



# Chapter 1

## Introduction

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#### 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, thereby, 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-2 of this report contains findings arising out of performance audit/thematic study of selected programmes/activities/departments. Chapter-3 contains observations on audit of transactions in Government departments and autonomous bodies. Chapter-4 presents an assessment of functioning of Labour Department and Public Works Department (Thematic Paragraph).

#### 1.2 Auditee Profile

There are 54 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Commissioners/Directors and subordinate officers under them, and 346 autonomous bodies which are audited by the Principal Accountant General (Civil & Commercial Audit), Gwalior and the Accountant General (Works & Receipt Audit), Bhopal.

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**

(₹ in crore)

Disbursements	2008-09			2009-10			2010-11		
	Plan	Non-plan	Total	Plan	Non-plan	Total	Plan	Non-plan	Total
<b>Revenue expenditure</b>									
General services	36.19	10126.15	10162.34	123.81	11889.97	12013.78	112.70	14533.98	14646.68
Social services	4140.10	6005.84	10145.94	5712.12	7249.73	12961.85	7857.02	9488.38	17345.40
Economic services	3219.33	4211.83	7431.16	3652.22	4719.15	8371.37	4394.59	5689.89	10084.48
Grants-in-aid and contributions	225.97	1548.47	1774.44	349.53	2200.37	2549.90	546.41	2388.62	2935.03
<b>Total</b>	<b>7621.59</b>	<b>21892.29</b>	<b>29513.88</b>	<b>9837.68</b>	<b>26059.22</b>	<b>35896.90</b>	<b>12910.72</b>	<b>32100.87</b>	<b>45011.59</b>
<b>Capital Expenditure</b>									
Capital outlay	6503.45	209.70	6713.15	7863.82	61.05	7924.87	8657.07	142.81	8799.88
Loans and advances disbursed	677.18	1184.28	1861.46	47.25	3769.63	3816.88	959.32	2755.41	3714.73
Repayment of public debt (excluding transactions under ways and means advances)	-	-	1961.01	-	-	2394.05	-	-	2529.23
Contingency fund	-	-	-	-	-	-	-	-	-
Public account disbursements	-	-	45988.97	-	-	50871.84	-	-	62344.26
<b>Total</b>	<b>7180.63</b>	<b>1393.98</b>	<b>56524.59</b>	<b>7911.07</b>	<b>3830.68</b>	<b>65007.64</b>	<b>9616.39</b>	<b>2898.22</b>	<b>77388.10</b>
<b>Grand Total</b>	<b>14802.22</b>	<b>23286.27</b>	<b>86038.47</b>	<b>17748.75</b>	<b>29889.90</b>	<b>100904.54</b>	<b>22527.11</b>	<b>34999.09</b>	<b>122399.69</b>

### 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. C&AG conducts audit of expenditure of the Departments of Government of Madhya Pradesh under Section 13<sup>1</sup> of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of 346 autonomous bodies which are audited under sections 19(2)<sup>2</sup> and 20(1)<sup>3</sup> of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of 316 other units, under Section 14<sup>4</sup> of 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.

<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 & 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 State Legislature in accordance with the provisions of the respective legislations

<sup>3</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>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 Organisational structure of the Offices of the Principal Accountant General (C&CA) Gwalior and Accountant General (W&RA), Bhopal**

Under the directions of the C&AG, the Offices of the Principal Accountant General (C&CA) Gwalior and Accountant General (W&RA), Bhopal conduct audit of Government Departments/Offices/Autonomous Bodies/Institutions under them which are spread all over the State. The Principal Accountant General and Accountant General are assisted by 10 Group Officers.

#### **1.5 Planning and conduct of Audit**

Audit process starts with the assessment of department/Organisation as a whole and each unit based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An annual audit plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Inspection Reports (IRs) containing audit findings are issued to the head of the unit. The units are requested to furnish replies to the audit findings within one month of receipt of IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations pointed out in these IRs are processed for inclusion in the Audit Reports, which are submitted to the Governor of Madhya Pradesh under Article 151 of the Constitution of India.

During 2010-11, in the Civil Audit Wing, 7,366 party-days were used to carry out audit of 1,125 units (compliance audit and performance audit) of various departments/organisation. In the Works and Forest Wing, 431 units were audited by utilising 4,005 party-days. The audit plan covered those units/entities, which were vulnerable to significant risk as per our assessment.

