

OVERVIEW

This Report includes two chapters on the Finance and Appropriation Accounts of the State Government for the year 2003-04. The next three chapters comprise four reviews, two long paragraphs based on the audit of selected programmes and activities and 31 paragraphs on individual financial transactions and one paragraph on the internal control systems of the Government. A synopsis of the important findings contained in the Report is presented in this overview.

1. An overview of the Finances of the State Government

Large revenue and fiscal deficit year after year is a reflection of the continued macro imbalances in the State. The revenue deficit, however, showed a declining trend during the five year period 1999-2004. The fiscal deficit which reached a peak at Rs.3968 crore in 2001-02, sharply declined to Rs.2816 crore in 2002-03 but shot up to Rs.3573 crore in 2003-04 reflecting the continued dependence on high cost borrowings for current consumption.

The revenue receipts of the State increased from Rs.5885 crore in 1999-2000 to Rs.9440 crore in 2003-04. The rate of growth during 2003-04, however, declined from 20 *per cent* in 2002-03 to 12 *per cent* mainly due to less receipts of grants-in-aid from Central Government.

Revenue expenditure accounted for 82 *per cent* of the total expenditure during 2003-04. It grew by 8.45 *per cent* during the year against the growth of 1.35 *per cent* during the preceding year. The high growth of revenue expenditure in the current year was mainly due to transfers to sinking fund, increase in maintenance under public works and increase in pension payment and transfer to the Calamity Relief Fund.

The interest payments during 2003-04 of Rs.2860 crore more or less remained at par with of 2002-03 mainly due to lower rate of interest on GPF and Government of India loans.

Capital expenditure declined from 8.62 *per cent* of the total expenditure in 1999-2000 to 7.28 *per cent* in 2003-04. Similarly, there was a decline in the share of developmental expenditure from 68.42 *per cent* of the total expenditure in 1999-2000 to 53.75 *per cent* in 2003-04.

At the end of 2003-04, the total investment in statutory corporations, Government companies etc. stood at Rs.1556.63 crore. Use of high cost borrowing for investment which yielded very little, indicated an implicit subsidy.

(Paragraph 1.1 to 1.13)

2. Allocative Priorities and Appropriation

Against the total budget provision of Rs.28848 crore including supplementary provision, expenditure of Rs.23396 crore was incurred during 2003-04. The savings of Rs.5452 crore occurred in all the grants during the year except in two appropriations where the excess of Rs.24998 required regularisation under Article 205 of the Constitution of India.

Expenditure was inflated to the extent of Rs.323.43 crore, as monies were drawn and deposited into Civil Deposits without any expenditure. The amount of funds parked in Civil Deposits during 1999-2004 increased from Rs.461.16 crore to Rs.762.72 crore indicating that the funds meant for various development schemes remained unutilised.

The excess of expenditure amounting to Rs.8819.14 crore incurred over budget provision during 1996-97 to 2002-03 was yet to be regularised under Article 205 of the Constitution of India.

Advance from the Contingency Fund aggregating to Rs.101.73 crore remained un-recouped as of March 2004.

(Paragraphs 2.2 to 2.9)

3. Implementation of Child Labour (Prohibition and Regulation) Act, 1986

The Child Labour (Prohibition and Regulation) Act, 1986 (the Act) seeks to prohibit employment of children below the age of 14 years in various hazardous occupations. It also lays down the manner in which working conditions of child labour employed in non-hazardous occupations are to be regulated. A review of the implementation of the Act during the period 1999-2004 revealed serious deficiencies in the enforcement of the Act in both its prohibitory and regulatory aspects.

No systematic and authentic survey of child labour was conducted in the State after the 1997 survey conducted on the directions of the Supreme Court. Subsequent surveys conducted by Non-Government Organisations (NGOs), field officers of NCLP Societies, instructors of the special schools etc. were neither comprehensive nor quite accurate.

