

# CHAPTER I

## INTRODUCTION

### 1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) presents matters arising from Performance Audit and Compliance Audit of the departments of the Government of Gujarat in the Economic Sector.

The 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 competent authorities are being complied with. On 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 improve financial management of the organisations, thus, contributing to better governance.

This chapter explains the planning and extent of audit, provides a synopsis of the significant audit observations made during various types of audits and also briefly analyse the follow-up on the previous Audit Reports. Chapter-II contains performance audit on “Functioning of Gujarat Maritime Board” of Ports and Transport Department of Government of Gujarat (GoG). Chapter-III contains two paragraphs pertaining to Water Resources Department of GoG viz. – (i) Irregularities in Tender Process and Incorrect Tender Provisions, and (ii) Incomplete Irrigation Projects due to Non-Acquisition of Land and contains other audit observations on the expenditure transactions of Government Departments.

### 1.2 Audited Entity Profile

The Accountant General (Economic & Revenue Sector Audit), Gujarat conducts audit of the expenditure under the Economic Services incurred by 10 departments in the State at the Secretariat level and also the field offices, 55 autonomous bodies and 63 public sector undertakings (PSUs) falling under the jurisdiction of these 10 departments. The departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners/Chief Engineers and subordinate officers under them.

The summary of fiscal transactions during the year 2011-12 and 2012-13 is as given in **Table-1**:

**Table 1: Summary of fiscal operations**

(₹ in crore)

Receipts			Disbursements				
	2011-12	2012-13		2011-12	2012-13		
					Non-Plan	Plan	Total
<b>Section-A: Revenue</b>							
<b>Revenue receipts</b>	<b>62,958.99</b>	<b>75,228.53</b>	<b>Revenue expenditure</b>	<b>59,744.46</b>	<b>47145.69</b>	<b>22,512.80</b>	<b>69,658.49</b>
Tax revenue	44,252.29	53,896.69	General services	21,480.52	23,167.93	960.34	24,128.27
Non-tax revenue	5,276.52	6,016.99	Social services	24,545.79	16,230.47	13,298.50	29,528.97
Share of Union taxes/duties	7,780.31	8,869.05	Economic services	13,518.37	7,585.01	8,253.96	15,838.97
Grants from Government of India	5,649.87	6,445.80	Grants-in-aid and Contributions	199.78	162.28	-	162.28
<b>Section-B: Capital</b>							
Misc. Capital receipts	10.00	0.00	Capital Outlay	13,811.70	75.49	21,151.03	21,226.52
Recoveries of Loans and Advances	165.44	46.90	Loans and Advances disbursed	605.34	586.68	295.57	882.25
Public Debt receipts*	17,534.76	19,497.19	Repayment of Public Debt*	5,275.19	-	-	6,536.52
Contingency Fund	0.66	80.50	Contingency Fund	80.50	-	-	0.00
Public Account receipts	79,653.14	50,046.35	Public Account disbursements	77,160.79	-	-	46,537.61
Opening Cash Balance	14,986.80	18,631.81	Closing Cash Balance	18,631.81	-	-	18,689.89
<b>Total</b>	<b>1,75,309.79</b>	<b>1,63,531.28</b>		<b>1,75,309.79</b>	<b>47,807.86</b>	<b>43,959.40</b>	<b>1,63,531.28</b>

Source: Finance Accounts of the respective years.

\* Excluding net transactions under ways & means advances and overdrafts.

### 1.3 Authority for Audit

The authority for audit by the C&AG is derived from the 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 Gujarat under Section 13<sup>1</sup> of the C&AG's (DPC) Act. The C&AG is the sole auditor in respect of bodies/authorities which are audited under Sections 19 (2)<sup>2</sup>, 19 (3)<sup>3</sup> and 20(1)<sup>4</sup> of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of other autonomous bodies, under Section 14<sup>5</sup> of C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for

<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 Parliament in accordance with the provisions of the respective legislations.

<sup>3</sup> Audit of accounts of Corporations established by law made by the State Legislature, on the request of the Governor.

<sup>4</sup> Where the audit of the accounts of anybody or authority has not been entrusted to the CAG by or under any law made by Parliament, he shall, if requested so to do by the Governor of a State, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the Government.

<sup>5</sup> Audit of (i) 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 anybody 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.

