

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 autonomous bodies and compliance audit of Government departments falling under General and Social Sector.

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 operational efficiency and 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 working of the two Boards, 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 two selected Boards. Chapter III contains observations on audit of transactions in Government departments and autonomous bodies. Chapter IV contains observations on the Chief Controlling Officer (CCO) based audit of the Women and Child Development Department.

1.2 Audited Entity Profile

The Principal Accountant General (General & Social Sector Audit), Maharashtra conducts audit of the expenditure under the General and Social Services incurred by 19 departments in the State at the Secretariat level and eight autonomous bodies. The departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners and subordinate officers under them.

A summary of the State Government's fiscal transactions during 2011-12 *vis-à-vis* the previous year is given in **Table 1**.

Table 1 : Summary of fiscal operations

(₹ in crore)

2010-11	Receipts	2011-12	2010-11	Disbursements	2011-12		
Section-A: Revenue					Non Plan	Plan	Total
105867.82	Revenue Receipts	121286.14**	106459.38	Revenue Expenditure	101519.15	22035.04	123554.19
75027.10	Tax revenue	87608.46	37704.23	General services	42352.03	500.85	42852.88
8225.04	Non-tax revenue	8167.70**	48282.06	Social services	40525.19	14287.02	54812.21
11419.78	Share of Union Taxes/Duties	13343.34	19285.36	Economic services	17743.52	7125.23	24868.75
11195.90	Grants from Government of India	12166.64	1187.73	Grants-in-aid and Contributions	898.41	121.94	1020.35
Section B : Capital							
17.28	Miscellaneous Capital Receipts	455.83	17963.37	Capital Outlay	2848.16	15031.38	17879.54
640.09	Recoveries of Loans and Advances	558.74	959.08	Loans and Advances disbursed			836.28
20739.78	Public debt receipts*	24452.56	4773.61	Repayment of Public Debt*			6458.35
0.00	Appropriation from Contingency fund	1000.00	850.00	Appropriation to Contingency fund			500.00
853.00	Contingency Fund	511.20	11.20	Contingency Fund			1000.00
48406.32	Public Account Receipts	53389.38	39557.62	Public Account Disbursements			46962.93
25559.36	Opening Cash Balance	31509.39	31509.39	Closing Cash Balance			35971.95
202083.65	Total	233163.24	202083.65	Total			233163.24

(Source : Finance Accounts of the respective years)

* Excluding ways and means advances and overdraft (Receipt : nil and Disbursement : nil)

**Includes ₹ 170.23 crore, the outstanding central loans under Central Plan Schemes and Centrally Sponsored Schemes advanced to State Governments by the Ministries other than Ministry of Finance written off as per the recommendation of the Thirteenth Finance Commission (ThFC).

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 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, 19(3)³ and 20(1)⁴ of the C&AG's (DPC) Act. In addition, the C&AG also conducts audit of 878 other bodies/authorities, under Section 14⁵ of the C&AG's (DPC) Act, which are substantially funded by the Government. Principles and

¹ 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

² 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

³ 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

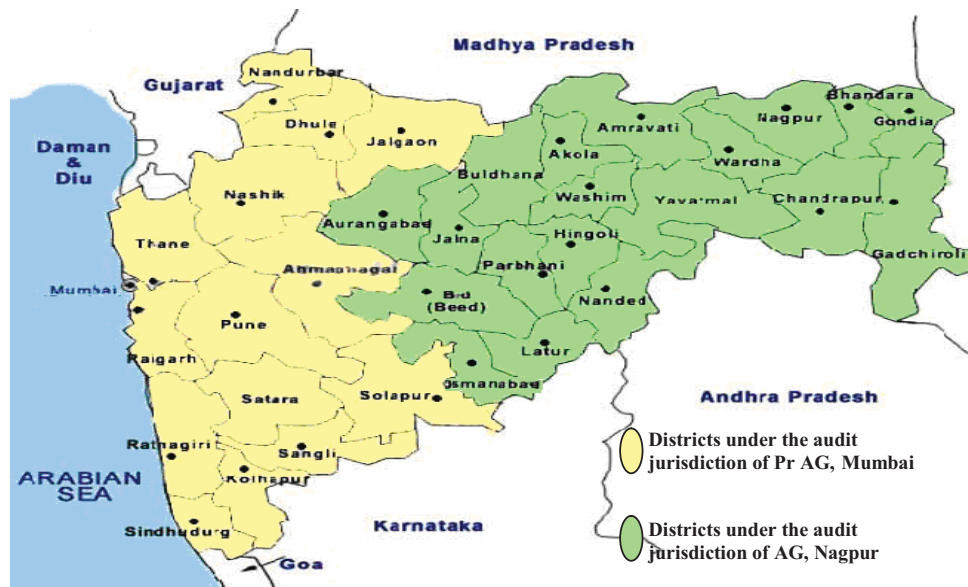
⁴ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the C&AG and the Government

