

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 examines whether the objectives of a programme/activity/department have been achieved economically, efficiently and effectively.

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 action 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. Chapter-IV presents an assessment of Chief Controlling Officer-based audit of the Building Construction Department. Chapter-V contains a performance review of the Power Distribution Utilities of Jharkhand and audit of transactions in the Commercial Department of the Government of Jharkhand.

1.2 Auditee profile

There are 43 departments in the State at the Secretariat level, headed by Chief Secretary/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them, and eight autonomous bodies which are audited by the Principal Accountant General (Audit), Jharkhand.

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
Revenue expenditure									
General services	194.80	4729.19	4923.99	139.49	6465.87	6605.36	128.56	6862.24	6990.80
Social services	2114.96	3270.22	5385.18	2207.06	3403.24	5610.30	3402.74	3304.56	6707.30
Economic services	1503.43	1029.05	2532.48	1411.93	1500.45	2912.38	2472.51	1773.96	4246.47
Grants-in-aid and contributions	-	35.25	35.25	-	0.20	0.20	0	0.17	0.17
Total	3813.19	9063.71	12876.90	3758.48	11369.76	15128.24	6003.81	11940.93	17944.74
Capital Expenditure									
Capital outlay	3015.45	35.82	3051.27	2682.04	21.00	2703.04	2620.97	43.33	2664.30
Loans and advances disbursed	254.36	163.83	418.19	292.05	27.93	319.98	170.72	136.84	307.56
Repayment of Public Debt (including transactions under ways and means advances)	-	863.40	863.40	-	1190.21	1190.21	-	1299.43	1299.43
Contingency fund									
Public Account disbursements		7185.19	7185.19	-	7290.30	7290.30	-	7399.85	7399.85
Total	3269.81	8248.24	11518.05	2974.09	8529.44	11503.53	2791.69	8879.45	11671.14
Grand Total	7083.00	17311.95	24394.95	6732.57	19899.20	26631.77	8795.50	20820.38	29615.88

(Source: Report No.1, Report on State Finances for the year 2010-11)

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, Power and Conditions of Service) Act, 1971. The C&AG conducts audit of expenditure of the Departments of Government of Jharkhand under Section 13¹ of the C&AG's (DPC) Act. The C&AG is the sole auditor in respect of eight autonomous bodies which are audited under Sections 19(2)² and 20(1)³ of the C&AG's (DPC) Act, 1971. In addition, C&AG also conducts audit under Section 14⁴ of the C&AG's (DPC) Act of 88 other autonomous bodies, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and regulations on Audit and Accounts, 2007 issued by the C&AG.

¹ 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 and other subsidiary accounts.

² 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.

³ 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.

⁴ 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 Office of the Principal Accountant General (Audit) Jharkhand

Under the directions of the C&AG, the Office of the Principal Accountant General (Audit) Jharkhand conducts audit of Government departments/offices/autonomous bodies/institutions which are spread all over the State. The Principal Accountant General is assisted by four Group Officers.

1.5 Planning and conduct of audit

The audit process starts with the assessment of risks faced by various departments of Government based on the expenditure incurred, the criticality/complexity of activities, the level of delegated financial powers and an assessment of the overall 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.

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 one month 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 under Article 151 of the Constitution of India.

During 2010-11, in the Civil and Commercial Audit Wing, 9,501 party-days were used to carry out audit of 479 units and to conduct six performance audit reviews and audits of various departments. In the Works and River Valley Project Wing, 158 units were audited by utilising 1,490 party-days. The Audit Plan covered those units/entries which were the most vulnerable to significant risks as per our assessment.

1.6 Significant audit observations

1.6.1 Performance Audit

Performance audit is undertaken to ensure whether the Government programmes have achieved the desired objectives at the minimum cost and given the intended benefits. In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits, as well as Chief Controlling Officer-based audit of selected departments.

1.6.1.1 District Centric Audit of Hazaribag

The implementation of the schemes suffered in the district due to non-preparation of Annual Plans, inefficient fund management, insufficient manpower, infrastructural bottlenecks, ineffective monitoring etc. In Sarva Shiksha Abhiyan, girl students were residing in cramped accommodation in Kasturba Gandhi Balika Vidyalaya,

Churchu and Ichak blocks of Hazaribag. Basic health care services were not available in the community health centres. A large population of the district did not have the facilities of piped water supply. There were no laboratories for testing of drinking water sources at the sub-divisions and block levels. Anganwadi centres were deficient in basic facilities. The prime objective of Pradhan Mantri Gram Sadak Yojana to provide all-weather roads to rural populations was not achieved. Shortfalls in providing 100 days' wage employment to households were noticed. The physical performance of Indira Awaas Yojana in Hazaribag district was unsatisfactory. There was shortage of main strike weapons and area weapons in the weaponry. It was noticed that land required for the proposed site of Inter State Bus Terminus could not be acquired.