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 Office of the Accountant General (E&RSA), Gujarat**

Under the directions of the C&AG, the Office of the Accountant General (Economic & Revenue Sector Audit), Gujarat conducts audit of Government Departments/Offices/Autonomous Bodies/Institutions under the Economic and Revenue Sector which are spread all over the State. The Accountant General (Economic & Revenue Sector Audit) is assisted by four Group Officers.

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

Audit process starts with the assessment of risks faced by various departments of Government based on expenditure incurred, criticality/complexity of activities, level 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.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the head 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 State under Article 151 of the Constitution of India.

During 2012-13, in the Economic Sector Audit Wing 7,704 party-days<sup>6</sup> were utilised covering 254 units under compliance audit and five performance audits (including three All India Reviews). 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.

The present Report contains one performance audit and nine compliance audit paragraphs of expenditure audit pertaining to the Narmada, Water Resources, Water Supply and Kalpsar (NWRWS&K) and Roads and Buildings (R&B) Departments.

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<sup>6</sup> Inclusive of the party days provided for the audit of PSUs and its audit findings are included in the Audit Report (PSUs)

### **1.6.1 Performance Audit**

Chapter II of this report contains Performance Audit observations related to the 'Functioning of Gujarat Maritime Board (GMB)'. The GMB was established for administration, control and management of all minor ports in the State of Gujarat. The performance audit covers the period from 2008-09 to 2012-13.

GoG declared the Port Policy (December 1995) and enacted Gujarat Infrastructure Development Act, 1999 for development of ports in the State through private participation and GMB. Though Port Policy discouraged development of captive jetties, GMB had entered into nine captive jetty agreements (CJAs) after declaration of Port Policy. The non-recovery of full wharfage after set-off of the cost of captive jetty (₹ 362.01 crore), erroneous calculation of set-off and application of incorrect full wharfage rate after set-off period resulted in short recovery of wharfage amounting to ₹ 649.29 crore from Reliance Petroleum Limited. In nine CJAs where cost verification was completed, maintenance cost of ₹ 108.87 crore was incorrectly added to cost of jetty though it was neither claimed within ten years nor vouchers for actual expenditure were produced by captive jetty owner.

Similarly, Port Policy envisaged development of private jetties as interim arrangement till new ports became operational. However, 16 agreements for private jetties for period from five to twenty-five years were entered into after declaration of Port Policy. Non-initiation of timely action against the private jetty holders as per terms of License Agreements and non-availability of Bank Guarantee towards minimum wharfage led to outstanding recovery of ₹ 8.25 crore.

GoG extended the port limit for four Single Buoy Moorings (SBMs) without signing the required supplementary concession agreement (SCA) to legally enable GoG to set-off the amount of concession availed by it at the time of transfer of Mundra port. The construction of a quay in Phase 1 of Mundra port was regularised without submission of revised DPR indicating non-monitoring of the port constructions. Incorrect application of full water front royalty rate instead of the escalated rate for coal and crude handled resulted in short recovery of ₹ 118.12 crore.

The work of internal audit wing did not include pre-audit of tender documents/agreements, audit of application of tariff by port offices and its reports were not submitted to the BoD. No system to monitor the construction activities at the private ports was in existence and the MIS did not provide performance related details on the activities of the ports.

### **1.6.2 Compliance Audit**

Chapter III of this Report contains two paragraphs on Irregularities in Tender Process and Incorrect Tender Provisions in Water Resources Department and Incomplete irrigation projects due to non-acquisition of land, and seven other individual paragraphs on audit of compliance.

### ***1.6.2.1 Irregularities in Tender Process and Incorrect Tender Provisions***

Audit scrutinised tender documents and the applicable procedures followed by the Water Resources Department of GoG / selected 16 divisions in the award of 73 works (Estimated cost: ₹ 1,614 crore) during the period 2009-10 to 2012-13 revealed the following irregularities/deficiencies:

Instances of non-recovery of security deposit and performance bond as per the terms of contract led to overpayments/financial accommodation to the contractors for ₹ 2.66 crore. Prescribed procedures were not followed in publishing and the issuance of tender notices. Changing of pre-qualification (PQ) criteria, inept evaluation of PQ bids and execution of works without tender process and award of works at unworkable rates had not only resulted in improper selection of contractors but also exposed the Department with the risk of time overruns in completion of works. The possibility of undue benefit of ₹ 53.67 crore accruing to contractors could not be ruled out considering the improper estimates prepared for the works and also the absence of a mechanism with the divisions to verify the validity of central excise duty (CED) exemption availed by the contractors. Further, the adoption of incorrect tender provisions regarding price escalation/variations and also grade mix led to avoidable/excess payments of ₹ 4.16 crore.

