

OVERVIEW

This Report contains two chapters on observations of Audit on State's Finance and Appropriation Accounts for the year 2006-07 and three chapters containing four reviews, one long paragraph and 24 paragraphs (including general paragraph) based on Audit on certain selected programmes, activities and transactions of the Government.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples were drawn based on statistical sampling methods as well as on judgement basis. The specific audit methodology adopted for audit of programmes and schemes has been mentioned in the reviews. The audit conclusions have been drawn and the recommendations made taking into consideration the views of the Government, wherever received.

A summary of financial position of the State Government and the audit findings is given below:

1. Financial position of the State Government

During 2006-07, Government succeeded eliminating the revenue deficit and building up revenue surplus and also in containing the fiscal deficit within three *per cent* of GSDP two years ahead of the time schedule stipulated in State's FRBM Act 2005. The revenue surplus of Rs 1,770 crore during current year was due to increase in revenue receipts by 24 *per cent* (Rs 5,935 crore) against 15 *per cent* (Rs 3,767 crore) increased in revenue expenditure over the previous year. The increase in revenue receipts may however be seen in view of the booking of debt waiver (Rs 846 crore) given by GOI as an incentive under DCRF for the years 2005-06 and 2006-07 under the head 'Miscellaneous General Services'. Within the revenue account, the non-plan revenue expenditure during 2006-07 (Rs 23,471 crore) not only exceeded the normative projection of TFC (Rs 18,315 crore) for 2006-07 by Rs 5,156 crore but it also exceeded the seven *per cent* growth rate projected by the State in its MTFPS for 2006-07. The continuous improvement in revenue account and balance from current revenues, declining fiscal deficit and increasing trend in the share of capital expenditure in total expenditure of the government have resulted in an improvement in the ratio of assets to liabilities but 34 per cent of liabilities of the State still remain without the asset back up during 2006-07. Although, it is not uncommon for the State to borrow for creating and strengthening its social and economic infrastructure, but the low productivity and negligible return on the government investments as well as on the loans and advances disbursed relative to the cost of borrowed funds borne by the State government continued to remain a cause of concern and such situation if allowed to continue would not only put the strain on the government budget but also might adversely affect the maintenance and upkeep as well as efficiency in delivery of social and economic services in the State.

2. Allocative Priorities and Appropriation

Against total budget provisions of Rs 43,942.71 crore, actual expenditure was Rs 40,488.01 crore. Overall saving of Rs 3,454.70 crore was the net result of excesses of Rs 583.79 crore in 41 cases of grants and appropriations and savings of Rs 4,038.49 crore in 131 cases of grants and appropriations. The excess expenditure of Rs 583.79 crore requires regularization by the State Legislature under Article 205 of the Constitution of India. In 22 cases, supplementary provisions of Rs 46.72 crore proved unnecessary and in 31 cases supplementary provisions proved excess resulting in aggregate saving of Rs 774.82 crore. In 26 cases, supplementary provisions proved insufficient, leaving uncovered excess expenditure of Rs 559.09 crore. In 124 cases, Rs 4,648.65 crore was surrendered in March 2007, indicating inadequate financial control over expenditure.

3. NABARD assisted Road Projects

Total road length in Gujarat is 72,950 km; of which 19,518 km is State Highways, which includes 11,933 km single lane roads of rural area. NABARD provides finance to State Governments for completion of rural infrastructure development projects from RIDF. Government took up road works with financial assistance from RIDF for widening and strengthening rural roads leading to villages with population of 500 and over and for connecting villages with Agriculture Produce Marketing Committees. Review of these road works showed that control over expenditure against sanctions was inadequate. Due to late submission of claims, Government lost reimbursement of Rs 67.33 crore from NABARD. Norms for execution were not observed resulting in irregular expenditure of Rs 0.87 crore. Non-acceptance of tenders resulted in extra expenditure of Rs 2.78 crore. Deviation from the specifications of work resulted in avoidable expenditure of Rs 11.55 crore.

4. Infrastructure Development in peripheral areas of Ahmedabad and Surat cities

Ahmedabad Urban Development Authority and Surat Urban Development Authority were created under the provisions of Gujarat Town Planning and Urban Development Act, 1976 for providing primary infrastructure facilities like roads, water supply, drainage, housing, etc. in peripheral areas adjoining cities. There were flaws in the estimation of the project cost of Sardar Patel Ring Road. Some works were awarded without invitation of tenders and there were instances of irregular payments of price escalation. Loan amount for water supply schemes were drawn before requirement. There was poor utilisation of the water supply infrastructure created.