#### **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 which impact the success of programmes and functioning of the 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 two performance audit reviews, one long para, two thematic paragraphs and functioning of Labour Department and Public Works Department (Thematic Paragraph). The highlights are given in the following paragraphs:

### ***1.6.1.1 Acquisition and Allotment of Land/Government Land Management***

Centralised database on acquisition and allotment of land and payment of compensation was not maintained at state level. Erroneous fixation of market value of land led to under-assessment of compensation of ₹ 6.91 crore in 46 cases and excess payment of compensation of ₹ 12.76 crore in 23 cases. Avoidable expenditure of ₹ 5.88 crore was incurred on payment of additional compensation due to delay in passing award by one to 22 months. Compensation of ₹ 131.33 crore was not disbursed in 657 LA cases. The exchequer was deprived of ₹ 60.88 crore due to non-levy/deposit of service charges. Compensation money of ₹ 220.96 crore was not retained in P.D. account despite instructions of Finance department and were kept in bank account. Compensation money of ₹ 325.93 crore lying in P.D. account was not utilised. There was loss of revenue of ₹ 33.66 crore due to allotment of land in contravention of provision of RBC and ₹ 11.87 crore due to non execution of sanctions. Annual physical verification of allotted land was not conducted by the revenue authorities. 1979.594 hectares of land acquired by Industry department were not utilised for setting up industries.

**(Paragraph 2.1)**

### ***1.6.1.2 National Horticulture Mission***

NHM was launched in 2005-06 as Centrally Sponsored Scheme and implemented in 39 districts in various phases to enhance horticulture production, improve nutritional security and to provide income support to farm households. Diversion of ₹ 45.41 crore for 16 components within NHM was done without approval of GOI. Assistance of ₹ 2.01 crore was released to 38 private nurseries without ensuring completion of their establishment. Instead of giving preference to perennial fruit crops to ensure sustained growth of horticulture, expenditure of ₹ 68.89 crore was less than the funds released (₹ 81.43 crore). Due to non-production of applications of beneficiaries and required details of eligibilities, audit couldnot verify as to whether the assistance of ₹ 14.63 crore and ₹ 3.24 crore for expansion of area of fruits, spices and flowers and rejuvenation of senile plantation programme respectively was paid to the genuine eligible beneficiaries. In spite of incurring expenditure of ₹ 285 crore on area expansion of fruit crops, spices, flowers, rejuvenation etc. the objective of enhancing areas, production and productivity and thereby increasing the income of farm household could not be achieved.

**(Paragraph 2.2)**

### ***1.6.1.3 Construction of Bargi Diversion Project***

The right bank canal of Bargi dam has been renamed as Bargi Diversion Project. It is a major trans valley gravity canal irrigation project taken up in 2001-02. Out of the total live storage capacity of 2.58 million acre feet of the Bargi dam, a command area of 2.45 lakh hectare is intended to be irrigated through Bargi diversion project. The cost of the project was revised (December 2009) to ₹ 5127.22 crore and it was scheduled for completion by

June 2014. An expenditure of ₹ 1407.54 crore has been incurred up to March 2011. Due to ill-planned and non-synchronised execution of works, there was cost over run of ₹ 35.88 crore and time over run of six years in the project and it was irrigating a mere 710 ha as of March 2011. Our performance audit also revealed that the available water storage of Bargi dam would be inadequate to provide irrigation of 2.45 lakh ha envisaged for irrigation through this project. Instances of deficiencies in execution of works due to ill planning, non-observance of technical specifications, execution of unwarranted items in turnkey, premature release of guarantees and deficient contract management etc. were noticed. These resulted in excess and irregular payments as well as undue financial aid to contractors to the extent of ₹ 133.81 crore.

**(Paragraph 2.3)**

#### ***1.6.1.4 Pradhan Mantri Gram Sadak Yojana***

The Pradhan Mantri Gram Sadak Yojana (PMGSY) was launched by Government of India (GOI) in December 2000. This programme is being implemented in Madhya Pradesh through Madhya Pradesh Rural Road Development Authority (MPRRDA). It is a 100 *per cent* Centrally Sponsored programme. As of March 2011, Government of India has sanctioned ₹ 9989.84 crore and expenditure there-against was ₹ 7136.30 crore. The programme envisaged provision of rural road connectivity to 8459 villages in the State by construction of 37,021 km all weather black topped roads. Against a target of 8459 roads, only 6229 roads were constructed as of 2010-11. The planning for the road work was deficient. Approved road lengths were reduced by 557.84 km resulting in excess drawal of central assistance under PMGSY to the extent of ₹ 103.20 crore. Expenditure incurred on 42 partially completed and subsequently abandoned roads led to wasteful expenditure of ₹ 1.60 crore. There was excess payment of ₹ 6.99 crore to the contractors due to inflated measurement of work done. ₹ 54.61 crore was pending recovery against several contractor. There was violation of contractual provisions by way of non-insurance of roads, resulting in undue financial aid of ₹ 1.19 crore to the contractors.

