

# **CHAPTER - I**

## **INTRODUCTION**

## 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 programs and activities and compliance audit of Government departments and autonomous bodies falling under Economic 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 examines whether the objectives of an organisation, programme or a scheme have been achieved economically, efficiently and effectively.

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 in working of selected schemes/ projects, 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 one performance audit. Chapter III contains observations on audit of transactions in Government departments and on autonomous bodies.

### 1.2 Audited entity profile

The Departments in the Economic Sector in the State at the Secretariat level headed by Additional Chief Secretaries/Principal Secretaries/Secretaries and assisted by Directors/Commissioners and subordinate officers and Autonomous Bodies are audited by the Principal Accountant General (Audit)-I, Mumbai and the Accountant General (Audit)-II, Nagpur.

A summary of the State Government's fiscal transactions during 2013-14 *vis-a-vis* the previous year is given in **Table 1.1**.

Table 1.1: Summary of fiscal operations in 2013-14

(₹ in crore)

2012-13	Receipts	2013-14	2012-13	Disbursements	2013-14		
Section-A: Revenue					Non-Plan	Plan	Total
142947.23	Revenue receipts	149821.81	138735.98	Revenue expenditure	128992.09	25910.33	154902.42
103448.58	Tax revenue	108597.96	47665.67	General services	53495.62	483.65	53979.27
9984.40	Non-tax revenue	11351.97	62038.97	Social services	54118.88	16760.20	70879.08
15191.92	Share of Union Taxes/Duties	16630.43	27550.82	Economic services	19433.30	8558.02	27991.32
14322.33	Grants from Government of India	13241.45	1480.52	Grants-in-aid and Contributions	1944.29	108.46	2052.75
Section B: Capital							
0.00	Miscellaneous Capital Receipts	0.00	17397.98	Capital Outlay	2339.03	17681.42	20020.45
862.85	Recoveries of Loans and Advances	728.03	1415.94	Loans and Advances disbursed			1645.10
21725.12	Public debt receipts*	26734.80	6652.52	Repayment of Public Debt*			10261.86
725.00	Appropriation from Contingency fund	1350.00	875.00	Appropriation to Contingency fund			850.00
875.00	Contingency Fund	859.62	734.62	Contingency Fund			1360.00
47059.63	Public Account Receipts	64020.19	35511.02	Public Account Disbursements			56434.89
35971.95	Opening Cash Balance	48843.72	48843.72	Closing Cash Balance			46883.45
<b>250166.78</b>	<b>Total</b>	<b>292358.17</b>	<b>250166.78</b>	<b>Total</b>			<b>292358.17</b>

Source: Finance Accounts of the respective years

\*Excluding ways and means advances on two occasions for five days  
(Receipt: ₹ 1152.33 crore and Disbursement: ₹ 1152.33 crore)

### 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 GoM under Section 13<sup>1</sup> 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(3)<sup>2</sup> and 20(1)<sup>3</sup> of the C&AG's (DPC) Act.

<sup>1</sup> 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

<sup>2</sup> 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

<sup>3</sup> 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

**1.4 Organisational structure of the offices of the Principal Accountant General (Audit)-I, Mumbai and the Accountant General (Audit)-II, Nagpur**

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 17 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.

**1.5 Planning and conduct of audit**

The audit process starts with the assessment of risk faced by various departments of the GoM, 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 2013-14, 1,880 party-days were used to carry out audit of 226 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 one month of receipt of the IRs. 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 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 audit of programmes/activities/Departments**

The present Report contains one performance audit. The highlights are given in the succeeding paragraph.

- **Construction of Roads and Bridges under Public Private Partnership**

Public Private Partnership has emerged as an instrument of public finance for development of infrastructure for welfare of the community without

compromising profit motive. The key to the success of PPP projects is a balanced and fair sharing of risk and benefits between the partners, transparency and accountability in all transactions relating to the award and managements of the contracts.

