

## CHAPTER-I

### INTRODUCTION

#### 1.1 About this Report

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

Compliance audit refers to the examination of transactions relating to expenditure of the audited entities, to ascertain whether the applicable laws, rules, regulations, orders and instructions issued by the competent authorities were being complied with. Performance audit on the other hand, in addition to compliance issues, also examines whether the objectives of the programme/activity/department were achieved economically and efficiently.

The primary purpose of this Report is to bring to the notice of the State Legislature, the important results of audit. Auditing Standards of the Indian Audit and Accounts Department require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The requirements have been complied with. The findings of audit are expected to enable the Executive to take corrective actions leading to improved financial management and better governance.

This Chapter, in addition to explaining the issues of planning and extent of audit, provides a synopsis of the significant achievements and deficiencies 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 the functioning of the Animal and Fisheries Resources Department.

#### 1.2 Audited entity profiles

There are 44 departments in the State at the Secretariat level, headed by Principal Secretaries/Secretaries with the overall control and guidance being provided by the Chief Secretary. In the performance of their duties, the Principal Secretaries/Secretaries are assisted by Special Secretaries/Additional Secretaries/Directors and other subordinate officers. In addition, there are 9838 local bodies, 32 autonomous bodies and 18 other autonomous bodies substantially funded by the Government, which are audited by the Office of the Principal Accountant General (Audit), Bihar on behalf of the CAG.

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** below.

**Table 1: Comparative position of expenditure**

(₹ in crore)

Disbursement	2008-09			2009-10			2010-11		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
<b>Revenue Expenditure</b>									
General Services	282	10248	10530	351	11851	12202	178	15109	15287
Social Services	4366	7886	12252	5140	8046	13186	7779	7310	15089
Economic Services	2632	3094	5726	2947	4141	7088	2942	4894	7836
Grants-in-aid and Contributions	--	4	4	--	108	108	--	3	3
<b>Total</b>	<b>7280</b>	<b>21232</b>	<b>28512</b>	<b>8438</b>	<b>24146</b>	<b>32584</b>	<b>10899</b>	<b>27316</b>	<b>38215</b>
<b>Capital Expenditure</b>									
Capital Outlay	6337	99	6436	7268	64	7332	9150	46	9196
Loans and Advances Disbursed	197	354	551	487	410	897	835	268	1103
Repayment of Public Debt	--	--	1682	--	--	1983	--	--	2190
Contingency Fund	--	--	--	--	--	--	--	--	1150
Public Account Disbursements	--	--	17311	--	--	15448	--	--	16749
<b>Total</b>			<b>25980</b>			<b>25660</b>			<b>30388</b>
<b>Grand Total</b>			<b>54492</b>			<b>58244</b>			<b>68603</b>

### 1.3 Authority for audit

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. CAG conducts audit of expenditure of the departments of the Government of Bihar under Section 13<sup>1</sup> of the CAG's (DPC) Act 1971 and is the sole auditor in respect of 10 autonomous bodies which are audited under Sections 19(3)<sup>2</sup> and 20(1)<sup>3</sup> of the CAG's (DPC) Act. In addition, the CAG also conducts audit of 18 other autonomous bodies, which are substantially funded by the Government, under Section 14<sup>4</sup> of the CAG's (DPC) Act. The principles and methodologies for conducting various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts issued by the CAG in 2007.

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

<sup>2</sup> Audit of accounts of such corporation, established by law made by the Legislature, on the request of the Governor for which the Governor is of opinion that it is necessary in public interest so to do.

<sup>3</sup> Save as otherwise provided in section 19, where the audit of accounts of any body or authority has not been entrusted to the CAG, he shall, if requested so to do, by the President or the Governor, undertake the audit of accounts of such body or authority on such terms and conditions as may be agreed upon between the CAG and the Government.

<sup>4</sup> Audit of all receipts and expenditure of a body/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.

## 1.4 Planning and conduct of audit

The audit process starts with the assessment of risks faced by various departments of the Government. This risk analysis is based on the expenditure incurred, criticality or complexity of its activities, the level of delegated financial powers, assessment of overall internal controls and concerns of the stakeholders. The previous audit 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 offices audited with copies to the next higher authorities. They are requested to furnish their replies to the audit findings within six weeks of receipt of the Inspection Reports. Based on replies 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 Bihar under Article 151 of the Constitution of India.

