

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 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 analyse the follow-up on the previous Audit Reports. Chapter-II contains two performance audits on “Pragatipath Scheme” of Roads and Buildings Department of Government of Gujarat (GoG) and “Rashtriya Krishi Vikas Yojana” of Agriculture & Co-operation Department. Chapter-III contains seven 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 incurred by 10 Departments under the Economic Services in the State at the Secretariat level and also the field offices, 48 autonomous bodies and 71 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 2012-13 and 2013-14 is given in **Table-1**:

Table 1: Summary of fiscal operations

(₹ in crore)

Receipts			Disbursements				
	2012-13	2013-14		2012-13	2013-14		
					Non-Plan	Plan	Total
Section-A: Revenue							
Revenue receipts	75,228.53	79,975.74	Revenue expenditure	69,658.49	51,365.15	23,893.39	75,258.54
Tax revenue	53,896.69	56,372.37	General services	24,128.27	25,707.44	1,112.93	26,820.37
Non-tax revenue	6,016.99	7,018.31	Social services	29,528.97	17,372.10	15,009.68	32,381.78
Share of Union taxes/ duties	8,869.05	9,701.93	Economic services	15,838.97	7,959.94	7,770.78	15,730.72
Grants from Government of India	6,445.80	6,883.13	Grants-in-aid and Contributions	162.28	325.67	0.00	325.67
Section-B: Capital							
Misc. Capital receipts	0.00	0.00	Capital Outlay	21,226.52	166.67	22,510.70	22,677.37
Recoveries of Loans and Advances	46.90	140.69	Loans and Advances disbursed	882.25	52.05	551.17	603.22
Public Debt receipts*	19,497.19	19,343.04	Repayment of Public Debt*	6,536.52	-	-	6,203.91
Contingency Fund	80.50	0.00	Contingency Fund	0.00	-	-	0.11
Public Account receipts	50,046.35	52,019.52	Public Account disbursements	46,537.61	-	-	50,039.25
Opening Cash Balance	18,631.81	18,689.89	Closing Cash Balance	18,689.89	-	-	15,386.48
Total	1,63,531.28	1,70,168.88		1,63,531.28			1,70,168.88

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 13¹ 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)², 19(3)³ and 20(1)⁴ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit

¹ 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.

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 accounts, on the request of the Governor, of Corporations established by law made by the State Legislature.

⁴ 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 14⁵ of C&AG's (DPC) Act, which are substantially funded by the Government. Principles and 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 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 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 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 2013-14, in the Economic Sector Audit Wing 3,915 audit party-days⁶ were utilised covering 252 units under compliance audit and three performance audits (including one All India Review). 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.

⁵ 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 is not less than ₹ one crore.

⁶ 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.

Similarly, the deficiencies noticed during Compliance Audit of the Government departments/ organisations were also reported upon.

The present Report contains two performance audits and seven compliance audit paragraphs of expenditure audit pertaining to the Roads and Buildings (R&B) Department, Forests and Environment Department (F&E), Agriculture & Co-operation Department and Narmada, Water Resources, Water Supply and Kalpsar (NWRWS&K).

1.6.1 Performance Audit

Chapter II of this report contains Performance Audit observations relating to “Pragatipath Scheme” of R&B Department and “Rashtriya Krishi Vikas Yojana” of Agriculture & Co-operation Department.

1.6.1.1 Pragatipath Scheme

Transportation plays an important role in economic and general development of the State. A well laid out road network is essential for efficient and cost effective movement of men and materials, without which trade and industry cannot maintain a competitive edge. The Roads & Buildings Department (the Department) has categorised Core Road Network (CRN) extending over 9,000 kilometres (kms) as priority network. It identified three major corridors known as *Vikaspath*, *Pravasipath* and *Pragatipath* which are designated to act as catalyst for achieving the targeted economic development of the State.

Pragatipath Scheme was announced (February 2005) by Government of Gujarat (GoG) with the aim to widen high speed corridors of 3,710 kms to connect East-West and North-South end of the Gujarat State. Road length of 1,074 kms was to be covered under Pragatipath Scheme through State budget funds and remaining length of the roads, *i.e.*, 2,636 kms were either developed or were being developed under other schemes of the State (Public Private Partnership-393 kms; other schemes-1,342 kms) or by National Highway Authority of India (901 kms). The main objective of the scheme was to provide a widened road of 10 meters carriage width so as to run the vehicle at an uninterrupted speed of 80-100 kms. The performance audit covered the period from 2005-06 to 2013-14.