A performance audit of the construction of roads and bridges under Public Private Partnership revealed non-formulation of short or medium term plan for effective implementation with demarcation of implementing agencies such as Public Works Department/Maharashtra State Road Development Corporation. Traffic data was assessed on the basis of one day and three days traffic census in two projects as against seven days required. Non-acquisition of forest land was noticed in Manor-Wada-Bhiwandi Road project, while the scope of work was revised during tendering in two projects with consequent revision in project costs and concession period, indicating inadequate feasibility study. There were delays in implementation of five projects. Quality control measures as well as monitoring of the projects were inadequate in five four-lane projects. Provisional completion certificates in three projects were issued without ensuring adequate completion of mile stone projects.

### **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 of the important findings of compliance audit paragraphs (seven paragraphs including two thematic paragraphs) have been included in this report.

- The Executive Engineer, Public Works Division I, Nagpur booked an expenditure of ₹ 42 lakh without supporting vouchers.

*(Paragraph 3.1)*

- The Executive Engineer, Public Works Division I, Nagpur paid wages to day labourers on hand receipt before actual execution of work leading to fictitious payment of ₹ 1.41 lakh.

*(Paragraph 3.2)*

- **Functioning of Maharashtra Building and Other Construction Workers Welfare Board**

Government of Maharashtra notified (February 2007) the Maharashtra Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Rules, 2007. The Maharashtra Building and Other Construction Workers Welfare Board was constituted (August 2007) for implementation of the Act and Rules.

An audit of the Functioning of Maharashtra Building and Other Construction Workers Welfare Board revealed that the delay in constituting the Board led to non-implementation of the Act in the State for more than 11 years. The delay in constituting full-fledged Board and inadequate manpower, delayed the process of registration of workers which in turn contributed to poor registration of workers apart from delayed introduction of schemes for the

welfare of the workers. The poor coverage of workers and disbursement of funds towards workers welfare schemes *vis-a-vis* the huge accumulated receipt defeated the objective of providing safety, health and welfare measures for the workers under the Act. No action was taken by the Board despite delay in remittance of cess collected within the prescribed period while there was loss of revenue due to non-levy of cess and dishonoured cheques. The financial management, internal control and monitoring was weak on account of non-maintenance of cash book, non-conducting of bank reconciliation, lack of internal audit and non-preparation of annual reports and annual statements of accounts.

*(Paragraph 3.3)*

- **Working of Mechanical Organisation in Water Resources Department**

Mechanical Organisation (MO) is the mechanical wing of Water Resources Department (WRD), GoM which was established in 1959. The working of MO broadly included Earthwork, Hydraulic Gates and Hoist, Canal maintenance, Workshop management, Boring, Stores management, Transportation, Lift Irrigation Scheme, Tunnelling, Emergency services and Disposal of Machineries.

Audit of works carried out from the funds provided for the period 2009-14 revealed that there was no long term perspective plan or strategic plan for achieving the long term goals for the working of the divisions. The specialised sub-divisions were struggling for survival due to shortage of technical manpower for operation, old machineries and less allotment of works by civil divisions. Large number of works were got executed through outsourcing by the MO defeating the very objectives of creation of divisions/sub divisions. Instances of blockade of funds due to non-installation of machineries at Lift Irrigation Schemes sites as well as gates and gate parts manufactured for irrigation projects were noticed. Internal controls and monitoring was deficient as actual work done by the machineries was not recorded and the deficiencies pointed out by Inspection Unit, Aurangabad were not complied with by the civil divisions.

*(Paragraph 3.4)*

- Unwarranted payment for workmen's compensation insurance resulted in providing undue benefit of ₹ 1.39 crore to the contractor.

*(Paragraph 3.5)*

- The Superintending Engineer, Nashik Irrigation Project Circle, Dhule sanctioned revised rates for EIRL in contravention of contract provisions resulting in overpayment of ₹ 2.02 crore to the contractor.