During 2010-11, 9004<sup>5</sup> party-days were used to carry out transaction audit of 1075 units and to conduct three performance audit reviews and integrated audit of one department. The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

## 1.5 Significant audit observations

In the last few years, audit has reported on several significant deficiencies in the implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in the selected departments. Similarly, the deficiencies noticed during compliance audits of the Government departments/organisations have also been reported upon.

### 1.5.1 Performance audits of programmes/activities/departments

The present Report contains two performance audits and an integrated audit of the functioning of the Animal and Fisheries Resources Department. The highlights of these audits are given in the following paragraphs:

#### 1.5.1.1 Indira Awaas Yojana

The Indira Awaas Yojana (IAY), with the objective of providing pucca houses to shelterless Below Poverty Line (BPL) families, is a Centrally Sponsored Scheme on cost sharing basis in the ratio of 75:25 between the Central and State Governments. A performance audit of the implementation of this scheme for the period 2006-07 to 2010-11 revealed deficiencies like non-preparation of annual plan, non-fixing of monthly targets, short releases of funds, diversion of funds, poor monitoring etc.. Some of the significant findings were as given below:

<sup>5</sup> *Inspection Civil including Autonomous Bodies: party days 6367 (Units Audited: 819) and Works/Forest: party days: 2637 (Units Audited: 256)*

- The permanent IAY waitlists of shelterless families were never prepared as required under the scheme guidelines as a result of which ineligible beneficiaries having pucca houses were provided assistance of ₹ 10.36 lakh. IAY houses were sanctioned to beneficiaries ignoring their ranking in the waitlist.
- Scheme parameters to ensure accrual of scheme benefit to targeted population, were ignored by District Rural Development Agencies during fixation of blockwise/panchayatwise targets.
- The central share of ₹ 794.14 crore was not released by Central Government due to carry-over of funds in excess of the prescribed norms of guidelines during 2006-11.
- IAY funds of ₹ 325.35 crore were not deposited in separate bank accounts of IAY but were deposited in general bank account of block offices in disregard to scheme guidelines.
- The department failed to utilise ₹ 53.34 crore provided by the GOI to acquire land for landless BPL families.
- Delays in sanction of annual targets by the District Panchayat/Zila Parishad/District Rural Development Agencies (DRDAs) regarding construction of IAY houses under Naxal package resulted in additional burden of ₹ 14.34 crore to the State exchequer.
- The monitoring and periodical review of the programme was ineffective and inadequate.

#### ***1.5.1.2 Mitigation programme for arsenic, fluoride and iron pollutants***

Under Accelerated Rural Water Supply Programme of the Government of India, sub-mission projects were undertaken by the Government for providing safe drinking water to the rural habitations facing water quality problems like presence of excess fluoride, arsenic, iron contaminants etc. In order to overcome the problem of groundwater pollution and to prevent and ameliorate the same, various programmes and schemes were started in the State. The implementation of the mitigation schemes in the State suffered from several deficiencies such as lack of planning, unsatisfactory financial management, failure to provide adequate safe drinking water in quality affected habitations, absence of operation and maintenance policy, meager achievement in testing of groundwater sources and ineffective monitoring systems during 2006-11. Some of the significant findings were as given below:

- Non-preparation of the Annual Action Plan during 2006-09 resulted in slow progress in implementation of mitigation schemes inspite of availability of funds.
- The mitigation schemes were sanctioned in non-priority habitations without considering the habitations with highest contamination. Co-ordination between the Central and State agencies for the planning was deficient and no meetings of the Water Quality Review Committee was held.

- The financial management by the department was unsatisfactory as 25 *per cent* of the schemes funds were surrendered apart from retention of funds (₹ 13 crore) in Civil Deposit.
- Of the 24420 habitations affected with arsenic, fluoride and iron contamination in the State, only 1375 habitations were covered under mitigation schemes by the Department during 2006-11.
- The sanction of technically non-feasible sanitary wells to cover arsenic affected habitations resulted in non-completion of 585 sanitary wells in the test-checked divisions and 262 habitations being deprived of safe drinking water.
- Arsenic and iron removal attachment units were installed at a cost of ₹ 5.14 crore without conducting pre-test of tube-well water in the test-checked divisions.
- Non-maintenance of the assets created after the completion of operation and maintenance period of schemes by the agencies affected the water quality.
- The Information, Education and Communication activities were not conducted efficiently resulting in non-optimisation of anticipated benefits from this component.
- Rupees 5.20 crore expended on training of grass root level workers and purchase of Field Testing Kits remained unfruitful because of non-submission of test report by gram panchayats.
- Due to non-periodical monitoring of progress of various pollution amelioration schemes, the deficiencies/shortcomings could not be addressed to.

