

## 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 to frame policies and directives that will lead to improved 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 analyses the follow-up on the previous Audit Reports. Chapter-II contains Performance Audit of “Conservation of Wetlands” of Forests and Environment (F&E) Department of Government of Gujarat (GoG). Chapter-III contains Compliance Audit which includes two theme based audits *namely* (i) “Construction of High Level Canals” by Water Resources (WR) Department and (ii) “Functioning of Common Effluent Treatment Plants” under Forests & Environment Department and nine individual audit observations on the expenditure transactions of Government Departments.

#### 1.2 Audited Entity Profile

The Principal Accountant General (Economic & Revenue Sector Audit), Gujarat conducts audit of the expenditure incurred by 10 Departments under the Economic Services in the State at the Secretariat level and also the field offices, 53 autonomous bodies and 67 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 of the Government of Gujarat during the year 2013-14 and 2014-15 is given in **Table 1**:

**Table 1: Summary of fiscal operations**

(₹ in crore)

Receipts			Disbursements				
	2013-14	2014-15		2013-14	2014-15		
					Non-Plan	Plan	Total
<b>Section-A: Revenue</b>							
<b>Revenue receipts</b>	<b>79,975.74</b>	<b>91,977.78</b>	<b>Revenue expenditure</b>	<b>75,258.54</b>	<b>60,065.41</b>	<b>26,586.30</b>	<b>86,651.71</b>
Tax revenue	56,372.37	61,339.81	General services	26,820.37	28,761.35	1,241.97	30,003.32
Non-tax revenue	7,018.31	9,542.61	Social services	32,381.78	19,884.80	16,829.35	36,714.15
Share of Union taxes/duties	9,701.93	10,296.35	Economic services	15,730.72	10,883.70	8,514.98	19,398.68
Grants from Government of India	6,883.13	10,799.01	Grants-in-aid and Contributions	325.67	535.56	0.00	535.56
<b>Section-B: Capital</b>							
Misc. Capital receipts	0.00	241.00	Capital Outlay	22,677.37	84.00	24,073.76	24,157.76
Recoveries of Loans and Advances	140.69	621.38	Loans and Advances disbursed	603.22	48.72	301.18	349.90
Public Debt receipts*	19,343.04	19,453.94	Repayment of Public Debt*	6,203.91	-	-	5,509.20
Contingency Fund	0.00	0.11	Contingency Fund	0.11	-	-	14.16
Public Account receipts	52,019.52	62,387.52	Public Account disbursements	50,039.25	-	-	52,309.01
Opening Cash Balance	18,689.89	15,386.48	Closing Cash Balance	15,386.48	-	-	21,076.47
<b>Total</b>	<b>1,70,168.88</b>	<b>1,90,068.21</b>		<b>1,70,168.88</b>			<b>1,90,068.21</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

<sup>1</sup> This section empowers C&AG to audit transactions made from the Consolidated Fund of the State, transactions relating to the Contingency Fund and Public Accounts, and trading, manufacturing, profit & loss accounts, balance sheets and 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, on the request of the Governor, of Corporations established by law made by the State Legislature.

<sup>4</sup> Where the audit of the accounts of any body 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.

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 various audits are prescribed in the Regulations on Audit and Accounts, 2007 and the Auditing Standards, 2002 issued by the C&AG.

#### **1.4 Organisational structure of the Office of the Principal Accountant General (E&RSA), Gujarat**

Under the directions of the C&AG, the Office of the Principal 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 over the State. The Principal Accountant General (Economic & Revenue Sector Audit) is assisted by one Senior Deputy Accountant General and three Deputy Accountants General.

#### **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 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 State under Article 151 of the Constitution of India.

During 2014-15, in the Economic Sector Audit Wing 14,535 man-days<sup>6</sup> were utilised for compliance audit covering 231 units and performance audits. The audit plan covered units/ entities based on risk 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.

<sup>5</sup> This section empowers the C&AG to audit receipts & expenditure of (i) a body/ authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) 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 are not less than ₹ one crore.

<sup>6</sup> Inclusive of the party days provided for the audit of PSUs. The related audit findings have been included in the Audit Report on PSUs separately.

The present Report contains one performance audit and 11 compliance audit paragraphs (including two theme based audits) of expenditure audit pertaining to the Roads and Buildings (R&B) Department, Forests and Environment (F&E) Department, Narmada, Water Resources, Water Supply and Kalpsar (NWRWS&K) Department, Finance Department and Industries & Mines Department.

