

CHAPTER - I

INTRODUCTION

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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 schemes and activities and compliance audit of Government Departments and Autonomous Bodies of the Government of Maharashtra (GoM) 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 this 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 sub-ordinate officers and Autonomous Bodies are audited by the Principal Accountant General (Audit)-I, Maharashtra, Mumbai and the Accountant General (Audit)-II, Maharashtra, Nagpur.

A summary of the State Government's fiscal transactions during 2016-17 *vis-a-vis* the previous year is given in **Table 1.1**.

Table 1.1: Summary of Fiscal operations during 2016-17

(₹ in crore)

2015-16	Receipts	2016-17	2015-16	Disbursements	2016-17		
Section-A: Revenue					Non-Plan	Plan	Total
185036	Revenue receipts	204693	190374	Revenue expenditure	171140	42089	213229
126608	Tax revenue	136616	64370	General services	70851	758	71609
13423	Non-tax revenue	12709	82317	Social services	63956 [#]	26326*	90282
28106	Share of Union Taxes/Duties	33715	38052	Economic services	29006	14837	43843
16899	Grants from Government of India	21653	5635	Grants-in-aid and Contributions	7327	168	7495
Section B: Capital and Others							
17	Miscellaneous Capital Receipts	0	22793	Capital Outlay	5201	20348	25549
865	Recoveries of Loans and Advances	1746	1115	Loans and Advances disbursed	--	--	6277
37977*	Public debt receipts [§]	48336	10043	Repayment of Public Debt [§]	--	--	11887
2962	Appropriation from Contingency fund	0	962	Appropriation to Contingency fund	--	--	0
962	Contingency Fund	0	2962	Contingency Fund	--	--	0
72747	Public Account Receipts	82466	66412	Public Account Disbursements	--	--	67102 [#]
49648	Opening Cash Balance	55553	55553	Closing Cash Balance	--	--	68750
350214	Total	392794	350214	Total	--	--	392794

Source: Finance Accounts of respective years

[§] Excluding ways and means advances (Receipt: ₹ nil and Disbursement: ₹ nil)

*Higher rounding [#]Lower rounding

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 the provisions of the C&AG's (DPC) Act, 1971 and Regulations on Audit and Accounts, 2007 issued by the C&AG.

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

Under the directions of the C&AG, the Offices of the Principal Accountant General (Audit)-I, Maharashtra, Mumbai and the Accountant General (Audit)-II, Maharashtra, 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, Maharashtra, Mumbai, the remaining 19 districts from Vidarbha and Marathwada are under the audit jurisdiction of the Accountant General (Audit)-II, Maharashtra, 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 and 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 2016-17, 3,197 party-days were used to carry out audit of 266 units (compliance 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

1.6.1 Performance audit of programmes/activities/Departments

The significant findings of Performance Audit are discussed below.

▪ Gosikhurd National Irrigation Project

A Performance Audit of the Gosikhurd National Irrigation Project for the period 2012-17 revealed that due to faulty survey, there were overlaps in the irrigable command area, which necessitated changes in scope of the project. The works either could not start or were delayed after issue of work order due to non-acquisition of private/forest land. The time overrun coupled with deficient planning and preparation led to huge cost escalation from ₹ 372 crore to ₹ 18,494.57 crore. Further, due to irregularities in execution of the project, there was shortfall in release of funds by GoI. Though, the cost of project has been revised for the third time but sanction for revision is awaited from Central Water Commission for want of viable funding plan.

There was sub-standard execution of works in many components of the project. Certain works were not executed as per the approved drawings and design. Instances of delayed execution were also noticed owing to non-availability of land, non-approval of drawings and design and failure to obtain permissions from various authorities. Despite the importance of the project, rectification work was also being carried out at a slow pace. The estimates were not prepared with due diligence resulting in execution of extra items or excess quantities than estimated. There were several instances where the manual provisions and contract conditions were violated resulting in granting of undue benefit to the contractors.