**(Paragraph 3.1)**

### ***1.6.2.2 Incomplete irrigation projects due to non-acquisition of land***

The Audit test checked the records of seven divisions of the Water Resources Department in which 12 irrigation works estimated to cost ₹ 54.16 crore undertaken were not completed even after the delay of one to 14 years (May 2013) from their stipulated period of completion. As observed in audit, the non-completion of the irrigation works was mainly because of award of works before acquisition of required land in violation of the provisions of the Gujarat Public Works (GPW) Manual. Further, the divisions/the Department had not taken adequate and effective action to obtain the prior permission from the concerned authorities for acquisition of forest land and also not expedited the land acquisition process with Revenue Department. Consequently, even after incurring an expenditure of ₹ 97.40 crore on the projects/works, envisaged irrigation benefit to 13,405 ha land of 53 villages remained to be achieved due to incomplete irrigation projects.

**(Paragraph 3.2)**

The compliance audit of the NWRWS&K and R&B Departments of the Government and their field offices revealed seven cases of wasteful expenditure, avoidable/excess expenditure and idle investment aggregating ₹ 9.82 crore as detailed below:

1. Wasteful expenditure of ₹ 1.02 crore was noticed in NWRWS&K due to laying underground pipeline without conducting geological investigation before award of work.

**(Paragraph 3.3.1)**

2. Idle investment/idle establishment/blockage of funds of ₹ 2.78 crore was noticed in NWRWS&K Department as the construction of approach road to the bridge was delayed due to belated action in acquiring land.

**(Paragraph 3.4.1)**

3. Avoidable/excess/unfruitful expenditure of ₹ 6.02 crore was noticed in NWRWS&K (₹ 3.04 crore) and R&B Department (₹ 2.98 crore) as shown below:

- *Incorrect application of wholesale price index in the calculation of price variation payments led to excess expenditure of ₹ 1.81 crore in NWRWS&K and R&B Departments.*

**(Paragraph 3.5.1)**

- *Non-adherence to Government instructions led to avoidable expenditure of interest of ₹ 1.56 crore on late payment of enhanced compensation in land acquisition cases of NWRWS&K Department.*

**(Paragraph 3.5.2)**

- *Failure to decide appropriate specifications and improper assessment of quantum of work before awarding it led to avoidable expenditure of ₹ 1.35 crore due to execution of extra/excess items of work at a higher rate by the R&B Department.*

**(Paragraph 3.5.3)**

- *Non-adherence to the stipulations of lease agreement led to avoidable payments of additional lease premium of ₹ 73.04 lakh. Further, investment of ₹ 112.37 lakh made by the R&B Department in the leased plots also remained unfruitful for more than a decade.*

**(Paragraph 3.5.4)**

- *Failure to cause the energy audit done led to inefficient use of electrical energy and incurring avoidable expenditure of ₹ 56.83 lakh*

**(Paragraph 3.5.5)**

## **1.7 Response of Government to Audit**

### **1.7.1 Inspection Reports**

The Hand Book of Instructions for prompt Settlement of Audit Objections/Inspection Report issued by the Finance Department, GoG in 1992 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectifying action in compliance with the prescribed rules and procedures and fix accountability for the deficiencies, omissions *etc.*, noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to the AG within four weeks of receipt of the IRs. Periodical reminders are issued to the Head of the Department requesting them to furnish the replies expeditiously on the outstanding paragraphs in the IRs.



Two Audit Committee meetings were held during the year 2012-13 in respect of paragraphs contained in IRs pertaining to economic sector departments. As of 30 September 2013, 3,217 IRs (10,622 paragraphs) were outstanding against ten departments under the Economic Sector. Year-wise details of IRs and paragraphs outstanding are given in **Appendix-I**.

### ***1.7.2 Performance Audit and Draft Paragraphs***

One Performance Audit and nine Draft Paragraphs were forwarded to the Principal Secretaries/Secretaries of the concerned departments between April and June 2013 with a request to send their responses within four weeks. The departments have replied to all the nine Draft Paragraphs and Performance Audit Report featured in this Report. Exit conference was also held with the concerned Department on the audit findings included in the Performance Audit Report. The replies of the department and the views expressed by them have been duly considered while finalising this Report.