The Department did not maintain proper statistics regarding the number of show-cause notices issued, number of cases finally sent for prosecution and the results there of. However, the submission made by the State Government before the National Human Rights Commission in January 2002 indicated that 63 *per cent* of show-cause notices issued were not even replied to by the employers and prosecutions were filed in the Court in only three *per cent* of the cases. In the seven districts test checked, there was no conviction and no collection of fine except in a lone case in Rayagada.

There was a shortfall of 95 *per cent* in the number of inspections to be carried out by District Labour Officers (DLOs)/Assistant Labour Officers (ALOs)/Rural Labour Inspectors (RLIs) during 2003 in the selected districts.

No inspections had been carried out in seven out of the 30 districts in the State during the period of review.

Demand for funds by the NCLP Societies from GOI was largely inflated resulting in huge unspent balances at the end of every year.

There was no relation between the number of child labour in hazardous occupations as identified during survey and sanction of the projects by the GOI. The project in Kalahandi district with no child labour in hazardous occupation as per 1997 survey was given undue priority over other districts.

Large numbers of children from non-hazardous employments were admitted in the special schools in departure from the guidelines of GOI in all the test checked districts. The entire expenditure of Rs.9.43 crore in Ganjam, Rayagada and Kalahandi districts where no child labour in hazardous occupation was admitted was therefore misdirected.

Misappropriation of funds, doubtful payments, excess expenditure, cash shortages etc. to the tune of Rupees one crore were noticed in NCLP, Malkangiri. Inadmissible, unfruitful and wasteful expenditure amounting to Rs.24.70 lakh was noticed in the remaining NCLPs test checked.

There was also no record of tracking of the activities of the mainstreamed child labour though required under the scheme.

(Paragraph 3.1)

4. Prime Minister's Gram Sadak Yoyana (PMGSY)

PMGSY was launched in December 2000 with the objective of providing all weather road connectivity to all unconnected habitations with population of 1000 persons and above by the year 2003 and for 500 persons and above by the Tenth Plan period (2007). Government of India (GOI) had provided Rs.708.34 crore for implementation of the programme against which the Government of Orissa (GOO) had spent Rs.451.43 crore as of March 2004.

Out of 1573 roads approved for completion in three phases, 867 roads (55 per cent) were completed which provided connectivity to 965 out of 3850 habitations with population of 1000 persons and above. Of the completed roads, 195 roads covering 451.67 km constructed at a cost of Rs.85.38 crore did not provide connectivity to 2885 targeted habitations for want of 536.13 km of missing links and culverts etc. Further, out of 212 roads test checked in 11 districts, 132 roads constructed at a cost of Rs.47.16 crore did not fulfill the norms of the programme by providing multiconnectivity, by connecting habitations with lower populations, by not having the most economic and efficient alignment or even by not connecting to any habitation or all weather road. Besides, there was wasteful expenditure of Rs.1.49 crore on 12 abandoned roads. Serious failure of control over expenditure led to significant excess and undue payments to contractors.

Roads were constructed with extra carriage-width and sand core in deviation

from the norms of Rural Roads Manual (RRM) of Indian Road Congress (IRC) resulting in excess expenditure of Rs.56.18 crore.

Excess payment of Rs.14.78 crore was made to contractors by not deducting voids from the quantity of metal and contractors were allowed undue benefits of Rs.1.54 crore due to provision of excess lead for transportation of materials.

Programme funds amounting to Rs.179.70 crore were kept in PL Account of DRDAs during 2000-2003 instead of in bank account thereby losing Rs.8.25 crore which would have accrued to programme funds by way of interest from bank account. Besides, EEs did not maintain the accounts as prescribed by the MORD and Orissa State Rural Roads Agency (OSRRA) set up for operational and management support to the programme remained non-functional due to lack of budget provision and staff.