### **1.5.1.3 Integrated Audit of Animal and Fisheries Resources Department**

Bihar is primarily a rural agrarian economy with 90 *per cent* of the State's population living in the rural areas where animal husbandry is extremely important. Animal husbandry is being implemented in the State by Animal and Fisheries Resources Department. The major activities of the department were to provide animal health care, to conduct livestock census, to increase production of major livestock products, poultry development, breeding facilities for livestock to upgrade and conserve indigenous breeds apart from prevention of cruelty against animals.

An integrated audit of the department revealed preparation of annual plans for livestock improvement without actual livestock census data, deficient financial management as there were instances of heavy surrender in plan schemes and parking of funds with implementing agencies. The scheme objectives of poultry development, artificial insemination facilities, establishment of fodder banks and animal health care were not achieved. The departmental manpower management system was inadequate and large number of vacancies affected

the working of the department. Insufficient monitoring by the departmental officers contributed to delays and non-completions of sanctioned schemes. Some of the significant findings were as given below:

- The livestock census work was completed in February 2010 after a delay of two years from the prescribed date of completion, whereas the detailed results of household wise data of all districts was yet to be submitted to GOI despite expenditure of ₹ 13.91 crore.
- Sample Survey was based on small samples sizes which were not reflective of the actual livestock population.
- Against the total saving of ₹ 222.71 crore, department surrendered ₹ 210.23 crore, of which ₹ 127.36 crore was surrendered during 2007-11 on the last date of the respective financial years.
- The drawing and disbursing officers on the instructions of the animal husbandry directorate withdrew ₹ 17.90 crore and deposited it in bank accounts in contravention of the State Financial Rules.
- Due to short supply of chicks to BPL/Mahadalit families in two test-checked districts, the intended benefits to protect them from malnutrition and to help generate monthly earnings through poultry development were not achieved.
- Bihar Livestock Development Agency, Patna failed to produce frozen semen for artificial insemination during 2007-11 despite spending of ₹ 7.89 crore.
- An amount of ₹ 9.55 crore was spent on pay and allowances/salaries and wages etc. of the staff deployed in non-functional establishments like cattle breeding farms at Patna and Dumraon (₹ 7.16 crore) and Frozen Semen Bank cum Bull Station, Patna (₹ 2.39 crore).
- The internal audit by Finance Department was not conducted during 2007-11 indicating the internal control mechanism in the department was deficient.

### **1.5.2 Compliance audit of transactions**

The Report highlights several significant deficiencies in critical areas which impacted the effective functioning of Government departments and organisations. These can be broadly categorised as:

- Non-compliance with rules.
- Propriety audit/excess/wasteful/infructuous expenditure.
- Irregular, avoidable/unjustified expenditure.
- Failure of oversight/governance.

#### **1.5.2.1 Non-compliance with rules**

For the sound financial administration and financial control, it is essential that expenditure conforms to financial rules, regulations and orders issued by the



competent authority. This not only prevents irregularities, misappropriation and frauds, but also helps in maintaining good financial discipline. This Report contains instances of non-compliance with rules involving ₹ 3.66 crore. Some of the significant audit findings are given below:

The Government suffered a loss of ₹ 72.94 lakh due to non-disposal of bitumen by Road Construction Division, Bhabhua under Road Construction Department and short lifting of bitumen of ₹ 4.54 lakh by Rural Works Division, Khagaria under Rural Works Department.

*(Paragraph 3.1.1)*

The Government suffered losses of ₹ 2.89 crore due to department's failure in encashing bank guarantees within its validity period apart from acceptance of fake bank guarantees by the Divisions of the Water Resources Department.

