

Chapter 1

Introduction

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) on Government of Odisha relates to matters arising from Performance Audit of NABARD assisted irrigation and flood control projects of Department of Water Resources, Chief Controlling Officer (CCO) based audit of the activities of Forest and Environment Department (Forest Wing) and Compliance Audit of Government Departments.

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 audit findings 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.

Compliance Audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of the audited entities to ascertain whether the provisions of the applicable Rules, Laws, Regulations, various orders and instructions issued by the competent authorities are being complied with.

Performance Audit and CCO based audit examine the extent to which the objectives of an organisation, programme or scheme have been achieved economically, efficiently and effectively.

This chapter provides the audited entity's profile, the planning and extent of audit, and a synopsis of the significant audit observations. Chapter 2 of this Report deals with the findings of Performance Audit and CCO based Audit and Chapter 3 deals with Compliance Audit of various departments.

The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2011-12 as well as those which had come to light in earlier years but could not be dealt with in previous Reports. Matters relating to the period subsequent to 2011-12 have also been included, wherever necessary.

1.2 Audited entity's profile

There were 38 departments in the State at the Secretariat level headed by Additional Chief Secretaries / Principal Secretaries / Commissioner-cum-Secretaries, assisted by Directors and Sub-ordinate Officers. Of these, 15 Departments and two Wings of other two Departments including PSUs / Autonomous bodies coming under these Departments are under the audit jurisdiction of the Accountant General (Economic and Revenue Sector Audit).

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 Services) Act, 1971. CAG conducts audit of expenditure of the departments of Government of Odisha under section 13¹ of the CAG's (DPC) Act 1971. In addition, CAG conducts audit of Autonomous Bodies substantially funded by the State Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts 2007 issued by the CAG.

1.4 Organisational Structure of the Accountant General (Economic and Revenue Sector Audit) Odisha

As a part of restructuring of State Audit Offices by the CAG, erstwhile office of the Accountant General (CW&RA), Odisha became the Principal Auditor of the Economic Services Departments of the Government of Odisha and was renamed as Accountant General (Economic and Revenue Sector Audit), Odisha from 02 April 2012. After restructuring, Audit of accounts of State Departments / Agencies / Public Sector Undertakings / Autonomous Bodies grouped under "Economic Sector" and "Revenue Sector" are under the purview of the Accountant General (Economic and Revenue Sector Audit), Odisha.

1.5 Planning and conduct of audit

Audit process starts with the risk assessment of the Department / Organisation as a whole and that of each unit based on expenditure incurred, criticality / complexity of activities, level of delegated financial powers, assessment of internal controls, concerns of stakeholders and the likely impact of such risks. 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 Heads of the entities. The entities 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 made in these Inspection Reports/Performance Audit/CCO Audit are processed for inclusion in the Audit Reports which are submitted to the Governor of Odisha under Article 151 of the Constitution of India.

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 and loss accounts, balance sheets and other subsidiary accounts

1.6 Significant observations of Performance Audit and Chief Controlling Officer based audit

This report contains one Performance Audit and one Chief Controlling Officer Based Audit. The focus has been on the audit of specific programmes/schemes/activities and offering suitable recommendations, with the intention to assist the Executive in taking corrective action and improving service delivery to the citizens. Significant audit observations are discussed below:

1.6.1 Performance Audit of NABARD assisted Irrigation and Flood Control Projects

Performance Audit of NABARD assisted irrigation and flood control projects sanctioned under tranche XIII to XVII financed from Rural Infrastructure Development Fund revealed that the Department of Water Resources (DoWR) did not have any streamlined procedure for identification, prioritisation and selection of projects for loan assistance under RIDF. There was no Master Plan for flood control and management. The Executive Engineers proposed the projects on individual need basis which are approved, consolidated by the High Power Committee and submitted to the NABARD.

Due to selection of projects without comprehensive study of technical, economic, financial, organisational aspects and preparedness for their implementation, out of 265 projects scheduled for completion by March 2012 for providing irrigation to 45167 hectares of agricultural land, only 41 projects (15 *per cent*) were completed creating irrigation potential for 1106 hectares and 83 projects were dropped midway or not-commenced. The remaining 141 projects were still in progress with expenditure of ₹ 241.32 crore.

Out of 55 cases put to tender for ₹ 66.43 crore, 14 tenders for ₹ 4.47 crore were finalised within the validity period of 90 days and the remaining 41 tenders for ₹ 61.96 crore were finalised with delays ranging between 31 and 353 days.

The Chief Engineers surrendered ₹ 142.76 crore and could spend only ₹ 449.29 crore (33 *per cent*) of the sanctioned loan amount of ₹ 1354.40 crore due to delay in acquisition of land and finalisation of the ayacut planning.

Only 19 *per cent* of the envisaged irrigation potential was created, utilisation thereof and collection of compulsory basic water rate were not assured due to lack of joint verification.

Management of contracts was poor and there has been no system for independent assessment of the quality/quantity of work by third party.

Due to poor management of the contracts and lack of monitoring for timely completion of the projects there was unfruitful/extra expenditure and excess payment/undue benefit to contractors on implementation of the NABARD assisted projects was ₹ 374.94 crore.

(Paragraph 2.1)

1.6.2 CCO Based Audit of Forest and Environment Department

The Chief Controlling Officer Based Audit of the Forest Wing revealed that the State is yet to prepare its Forest Policy after five years of recommendation (March 2006) by the National Forest Commission.