### **1.6.1 Performance Audit**

Chapter II of this report contains Performance Audit observations relating to “Conservation of Wetlands” of F&E Department of GoG.

#### **Conservation of Wetlands**

Wetland is an area where water is the primary factor controlling the environment and associated plant and animal life. It includes areas of marsh, fen, peatland or water, whether natural or artificial, permanent or temporary, with water that is static or flowing, fresh, brackish or salt, areas of marine water the depth of which at low tide does not exceed six meters. Wetlands are habitat to aquatic flora and fauna, support all forms of life, mitigate floods, recharge ground water and provide buffer shorelines against erosion.

Ministry of Forests and Environment (MoFE) launched (1985-86) National Wetland Conservation Programme (NWCP). Gujarat State has eight Wetlands of national importance *viz.*, Nal Sarovar, Thol Lake, Khijadiya Lake, Wadhvana Lake, Great Rann of Kachchh (GRK), Little Rann of Kachchh (LRK), Pariej Lake and Nani Kakrad under NWCP. Nal Sarovar is a Ramsar Site. There are also 19 other wetlands not identified but deserved to be wetlands of national importance as per the report of the Gujarat State Biodiversity Board, Gandhinagar.

The performance audit (PA) covers the period from April 2009 to March 2015 and includes examination of records of eight wetlands of national importance, four out of 19 other Wetlands and one wetland of Porbandar Bird Sanctuary. In the light of facts which emerged out of this performance audit, there are certain areas of concern suggesting that some scope for improvement in conservation activities for wetlands and implementation and monitoring of issues relating to wetlands remains, as indicated below.

The Department has not formed “State Wetland Conservation Authority” as envisaged in NWCP Guidelines. There was no policy framed by the Department for wetlands other than those identified as having national importance. Further, 19 other wetlands were identified having deserved to be declared as of national importance and two wetlands having high ecological value deserved to be important wetlands, were not declared as important wetlands by the Department or conserved accordingly.

State Government did not provide adequate funds in the budget estimate for conservation activities. The Government mainly relied upon funds released by the GoI and short release of fund was not met from the State fund. Though some activities were carried out under other State schemes, conservation

activities of wetlands of national importance in the State remained inadequate. The Management Action Plans (MAPs) were either prepared with break in period or not prepared fully.

The other deficiencies noticed were:

- The baseline data of migratory birds which are essential to determine the causes of changes of population sizes *etc.*, have not been maintained in the eight wetlands of national importance.
- The Birds Rescue Centre (BRC) was not set up at wetlands of LRK, GRK and Pariej. BRCs set up at Nal Sarovar and Thol wetlands do not have required facilities.
- The water retention work at Khijadiya and removal of weeds at Nal Sarovar was inadequate.
- Conservation of the two important wetlands LRK and GRK was not done.
- Proper water level required for wetland was not maintained at Wadhvana Lake due to release of water by the Irrigation Department for irrigation.
- The poaching at Nal Sarovar and Wadhvana Lake was also not controlled.

Inadequate monitoring over the conservation of wetlands both at the Department level as well as Steering Committee level was observed. Out of 10 half yearly meetings as envisaged, Steering Committee met only six times during 2010-15 for review of activities of conservation of wetlands.

Our recommendations are as under:

- Government needs to establish State Wetland Conservation Authority in a time bound manner and prioritise the framing of policy/ guidelines for conservation of wetlands other than those having been identified as of national importance.
- Government needs urgent attention for declaration of 19 wetlands identified by the Gujarat Biodiversity Board, Gandhinagar as important wetlands and taking up of conservation activities of these important wetlands.
- Government may ensure timely preparation of action plan for conservation of wetlands by preparing MAPs and Annual Plan of Operation.
- Government may make adequate budget provision for conservation of wetlands.
- For Nal Sarovar, Thol Lake, Khijadiya, Wadhvana and Pariej Lake, Government may consider maintaining baseline data of migratory birds and adopt a conservation strategy for conservation of migratory birds.
- Government may strengthen surveillance for curbing poaching by using modern surveillance technology at Nal Sarovar and Thol wetlands.
- Government needs to assess the requirement of removal of weeds at wetlands for conservation and provide nesting, feeding and roosting site to the birds.

- Government needs to assess the requirement of conservation work at Khijadiya wetland to ensure retention of water at wetlands so as to enable migratory birds to meet their survival requirements.
- Government needs to give urgent attention for effective pursuance and co-ordination with WR Department for maintaining required water level at Wadhvana wetland by executing work as suggested by the WR Department.
- Government should identify pockets having high ecological value at GRK and LRK wetlands and consider taking up conservation activities of these pockets.
- The Steering Committee may ensure close monitoring of conservation activities of wetlands of national importance and expedite identification of other important wetlands.