(Paragraph 2.1)

1.6.1.2 Management of Prisons (Working of Jails)

A performance audit on Management of Prisons in the State revealed many significant deficiencies including instances of non-execution of civil works, financial mismanagement, overcrowding in jails, large number of vacancies existing in the functional level of security staff, para-medical and medical cadres and required periodical inspection of the prisons not carried out by Inspector General of Prisons. It was noticed that due to shortage of staff the open jail could not be made operational. Instead of modern firearms, old and obsolete firearms were stocked in the armoury. It was noticed that all closed circuit televisions in the Ranchi Central Jail were non-functional. Biometric equipment was not installed. Food grains were irregularly purchased from private suppliers.

(Paragraph 2.2)

1.6.1.3 Mukhya Mantri Gram Setu Yojana

A review of the implementation of the Mukhya Mantri Gram Setu Yojana was conducted and deficiencies like absence of a Perspective Plan / Annual Plan, lack of surveys, non-adherence to the terms and conditions of contracts and ineffective internal control system and monitoring were noticed. Contractors were allowed to execute the works without technically sanctioned estimates. Payments were made to contractors without recording measurements. The department did not appoint any independent agency for quality monitoring of the works.

(Paragraph 2.3)

1.6.1.4 Functioning of the Cabinet (Vigilance) Department

A review of the functioning of the Cabinet (Vigilance) Department revealed that the Jharkhand State Complaint and Vigilance Board and Anti-Power Theft Cell for Electricity Board were not constituted. A large number of complaints, Preliminary Enquiries, FIRs and Technical Examinations, were pending for a long time due to non-filling up of the vacant posts in the Vigilance Department and the indifferent attitude of the administrative departments towards the complaints referred to them by the Cabinet (Vigilance) Department.

(Paragraph 2.4)

1.6.1.5 Chief Controlling Officer based audit of Building Construction Department

A Chief Controlling Officer (CCO) based audit of the Building Construction Department disclosed that there were no fixed norms for planning in the department. Budgets were not prepared accurately, resulting in persistent savings. Rush of expenditure in the last month of financial year was noticed. Establishment charges were not levied for deposit works. Cases of blockage of funds due to non-availability of clear site and incomplete projects due to paucity of funds were noticed. It was noticed that monitoring and inspection was almost absent in the department.

(Paragraph 4.1)

1.6.1.6 Distribution Utilities in Jharkhand

With the objective of assessing the progress achieved in the State in respect of various parameters stipulated in National Electricity Policy/Plan with regard to distribution of power, performance audit of Power Distribution Utilities in Jharkhand, conducted for the period 2006-11 revealed that the Jharkhand State Electricity Board (Board) had not prepared long term plan for upkeep of the existing network and additions in distribution network. The Board failed to implement the Central schemes viz. Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) and Accelerated Power Development & Reform Programme (APDRP) schemes in economical, efficient and effective manners. The number of unmetered consumers was 8.92 lakh in 2010-11, which was 57 per cent of the total consumers. The Board had purchased energy at higher cost due to non-availability of transmission line in Damodar Valley Corporation command area.

(Paragraph 5.2)

1.6.2 Audit of transactions

Audit observed several significant deficiencies in critical areas which impact the effective functioning of the State Government. The major observations relate to:

1.6.2.1 Defalcation/misappropriation/embezzlement

Audit detected cases of defalcation, misappropriation and embezzlement as under:

- Defalcation of ₹ 10.37 lakh was noticed in the Rural Development Department.

(Paragraph 3.1.1)

- Fake invoices submitted by a contractor towards the cost of bitumen which resulted in misappropriation of ₹ 98.11 lakh. Sub-standard road work worth ₹ 5.23 crore was also noticed in the Road Construction Department.

(Paragraph 3.1.2)

- Purchase and distribution of dolomite without soil testing and without imparting training to the farmers resulted in a wasteful expenditure of

₹ 60 lakh. An amount of ₹ 48 lakh was embezzled by furnishing fake acknowledgement receipts of dolomites.

(Paragraph 3.1.3)

1.6.2.2 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 ₹ 32.96 crore. Some significant audit findings are as under:

- Inclusion of price escalation clause in tender documents in violation of a Government order resulted in a loss of ₹ 21.03 crore to the Government.

(Paragraph 3.2.1)

- Non-adherence to codal provisions in granting advances and their adjustments led to non-recovery of Government money worth ₹ 4.05 crore.

(Paragraph 3.2.2)

- Non-adherence to Government orders resulted in loss due to excess payment of ₹ 1.08 crore as differential cost of bitumen.

(Paragraph 3.2.4)

- Jharkhand State Mineral Development Corporation Limited re-imbursed Service Tax amounting to ₹ 2.41 crore during 2010-2011 in contravention of the provision of the agreement thereby extending undue benefit to the contractor.

(Paragraph 5.3)

1.6.2.3 Audit against propriety/Expenditure without justification

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 instances of impropriety and extra expenditure involving ₹ 13.45 crore, some of which were as under:

- Infructuous expenditure of ₹ 7.85 crore incurred on idle staff was noticed in the Department of Forest and Environment.

(Paragraph 3.3.2)

- Irregular payment of ₹ 3.50 crore was noticed in the Agriculture and Sugarcane Department for a work which was neither technically sanctioned nor measured.

