

# Chapter I

## Overview



## Chapter I - Overview

### 1.1 About this Report

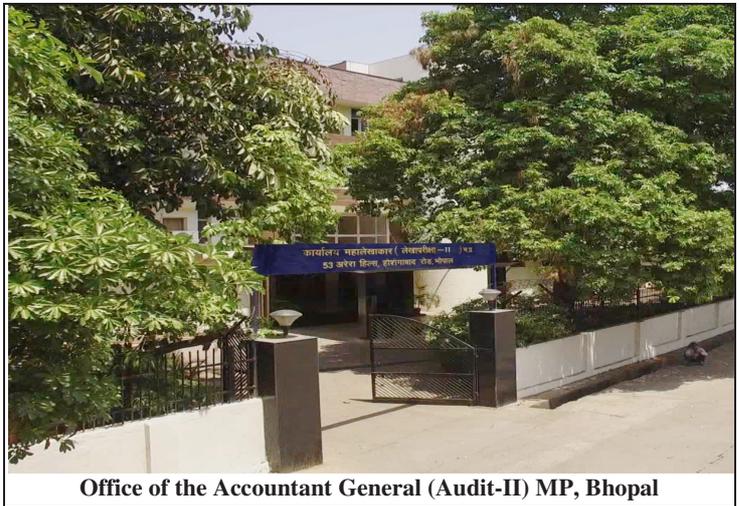
This Report of the Comptroller and Auditor General of India (CAG) contains matters arising from a compliance audit of those Departments of the Government of Madhya Pradesh, which comprise the Economic Sector.

The primary purpose of this Report is to bring to the notice of the State Legislature significant results of audit. The findings of audit are expected to enable the Executive to take corrective action, to frame appropriate policies as well as issue directives, that will lead to improved financial management of organisations, and contribute to better governance.

This Chapter explains the planning and coverage of audit, response of the Departments and Government to audit findings and follow-up action on previous Audit Reports.

### 1.2 Office of the Accountant General (Audit-II)

There are 53 Departments functioning under the Government of Madhya Pradesh. These Departments are headed by Additional Chief Secretaries/ Principal Secretaries, who are assisted by Heads of the Departments and subordinate officers under them. Under the directions of the CAG, the office of Accountant General (Audit-II) conducts the audit of 16 out of the 53 Departments and the Public Sector Undertakings and Autonomous Bodies which come under the ambit of Economic Sector.



Office of the Accountant General (Audit-II) MP, Bhopal

### 1.3 Profile of Economic Sector

A summary of the expenditure incurred by the 16 Departments and one Authority of Government of Madhya Pradesh falling within the Economic Sector, during the three-year period 2016-17 to 2018-19, is given below:

**Table 1.1: Expenditure of Departments under Economic Sector**

(₹ in crore)				
Sl. No.	Name of the Department	2016-17	2017-18	2018-19
1.	Public Works	8,253.99	8,172.01	8,584.51
2.	Water Resources	7,423.14	7,042.41	6,681.26
3.	Farmer Welfare & Agriculture Development	4,734.91	5,362.35	9,942.57
4.	Forest	2,159.63	2,277.47	2,420.94
5.	Narmada Valley Development	1,986.45	2,535.84	3,144.72
6.	Industrial Policy and Investment Promotion <sup>1</sup>	3,734.31	1014.16	767.22
7.	Energy	9,737.76	18,065.72	12,296.56
8.	Co-operation	2,047.76	1,894.86	1,683.29
9.	Micro, Small and Medium Enterprises <sup>2</sup>	Nil	987.07	780.86
10.	Tourism	252.73	270.21	170.53
11.	Animal Husbandry	843.52	759.26	882.92
12.	Fishermen Welfare and Fisheries Development	72.10	65.58	75.91
13.	Aviation	21.92	36.66	27.79
14.	Cottage and Rural Industries	15,498.38	211.44	199.20
15.	Horticulture and Food Processing	653.96	649.86	1,388.17
16.	New and Renewable Energy	2.13	151.09	257.92
17.	Madhya Pradesh Rural Road Development Authority <sup>3</sup>	2,754.14	3,159.00	4,627.08
<b>Total</b>		<b>60,176.83</b>	<b>52,654.99</b>	<b>53,931.45</b>

(Source: Data collected from Finance Department, Government of Madhya Pradesh)

#### 1.4 Authority for Audit

The CAG's authority for audit is derived from Articles 149 and 151 of the Constitution of India and CAG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). The CAG audits the Departments in the Economic Sector of the Government as per the following provisions of the DPC Act:

- Audit of expenditure is carried out under Section 13;
- Financial audit of Autonomous Bodies (ABs) under Economic Sector is carried out as per Sections 19(2)<sup>4</sup> and 19(3)<sup>5</sup>;

Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, as well as guidelines, manuals and instructions by or on behalf of the CAG.