The rehabilitation of Project Affected Persons (PAPs) was delayed as the required amenities were either not created or were incomplete. In some cases, the amenities for PAPs were created much earlier than the actual rehabilitation resulting in deterioration for want of proper maintenance. Cases of double payment of compensation and delayed payment were noticed leading to financial burden on the public exchequer.

The irrigation potential created (50,317 hectares) was far less than the target (2,50,800 hectares) and the created potential was not utilised fully. 45 water users associations for optimum and efficient utilization of water for irrigation purpose were created against the target of 387 Water Users Associations. The pan-evaporimeters to monitor evaporation losses were not installed. Despite being responsible for execution of enlisted national project, insufficient inspections of works were carried out by the departmental authorities, thereby resulting in substandard quality. Catchment Area Treatment plan to monitor siltation in the dam was not prepared. The dam water was getting polluted due to release of sewage in connecting rivers.

(Paragraph 2.1)

1.6.2 Compliance audit of Government transactions

The important findings of compliance audit paragraphs are discussed below:

- **Working of Co-operative Spinning Mills in Maharashtra**

The Cooperative spinning mills (CSMs) in Maharashtra are registered under the Maharashtra Cooperative Societies Act, 1960 to promote self-reliance and the sense of co-operation among cotton growers; to realise appropriate price for cotton and produce yarn of various counts and to sell them to the weavers and thereby improving the financial status of the cotton growers in the state.

The State Cooperative Council was not established to address the issues faced by the CSMs. No plan was prepared to ensure utilisation of cotton production in the State and for producing yarn to meet the requirement of weaving industries.

There were instances of excess release of funds to CSMs from the GoM. In the majority of cases, CSMs failed to mobilise minimum required members' share capital (five *per cent* of the project cost).

Only 66 mills were functional out of 130 CSMs which had received financial assistance from the Government. The performance of the mills in terms of profitability was far from satisfactory and only seven mills out of 130 recorded profits in the past five years. Refund of financial assistance availed by the CSMs was very poor. In majority of cases, reserve fund for redemption of GoM share capital was not created by most of the CSMs.

The recovery of loans taken from State Government/National Co-operative Development Corporation was meagre and there were huge outstanding dues. Records for monitoring the progress of construction of mills and to watch Government recovery were not being properly maintained at the Directorate level. There was shortfall in supervision by

the Regional Deputy Directors. The State Government did not ensure mortgaging of the mills' property to safeguard the Government investment.

(Paragraph 3.1)

▪ **Repairs and Maintenance of State Highways**

The State had 382 State Highways covering 35,754.68 km and 16 Major State Highways covering 7,035.04 Km, which constituted about 13 *per cent* of the total road length in the State. The Public Works Department under Government of Maharashtra is responsible for the construction and maintenance of roads, bridges and buildings in the State. The development of roads in the State is required to be done in accordance with the Road Development Plan (RDP) which remains in force for 20 years. The RDP 2001-2021 is presently in force since April 2012.

The audit of the Repairs and Maintenance works of State Highways revealed that against 15,674 works planned, 14,641 works were completed (93 *per cent*) and 1,033 works remained incomplete (seven *per cent*). The repairs and maintenance norms were outdated and needed revisions. The Annual Repair Programmes taken up by the Department were not commensurate with the funds released by the Government thereby creating huge financial liability towards unpaid bills. The overall pendency of bills as on March 2017 was ₹ 368.35 crore and bills amounting to ₹ 110.73 crore were pending for more than two years in contravention of Central Vigilance Commission guidelines that payment of contractors' bills should not be delayed. In respect of eight Divisions, the liability towards unpaid bills was more than the total annual average expenditure of those Divisions.