**(Paragraph 2.4)**

#### ***1.6.1.5 Lift Irrigation Schemes***

Lift irrigation schemes (LIS) are aimed at providing irrigation in high altitude lands that are not irrigable through normal gravity canals. The expenditure on construction and maintenance of 196 LIS remained largely unfruitful due to their dismal performance, as only 4.5 *per cent* of the targeted irrigation could be achieved. Forty nine LIS costing ₹ 44.71 crore designed to irrigate 20,397 ha land annually could irrigate only 3,566 to 2,876ha land during last four years between 2007-08 and 2010-11. Investment of ₹ 14.24 crore in 12 LIS became unfruitful as these LIS were rendered non-functional since their completion. Excess payment of ₹ 9.54 crore was made to suppliers towards price escalation due to incorrect adoption of base rate for steel. Audit also noticed inadmissible expenditure of ₹ 6.05 crore on maintenance and repair of 78 non-functional LIS during the five years period from 2006-07 to 2010-11,

and unfruitful expenditure of ₹ 27.85 crore on Chambal LIS due to stoppage of its work for want of forest clearance.

(Paragraph 2.5)

#### **1.6.1.6 Chief Controlling Officer based Audit of Labour Department**

Labour Department is mandated to provide a safe working environment for workers in organised and unorganised sectors. The Department enforces 31 Labour Acts to create safe working environment and to ensure safety, health and welfare of Workers. The audit of the department revealed that the department has not conducted any survey to ascertain the number and status of workers engaged in organised and unorganised sectors. No statistical data regarding workers and establishments was available with the department. There were deficiencies in financial management as evidenced by deficiencies in maintenance of cash book, bill book etc. Housing schemes for Hamals and Beedi Workers were not properly implemented and funds released by Government of India remained blocked. There was shortage in inspection of establishments ranging from 29 to 63 *per cent* during 2006-2011. There was lack of control over renewal of establishments under different Acts and revenue remitted was not reconciled with the Government account. The applications for registration of 87 Trade Unions, were pending and also annual returns from 2561 out of 2654 Trade Unions were awaited from one to five years. The mechanism for assessment and collection of cess was not devised by the Building and Other Construction Workers Welfare Board. The quality testing of medicine was not conducted by ESI hospitals and hospitals were also under-utilised. Pendency of cases in Labour and Industrial Courts as of 31<sup>st</sup> March 2011 was 29154 and 529 respectively indicating slow speed of disposal of cases.

(Paragraph 4.1)

#### **1.6.1.7 Extent of compliance with codal provision in Public Works Department**

In Public Works Department, we noticed several significant deficiencies and lapses in the matter of compliance to departmental rules and regulations. These deficiencies, *inter alia*, led to non adjustment of ₹ 42.99 crore lying under miscellaneous works advance since several decades, irregular expenditure of ₹ 1.98 crore in excess of deposits received, non reconciliation of treasury remittance of ₹ 261.89 crore and cheque drawals of ₹ 70.88 crore leading to difference between treasury figures and divisional office figures. Tools & Plants and other articles worth ₹ 7.49 crore were purchased in 12 divisions from an unauthorised vendor without floating tenders.

(Paragraph 4.2)

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

Audit has also reported on several significant deficiencies in critical areas which impact the effective functioning of the Government departments/ organisations. These are broadly categorised and grouped as:

- Non-compliance with rules.

- Expenditure without propriety.
- Persistent and pervasive irregularities.
- Failure of oversight/governance.

### **1.6.2.1 Non-compliance with rules**

For 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 helps in maintaining good financial discipline. This report contains instances of non-compliance with rules involving ₹ 49.54 crore. Some significant audit findings are as under:

- *Failure to observe codal provisions facilitated suspected embezzlement of ₹ 12.52 lakh in the office of the Civil Surgeon cum Hospital Superintendent, Betul.*

**(Paragraph 3.1.1)**

- *Unauthorised retention of departmental receipts by Rogi Kalyan Samities amounting to ₹29.83 crore outside the Consolidated Fund of the State against the provisions of the Constitution of India and Madhya Pradesh Treasury Code.*

**(Paragraph 3.1.2)**

- *In a Public Works Division, adoption of incorrect CBR value of sub-grade soil of a road embankment resulted in excess execution of granular sub-base and extra expenditure of ₹92.53 lakh.*

**(Paragraph 3.1.4.2)**

- *In Water Resources Division Balaghat, in the work of construction of field channels having discharge as low as one cumec, lining work was done based on a costlier specification by use of reinforced cement concrete 1:2:4 instead of plain cement concrete 1:3:6, which led to extra expenditure of ₹1.92 crore*

**(Paragraph 3.1.5)**

- *In three divisions of Water Resources Department, avoidable expenditure of ₹ 2.64 crore was incurred due to execution of 75 mm cast in situ lining instead of 50 to 60 mm lining*

**(Paragraph 3.1.6)**

- *In 11 divisions of Water Resources Department, contractors were given undue financial benefit of ₹ 9.44 crore by failing to deduct additional security deposit prescribed in the agreement.*

