

## OVERVIEW

The Report includes two Chapters containing observations on the Finance and Appropriation Accounts of the Government of Jharkhand for the year 2007-08 and four other Chapters comprising seven reviews/long paragraphs and 32 paragraphs (including six general paragraphs) dealing with the results of performance audit of selected programmes, internal control system as well as audit of the financial transactions of the Government and statutory corporations.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples have been drawn based on statistical sampling methods as well as on the basis of judgment. The audit conclusions have been drawn and recommendations made taking into consideration the views of the Government.

A summary of the financial position of the State and the audit comments on the performance of the Government departments and statutory corporations in implementation of certain programmes and schemes as well as internal control mechanism in Finance Department are given below:

### 1. Financial Position of the State Government

During 2007-08, there was surplus of Rs 1195 crore against revenue surplus of Rs 946 crore in 2006-07. Revenue receipts and revenue expenditure both increased by 20 *per cent* over previous year during 2007-08.

Overall expenditure of the State increased by 28 *per cent* from Rs 10936 crore in 2006-07 to Rs 14014 crore in 2007-08. Revenue expenditure (Rs 10832 crore) constituted 77 *per cent* of the total expenditure. Salaries, interest payment and pension consumed about 47 *per cent* of revenue receipts during the year. The fiscal liabilities (Rs 21615 crore) increased during 2007-08 by about 11 *per cent* over previous year and about two times the revenue receipts. The fiscal deficit, however, increased by 114 *per cent* from Rs 910 crore in 2006-07 to Rs 1943 crore in 2007-08 mainly due to increase in Capital expenditure by 77 *per cent* from Rs 1461 crore in 2006-07 to Rs 2584 crore in 2007-08 and increase in disbursement in loans and advances by 45 *per cent* (Rs 187 crore). Besides, the State had to suffer a loss of revenue receipts amounting to Rs 1692.43 crore due to failure in paying the dues to CPSUs in time by JSEB (Rs 934.45 crore), not enacting Fiscal Responsibility and Budgetary Management Act (Rs 221.36 crore) and non-holding of elections for local bodies (Rs 536.62 crore).

As against total budget provision of Rs 18897 crore, the expenditure was Rs 14778 crore. The saving of Rs 4119 crore was net result of savings of Rs 4453 crore in 49 grants and appropriation offset by excess of Rs 334 crore in two grants and appropriation.

### 2. Performance audit of Ajay Barrage Project

Jharkhand being a plateau, harnessing underground water for various purposes is not economical. A project on river Ajay was conceived in 1961 to provide irrigation facilities in Deoghar, Dumka and Jamtara districts of Jharkhand. It

was planned to be completed in five years by 1965-66 at an estimated cost of Rs 4.11 crore but was rescheduled for 2008-09 at estimated cost of Rs 351.85 crore.

A Performance Audit of the Project disclosed several bottlenecks in the way of its successful completion. The Project suffered from deficient planning and execution. Tardy land acquisition and award of work without fresh survey and investigation hampered the progress of the Project and delayed it by nearly 30 years. Out of 18 affected villages, only one village was identified and partially rehabilitated. WRD failed to ensure financial closure of the Project resulting in delay in Project execution up to 1972-73 and stoppage of work for six years between 1992 and 1998.

The Project suffered due to inadequate budgetary support, poor Internal control system, Monitoring and evaluation and documentation. Internal audit and vigilance wings were non-existent in the Project. These weaknesses in the Project management coupled with insensitivity to error signals generated through periodical audit, electronic and print media etc. contributed to overall Project failure.

[Paragraph 3.1]

### **3. Working of Birsa Agricultural University**

Birsa Agricultural University (BAU) was established in 1981 in Ranchi to impart education in agriculture and its allied branches to make advances in learning; to prosecute research in agriculture and allied sciences; and to undertake extension of such sciences among rural people of the State.

A performance audit on working of BAU disclosed that its objectives were not fulfilled. It failed to live up to its mandate. Academic activities fared poorly on both counts, quantity and quality. Sufficient need based and area specific research projects were neither undertaken nor completed. Those which were completed, suffered from evaluation of outcomes and their spread among farmers. Zonal Research Stations (ZRSs) and Krishi Vigyan Kendras (KVKs) failed to achieve their targets of extension activities. Financial and Administrative controls were weak leading to serious financial irregularities. Government's control/supervision over BAU was weak and there was lack of co-ordination between BAU and various departments of the Government.

[Paragraph 3.2]

### **4. National Programme for Nutritional Support to Primary Education**

The scheme, commonly known as mid-day meals (MDM) Scheme, was launched by Government of India (GOI) with the intention to boost the universalisation of primary education by increasing enrolment, attendance and retention in schools and simultaneously improving the nutritional level of the students in primary classes.