Six working plans relating to seven Divisions were approved after a delay of more than five years. One working plan relating to two Divisions was pending with Principal Chief Conservator of Forest, Odisha and another plan for one Division was not prepared. Out of the two National parks, one National park (Similipal) was not finally notified though the initial notification was issued in 1980. Similarly 18 out of 19 Sanctuaries were not finally notified.

14 corridors for elephants were identified by the State Government covering length of 420.80 km and areas of 870.61 sq km were not executed due to non finalisation of Elephant Corridor Management Plan.

NPV of ₹ 32.49 crore in respect of six User Agencies relating to three Divisions was either not levied or short levied. ₹ 13.61 crore received as on 31 March 2011 towards Compensatory Afforestation from user agencies could not be utilised.

Due to injudicious decision of Government, there was loss of Forest Development Tax of ₹ 197.66 crore deducted from sale value of Kendu Leaves (2006-07 to 2010-11).

387 timber coupes and 356 bamboo coupes were not made operational during 2006-11 which deprived the Government of realisation of revenue.

Sales were finalised below the cost in respect of 1046 Lots during the KL crop year 2006 to 2010 resulting in realisation of less sale value of ₹ 7.82 crore. Department sustained loss of production of 0.84 lakh quintals calculated at minimum five per cent of production of 16.86 lakh quintals during crop year 2006 to 2010 resulting in loss of revenue by ₹ 64.30 crore.

Vacancy in forester and forest guards was 39 and 36 *per cent* of the sanctioned strength, the coverage of forest area by a forest guard varied from below one hectare (Cuttack and Bhubaneswar) to 11993 hectares (Keonjhar).

No evaluation of the plantation programmes was undertaken by the PCCF, Odisha as well as DFOs during 2006-11. Also there was no inspection by higher authorities starting from PCCF (Odisha) to DFOs during 2006-11.

Internal control was weak, total number of units due for audit was not planned and even those planned during 2006-11 could not be audited.

(Paragraph 2.2)

1.7 Significant Audit observations of Compliance Audits

1.7.1 *Parking of compensation money outside Government Account*

The Special Land Acquisition & Rehabilitation Resettlement Officer, Telengiri Medium Irrigation Project parked advance compensation money of ₹ 19.79 crore outside Government Account (savings bank account) instead of civil deposits in violation of the provisions of Treasury Code and Government instructions.

(Paragraph 3.1)

1.7.2 *Extra cost due to departmental lapse*

Tender for a work of “Rehabilitation Extension and Modernisation of Taladanda Branch and distributary Canals” could not be finalised within the validity period. The EE refunded the earnest money deposited by the second and third lowest bidders as a result the third lowest bidder who was willing to execute the work at the first lowest tender rate could not be accepted. This led to re-tendering the work resulting in extra cost of ₹ 4.63 crore.

(Paragraph 3.2)

1.7.3 *Undue benefit to contractors*

In construction of Jambhira Left Main Canal, the Executive Engineer, Jambhira Canal Division No.II executed supplementary agreement for excavation of laterite sheet rock treating it as an extra item on the ground that it is different from the sheet laterite rock and paid at higher rate though there was no change in methodology of excavation. This led to extension of undue benefit of ₹ 8.50 crore to contractors.

(Paragraph 3.3)

1.7.4 *Undue benefit to contractor*

The Executive Engineer, Lower Indra Canal Division No.II computed item rates providing five km distance for transportation of earth instead of actual distance of three km. This inflated the estimated cost resulting in extension of undue benefit of ₹ 1.60 crore to contractor.

(Paragraph 3.4)

1.7.5 *Extra cost due to adoption of a non-schedule item*

The EE of Betanati Canal Division included Hessian cloth in cement concrete lining work being a non-scheduled item with higher cost in the estimate/agreement instead of polythene film as per the SoR. This led to extra cost of ₹ 1.01 crore.

(Paragraph 3.5)

1.7.6 *Avoidable extra cost*

The Executive Engineer, Bhubaneswar (R&B) Division No.II included an unwarranted item (epoxy coating) in steel bars in the estimate/agreement violating the stipulation of SoR as well as provisions of Bureau of Indian Standards. This led to avoidable extra cost of ₹ 3.06 crore.

(Paragraph 3.6)

1.7.7 *Undue favour to Odisha Bridge and Construction Corporation (OBCC)*

Government authorised OBCC to collect toll with retention of 15 per cent of the total collection towards agency charges. OBCC retained 35 per cent of the toll collected without approval of Government and did not deposit the entire amount with the Government. This led to undue favour of ₹ 22.72 crore to OBCC. There was also unauthorised retention of revenue of ₹ 2.90 crore.

(Paragraph 3.7)

1.7.8 *Extra cost due to non-finalisation of tender*

The CE failed to obtain the information from the field units within the validity period which led to cancellation of tender by the Government. The work on re-tender involved extra cost of ₹ 1.83 crore.

(Paragraph 3.8)

1.7.9 *Excess expenditure due to adoption of higher lead charges*

The Executive Engineer of Rourkela (R&B) Division included basic cost of slag and adopted higher lead charges in estimates which inflated the estimated cost leading to excess expenditure of ₹ 1.48 crore.

(Paragraph 3.9)