(Paragraph 3.2)

5. Implementation of welfare schemes in Ganjam district

Ganjam district comprises three sub-divisions, 22 blocks and 3171 villages covering an area of 8200 square kilometer with 32 lakh population. Chatrapur is its headquarters and Berhampur the main commercial centre. The population with a male female ratio 1:1 has 63 *per cent* literacy rate and 55 *per cent* of its population (3.02 lakh families) lives below the poverty line (BPL) according to a survey in 1997. Review of implementation of various welfare programmes relating to poverty alleviation, primary education, drinking water supply and primary health care in the district for the period 1999-2004 revealed the following:

Under Swarnajayanti Gram Swarojgar Yojana (SGSY), only 10 *per cent* of BPL families were covered against the target of 30 *per cent*. The total employment generated in the district through the Swarnajayanti Gram Swarojgar Yojana /Sampoorna Grameen Rojgar Yojana (SGRY)/ Indira Awas Yojana (IAY) schemes covered only 6.7 *per cent* of the BPL families annually on an average. Monitoring of the income generated under SGSY and the employment in mandays generated under SGRY was deficient.

Assets were created under SGSY and SGRY without assessment of their likely utility for income and employment generation. Inventory of assets created was not maintained in the test checked blocks.

Under SGSY, expenditure on training to Self Help Groups (SHGs) was just about 1.6 *per cent* of the expenditure instead of required 10 *per cent*. Only 4927 out of 12546 SHGs were imparted first phase orientation training.

About 17,000 IAY houses were not provided with sanitary latrines and smokeless chullahs. Advances of Rs.38.11 lakh were outstanding in four blocks against IAY beneficiaries.

There was no record of utilisation of Rs.4.17 crore paid to the headmasters of primary schools for repair works and purchase of school equipment under

Sarva Shiksha Abhiyan (SSA). The teacher-pupil ratio stood at 1:56 against the norm of 1:40 in the primary schools of the district affecting the quality of education. There was 36 *per cent* shortfall in inspection of schools by the Sub-Inspectors of schools due to their non-educational work.

There were vacancies of 34 doctors and 430 para medical staff in the PHCs/CHCs/District Headquarters Hospital affecting health care facilities in the district. Besides, 32 doctors required under the Orissa Health Systems Development Project (OHSDP) were not provided.

Under the National AIDS Control Programme, no baseline survey was conducted to identify geographically high risk areas and occupational groups vulnerable to HIV though the district was highly prone to HIV. The Orissa State AIDS Control Society did not have the information on the current health status and follow up treatment of the people living with HIV/AIDS.

Testing of water quality of 12446 tube wells (79 *per cent*) sunk during ten years to March 2004 were not carried out; the water quality of 470 of the 3403 tube wells tested was not safe.

(Paragraph 3.3)

6. Development of village and small industries including handloom sector

The review on "Development of village and small industries including handloom sector" during 1999-2004 revealed that the overall performance in the identified sectors was not as per expectations.

Against the budget provision of Rs.321.45 crore for the two Departments together for the period 1999-2004, the expenditure was only Rs.186.77 crore, indicating a saving of 42 *per cent*. Capital (Rs.0.38 crore) and loan (Rs.0.84 crore) expenditure mainly targeted at the co-operative sector, was negligible.

Under the Prime Minister's Rozgar Yojana (PMRY), 50478 persons were trained during 1999-2004 of which 17032 trained persons (including 4551 granted bank loans) could not set up any industry. Recovery of loans under the PMRY was unsatisfactory. There was inadequate co-ordination among the District Industries Centres (DICs), the banks and the entrepreneurs.

Single window clearance system called SILPASATHI claimed by the Director of Industries to have been implemented was not found to be actually working in any of the five test checked districts.

The IDCO failed to develop three Integrated Infrastructure Development Centres sanctioned in 1993-94 at a cost of Rs.16.45 crore to be shared among GOI (Rs.5.98 crore), State Government (Rs.1.75 crore) and the IDCO (Rs.8.72 crore). Despite funds being available, the total expenditure on the scheme was only Rs.1.19 crore as of March 2004. The work at Paradip could not be taken up because of land dispute.