Performance Audit of the scheme, revealed that the enrolment figures were inflated by the State Government. Utilisation of Fair Average Quality (FAQ) foodgrain in preparing MDM for the children was not monitored. Many of the test checked schools had no water facility and other infrastructure like kitchen

sheds, cooking devices. There was no assurance that the stipulated nutritional requirements were being met. No mechanism was evolved to monitor the impact of the scheme on health of the children. The Scheme suffered due to underutilization and mismanagement of funds. Cooking fund of Rs 21.92 crore were surrendered/allowed to lapse or remitted in Civil Deposit. Lifting of foodgrain against allotment was short by 24 *per cent* during 2004-08. Basic infrastructure facilities like kitchen sheds, clean drinking water, cooking and serving utensils and gas stoves were lacking in schools. During 2004-08, 12 to 34 *per cent* children were not covered under MDM. This was despite inflated reporting of enrolment and expenditure reported on non-existent EGS/AIE centres. State Government did not establish any indicators for measuring the impact of nutrition and health. Periodical health check-ups were also not being organized by the district authorities. Monitoring and Supervision of the scheme was deficient.

[Paragraph 3.3]

#### **5. IT Audit of Treasury Information System**

Treasury Information System (TIS) was implemented to monitor the financial transactions, budgetary control and flow of data to the Finance Department (FD) for better fiscal management and planning apart from timely submission of accounts to the Accountant General.

The software of TIS was installed at all the treasuries and sub-treasuries in a phased manner up to October 2006 and the total expenditure incurred was to the tune of Rs 4.37 crore up to March 2008. The objectives of the computerization of treasuries and sub-treasuries could not be achieved due to implementation of untested software, lack of proper mechanism for change management, poor documentation, lack of input control and non-utilisation of all the available features in the application.

[Paragraph 3.4]

#### **6. Procurement of bitumen for road works**

Government of Jharkhand passed a resolution in March 2002 to procure bitumen directly from Government Oil Companies against authority letter issued by concerned divisions specifying name of the contractor, name of the work, the required quantity and quality/specification of the bitumen.

The failure of the divisions to undertake the required checks and verification of invoices in support of procurement of bitumen, quantity, quality and specification resulted in payment of Rs 40.94 crore against fake/inadmissible invoices. In certain other cases, payment of Rs 1.28 crore was made against works without mandatory submission of invoices. The designated officials failed to detect subversion of the procedures and system by the divisional officers.

[Paragraph 3.5]

#### **7. Internal Control Mechanism in Finance Department**

Internal Control is an integral component of an organisation's management process which is 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 organizational objectives.

An evaluation of the internal control system in the Finance Department disclosed the weakness of internal controls in place such as non-compliance with Rules; absence of manuals; lack of discipline in budget preparation; weak expenditure control; poor mobilization of resources; inadequate operational control; lack of monitoring and evaluation and ineffective internal audit.

The provisions of the Budget Manual were not adhered to. As a result, there were huge and persistent savings under different heads of accounts/grants. Unnecessary supplementary grants were made. Rush of expenditure during fag end of financial year was noticed. Observance of prescribed accounting procedure in respect of implementation of GPF Rules was not adhered to. Final payments of GPF were made on collateral evidence as first and final resort. State Government failed to implement Contributory Pension Scheme. Records of treasuries were not maintained properly. There was acute shortage of man power. Response to Inspection Reports of treasuries was poor and Vigilance Wing was absent.

**[Paragraph 5.1]**

## **8. Transaction Audit Findings**

The audit of financial transactions, subject to test check, in various departments of the Government and their field units, revealed instances of losses, suspected misappropriation, wasteful expenditure, avoidable payment, unfruitful expenditure, nugatory expenditure etc. as mentioned below:

- Suspected misappropriation/losses/doubtful payment of Rs 27.49 crore was noticed in Revenue and Land Reforms Department (Rs 6.36 crore), Forest and Environment Department (Rs 11.88 crore), Road Construction Department (Rs 91.02 lakh), Building Construction Department (Rs 7.69 crore) and Water Resources Department (Rs 64.87 lakh).

**[Paragraph 4.1]**

- Excess/wasteful/infructuous expenditure amounting to Rs 2.02 crore was noticed in Human Resource Development Department (Rs 1.05 crore) and Science and Technology Department (Rs 96.97 lakh).

**[Paragraph 4.2]**

- Avoidable/unfruitful expenditure of Rs 15.75 crore was noticed in Road Construction Department (Rs 7.78 crore), Rural Development Departments (Rs 1.93 crore), Rural Works Department (Rs 1.31 crore), Agriculture and Sugarcane Development Department (Rs 1.43 crore), Human Resource Development Department (Rs 25.54 lakh) and Building Construction Department (Rs 3.04 crore).

**[Paragraph 4.3]**

- Idle investment/idle establishment/blocking of funds/delay in commissioning equipments/diversion/misutilisation of fund amounting to Rs 92.82 crore was noticed in Home Department (Rs 87.33 crore), Science and Technology Department (Rs 3.12 crore), Health, Medical Education and Family Welfare Department (Rs 2.37 crore).