*(Paragraph 3.1.2)*

#### **1.5.2.2 Audit against propriety/ Excess/ Wasteful/ Infructuous expenditure**

Audit detected instances of impropriety and excess/wasteful/infructuous expenditure involving ₹ 108.19 crore, which are highlighted below:

Road works costing ₹ 21.53 crore were awarded to ineligible contractors which were rescinded resulting in extra liability of ₹ 7.46 crore in Shahabad Road Construction Division, Ara and payment of price neutralisation of bitumen at higher rate resulted in excess payment of ₹ 25 lakh in Road Construction Divisions, Jehanabad and Kishanganj under Road Construction Department.

*(Paragraph 3.2.1)*

Execution of road works with lower specifications led to sub-standard work of ₹ 2.79 crore in National Highway West Division, Patna under Road Construction Department.

*(Paragraph 3.2.2)*

Non-adherence to the Ministry of Road, Transport and Highways specifications led to execution of sub-standard road work costing ₹ 1.22 crore of Sahabad Road Construction Division, Ara under Road Construction Department.

*(Paragraph 3.2.3)*

Award of a contract to an ineligible contractor resulted in infructuous expenditure of ₹ 1.42 crore in NH Division No. II, Muzaffarpur under Road Construction Department.

*(Paragraph 3.2.4)*

Rescission of two contracts after invoking the risk and cost clause without actual recovery led to an additional liability of ₹ 9.43 crore. In addition, forfeited security deposits amounting to ₹ 8.38 crore under 27 contracts of Road Construction Department and Rural Works Department were not deposited into treasuries.

*(Paragraph 3.2.5)*

Irregular cancellation of a brick soling tender led to extra payment of ₹ 2.69 crore in Champaran Division, Motihari under Water Resources Department.

*(Paragraph 3.2.6)*

Violation of purchase rules by the Principal/Superintendents of Medical College/Hospitals resulted in extra expenditure of ₹ 2.67 crore in Health Department.

*(Paragraph 3.2.7)*

Public Health Engineering Department in violation of the Ministry of Rural Development guidelines sanctioned ₹ 50.35 crore to implement Roof Top Harvesting Scheme. Expenditure of ₹ 19.76 crore incurred so far on this scheme proved infructuous as the structures constructed were non-functional.

*(Paragraph 3.2.8)*

### **1.5.2.3 Irregular/avoidable/unjustified expenditure**

An expenditure is deemed as irregular if there is a deviation, willful or otherwise, from the rules and norms prescribed by the competent authority while incurring the same. This indicates lack of effective monitoring which may encourage willful deviations from observance of rules/regulations leading to avoidable/unjustified expenditure. A few cases of such irregularities involving ₹ 150.73 crore are highlighted below:

Non-installation of capacitor banks and shunt capacitors led to an avoidable expenditure of ₹ 1.37 crore in the Bihar Rajya Jal Parishad under Public Health Engineering Department.

*(Paragraph 3.3.1)*

Non-adherence to codal provisions by Divisional Officers resulted in non-adjustment/non-recovery of temporary advances amounting to ₹ 67.38 crore under Building Construction, Environment and Forest, Minor Water Resources, Public Health Engineering, Road Construction, Rural Works and Water Resources Departments.

*(Paragraph 3.3.2)*

Inadmissible provision for the compaction of earth on a work where earthwork was being executed by Rajasthani tractors resulted in irregular payment of ₹ 1.43 crore to the contractor by Waterways Division, Biharsharif under Water Resources Department.

*(Paragraph 3.3.3)*

Irregularities in the purchase of medicines totalled ₹ 4.21 crore on account of irregular grant of advances of ₹ 3.26 crore including non-delivery of medicines of ₹ 58.54 lakh, avoidable creation of liability of ₹ 70.90 lakh and excess payment of ₹ 24.05 lakh on local purchase under Health Department.

*(Paragraph 3.3.4)*

Non-deduction of labour cess led to the creation of liability amounting to ₹ 8.42 crore under Public Health Engineering, Minor Water Resources, Road Construction, Water Resources and Rural Works Departments.

*(Paragraph 3.3.5)*



The Vice Chancellors of seven State Universities irregularly utilised ₹ 17.23 crore of fees collected from students for the payment of salaries of its staff which affected the infrastructural development and other facilities in the respective colleges of Human Resources Development Department.

*(Paragraph 3.3.6)*

An amount of ₹ 4.18 crore was irregularly paid to University employees on account of advance increments, assured career progression benefits and interim relief under Human Resources Development Department.