**(Paragraph 3.1.8)**

### **1.6.2.2 Expenditure without propriety**

Authorisation of expenditure from public funds is 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 and should enforce financial order and strict economy at every step. Audit has detected several instances of impropriety in making expenditure out of public funds involving ₹ 19.21 crore, some of which are as under:

- *Irregular purchase of medical equipments costing ₹2.15 crore and non-observance of purchase rules resulted in extra expenditure of ₹1.36 crore in office of the Joint Director, Health Services, Ujjain.*

**(Paragraph 3.2.1)**

- *In two divisions of Water Resources Department, injudicious replacement of RCC aqueduct (as approved in the estimates) by steel aqueducts without justification resulted in extra cost of ₹13.91 crore*

**(Paragraph 3.2.4)**

### **1.6.2.3 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 area of health, education, development and upgradation of infrastructure and public service etc. However, Audit noticed instances where the funds released by Government for creating public assets for the benefit of the community remained unutilised/blocked and/or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels involving ₹ 183.13 crore. A few such cases are mentioned below:

- *Due to lack of proper planning, quality and adequate registrations the real estate properties costing ₹12.68 crore were lying unsold.*

**(Paragraph 3.4.1)**

- *In Narmada Development Division Khargone, prescribed penalty of ₹8.66 crore for delay in achieving milestones was not levied. Besides, inadmissible payment of price adjustment of ₹ 13.88 crore and loss of interest of ₹ 41.73 lakh due to irregular and delayed recovery of mobilisation advance was also noticed.*

**(Paragraph 3.4.2)**

## **1.7 Lack of responsiveness of Government to Audit**

### **1.7.1 Inspection reports outstanding**

The Heads of Offices and next higher authorities are required to comply with the observations contained in the Inspection Reports (IRs), promptly rectify

the defects/omissions and report their compliance to the PAG/AG within four weeks of their receipt. The PAG/AG also brings serious irregularities to the notice of the Heads of Departments.

As of 30 June 2011, 12737 IRs (38610 paragraphs) were outstanding against civil departments including Works and Forest. Of these, 7102 IRs (17373 paragraphs) were pending settlement for more than five years. Year wise details of IRs and paragraphs outstanding are detailed in **Appendix-1.1**. Financial rules of the Government need to be modified to include provisions for speedy compliance/response to audit observations. A proposal in this regard has been sent to Finance Department (December 2011).

### ***1.7.2 Constitution of Audit Committee***

The Government while accepting the recommendations of Shakhder Committee (High Powered Committee) constituted a High Power Committee (May 2000) for monitoring the follow-up action on audit observations. The Government constituted an Apex level Committee (April 2009) and 44 Departmental Level Committees (DLC) for speedy settlement of audit observations. But no periodicity of meeting of Apex Level Committee was prescribed in the order. However, departmental level committees are required to meet once in three months.

While Apex Level State Audit Committee did not meet, only one meeting of DLC was held during 2010-11 in the General Administration Department.

### ***1.7.3 Follow up on Audit Reports***

As per instructions issued (November 1998) by the Madhya Pradesh Vidhan Sabha Secretariat, the departments are to intimate the Public Accounts Committee (PAC) and the PAG/AG about the action taken or any action proposed by them in respect of Audit Report paragraphs within three months of presentation of the Audit Report in the State Legislature.

Departmental replies to 76 paragraphs pertaining to eight Audit Reports were still awaited due to delayed submission of replies by the departments concerned (September 2011) (**Appendix-1.2**). The fact in this regard had been reported to the Principal Secretary, Vidhan Sabha (November 2011).

### ***1.7.4 Paragraphs to be discussed by the Public Accounts Committee***

Sixty six paragraphs pertaining to Audit Reports for the years 2003-04 and onwards are pending discussions of the Public Accounts Committee. Department-wise and year-wise details are given in **Appendix-1.3**. The Principal Secretary, Vidhan Sabha had been requested (September 2010 and November 2011) to expedite the discussion on pending paras.

### ***1.7.5 Government response to PAC's recommendations***

The Chief Secretary, Government of Madhya Pradesh issued (November 1994) instructions to all the departments to inform PAC about the action taken or the action proposed by them in respect of PAC's recommendations within six months of presentation of PAC's report in the State Legislature. The copies

of action taken notes are also to be endorsed to the PAG/AG for his comments.

The departments did not furnish ATNs on PAC's recommendations on 586 Audit Report paragraphs (September 2011). ATNs had not been furnished on the recommendations made as early as 1986-87. Department-wise and year-wise details are given in **Appendix-1.4**. Pending position had been brought to the notice of the Chief Secretary (January 2011 and December 2011) and requested to issue suitable instructions to the departments concerned.