Initially, the scheme did not envisage widening of 70 major bridges on the selected corridors. However, subsequently, only 12 major bridges were taken up for widening.

The performance audit of the “Pragatipath Scheme” revealed that the Government has achieved widening and strengthening of 1,017.24 kms (99 *per cent*) of road length with high speed corridor of an average speed of 80 km/hour. However, there are some areas of concern relating to implementation of scheme, which are highlighted below:

During the period 2005-06 to 2008-09, the Department sanctioned work for road length of 1,023 kms length in four phases at a cost of ₹ 946.54 crore. During this period, only ₹ 250.73 crore was released out of budget provisions

of ₹ 774.04 crore. Thus, the Government did not provide adequate funds in timely manner to complete the scheme within the set timeframe of March 2009 and the project was declared as completed in January 2014 after a delay of five years.

The Department incurred extra/ avoidable expenditure of ₹ 31.61 crore as California Bearing Ratio (CBR) and Benkelman Beam Deflection (BBD) tests were not conducted before preparation of estimates. As per Gujarat Public Works Manual (paragraph 204 (b)), the tender, other than the lowest, should invariably be accepted only by the Committee at the respective levels if the lowest tenderer is not prepared to reduce the rates. The Committee should record the reasons for doing so. However, the Department accepted the second lowest tender in a work relating to widening and strengthening of Savarkundla- Rajula bypass- Hindorna junction km 32/70 to 69/0 without any recorded reason which led to extra expenditure of ₹ 4.32 crore. In another work of widening and strengthening of Dediapada-Sagbara road km 67/0 to 99/4, the Department did not finalise the tender within validity period and re-invited the tenders, leading to extra expenditure of ₹ 4.60 crore. The security deposit was short recovered to the extent of ₹ 1.62 crore from the contractors due to oversight in two works relating to providing of cement concrete road and protective walls on Savarkundla Amreli Road km 1/0 to 31/0 and development of Radhanpur-Shamlaji Road as a high speed corridor section Kheralu-Sipor-Valsana km 0/0 to 17/2. In 11 works, excess payment of ₹ 1.99 crore was noticed in payment of price variations/ adjustment.

Crash barriers were not provided at 130 curves, 23 bridges and two embankments of height of more than three meters on Pragatipath Road-7 on the outer side of the curves and at the approaches of the bridges. Further, 17 out of 18 divisions had not installed sign boards even though many roads are having curves and bi-directional traffic is passing without median. The sign boards are required to be installed for avoiding any mishap on the roads.

1.6.1.2 Rashtriya Krishi Vikas Yojana

Rashtriya Krishi Vikas Yojana (RKVY) was launched in 2007-08 by the Government of India, Ministry of Agriculture, Department of Agriculture and Co-operation as special central assistance with the objective of achieving four *per cent* growth rate in agriculture during the Eleventh Five Year Plan (2007-12). RKVY continued in the Twelfth Five Year Plan also with a view to increase public investment in the agriculture and allied sector.

While RKVY was to supplement the State investment in agriculture, GOI assistance was linked to increased investment by the state governments in this sector. In Gujarat, the State's allocation, exclusive of RKVY, showed an increasing trend.

During the Eleventh Five Year Plan, the average agriculture growth rate of Gujarat was 5.49 *per cent per annum* as compared to All India average growth rate of 4.06 *per cent per annum* (both at constant prices 2004-05). The higher growth rate was attributed to higher production of bajara, groundnut and cotton crops, horticulture crops and livestock products. During the period of

audit, we reviewed 38 projects under 11 sectors and found that in 21 projects, the targets were largely achieved, whereas in 17 projects, some deficiencies and shortfall were noticed in implementation leading to targets remaining underachieved and the envisaged benefits could not be drawn from the projects. This led to non-achievement of objective of RKVY to that extent.

In the light of the facts which emerged out of this performance audit, there are certain areas of concern suggesting that some scope for improvement in implementation and evaluation of schemes/ projects remains, as indicated below.

The allocated funds were not fully released in seven projects which led to either foreclosure of projects or non-achievement of envisaged targets.

Assistance was provided to the project on Biotechnological Approaches for Containment of Animal Diseases under Stream-II though the same was not an existing State Plan scheme and therefore, did not qualify for funding under RKVY.