5. IT Audit of Computerisation of land records

There were major deficiencies in input, access, operation and security controls. Duties as defined to various functionaries were exercised by others. Absence of proper access controls exposed the system to the risk of

unauthorized use. Digitization of cadastral map in 131 villages at an expenditure of Rs 98.56 lakh could not yield any fruitful result. Computers procured were utilised for other purposes; additional computers and hardware were provided at Sub-Divisional Magistrates and District Data Centre offices. Scanners purchased for e-Dhara kendras at an expenditure of Rs 17.01 lakh remained unutilised.

6 Providing Mid-Day Meal to Primary School Children

Meals were not served for 101 and 46 school-days during 2002-03 and 2003-04 respectively. Instances of short supply of ingredients were noticed. Out of 29,809 mid day meal centres, 3,103 did not have provision for potable water. Shortfall was also noticed in meetings of the Steering-cum-Monitoring Committee.

7. Internal control in Social Justice and Empowerment Department

Internal Control is an integral component of an organisation's management processes established in order to provide reasonable assurance that the operations are carried out effectively and efficiently, financial reports and operational data are reliable, and the applicable laws and regulations are complied with, so as to achieve organisational objectives. Internationally, the best practices in Internal Control have been given in the Committee of Sponsoring Organisations of the National Commission on Fraudulent Financial Reporting or the Treadway Commission (COSO) framework, which is a widely accepted model for internal control. In India, the Government of India has prescribed comprehensive instructions on maintenance of internal control in government departments through Rule 64 of General Financial Rules, 2005. A review of internal control in Social Justice and Empowerment Department of the Government of Gujarat has shown that security bonds were not obtained from persons handling cash/valuables as required. Heads of Departments and Administrative Departments submitted Budget Estimates late by about one month to three months to the Administrative Department and by the Administrative Department to the Finance Department. Physical verification of cash was not conducted; corrections in cash books remained unauthenticated. Grants were paid to nine societies for ineligible items and there was no Internal Audit wing in the Department.

8. Audit of Transactions

Besides the above, audit of financial transactions, test checked in various Departments of the Government and their field offices revealed instances of fraudulent payment, losses, infructuous, wasteful expenditure, unfruitful expenditure, blockage of fund and other irregularities involving Rs 223.35 crore as mentioned below:

These included suspected fraudulent payment of Rs 4,104 out of muster roll payment of Rs 1,01,170 by the Deputy Conservator of Forests, Sabarkantha (Himatnagar), under State Employment Guarantee Scheme in Panchayats, Rural Housing and Rural Development Department.

Losses of Rs 17.93 crore were noticed in Agriculture and Co-operation Department (Rs 14.90 crore) and Forests and Environment Department (Rs 3.03 crore), which included a case of loss Rs 13.00 crore due to failure of Government to enforce recovery of guarantee fee from a Co-operative bank.

Infructuous and wasteful expenditure of Rs 33.17 crore were noticed in Narmda, Water Resources, Water Supply and Kalpsar Department (Rs 31.74 crore) and Roads and Buildings Department (Rs 1.43 crore). This included a case of infructuous expenditure of Rs 31.74 crore due to execution of Brahmani-II Water Resources Project with overlapping command area with Narmada project.

Avoidable/excess/unfruitful expenditure of Rs 92.34 crore were noticed in Agriculture and Co-operation Department (Rs 54.05 crore), Narmada, Water Resources, Water Supply and Kalpsar Department (Rs 24.39 crore), Roads and Buildings Department (Rs 12.80 crore), Social Justice and Empowerment Department (Rs 0.41 crore) and Urban Development and Urban Housing Department (Rs 0.69 crore). This included a case of avoidable expenditure of Rs 54.05 crore, as the Government did not ensure discharge of liabilities by beneficiaries after recommending payment of working capital loans to three sugar co-operative societies.

Blockage of funds of Rs 3.61 crore was noticed in Agriculture and Co-operation Department (Rs 0.55 crore) and Roads and Buildings Departments (Rs 3.06 crore). This included a case, involving Rs 3.06 crore, of failure of Government to get the reconstruction of two bridges in time.

Apart from this, there were regulatory issues aggregating Rs 76.30 crore in Agriculture and Co-Operation Department (Rs 16.74 crore), Narmada, Water Resources, Water Supply and Kalpsar (Rs 1.86 crore), Ports and Transport Department (Rs 18.18 crore) and Roads and Buildings Departments (Rs 39.52 crore). This included a case of locking up of Government property worth Rs 29.66 crore due to non revision of the value of the land in agreement with the sub-leasee.