(Paragraph 3.3.4)

1.6.2.4 Failure of oversight/governance

The Government has an obligation to improve the quality of life of the people for which it works towards fulfillment 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 ₹ 61.27 crore. Three cases are mentioned below:

- Non-utilisation of funds and non-deposit of unspent balances into the treasury in time led to blockage of ₹ 50.30 crore, besides loss of interest of ₹ 9.49 crore.

(Paragraph 3.4.1)

- Commencement of schemes without ensuring electric supply resulted in idle expenditure of ₹ 82.04 lakh in the Minor Irrigation Department.

(Paragraph 3.4.2)

- Tenughat Vidyut Nigam Limited procured APH basket for Hot End valuing ₹ 66.31 lakh in September 2009 which would remain unutilized.

(Paragraph 5.5)

1.6.2.5 Persistent and pervasive irregularities

An irregularity is considered persistent if it occurs year after year. It becomes pervasive when it is prevailing in the entire system. Recurrence of irregularities, despite being pointed out in earlier audits, is not only indicative of non-seriousness on the part of the Executive, but is also an indication of lack of effective monitoring. This, in turn, encourages willful deviations from observance of rules/regulation and results in weakening of the administrative structure. A significant case was as under:

- Failure of the department to incorporate a Government decision in the terms and conditions of contracts resulted in excess payment of ₹ 2.72 crore to contractors.

(Paragraph 3.5.1)

1.7 Responsiveness of Government to Audit

1.7.1 Lack of Response to the Draft Paragraphs

The Principal Accountant General (Audit) arranges to conduct periodical audit inspections of Government departments to test check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with Inspection Reports (IRs). Half-yearly reports of pending IRs are sent to the Secretaries of the departments concerned to facilitate monitoring of the audit observations and their disposals. The Heads of offices and the next higher authorities are required to comply with

the observations contained in the IRs and rectify the defects promptly and report their compliance to the Principal Accountant General (Audit).

1.7.2 Outstanding Inspection Reports and Paragraphs

The status of pendency of IRs/paragraphs at the end of June 2009, June 2010 and June 2011 is shown in **Table-2**:

Table-2
Position of outstanding IRs/Paragraphs

Items	Pending as at the end of		
	June 2009	June 2010	June 2011
Number of IRs	3924	3658 ⁵	3286
Number of paragraphs	20942	20047	18962

Out of the 3,286 IRs/18,962 paragraphs pending as on 30 June 2011, even first replies had not been received in respect of 1,192 IRs/7,821 paragraphs. The year-wise break-up of these IRs and paragraphs is indicated in **Appendix 1.1**. The Secretaries, who were informed of the position through half yearly reports, could not ensure prompt and timely action by the concerned officers.

1.7.3 Follow-up of Audit Reports

Non-submission of Explanatory (Action Taken) Notes

The manual of instructions (1998) of the Finance Department, Government of Bihar (as adopted by Government of Jharkhand) envisaged that the Secretaries to Government of the concerned departments were required to submit explanatory notes to the Assembly Secretariat on paras and reviews included in the Audit Report (AR) duly vetted by Audit, within two months from the date of presentation of the ARs before the legislature without waiting for any notice or call from the Public Account Committee (PAC) and indicate therein, the circumstances and reasons for occurrence of such irregularities and deviations from the prescribed norms and the action proposed to be taken or taken thereagainst.

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 desired the Comptroller and Auditor General to vet the Action Taken Notes (ATN), the Secretaries to Government of the concerned departments should send two copies of draft self-explanatory Action Taken Notes to the Principal Accountant General (Audit) for vetting along with the relevant files and documents for which the explanatory notes have been formulated, properly referenced and linked. This was to be done within such a period of time as may be decided for submission of self-explanatory Action Taken Notes prescribed by the PAC.

It was noticed that as of July 2011, six departments had not submitted any compliance or explanatory/Action Taken notes in respect of 112 out of 250 paragraphs/reviews included in the Audit Reports for the years 2000-01 to 2009-10 and presented

⁵ The number of pending IRs and paragraphs decreased.

to the legislature up to August 2011.

1.7.4 Action not taken on recommendations of the Public Accounts Committee

As per the Manual of Instructions for settlement of paragraphs featured in the Audit Reports of the Comptroller and Auditor General of India, departments are required to furnish the Action Taken Notes (ATNs) to the PAC within two months from the date of recommendations made by the PAC in their report.

It was noticed that as of July 2011, 180 paragraphs were discussed by the PAC and recommendations were made against 28 paragraphs between November 2000 and July 2011. Of these, ATNs were received only in seven cases, as of July 2011.

Constitution of Audit Committees

A State level Audit Committee, under the chairmanship of the Chief Secretary, was constituted (February 2005) following recommendations of the Shakhder Committee to monitor the compliance of Audit Reports/IRs and to develop internal audit systems in all departments. The Secretary, Finance Department was designated as the Member (Co-ordination) and all departmental Secretaries and the Principal Accountant General were to be members of the committee.

Audit Committees were formed in 10 departments and meetings were held on 12 occasions between April 2010 and March 2011 in which 42 IRs and 441 paragraphs were settled. The Secretary and representatives of the Finance Department, however, did not take part in the Audit Committee meetings even though they were informed about them.