Inadequate monitoring of the projects both at the State Level Sanctioning Committee (SLSC) level as well as at Nodal Agency level was observed in majority of the projects. Out of 26 quarterly meetings as envisaged in the scheme, SLSC held only 11 meetings during 2007-14 for review of implementation of projects.

Evaluation mechanism was absent in individual projects except for a few projects under crop development sector. The evaluation of RKVY by Institute of Social and Economic Change was stated to be in progress.

1.6.2 Compliance Audit

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. The Chapter III of this report contains seven significant audit findings relating to loss, overpayment, irregular parking of fund, unproductive investment, excess expenditure, short recovery of NPV and loss of revenue aggregating to ₹ 71.11 crore as detailed below:

1. Loss of ₹ 2.48 crore was noticed in Roads & Buildings (R&B) Department and Narmada, Water Resources, Water Supply and Kalpsar (NWRWS&K) Department as shown below:
 - *Non-recovery of difference between star rate and issue rate of cement procured from the Gujarat State Civil Supply Corporation Limited in six works led to loss of ₹ 1.35 crore to the Government during January 2009 to March 2014.*

(Paragraph 3.1.1)

- Failure to include a suitable condition in the contract agreement with contractors led to over payment/non-recovery of ₹1.13 crore towards cost of cement saved in the mix design.

(Paragraph 3.1.2)

2. Irregular parking of funds of ₹ 6.72 crore in R&B Department and wasteful expenditure of ₹ 1.96 crore in NWRWS&K Department were noticed as shown below:

- Eight divisions made advance payment of ₹6.72 crore during 29-31 March 2012 to Indian Oil Corporation Limited and Executive Engineer, R&B Division, Mehsana to avoid lapse of grant.

(Paragraph 3.2.1)

- Commencement of work without site survey led to wasteful expenditure of ₹1.96 crore.

(Paragraph 3.2.2)

3. Avoidable/ extra expenditure was noticed in R&B Department (₹ 0.71 crore) and NWRWS&K Department (₹ 0.60 crore) as shown below:

- Fixation of rate for extra item of epoxy painting work without properly analysing the available information led to extra cost of ₹0.71 crore during 2013-14.

(Paragraph 3.3.1)

- Erroneous inclusion of quantities of canal lining in schedule of quantities by Executive Engineer, Irrigation Project Division No.2, Bodeli led to avoidable extra expenditure of ₹0.60 crore.

(Paragraph 3.3.2)

4. Regularity issues involving financial implication of ₹ 58.64 crore were noticed in F&E Department as shown below:

- Incorrect classification of forest land led to short recovery of net present value of ₹ 58.64 crore from M/s. Mundra Port and Special Economic Zone Limited.

(Paragraph 3.4.1)

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.

Seven Audit Committee meetings were held during the year 2013-14 in respect of paragraphs contained in IRs pertaining to Economic Sector Departments. As of 30 September 2014, 2,455 IRs (7,630 paragraphs) were outstanding against 10 departments under the Economic Sector. Year-wise details of IRs and paragraphs outstanding are given in **Appendix-1**.

1.7.2 Performance Audit and Draft Paragraphs

Two Performance Audits and seven Draft Paragraphs were forwarded to the Principal Secretaries/ Secretaries of the concerned departments between May and August 2014 with a request to send their responses within six weeks. The departments have replied to six Draft Paragraphs⁷ (November 2014). The R&B Department has partially replied (November 2014) to the Performance Audit on “Pragatipath Scheme”. The Agriculture & Co-operation Department has also furnished (March 2014) reply to the Performance Audit on “RKVY” featured in this Report. The replies of the departments and the views expressed by them, including those in the Exit Conferences, 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 Report for the year 2011-12 and 2012-13 had been placed in Gujarat Legislative Assembly in April 2013 and July 2014 respectively which includes 20 paragraphs pertaining to four 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	Total	DEs received
1	Agriculture & Co-operation	1	0	1	-
2	Narmada, Water Resources, Water Supply & Kalpsar (Water Resources)	3	6	9	3
3	Ports & Transport	0	1	1	-
4	Roads & Buildings	5	4	9	4
Total		9	11	20	7

⁷ Includes paragraph No. 3.2.1 which pertains to two departments, of which reply of R&B Department was awaited.

Out of nine paragraphs for the year 2011-12, DEs for seven paragraphs have been received and no DEs for 11 paragraphs for the year 2012-13 have been received as of November 2014.