**[Paragraph 4.4]**

- Regularity issues and other points amounting to Rs 3.33 crore were noticed in Forest and Environment Department.

[Paragraph 4.5]

**Some of the major findings are summarized below:**

- Non-adherence to financial rules rendered advance of Rs 3.81 crore irrecoverable, besides suspected misappropriation/defalcation of Rs 2.55 crore.

[Paragraph 4.1.1]

- Loss of Government money due to non-raising/improper computing of NPV and non-adherence to applicable rates for cost of compensatory afforestation- Rs 11.88 crore.

[Paragraph 4.1.2]

- Failure of the department to appoint teachers for teaching tribal languages in particular scripts prior to free distribution of books in these languages resulted in wasteful expenditure of Rs 1.05 crore on printing of books besides non-realisation of scheme objective.

[Paragraph 4.2.1]

- Injudicious cancellation of existing agreements following blacklisting of contractor in other works led to unfruitful expenditure of Rs 7.52 crore on cancelled works besides extra cost of Rs 26 lakh on re-tendered works.

[Paragraph 4.3.1]

- Failure of the department to include essential items of works in original estimate by obtaining users requirement led to unfruitful expenditure of Rs 3.04 crore on newly constructed official/residential buildings lying idle for 20 to 50 months.

[Paragraph 4.3.8]

- Non-utilisation of land by the Government for more than three years of its acquisition resulted in idle investment of Rs 64.15 crore besides loss of interest of Rs 15.27 crore.

[Paragraph 4.4.1]

- Non-adherence to the clarification issued by Government of India (GOI) by the Divisional Forest Officers (DFOs) resulted in loss of interest of Rs 3.33 crore.

[Paragraph 4.5.1]

## **9. Commercial and Trading Activities**

As on 31 March 2008, there were eight Government companies and one Statutory corporation (all working) under the control of the State Government. The total investment in working PSUs increased from Rs 2550.95 crore as on 31 March 2007 to Rs 3673.29 crore as on 31 March 2008. The budgetary support in the form of equity capital, loans and grants/subsidy disbursed to working PSUs increased from Rs 312.50 crore in 2006-07 to Rs 1272.58 crore in 2007-08. None of the companies submitted its accounts for the year 2007-08 within the stipulated period. The accounts of eight Government companies

and one Statutory corporation were in arrears for periods ranging from one to fourteen years as on 30 September 2008.

#### **Implementation of Accelerated Power Development and Reform Programme by Jharkhand State Electricity Board**

The Union Ministry of Power (MOP) launched a nationwide programme called Accelerated Power Development Programme (APDP) during 2000-01, which was subsequently modified and renamed as Accelerated Power Development and Reform Programme (APDRP) during 2002-03. The modified programme focuses on up-gradation of sub-transmission and distribution system in densely electrified zones in the urban and industrial areas thereby reducing the Aggregate Technical and Commercial Losses (AT&C Losses) and improving commercial viability of the State Electricity Boards. Some of the major deficiencies noticed during performance review were as follows:

- Instead of reduction of AT&C Loss by five *per cent* per annum, as directed by JSERC, the reduction was only four *per cent* during 2003-07.
- Contrary to the objective of improving quality and reliability of power, the situation remained unsatisfactory as was evident from increased feeder trippings, duration of outages and failure rate of distribution transformers (DTrs), which was much higher than the norm.
- The percentage of metering of service connections ranged between 32 and 77 in March 2008 against the targeted 100 *per cent* in June 2005.
- The expenditure of Rs 52.17 crore, incurred on installation of meters in feeders and DTrs and collection of data, was rendered wasteful as no analysis of the data generated was undertaken.
- The Board failed to eliminate the gap between Average Revenue Realisation (ARR) and Average Cost of Supply (ACS).
- Funds amounting to Rs 40.29 crore were diverted for unauthorised purposes.
- Delays in finalisation and award of tender, execution of work not provided in the DPR, non-identification of location for power sub stations, non-sorting out of issues with the contractor leading to arbitration and non issue of detailed work orders for Rs 77.17 crore indicated tardy implementation of APDRP projects. The ineffective monitoring, coupled with tardy implementation, resulted in non-completion of test checked projects even after more than two years of completion schedule.

[Paragraph 6.2]

#### **Transaction Audit Findings**

- Delay in installation of fire fighting system by JSEB resulted in loss of Rs 41.11 crore due to fire and unfruitful expenditure of Rs 5.64 crore.

[Paragraph 6.3.3]

- Procurement of PSC poles from outside agencies due to non utilisation of capacity of its own units, JSEB incurred avoidable expenditure of Rs 1.16 crore.

**[Paragraph 6.3.4]**

- Decision to purchase underground cable by JSEB without assessing the actual requirements resulted in blockage of Rs 2.35 crore and loss of interest of Rs 76.37 lakh.

**[Paragraph 6.3.5]**

- There was a failure to avail cash incentive of Rs 23.10 crore by JSEB from CPSUs as per the agreement.

**[Paragraph 6.3.8.3]**