#### 1.5 Planning and Conduct of Audit

During the year 2019-20, the office of AG (Audit-II) conducted compliance audit of 222 units out of a total of 1,357 auditable units under seven out of 16 Departments pertaining to the Economic Sector *viz.* Animal Husbandry, Farmer Welfare & Agriculture Development, Public Works, Water Resources, Narmada Valley Development, Madhya Pradesh Rural Road Development and Rural Industry. This Report features findings on four out of these seven Departments in the form of six audit paragraphs (Para 2.1 to 2.6

<sup>1</sup> Until January 2018, this was called Commerce and Industry & Employment Department.

<sup>2</sup> This Department was created in March 2016. Expenditure figures taken from Appropriation Accounts.

<sup>3</sup> Panchayat and Rural Development Department under the audit jurisdiction of PAG(Audit-I), MP, Gwalior and Authority under the audit jurisdiction of AG (Audit-II) MP, Bhopal

<sup>4</sup> Audit of 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>5</sup> Audit of accounts of Corporations (not being Companies) established by or under law made by the State Legislature in accordance with the provisions of respective legislations.

*supra*). In one case, based on action taken by the Department concerned, the matter is no longer being reported here (referred hereunder in Para 1.6.4). In five other cases, the audit observations are being pursued in the normal course, through Inspection Reports.

Compliance audit is an independent assessment of whether a given subject matter (an activity, financial or non-financial transaction, information in respect of an entity or a group of entities) complies in all material respects with the applicable laws, rules, regulations, established codes etc. and the general principles governing sound public financial management and the conduct of public officials.

The following flowchart depicts the process of planning, conduct of audit and reporting the results of audit:

**Figure-1.1: Planning, conduct of audit and reporting**



After completion of compliance audit of each unit, an Inspection Report (IR) containing audit findings is issued to the head of the unit with a request to furnish replies within one month of receipt of the IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in Government, are issued as draft paragraphs/ performance audits/compliance audits to the Government for their response, before possible inclusion, after due consideration of the responses, in the Audit Reports. These Audit Reports are submitted to the Governor of Madhya Pradesh under Article 151 of the Constitution of India for causing them to be laid on the Table of the State Legislature.

## 1.6 Response of Departments to audit findings

### 1.6.1 Response to previous Inspection Reports

Heads of Offices and next higher authorities are required to respond to the observations contained in IRs and take appropriate corrective action. Audit observations communicated in IRs are also discussed at periodical intervals in meetings at District/State levels by officers of the Accountant's General office with officers of the Departments concerned.

As of 31 March 2020, 1,492 IRs and 10,457 paragraphs pertaining to previous years were pending settlement as detailed below in **Table 1.2**.

**Table 1.2: Details of outstanding IRs/paragraphs at the end of March 2020**

Year	Number of IRs/ Paragraphs pending settlement as of 31 March 2020	
	IRs	Paragraphs
2016-17	482	3,020
2017-18	420	2,965
2018-19	358	2,582
2019-20	232	1,890
<b>Total</b>	<b>1,492</b>	<b>10,457</b>

Lack of action on IRs and audit paragraphs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports. It may also result in dilution of internal controls in the governance process, inefficient and ineffective delivery of public goods/ services, fraud, corruption and loss to public exchequer. Therefore, the State Government needs to institute an appropriate mechanism to review and take expeditious action to address the concerns flagged in these IRs and audit paragraphs.