As of March 1999, there were 706 Primary Co-operative Societies in the Handicraft and Cottage Industry sector of which 349 were not functional (March 2004) and there was no addition to the number of such Societies during 1999-2004.

During 1999-2004, 240 out of 828 working Primary Weavers' Co-operative Societies became defunct and 0.22 lakh weavers lost employment in the co-operative sector.

Marketing development assistance amounting to Rs.0.85 crore and marketing incentive amounting to Rs.2.78 crore were not released by the State Government in favour of the Sambalpur Bastralaya Handloom Co-operative Society. Consequently, the Society was unable to provide full time work to 6000 'A' class members and 9000 other weavers in the affiliated Primary Societies.

(Paragraph 3.4)

7. Implementation of Urban Water Supply Schemes

The rapid growth in urban population during the last decade necessitated augmentation of the existing water supply systems and development of new schemes to ensure supply of minimum quantity of potable water to the urban population. Government of India (GoI) launched (February 1994) Accelerated Urban Water Supply Programme (AUWSP) for providing adequate safe drinking water in towns. Against 51 Urban Local Bodies (ULBs) eligible for coverage under the programme, only 24 ULBs were selected by the State Level Selection Committee and water supply schemes for these towns were approved by the GOI between 1994 and 2004. Water supply schemes for two towns, not declared as ULBs were also approved under the programme. A sum of Rs.76.36 crore was spent on these schemes during the five year period of 1999-04. Audit scrutiny revealed the following:

Eighty-eight Urban Local Bodies (ULBs) out of 103 ULBs were not supplied the minimum quantity of 70 LPCD to 150 LPCD of water as per norms. The water supplied in 30 ULBs ranged between six and 40 LPCD.

Out of 15 (AUWSP) schemes taken up for completion between December 1996 and February 2003, 14 schemes remained incomplete despite expenditure of Rs.20.42 crore (94 *per cent*) against their estimated cost of Rs.21.71 crore depriving the people of these 14 towns of the minimum *per capita* daily requirement of 70 litres of potable water.

Execution of AUWSP Schemes without adequate pre-construction survey resulted in failure of sources in five schemes involving expenditure of Rs.9.50 crore. Another 9 schemes scheduled for completion between 1998 and 2003 remained incomplete due to lack of proper planning, non-acquisition of land and cost overrun. The expenditure incurred on these schemes amounted to Rs.10.40 crore.

Quality of drinking water was not ensured and as a result 5.25 lakh population of the State were the victims of water borne diseases causing 2169 deaths during last three years.

(Paragraph 3.5)

8. Upgradation of standards of administration and modernisation of Police force

In terms of the recommendations of the successive Finance Commissions, the Government of India (GOI) had been releasing grants to the State Government for upgradation of the standards of Police administration. Besides, the scheme of Modernisation of Police Forces was under implementation in the State since 1969-70. Review of the implementation of the above schemes during 1999-2004 revealed several deficiencies as follows:

Utilisation certificates submitted to the GOI included payment of advance to the extent of Rs.38.28 crore to different agencies which were treated as final expenditure without supporting vouchers.

Despite availability of funds, the State Finger Print Bureau could not be modernised for over three years and the Information Technology Plan of the State Police could not take off for want of application software.

Exclusive dependence on the Orissa State Police Housing and Welfare Corporation (OPHWC), Bhubaneswar resulted in tardy progress of civil works of 1146 building projects.

Equipment worth Rs.1.23 crore were purchased before construction of the Regional Forensic Science Laboratory at Balasore and could not be put to the intended use.

