proper development of watersheds. Watershed treatment works were taken up in command areas of irrigation projects. Works under the test-checked schemes remained incomplete. Implementation of soil and water conservation works, however, did contribute to increase in the Static Water Level in all the talukas of Sangli and Latur districts. However, decrease in Static Water Level was also observed in 20 talukas of three districts. The targets set for the test-checked schemes were not achieved due to financial constraints.

#### **1.6.1.5 Working of the Directorate of Vocational Education and Training**

The Department of Higher and Technical Education is responsible for creation of trained and skilled manpower in different trades required for domestic industry by imparting structural training and nurturing a technical and industrial attitude in the minds of youth. Audit of Directors of Vocational Education and Training under the Higher and Technical Education Department for the period 2006-11 revealed that the institutes under Vocational Education and Training in the State could not supply the number of skilled workers to the industries as envisaged. Commencement of courses without affiliation rendered the students ineligible for the All India Trade Test and consequently for National Council for Vocational Training certificates having all-India recognition for recruitment. Shortfalls in infrastructure, prescribed equipment and instructors were noticed in the cases of affiliated trades in the test-checked units. The schemes failed to take off as envisaged due to shortfalls in infrastructure and faculty, as a result of which the department could not achieve its objective of bridging the gap between the demand and supply of skilled workers. The deficiencies in implementation of the schemes could not be identified and set right due to poor monitoring and acute shortfalls in technical inspections ranging from 75 to 100 *per cent*. Acute shortfalls in key posts severely affected the performance and service delivery of the department.

#### **1.6.1.6 District-centric audit of Gondia**

Recognising the importance accorded by the Planning Commission, Government of India for a district-centric approach to devolution of finances for integrated local area development, a district-centric audit of Gondia district was carried out to assess the status and impact of implementation of various socio-economic developmental activities in the district during 2006-11.

The review covered key social sector programmes relating to health, education, water supply, social welfare as well as economic sector programmes relating to creation of roads, employment generation and poverty alleviation, provision of basic amenities to the public *etc*. Audit scrutiny revealed that the District Planning Committee had not prepared a Five -Year Perspective Plan or an integrated district plan covering all the activities for overall development of the district. The district was short of health centres, minimum infrastructure and doctors, which defeated the aim of providing accessible and

affordable health care to the population. There was a decrease in the enrolment of students even after increase in the number of schools. Hundred days' wages under Mahatma Gandhi National Rural Employment Guarantee Schemes were not provided to the households. No measures were taken in respect of the water quality of 59 habitations although the water was found affected by different types of chemical contaminants. Both the towns in the district, Gondia and Tirora were without any sewerage facilities and waste management plants. Under the public distribution system, there was short lifting of foodgrains.

### **1.6.2 Compliance audit of Government transactions**

During compliance audit, significant deficiencies were noticed in critical areas, which impacted the effectiveness of the State Government. Some important findings of compliance audit (23 paragraphs) have been included in this Report.

The major observations relate to:

- Fraud/misappropriation
- Non-compliance with rules and regulations
- Audit against propriety and cases of expenditure without adequate justification
- Persistent and pervasive irregularities
- Failure of oversight/governance

#### **1.6.2.1 Fraud and misappropriation**

- In Taluka Agriculture Office, Lakhani, district Bhandara, cases of misappropriation of Government money were noticed due to non-observance of provisions of Maharashtra Treasury Rules, 1968. Besides, no action was taken against the officials responsible for misappropriation of Government money.

*(Paragraph 3.1.1)*

#### **1.6.2.2 Non-compliance with rules and regulations**

For sound financial administration and control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the competent authority. This helps in maintaining financial discipline and prevents irregularities, misappropriation and frauds. This report contains instances of non-compliance with rules and regulations involving ₹ 51.91 crore. Some important audit findings are as under:

- Inadequacy in the provisions made by the Higher and Technical Education, Government of Maharashtra had given an opportunity for the defaulting educational institutions to accept excess intake of students on multiple occasions. As of March 2011, penalty of ₹ 2.01 crore recoverable from the defaulting institutions was also not recovered.