*(Paragraph 3.6)*

- Executive Engineer, Design Division Unit, Jalgaon did not follow the provisions of the contract while working out Price variation payable to contractor which resulted in over payment of ₹ 8.13 crore.

*(Paragraph 3.7)*

## 1.7 Responsiveness of Government to Audit

### 1.7.1 Inspection reports outstanding

Periodical inspections of Government departments are conducted 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 June 2014, 2,982 IRs (8,960 paragraphs) were outstanding. Year-wise details of IRs and paragraphs are detailed in **Appendix 1.1**.

### 1.7.2 Response of Departments to the draft paragraphs and Performance Audits

The draft paragraphs and Performance Audits were forwarded demi-officially to the Principal Secretaries/Secretaries of the concerned Departments between June 2014 and August 2014, with the request to send their responses within six weeks. The Government reply in respect of one performance audit and one thematic paragraph was received where as no replies were received in respect of five paragraphs and one thematic paragraph featured in this Report.

### 1.7.3 Follow-up on Audit Reports

According to instructions issued by the Finance Department, GoM in January 2001, Administrative Departments were required to furnish Explanatory Memoranda (EMs) 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 position of outstanding EMs from 2007-08 to 2011-12 is indicated in **Table 1.2**.

**Table 1.2: Status of submission of EMs during 2007-12**

Audit Report	Date of tabling the Report	Number of Paragraphs and Reviews	Number of EMs received	Balance
2007-08	12 June 2009	22	21	01
2008-09	23 April 2010	14	14	--
2009-10	21 April 2011 & 23 December 2011	13	12	01
2010-11	17 April 2012	15	14	01
2011-12	18 April 2013	11	09	02
<b>Total</b>		<b>75</b>	<b>70</b>	<b>5</b>

The EMs in respect of eight paragraphs relating to the period prior to 2007-08 were outstanding. Department-wise details are given in **Appendix 1.2**.

With a view to ensuring accountability of the Executive in respect of all the issues dealt with in the Audit Reports, the Public Accounts Committee (PAC)

lays down in each case, the period within which Action Taken Notes (ATNs) on its recommendations should be sent by the Departments.

The PAC discussed 197 paragraphs pertaining to the Audit Reports for the years from 1985-86 to 2011-12 and gave 197 recommendations of which, ATNs were pending on 139 recommendations as indicated in **Table 1.3**.

**Table 1.3: Position of outstanding ATNs on PAC recommendations**

Year of Audit Report	PAC Report number	Year of PAC	Number of recommendations	Number of ATNs awaited on the PAC recommendations
1985-86 to 2002-03	16 <sup>th</sup> , 18 <sup>th</sup> , 19 <sup>th</sup> , 24 <sup>th</sup> , 28 <sup>th</sup>	1994-95	123	89
	1 <sup>st</sup> , 2 <sup>nd</sup> , 4 <sup>th</sup> , 6 <sup>th</sup> , 7 <sup>th</sup> , 8 <sup>th</sup>	1995-96		
	20 <sup>th</sup> , 24 <sup>th</sup> , 25 <sup>th</sup> , 27 <sup>th</sup>	1997-98		
	3 <sup>rd</sup>	2000-01		
	13 <sup>th</sup>	2003-04		
	8 <sup>th</sup>	2007-08		
	13 <sup>th</sup>	2008-09		
2003-04	--	--	00	00
2004-05	14 <sup>th</sup>	2008-09	04	04
2005-06	8 <sup>th</sup>	2010-11	17	10
2006-07	9 <sup>th</sup>	2012-13	09	00
	15 <sup>th</sup>	2008-09	20	12
2007-08	13 <sup>th</sup>	2012-13	03	03
2008-09	17 <sup>th</sup>	2012-13	21	21
2009-10	--	--	00	00
2010-11	--	--	00	00
2011-12	--	--	00	00
<b>Total</b>			<b>197</b>	<b>139</b>

The Department-wise position of PAC recommendations on which ATNs were awaited is indicated in **Appendix 1.3**.