(Paragraph 3.6)

9. Fraudulent drawal/misappropriation/embezzlement/losses

Non-maintenance/improper maintenance of advance ledgers/registers at the Block level led to accumulation of unadjusted advances of Rs.6.46 crore as of 31 March 2003.

(Paragraph 4.1.1)

Irregularities in the operation of passenger bus service by the Kendrapara Municipality resulted in loss of about Rs.33 lakh.

(Paragraph 4.1.3)

10. Infertuous/wasteful expenditure

There was unfruitful expenditure of Rs.9.43 crore due to non-completion of work and undue favour to a contractor by way of non-recovery of Government dues of Rs.1.77 crore.

(Paragraph 4.2.1)

The Executive Engineer incurred wasteful expenditure of Rs.2.52 crore on cargo handling operation without any shipment activity in Gopalpur port.

(Paragraph 4.2.2)

Despite approval of Government of India and sanction of requisite funds of Rs.1.78 crore by the State Government, the Revenue Department could not digitize the cadastral maps of two tehsils nor could they finish the construction of a training institute building for over eleven years.

(Paragraph 4.2.3)

Despite expenditure of Rs.23.94 lakh on modernisation and repairs, the defunct cold storage plant at Paralakhemundi could not be operated commercially due to damages to the re-insulated ceiling caused by roof leakage raising doubts about the viability of its future commercial run; there was also expenditure of Rs.62.25 lakh on idle wages.

(Paragraph 4.2.4)

Keeping staff quarters unallotted for over eleven years in Sambalpur Collectorate and non-occupation of residence-cum-office building in Khurda Collectorate led to wasteful expenditure of Rs.58.86 lakh besides loss of revenue of Rs.8.45 lakh. There was also a blockage of capital of Rs.10.69 lakh on an incomplete office building in Bhadrak Collectorate.

(Paragraph 4.2.5)

Commitment of the State Government to stand guarantee to OWSSB for loan from HUDCO without the concurrence of the Finance Department and without ensuring execution of the three concerned water supply schemes resulted in infertuous expenditure of Rs.65.96 lakh towards payment of interest and fees to HUDCO.

(Paragraph 4.2.6)

11. Violation of contractual obligations/undue favour to contractors

Issue of rice to the contractors after completion of works deprived labourers from getting subsidised rice and conferred benefit of subsidy of Rs.8.09 crore on the contractors.

(Paragraph 4.3.1)

Collectors of two districts allowed inflated distances for payment of transportation of foodstuff from Paradip Port to Keonjhar and Baripada which resulted in unjustified payment of Rs.36.34 lakh during 1999-2004.

(Paragraph 4.3.3)

12. Avoidable/Excess/Unfruitful expenditure

Failure of the Executive Engineer /Chief Engineer to seal the leakage in Hirakud dam in time resulted in enlargement of cavity and eventually led to avoidable expenditure of Rs.93 lakh.

(Paragraph 4.4.7)

Deliberate inclusion of item of hard rock in the estimate by the EE despite evidence to the contrary resulted in extra expenditure/liability of Rs.84 lakh and non-recovery of penalty of Rs.33 lakh from a contractor.

(Paragraph 4.4.5)

Failure of EE to investigate site before invitation of tender and to analyse the rate for variation resulted in avoidable expenditure of Rs.1.08 crore.

(Paragraph 4.4.6)

Abandonment of four pier wells already constructed led to loss of Rs.1.18 crore. EE failed to recover penal cost of Rs.5.98 crore from the contractor.

(Paragraph 4.4.2)

Failure of the EEs to release funds, revise drawings and provide land for bridge works resulted in avoidable expenditure of Rs.1.98 crore towards price escalation.

(Paragraph 4.4.4)

Failure to complete water supply schemes resulted in unfruitful expenditure of Rs.8.66 crore.

(Paragraph 4.4.1)

Failure of the Chief Engineer to adhere to the Indian Road Congress code while sanctioning the estimates resulted in unwarranted benefit of Rs.2.30 crore to contractors.