⁵ 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

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 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.



1.5 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 findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. During 2011-12, 7,484 party days were used to carry out audit of 549 units (compliance audit and performance audits) of the various departments/ organisations. The audit plan covered those units/entities which were vulnerable to significant risks as perceived by Audit.

After completion of audit of each unit, Inspection Reports (IRs) 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 IRs 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.

1.6 Significant audit observations

In the past few years, Audit has reported 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 two performance audits and one CCO based audit of a Government Department. The highlights of these performance audits and CCO based audit are given in the succeeding paragraphs.

1.6.1.1 Working of the Maharashtra Maritime Board

The Maharashtra State has a coastline of 720 kms with 48 minor port limits from Dahanu on the North to Kiranpani on the South covering five coastal districts viz., Mumbai Suburban, Raigad, Ratnagiri, Sindhudurg and Thane, known as the Konkan coast of Maharashtra. The onus for the development of minor ports rests with respective State Maritime Boards. Government of Maharashtra established the Maharashtra Maritime Board (MMB) in 1996 as an autonomous authority to promote cargo movement by developing the ports, enforce Maritime Acts and Rules, develop inland water transport, carry out hydrographic surveys, acquire modern survey equipments, flotillas, navigational aids to carry out its activities efficiently.

A performance audit covering the period 2007-12 revealed that MMB did not formulate any long term plan for the development of ports and therefore, the development of port activities was done in an ad-hoc manner. MMB did not streamline the port development activities by identifying and prioritizing the projects for development through Public Private Partnership. Out of the six ports taken up under Public Private Partnership with envisaged cargo handling of 100.23 million tones per annum, only two ports having cargo handling capacity of 10.8 million tonnes per annum were operational as of December 2012. MMB awarded the development of all the six ports without inviting competitive bids. Seven out of eight inland water transport projects approved under the Centrally Sponsored Schemes during 2003-06 were incomplete/not started even as of December 2012. No objection certificates for sand extraction were issued in two districts where moratorium was in force. MMB did not take any action against the unregulated boat building activities. Regional Port Officers of MMB registered the vessels without certificate of survey issued by the Chief Surveyor-cum-Marine Engineer. There was shortfall in conduct of annual survey of vessels *vis-à-vis* total registered vessels. MMB did not follow the provisions of the Act while conducting examinations for competency certificate. The High Power Committee constituted by Government to review various port projects did not discuss the issues related to valuation of land, extending concessional wharfage charges prior to commencement of commercial operation of the port, review of projects under inland water transport *etc.* in the meetings. There were vacancies in key posts and monitoring was lax. Non-levy and short-levy of fees/charges for various services rendered by MMB indicated weak internal

controls. As of March 2012, there was huge surplus fund mainly due to unspent Government grants.

1.6.1.2 Mumbai Building Repairs and Reconstruction Board

In the island city of Mumbai there are many old buildings built before 1940 and the rents paid by the tenants were frozen at the 1940 rates as per Bombay Rents, Hotel and Lodging Houses Rates Control Act, 1947. Since landlords received very little rent they did not show interest in maintaining the buildings and many of them were on the verge of collapse. Therefore, the State took upon itself to repair and, wherever necessary, reconstruct these buildings. For this purpose, the State Government established the Mumbai Building Repairs and Reconstruction Board (MBRRB) in 1971 under the Bombay Buildings Repairs and Reconstruction Act, 1969 for carrying out repairs or reconstruction of dangerous cessed buildings.