There were some instances of capital works executed from Repairs and Maintenance grants. There were instances of execution of works approved in one group and executed from another group, works were split into many parts and awarded to single bidders, labour co-operative societies and unemployed Engineers contrary to the Government instructions. The test checked works executed were not in conformity with the MORT&H specification and technical norms. There were instances of execution of works in defect liability period from other works resulting in avoidable excess expenditure and drainage works were not executed as per original estimates. There were instances of inadmissible expenditure.

The original invoices of purchase of bitumen by contractors from the Government refineries were not found on record across divisions. The internal control mechanism was weak as the bills were paid without ensuring the mandatory quality control test results.

(Paragraph 3.2)

▪ **National Horticulture Mission**

The National Horticulture Mission Programme was launched in the year 2005-06 by Government of India, Ministry of Agriculture, Department of Agriculture and Co-operation as a Centrally Sponsored Scheme to

promote holistic growth in horticulture through research, technology promotion, extension, processing and marketing. Government of Maharashtra constituted (August 2005) State Horticulture Mission to take up the Programme in the State.

The Audit of NHM as implemented in the State revealed that the Perspective Plan was not prepared whereas the Annual Action Plans prepared without conducting baseline survey. The programme implementation was based on the farmers demand. There were cases of delayed release/non-release of State share as well as non-utilisation of the funds of Tribal Sub-Plan for want of beneficiaries.

The implementation of the NHM in the State revealed that in components like protected cultivation, rejuvenation of senile plantation the achievement were more than 100 *per cent* of the targets fixed. The achievement in the component like post-harvest management, community tank, area expansion were more than 75 *per cent*, however, it was meagre in respect of organic farming, bee keeping, establishment of marketing and nil in respect of Good Agriculture Practices (GAP), innovative interventions and technology dissemination, The “Hortnet”-e-Governance system was introduced which facilitated the filing of online applications for financial assistance by the beneficiaries and online release of payments directly to the beneficiaries’ Bank account.

There were instances of irregular release of subsidy under four components *viz.* Integrated post harvest management, Area expansion, Tissue culture and Rejuvenation/replacement of senile plantation. The community tanks were incomplete due to non-provisioning of plastic lining resulting in unfruitful expenditure since the tanks could not be utilised for farming purposes. There were instances of subsidy released to ineligible beneficiaries based on invalid invoices under some components. Fruit plantations assisted under the NHM had not survived due to adverse climate conditions rendering the assistance largely unfruitful.

The field offices had not monitored the outcome of the units and projects assisted under protected cultivation, horticulture mechanisation and post-harvest management for ensuring proper utilisation of the subsidy given. Except for community tanks the Board did not carry out impact evaluation of any of the components of the NHM.

(Paragraph 3.3)

- Excess payment of ₹ 20.92 crore to contractors and creation of liability of ₹ 10.36 crore due to preparation of defective estimates of 12 LIS of Jigaon Lift Irrigation Scheme.

(Paragraph 3.4)

- Delay in acquisition of land made the project unfeasible. As a result the expenditure incurred of ₹ 17.88 crore proved to be unfruitful. The Mobilization Advance of ₹ 7.98 crore could not be recovered from the contractor.

(Paragraph 3.5.1)

- Inordinate delay in acquisition of land required for rehabilitation of Kochi village slowed down the execution of Kochi Barrage Project and expenditure of ₹ 81.21 crore incurred on gates, remain blocked since April 2015.

(Paragraph 3.5.2)

- Loading of central excise duty in the estimate and non-incorporation of condition for recovery from the contractor led to undue benefit of ₹ 10.18 crore to a contractor.

(Paragraph 3.6)

- An expenditure of ₹ 6.22 crore incurred on Kawatha Shelu (Storage) Minor Irrigation Scheme proved to be unfruitful due to utilization of unsuitable material for casing and failure to rectify the defect.

(Paragraph 3.7)

- Incorrect calculation of price escalation led to excess payment of ₹ 4.55 crore to a contractor.