### 1.6.2 Response of the Government to audit observations

All Departments are required to send their responses to draft audit paragraphs proposed for inclusion in CAG's Report within six weeks of their receipt. During November 2019 to June 2020, 10 draft compliance audit paragraphs were forwarded to the Additional Chief Secretaries/Principal Secretaries/Secretaries of the Departments concerned, drawing their attention to the audit findings and requesting them to send their response within six weeks. It was brought to their personal attention that these paragraphs were likely to be included in the Audit Report of the CAG of India, which would be placed before the State Legislature and it would be desirable to include their comments/responses to the audit findings. Despite this, the replies of four Draft Paragraphs of WRD have not been received as on the date of finalisation of this Report. The responses of the Government, wherever received, have been appropriately incorporated in the Report.

### 1.6.3 Response of the Government to audit paragraphs that featured in earlier Audit Reports

Administrative Departments are required to submit Explanatory Notes on paragraphs and Performance Audits included in Audit Reports, within three months of their presentation to the State Legislature, duly indicating action taken or proposed to be taken. For this purpose, the Departments are not required to wait for any notice or call from the Public Accounts Committee.

As of 31 March 2020, Explanatory Notes were yet to be received from Water Resources Department in respect of 05 paragraphs and one Performance Audit that featured in the Audit Reports for the years 2015-16 and 2016-17. Details are given below in **Table 1.3**.

**Table 1.3: Pending departmental replies on the paragraphs included in Audit Report of Economic Sector**

Year of Audit Report	Department	Departmental replies pending as of 31.03.2020	Date of presentation in the State Legislature	Due date for receipt of Departmental Replies
2015-16	Water Resources Department	01 (Performance Audit)	24.03.2017	23.06.2017
2016-17	Water Resources Department	05 (Compliance Audit)	10.01.2019	9.04.2019

### 1.6.4 Response of the Government to current Audit findings

Out of the 12 topics selected for audit initially, Government has taken action in one case on almost every issue raised during audit and made substantial recoveries out of what was pointed out therein. Summarised findings are discussed below:

#### Scheme of Custom Hiring Centres in Private Sector

This scheme is being implemented by the Farmer Welfare & Agriculture Development Department. The scheme involved making available tractors and agricultural equipment on rent to marginal farmers through Custom Hiring Centres to be established by the beneficiaries (rural youth) in the villages, to ensure self-employment opportunities to them while at the same time, improve the use of advance equipment in agriculture.

Audit was conducted to ascertain whether (i) funds were released, utilised and accounted for as per the provisions of the scheme, (ii) the scheme was properly planned, and (iii) the execution was as per the guidelines of the scheme.

Audit findings dealt with non-achievement of targets, suspected fraudulent drawal of subsidy, failure to forfeit security deposit of rejected/non-interested applicants, non-utilisation or recovery of subsidy released but neither utilised nor recovered, undue benefit to beneficiaries by release of excess subsidy, release of subsidy without ensuring purchase of mandatory equipment, and deficiencies in monitoring.

Government accepted almost all the audit findings and initiated corrective action. Out of the total amount of ₹ 2.36 crore deviations pointed out in audit, Government replied that at the instance of audit, ₹ 83.46 lakh have been recovered and that; for the remaining amount, a Committee has been constituted to initiate further action.

Audit appreciates the continuing efforts of Government to plug the lacunae pointed out in audit. Therefore, audit findings with regard to implementation of this scheme have not been featured in this Report.

### **1.6.5 Response of the Government to recommendations of the Public Accounts Committee**

Administrative Departments are required to submit Action Taken Notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) within six months from the date of receipt of the recommendations. As of 31 March 2020, 46 ATNs in respect of eight Departments pertaining to the Government of Madhya Pradesh were yet to be received. Details are given in **Appendix 1.1**.

### **1.7 Significant audit observations**

Compliance audit of the Departments of Government of Madhya Pradesh, their field formations, as well as the autonomous bodies functioning under these Departments, brought out instances of non-compliance with applicable rules, codes and manuals, lapses in management of public resources and failure to adhere to norms of propriety.

This Report contains findings of six compliance audits pertaining to four Departments of the State Government during 2019-20.

#### **(i) Realisation of cost of Animals**

Schemes for distribution of animals were introduced by GoMP with the objective of improving the breed of animals. Government subsidised the cost of animals for the beneficiaries; however, due to ambiguity in guidelines with regard to mode of assessment of requirement, timeframe for indenting, supply and distribution of the animals, and lack of control on unauthorised withdrawal of subsidy amount by the beneficiaries, against the distributed animals costing ₹ 15.61 crore under these schemes during the period 2016-19, ₹ 3.43 crore was pending realisation from the beneficiaries. Reasons for non-realisation of animal cost were unauthorised withdrawal of amount of subsidy by beneficiaries, refusal of payment by the beneficiaries, non-deposit of animal cost by Departmental officers and non-cooperation by the bank and the beneficiaries.