*(Paragraph 3.3.7)*

An amount of ₹ 42.78 crore drawn from the treasury without any immediate requirement was irregularly retained in savings bank accounts in violation of the provisions of the Bihar Treasury Code by Rural Development Department.

*(Paragraph 3.3.8)*

Funds of ₹ 3.74 crore earmarked for SC/ST farmers under the scheme were irregularly diverted in Agriculture Department.

*(Paragraph 3.3.9)*

#### **1.5.2.4 Failure of oversight/governance**

The Government has an obligation to improve the quality of life of the people for which it works towards fulfilment of certain goals in the areas of health, education, development and upgradation of infrastructure *etc.* Audit, however, noticed instances where funds released by Government for creating public assets for the benefit of the community aggregating ₹ 2.65 crore remained unutilised/blocked for six years and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and lack of concerted action at various levels as mentioned below:

Lack of planning and deficient monitoring at the district and departmental levels resulted in nugatory expenditure of ₹ 1.89 crore and irregular retention of ₹ 76.25 lakh in Health Department.

*(Paragraph 3.4.1)*

## **1.6 Lack of responsiveness of the Government to Audit**

### **1.6.1 Insufficient response of the Government to Audit**

The Principal Accountant General (PAG) (Audit), Bihar conducts periodical inspections of Government departments to check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed by the issuance of Inspection Reports (IRs). The heads of offices and the next higher authorities are required to comply with the observations contained in the IRs, rectify the defects promptly and report their compliance to the Audit Department.

However, a review of IRs issued during the period 2004-05 to 2010-11 relating to 30 departments revealed that 36119 paragraphs relating to 7202 IRs remained outstanding at the end of October 2011 as shown in the **Table no. 1**.

**Table no. 1**  
**Outstanding IRs/Paragraphs**

Outstanding IRs/Paragraphs for the year								
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
IRs	904	847	1055	1118	1237	1088	953	7202
Paragraphs	5205	4255	5543	5101	5728	5611	4676	36119

The year-wise and department-wise breakup of outstanding IRs and paragraphs is mentioned in *Appendix 1.1*

The pendency of such large numbers of IRs/paragraphs indicates lack of responsiveness of the Government departments towards audit observations.

### **1.6.2 Non-submission of Explanatory (Action Taken) Notes**

The Manual of Instructions (1998) of the Finance Department, Government of Bihar envisaged that the Secretaries to Government of the concerned departments submit explanatory notes to the Assembly Secretariat on audit paras and reviews included in Audit Reports (AR). Such notes were required to be submitted after vetting in audit within two months from the date of presentation of the ARs to the State legislature without waiting for any notice or call from the Public Account Committee (PAC). They were also required to indicate therein, the circumstances and reasons for occurrence of such irregularities and deviations from the prescribed norms and the action proposed to be taken to make good the losses and to prevent recurrence of such instances.

Further, Regulation 213 of the Regulations on Audit and Accounts (November 2007) envisaged that the Union, the States and the Union Territories having legislative assemblies, where legislative committees were functioning or where the Government desires the Comptroller and Auditor General to vet the Action Taken Notes (ATN), the concerned Secretaries to Government should send two copies of the draft self-explanatory ATN to the PAG (Audit) for vetting along with the relevant files and documents, properly referenced and linked. This was to be done within such period of time as might be decided for submission of the self-explanatory ATNs prescribed by the PAC.

It was noticed that as of October 2011, 17 departments had not submitted the ATN in respect of nine reviews and 43 paragraphs pertaining to the years 2001-2010 (*Appendix 1.2*).

### **1.6.3 Follow up action on earlier Audit Reports**

Regulation 212 and 213 of the Regulations on Audit and Accounts envisage the settlement of paragraphs featured in the Audit Reports of the Comptroller and Auditor General of India. Departments were required to furnish ATNs to

the PAC within two months from the date of the recommendations made by the PAC in their reports.

Review of the outstanding ATNs on the paragraphs included in the earlier Reports of the Comptroller and Auditor General of India for the Government of Bihar revealed that the ATNs in respect of the PAC Reports pertaining to the period from November 2001 to October 2011, in respect of 393 paragraphs involving 30 departments remained outstanding as of October 2011 (*Appendix 1.3*).