(Paragraph 3.8)

- Expenditure was incurred on work of Lift Irrigation Scheme-III, Ashti, district Beed of Krishna Marathwada Irrigation Project without obtaining mandatory environmental clearance. This led to blocking of funds of ₹ 116.11 crore.

(Paragraph 3.9)

- The infrastructure created in the Reshim Sankul Project could not be put to use for the last five years due to non-execution of electric supply and allied works. This resulted in unfruitful expenditure of ₹ 2.91 crore and blocking up of ₹ 0.52 crore provided for electrification since March 2014.

(Paragraph 3.10)

- The State Government's decision of purchasing *Tur dal* locally through NCDEX, at higher rates instead of utilising the subsidised *Tur* allocated by the Government of India resulted in avoidable extra expenditure of ₹ two crore. The Government has also suffered a loss of ₹ 1.78 crore on account of unsold stocks of the purchased *Tur dal* which were unfit for human consumption.

(Paragraph 3.11)

- Improper planning on the part of Commissioner/Department in registration of machine and construction of dark room resulted in idling of machineries worth ₹ 2.21 crore for more than four years.

(Paragraph 3.12)

- Lack of planning on the part of both the Dean, Sasoon Hospital, Pune and EE, PWD, Pune to provide for all the requirements at the planning stage of the project itself resulted in increase in cost from ₹ 34.40 crore to ₹ 164.58 crore. Besides, the hospital building remained incomplete for more than six years after the date of completion of the original time limit,

depriving the patients of the benefits of medical care with modern facilities.

(Paragraph 3.13)

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 the IRs.

As of June 2017, 1,889 IRs (6,090 paragraphs) were outstanding. Year-wise details of IRs and paragraphs are shown in **Appendix 1.1**.

1.7.2 Response of Departments to draft paragraphs and performance audits

The draft paragraphs and performance audit were forwarded demi-officially to the Principal Secretaries/Secretaries of the concerned Departments between March 2017 and July 2017 with the request to send the responses within six weeks. The Government reply was received in respect of the performance audit and seven compliance audit paragraphs. No replies were received (December 2017) in respect of remaining seven audit paragraphs featured in this Report.

1.7.3 Follow-up on Audit Report

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 status of outstanding EMs from 2011-12 to 2015-16 is indicated in **Table 1.2**.

Table 1.2: Status of submission of Explanatory Memoranda during 2011-16

Audit Report	Date of tabling the Report	Number of Paragraphs and Reviews	Number of EMs received	Balance
2011-12	18 April 2013	11	11	--
2012-13	24 December 2014	10	06	04
2013-14	10 April 2015	08	07	01
2014-15	13 April 2016	10	02	08
2015-16	07 April 2017	11	10	01
Total		50	36	14

The EMs in respect of five paragraphs relating to the period prior to 2011-12 were outstanding. Department-wise details are shown 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 305 paragraphs pertaining to the Audit Reports for the years from 1985-86 to 2015-16 and gave 305 recommendations of which, ATNs were pending on 244 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
1985-86 to 2005-06	16, 18, 28, 24, 19	1994-95	144	101
	01, 02, 04, 06, 07, 08	1995-96		
	20, 24, 25, 27	1997-98		
	03	2000-01		
	13	2003-04		
	08	2007-08		
	13	2008-09		
	14	2008-09		
2006-07	08	2010-11	09	--
	09	2012-13		
	15	2008-09		
2007-08	18	2015-16	20	12
	13	2012-13	06	06
	13	2012-13	03	03
2008-09	17	2012-13	21	21
2009-10	06	2015-16	15	14
2010-11	--	--	--	--
2011-12	--	--	--	--
2012-13	--	--	--	--
2013-14	21	2015-16	49	49
	23	2015-16	38	38
2014-15	--	--	--	--
2015-16	--	--	--	--
Total			305	244

The Department-wise position of PAC recommendations on which ATNs were awaited (November 2017) is indicated in **Appendix 1.3**.