A performance audit covering the period 2007-12 revealed that out of 19,642 cess buildings identified, MBRRB reconstructed or redeveloped only 1,482 cessed buildings. The planning was deficient in the absence of priority list of cessed buildings which required structural repairs and lack of time bound plans for reconstruction and redevelopment. The poor recovery of cess and service charges had an impact on the finances of MBRRB thereby impeding its ability to carry out repairs and reconstruction works. Delays in the reconstruction and redevelopment of cessed buildings and consequent shortfalls in meeting the targets on one hand led to dislocation of 7,872 tenants from the cessed buildings who continued to occupy the transit tenements for period ranging from one year to over 25 years, while on the other hand, 627 surplus tenements received from developers were lying vacant for more than 20 years without allotment. The shortfall in built-up area to be surrendered by the developers to MBRRB, lack of supervision/inspections of tenements to prevent unauthorised encroachments, which stood at a staggering 43 *per cent*, indicated inadequate internal controls in the Housing Department in safeguarding the assets. The master list of persons accommodated in transit camps was not adequately maintained to ensure transparency and equity in allotment.

1.6.1.3 Audit of Women and Child Development Department

The objectives of the Women and Child Development Department are to improve the socio-economic status of women particularly rural women and reduce mortality and morbidity of children in the age group up to six years.

Audit of Women and Child Development Department for the period 2007-12 revealed that there was no mechanism in the Department for assessing the number of children in need of care and protection, as a result, the planning for establishment of children's home was skewed. Monitoring by the Department was lax in that there was significant shortfall in holding of meetings by district level rehabilitation committees, while, district inspection committees were not constituted. The vigilance squad at the apex level was non-existent for long period to oversee the operations of anganwadi centres. There was also shortfall in inspection of children's homes and anganwadi centres by District Women and Child Development Officers and Child Development Project Officers respectively. The mentally deficient children having special needs and

requirements were not rehabilitated adequately. Various individual benefit schemes run by the Department for empowerment of women incurring sizeable expenditure were not effective in the absence of any follow up and impact assessment mechanism. More than 70 *per cent* of the total cases registered under Domestic Violence Act, 2005 during 2008-11 were yet to be heard and relief granted to the victims. The institutional arrangements made by the Department for rehabilitation of inmates of children's homes and beggars' homes through vocational education and training were not satisfactory. Under Supplementary Nutrition Programme (ICDS), there were gaps between the recommended dietary allowance and the actual dietary intake of the beneficiaries. Take Home Ration was not tested for its nutritional value on regular basis. There were delays in placing of demand for Take Home Rations and other raw material leading to feeding interruptions in the anganwadi centres for significant periods.

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 (five paragraphs) have been included in this Report.

The major observations relate to:

- Non-compliance with rules and regulations;
- Audit against propriety and cases of expenditure without adequate justification; and
- Failure of oversight/governance

1.6.2.1 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 an instance of non-compliance with rules and regulations shown as under:

- Failure of the School Education Department to plan and implement the Central Scheme of continuing education for neo-literates in Chandrapur district in an effective and efficient manner led to unfruitful expenditure of ₹ 103.65 lakh.

(Paragraph 3.1.1)

1.6.2.2 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 an instance of impropriety and extra expenditure shown as under :

- Inept handling of contract for procurement of a bio-medical waste system by Dr. V.M. Government Medical College, Solapur and the

Medical Education and Drugs Department not only led to an infructuous expenditure of ₹ 1.85 crore, it eventually led to engagement of a private agency for the same work at a recurring monthly expenditure of ₹ 48,500.

(Paragraph 3.2.1)

1.6.2.3 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 ₹ 6.81 crore as detailed under:

- The University of Mumbai failed to implement the SAP-ERP project for computerisation of its administrative processes in collaboration with the contractor despite time lapse of more than four years and an expenditure of ₹ 3.01 crore.

(Paragraph 3.3.1)

- The Home Department incurred an avoidable financial liability of ₹ 78.81 lakh by inviting fresh tenders for body building on 42 number of troop carrier chassis after time lag of 17 months. While the new troop carriers remained unavailable for policing for significant period, the warranty on 42 chassis acquired between April and July 2010 at a cost of ₹ 3.15 crore expired in July 2011.