There was no set mechanism for distribution of animals after crediting subsidy amount in the bank account of beneficiary. Lack of instructions/guidelines regarding realisation of cost of animal from the beneficiaries resulted in non-realisation of cost of animal. Due to non-supply of animals to selected beneficiaries, subsidy of ₹ 5.53 crore was lying idle in the bank accounts of beneficiaries. The Department had not formulated any guidelines for monitoring the realisation of cost of animals under the schemes and it could not ensure transparency and accountability in the implementation of the scheme at the field level.

#### **(ii) Implementation of Surajdhara and Annapurna Schemes**

The Annapurna and Surajdhara schemes were introduced in the State with the objective of enhancing the economic status of the socially backward farmers by providing improved seeds to maximise agricultural produce. As the Director, Agriculture had not fixed the targets component-wise, most of the budgetary allocation (77.42 per cent) was utilised in execution of component of Exchange of seeds and only 22.58 per cent budget was utilised on the other two components.

Selection of beneficiaries was not in accordance with the guidelines of the schemes and ineligible farmers also benefitted from the schemes.

In some instances, seeds were distributed to the farmers even *after* the stipulated due dates, when *Kharif* and *Rabi* crop seasons were almost over. Seeds were procured at rates higher than the stipulated rates fixed by the Department from the agencies, resulting in an additional expenditure of ₹ 10.63 crore. Samples of 5,520 (2,495 of *Kharif* and

3,025 *Rabi*) were sent for testing after due dates for distribution of seeds and results of testing of seeds were received after delays ranging from one to six months.

Amounts received from farmers were not deposited promptly in the Treasury; receipts from farmers were neither acknowledged nor was the money accounted for in Cash Book; farmers' share was deposited in the Treasury with delays ranging from one to 36 months. Physical verification/inspection of the components of the schemes were not done by the concerned officers.

### **(iii) Audit of Safety of Dams**

Dams in the State have not been inspected by the designated authorities at prescribed periodicity due to shortage of staff.

Audit scrutiny of action taken on remedial measures revealed irregularities, like non-preparation of estimates, remedial works not carried out as recommended, non-completion of remedial works, etc., making the exercise of inspection merely a routine exercise with no consequential benefit. Very few dams have been instrumented to monitor their behaviour and detect symptoms of distress. Many of the installed instruments were non-functional. Emergency Action Plans for large dams were not prepared as per the guidelines of Central Water Commission.

### **(iv) Inspection of Major Bridges**

Despite Inspection being a pre-requisite for identifying the nature and periodicity of maintenance of bridges, PWD's bridge formation has not given adequate attention to this aspect, resulting in shortfall/delayed inspection of major bridges; inspection not carried out by appropriate authority, defects noticed in major bridges were not attended to by the Department and MBIU was not used for inspection of nearly 83 *per cent* of the bridges that were more than 25 years old.

### **(v) Construction of Hospital and Medical College Buildings by Public Works Department**

Audit observed deficiencies during execution of work not only led to excess payment and extra cost to work but affected quality of work as well. There were instances of adoption of incorrect rates, payment of transportation charges and excess payment on consumption of cement to the contractor. As a result, some parts of the works created extra financial burden on the Department, even though the quality of the work was not assured.

### **(vi) Royalty on Minor Minerals**

The Works Departments did not ensure deduction of royalty on use of minor minerals at prescribed rates from the bills of the contractors; nor did they insist on production of No Dues Certificate of royalty from competent authorities for use of minor minerals in construction works. Where royalty amount was deducted from the contractors' bills, in several cases, the amount was not deposited promptly in Government Account under the relevant Head. Further, market rate of minor minerals used in construction works was not recovered from contractors despite the latter not registering their details in online portal, in deviation from Mineral Resources Department orders.

## **1.8 Acknowledgement**

The Office of the Accountant General (Audit-II), Madhya Pradesh wishes to acknowledge the co-operation and assistance rendered by the officials of the State Government during the course of audit of the respective Departments.