### **1.6.2 Compliance Audit**

Principal Accountant General (E&RSA) conducted compliance audit of 10 Departments of the Economic Sector of the State Government and their field offices and audit findings were reported to the respective Heads of the Departments through inspection reports. Chapter III of this report contains Department wise audit findings containing two theme based audit paragraphs of “Construction of High Level Canals” by Water Resources Department and “Functioning of Common Effluent Treatment Plants” under Gujarat Pollution Control Board of Forests and Environment Department and nine other individual paragraphs having significant audit findings relating to loss, excess payment, extra expenditure, and loss of interest aggregating to ₹ 31.07 crore as narrated below.

### **Narmada, Water Resources, Water Supply and Kalpsar Department**

#### **Construction of High Level Canals**

For providing irrigation to the hilly/ uneven terrain and its surrounding areas located above the existing canal bed level, the Water Resources Department (the Department) decided (between August 1997 and April 2008) to construct High Level Canals (HLC) *i.e.*, Kadana Left Bank High Level Canal (KLBHLC), Panam High Level Canal (PHLC), Ukai Left Bank High Level Canal (ULBHLC) and Karajan Left Bank High Level Canal (Karjan LBHLC) at a cost of ₹ 238.14 crore. Aim of the projects is to provide irrigation facilities in 34,100 hectare (ha) in 195 villages of Santrampur, Kadana and Lunawada talukas (KLBHLC), Shahera, Godhra, Lunawada talukas (PHLC), Vyara & Sonagadh Talukas (ULBHLC) and Nandod (Karjan LBHLC). The projects were decided to be completed between December 2005 and March 2015. We conducted audit in four divisions in March 2015 and April 2015. We selected 18 works awarded during 2011-12 to 2014-15 and spill over 14 works initiated prior to 2011-12 (Total 32 works costing ₹ 158.32 crore) for detailed scrutiny.

The three HLC projects aimed to provide irrigation facilities to the tribal people in hilly command areas of 32,900 ha between March 2008 and January 2009. The Department started projects works between October 2003 and May 2005. However, failure of the Department in conducting proper geological/ soil survey and investigation before preparation of the estimates, lack of monitoring, inadequate efforts in expediting the execution of works, non-completion of HLC and distributaries in full length due to lack of co-ordination and effective pursuance with Revenue Authority in acquisition of land, non-taking up of distributaries and minors canals works led to incurring of expenditure without intended return. As a result, against the target of providing irrigation facilities to 32,900 ha, the CCA of 11,476 ha only has been created and, out of this, only 3,361 ha CCA has actually been utilised. The Department needs to complete these projects at the earliest by addressing the bottlenecks and impeding issues.

*(Paragraph 3.1)*

Inefficient use of electrical energy in operation of Jalundra and Fatepur Pumping Stations led to avoidable expenditure of ₹ 7.37 crore on contract demand charges.

*(Paragraph 3.2)*

Delay in completion of works due to delay in obtaining permission from Railway and Forests Department resulted in infructuous expenditure of ₹ 5.38 crore on payment of electricity bills.

*(Paragraph 3.3)*

Non-inclusion of condition for levy of interest/ penalty for non-payment of water charges in advance by 10<sup>th</sup> of each month led to loss of interest of ₹ 1.19 crore.

*(Paragraph 3.4)*

Award of work for hiring of vehicles for various Government Departments/ offices to the service provider not registered with Service Tax Department led to undue benefit amounting to ₹ 23.93 lakh on account of payment of service tax to the service provider.

*(Paragraph 3.5)*

### **Roads and Buildings Department**

Non-compliance/ non-inclusion of the tender condition regarding recovery in case of less consumption of cement from contractors led to loss of ₹ 3.58 crore between October 2013 and February 2015.

*(Paragraph 3.6)*

The opportunity to award a work at competitive price was lost due to non-invitation of fresh tender for the work at a changed site and also resulted in extra expenditure of ₹ 4.45 crore.

*(Paragraph 3.7)*

Non-adherence to the tender conditions relating to the payment of service tax led to double payment of service tax amounting to ₹ 6 lakh.

*(Paragraph 3.8)*

### **Industries & Mines and Finance Department**

Non-adherence to the tender conditions relating to the payment of service tax led to double payment of service tax amounting to ₹ 0.22 crore.