(Paragraph 3.3.2)

- Grant Government Medical College and Sir J.J. Group of Hospitals, Mumbai is saddled with 42 ventilators High End (ICU), procured centrally at a cost of ₹ 3.01 crore, for 33 months due to non-procurement of air compressor units.

(Paragraph 3.3.3)

1.7 Lack of responsiveness of Government to Audit

1.7.1 Inspection reports outstanding

The Principal Accountant General (Audit) arranges to conduct periodical inspections of Government departments to test-check their transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with IRs which are issued to the heads of the offices inspected with copies to the next higher authorities. Half yearly reports of pending IRs are sent to the Secretaries of the concerned departments to facilitate monitoring of action taken on the audit observations included in these IRs.

As of 31 December 2012, 4,407 IRs (14,922 paragraphs) were outstanding. Year-wise details of IRs and paragraphs outstanding are detailed in **Appendix 1.1**.

1.7.2 Response of departments to the draft paragraphs

The draft paragraphs and performance audits were forwarded demi-officially to the Secretaries of the concerned departments between April and October 2012 requesting them to send their responses within six weeks. However, replies to none of the five draft paragraphs were received. Except for the performance audit on Working of Mumbai Buildings Repairs and Reconstruction Board, Government replies to the performance audit on Maharashtra Maritime Board and the Chief Controlling Officer based Audit of Women and Child Development Department were not received. All the findings contained in the performance audit reports have been discussed with the Principal Secretaries to the Government of Maharashtra of the concerned departments.

1.7.3 Follow-up on Audit Reports

According to instructions issued by the Finance Department in January 2001, administrative departments were required to furnish Explanatory Memoranda duly verified by Audit to the Maharashtra Legislature Secretariat in respect of paragraphs included in the Audit Reports, within three months of presenting the Audit Reports to the State Legislature. The administrative departments, however, did not comply with these instructions. The Explanatory Memoranda in respect of 52 paragraphs/reviews for the period from 1991-92 to 2010-11 have not yet been received. The position of outstanding Explanatory Memoranda from 2005-06 to 2010-11 is indicated in the **Table 1** below.

Table 1: Status of submission of EMs in respect of Audit Reports during 2005-11

Audit Report	Date of tabling the Report	Number of Paragraphs and Reviews	Number of EMs received	Balance
2005-06	17 April 2007	25	23	2
2006-07	25 April 2008	23	19	4
2007-08	12 June 2009	25	23	2
2008-09	23 April 2010	14	9	5
2009-10	21 April 2011 & 23 December 2011	15	8	7
2010-11	17 April 2012	10	-	10
Total		112	82	30

In addition to the above, Explanatory Memoranda in respect of 22 paragraphs relating to the period prior to 2005-06 were also outstanding. Department-wise details are given in **Appendix 1.2**.

1.7.4 Action Taken Notes

The Maharashtra Legislature Secretariat Rules stipulate that Action Taken Notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) on those paragraphs of the Audit Reports that are discussed are required to be forwarded to the Maharashtra Legislature Secretariat duly verified by Audit. Similarly, ATNs indicating remedial/corrective action taken on the paragraphs that are not discussed are also required to be forwarded to

the PAC duly vetted by Audit. Year-wise details of such paragraphs for the period 1985-86 to 2010-11 are indicated in **Table 2** below.

Table 2: Year-wise status of pending ATNs

Audit Report	Total number of paragraphs in the Audit Report	Number of paragraphs		ATN awaited in respect of paragraphs	
		Discussed	Not discussed	Discussed	Not discussed
1985-86 to 1997-98⁶	862	151	711	98	705
1998-99	24	7	17	7	17
1999-2000	28	5	23	3	23
2000-01	22	3	19	3	19
2001-02	17	6	11	6	11
2002-03	24	3	21	3	21
2003-04	22	3	19	3	19
2004-05	18	7	11	7	11
2005-06	25	13	12	13	12
2006-07	23	7	16	7	16
2007-08	25	11	14	11	14
2008-09	14	-	14	-	14
2009-10	15	1	14	1	14
2010-11	10	-	10	-	10
Total	267	66	201	64	201

As could be seen, there were inordinate delays and persistent failure in forwarding ATNs on audit paragraphs.

⁶ Combined figures of General, Social and Economic sectors.