*(Paragraph 3.2.2)*

- Injudicious rejection of first call and subsequent re-tendering of the work of construction of a major bridge across the Wardha river on Vedgaon Podsa Sirpur-Kagaz Nagar Road resulted in extra cost of ₹ 3.47 crore on re-tendering.

(Paragraph 3.2.4)

### **1.6.2.3 Audit against propriety and cases of expenditure without adequate justification**

Authorisation of expenditure from public funds has to be guided by the principles of propriety and efficiency of public expenditure. Authorities empowered to incur expenditure are expected to enforce the same vigilance as a person of ordinary prudence would exercise in respect of his own money. Audit scrutiny revealed instances of impropriety and extra expenditure involving ₹ 21.08 crore. Some of the significant observations are as under:

- The Assistant Inspector General of Police, Mumbai's decision to release full payment of ₹ 6.22 crore to a supplier prior to the delivery of 82 bomb suits resulted in undue favour to the supplier, besides compromising the security preparedness of the State.

(Paragraph 3.3.1)

- Irregular application of the rates for allotment of a plot to an allottee by the Mumbai Housing and Area Development Board resulted in extending undue benefit of ₹ 3.50 crore to an allottee, thereby causing a loss to the Board.

(Paragraph 3.3.3)

### **1.6.2.4 Persistent and pervasive irregularities**

An irregularity is considered persistent if it occurs year after year. It is deemed pervasive when prevalent in the entire system. Recurrence of irregularities, despite being pointed out in earlier audits, is indicative of slackness on the part of the executive and lack of effective monitoring. Audit observed instances of persistent and pervasive irregularities of ₹ 100 crore and one of the significant observations is as follows:

- The Water Resources Department, Government of Maharashtra, had paid mobilization advance of ₹ 98.17 crore to the contractors in 19 cases executing works under the Vidarbha Irrigation Development Corporation, the Tapi Irrigation Development Corporation and the Godavari Marathwada Irrigation Development Corporation, which was against Government directives and also in violation of contractual conditions.

(Paragraph 3.4.2)

### 1.6.2.5 Failure of oversight/governance

Government has an obligation to improve the quality of life of the people in the area of health, education, development and upgradation of infrastructure, public services *etc.* Audit noticed instances where funds released by the Government for creating public assets remained unutilised/ blocked or proved unfruitful/ unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. Test-check revealed failure of oversight/governance involving ₹ 2.19 crore in one case as detailed under:

- Infertuous expenditure of ₹ 2.19 crore was incurred on construction and maintenance of a Konkan-type bandhara without approval of designs by the competent authority.

(Paragraph 3.5.1)

### 1.7 Response of the departments to draft paragraphs and performance audits

The draft paragraphs and performance audits were forwarded demi-officially to the Secretaries of the concerned departments between April and September 2011 requesting them to send their responses within six weeks. However, replies to only seven out of 23 draft paragraphs were received. Apart from the performance audit on ‘Working of Vidarbha Irrigation Development Corporation for Creation and Utilization of Irrigation Potential’, no Government replies to any of the remaining four performance audits and the district-centric audit were received. All the findings of these reports have been discussed with the Principal Secretaries to the Government of Maharashtra of the concerned departments.

According to the instructions issued by the Finance Department in March 1981, administrative departments were required to furnish Explanatory Memoranda duly verified by Audit to the Maharashtra Legislature Secretariat in respect of paragraphs (including performance audits) included in the Audit Reports, within one month of presenting the Audit Reports to the State Legislature. The administrative departments did not, however, comply with these instructions and 120 Explanatory Memoranda pertaining to the period from 1988-89 to 2009-10 were outstanding. Details are discussed in paragraph 3.6.1 of this Report.