*(Paragraph 3.9)*

### **Forests and Environment Department**

#### **Functioning of Common Effluent Treatment Plants**

In Gujarat, the Gujarat Pollution Control Board (GPCB) is responsible for monitoring the functioning of Common Effluent Treatment Plants (CETPs). The GPCB grants Consolidated Consent and Authorisation (CC&A) for operation of CETPs in which outlet norms have to be complied during their functioning on regular basis. GPCB monitors this and other environmental laws through its 26 Regional Offices (ROs) in the State. The officials of RO visit the CETP every month and take samples which are being analysed in laboratory of GPCB.

There are 37 CETPs in the State, of which 33 CETPs are operational and four were either proposed or at commissioning/ construction stage (May 2015). Out of 33 completed CETPs, region wise 12 CETPs based on their capacity were selected for detailed scrutiny. We examined (January 2015 to April 2015) records of Gujarat Pollution Control Board (GPCB), Gandhinagar and the selected CETPs along with concerned seven ROs for the period from April 2012 to March 2015.

The CETPs play vital role to treat the effluent before being let into water bodies or for reuse. The monitoring of the functioning of CETPs regarding their adherence to the norms becomes a challenge to every Government to protect the environment. Thus, the role of GPCB assumes importance. We observed that the selected CETPs has not adhered to outlet norms in discharging effluents, non-disposal of hazardous waste timely leading to the pollution of natural water bodies into which these effluents were discharged and polluting the ground water as well as soil of surrounding area. The monitoring mechanism of GPCB/ ROs was ineffective in pursuance of CC&A conditions with CETPs in relation to the conducting of Bio-assay test and development of green belt in premises of CETPs.

*(Paragraph 3.10)*

### **Forests & Environment and Industries & Mines Departments**

Lack of planning and monitoring of the project led to non-fulfillment of the envisaged goals after lapse of 33 years from the discovery of the dinosaur site in 1981 despite incurring an expenditure of ₹ 8.58 crore.

*(Paragraph 3.11)*

## 1.7 Response of the 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 Heads of the Departments requesting them to furnish the replies expeditiously on the outstanding paragraphs in the IRs.

Eight Audit Committee meetings were held during the year 2014-15 in respect of paragraphs contained in IRs pertaining to Economic Sector Departments. As of 30 September 2015, 831 IRs (3,212 paragraphs) were outstanding against 10 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, two theme based audit Paragraphs and nine other Draft Paragraphs were forwarded to the Principal Secretaries/ Secretaries of the concerned Departments between April and June 2015 with a request to send their responses within six weeks. The F&E Department has replied (September 2015) to the Performance Audit of “Conservation of Wetland”. Exit conference was also held with the concerned Department in June 2015 on the audit findings included in the Performance Audit. Except R&B Department (three paragraphs), three Departments have replied to eight Draft Paragraphs (October 2015). The replies of the Departments and the views expressed by them have been duly considered while finalising this Report.

### 1.7.3 Follow up of Audit Reports

Rule 7 of Public Accounts Committee (PAC) (Rules of Procedure) 1990 provides for furnishing Detailed Explanation (DE) by all the Departments of Government to the observations which featured in Audit Reports within 90 days of their being laid on the Table of the Legislative Assembly. These DEs are required to be furnished to the PAC after showing the same to the concerned Accountant General.

The Audit Reports for the year 2011-12, 2012-13 and 2013-14 were placed in Gujarat Legislative Assembly in April 2013, July 2014 and March 2015 respectively which included 30 paragraphs pertaining to five Departments as detailed in **Table 2** below:

**Table 2: Details of paragraphs included in Audit Reports**

Sl. No.	Name of the Department	2011-12	2012-13	2013-14	Total	DEs received
1	Agriculture & Co-operation	1	0	1	2	0
2	Narmada, Water Resources, Water Supply & Kalpsar (Water Resources)	3	6*	3*	12	10
3	Ports & Transport	0	1	0	1	1
4	Roads & Buildings	5	4	5	14	8
5	Forests & Environment	0	0	1	1	0
<b>Total</b>		<b>9</b>	<b>11</b>	<b>10</b>	<b>30</b>	<b>19</b>

\* One paragraphs pertains to two Departments i.e. R&B and Water Resources Departments hence considered separate paragraphs in each Department.

Out of 30 paragraphs for the year 2011-12 to 2013-14, DEs for 19 paragraphs have been received up to September 2015 and DEs for 11 paragraphs for the year 2011-12 (Two paragraphs) and 2013-14 (9 Paragraphs) have not been received as of September 2015.