(Paragraph 4.4.3)

13. Idle investment/idle establishment/blockage of funds

Purchase of CI pipes and fittings worth Rs.1.24 crore by the EE without definite requirement resulted in blockage of Government money

(Paragraph 4.5.3)

Continuance of Soil Survey Sub-Division at G. Udayagiri without any work for over 11 years led to expenditure of Rs.1.31 crore on idle establishment besides irregular drawal of salary without allotment of funds.

(Paragraph 4.5.2)

Non-completion of bridge for over nine years resulted in idle expenditure of

Rs.1.64 crore besides undue favour to contractor for non-recovery of Government dues of Rs.54.96 lakh.

(Paragraph 4.5.1)

14. Regularity issues and other points

Integrated Coastal Aquaculture (ICA) scheme funds of Rs.3.43 crore meant for payment of subsidy to farmers for development of shrimp farms was misutilised for maintenance of the State Government's own establishment.

(Paragraph 4.6.1)

An amount of Rs.3.38 crore meant for spending under the District Primary Education Projects and Sarva Siksha Abhiyan was mismanaged by spending on salaries in excess of norm, free distribution of text books to general category male students and computerisation of personal data of teachers.

(Paragraph 4.6.2)

In disregard of the Government's decision of July 1999 imposing restriction on filling up of vacant posts, the Director of Higher Education appointed 113 Junior Clerks, Lascars, Chowkidars etc. in different NCC offices. Expenditure of Rs.2.51 crore was irregularly incurred on their salary till June 2004; the irregular expenditure was continuing.

(Paragraph 4.6.3)

The Balasore Central Cooperative Bank Limited unauthorisedly retained Rs.41.65 lakh meant for debt relief of farmers, artisans etc. for over 12 years while the lending Cooperative Societies that had extended loan to the farmers etc. continued under liquidation proceedings.

(Paragraph 4.6.4)

15. Internal Control System

Internal control mechanism (ICM) in an organisation is meant to ensure that its operations are carried out according to the applicable laws and regulations and in an economical, efficient and effective manner. A built-in Internal Control System and strict adherence to Statutes, Codes and Manuals minimize the risk of errors and irregularities and helps to protect resources against loss due to waste, abuse and mismanagement. Audit review of the functioning of the ICM during 2002-04 in School and Mass Education Department (SMED) and Panchayati Raj Department (PRD) revealed deficient budgetary and expenditure control, poor cash management, inadequate controls in store management and poor operational and supervisory controls in the departments.

Unnecessary supplementary provision of Rs.55.88 crore was obtained by the School and Mass Education Department in December 2002 when there were overall savings of Rs.140.64 crore at the end of March 2003 indicating deficient budgetary control by these departments.

In violation of the Orissa Budget Manual, unnecessary provisions of Rs.7.63 crore made by SMED in 2002-03 and Rs.6.94 crore and Rs.2.21 crore made by SMED and PRD respectively in 2003-04 for vacant posts. The provisions were finally surrendered by the Departments.

Expenditure controls in both the Departments were poor as evident from the rush of expenditure towards the end of the financial year. Three out of four Directorates of the School and Mass Education Department did not reconcile their expenditure figures of 2003-04 as of 30 June 2004.

The financial discipline in cash management were not observed by the Drawing and Disbursing Officers. The heads of the administrative departments and controlling officers had also failed to stem the rot.

Due to non-adherence to rules governing advances, Rs.9.30 lakh under Motor Cycle Advance and Rs.14.44 lakh under House Building Advance in PRD remained unsecured and their proper utilisation was doubtful.

Supervisory controls were inadequate. Officers of various cadres of PRD including its autonomous organisations failed to carry out periodic inspections, which affected the functional efficiencies of various schemes and activities.

Prescribed controls in stores management of both the departments, such as physical verification of stores, proper maintenance of stock registers and obtaining security from the storekeepers, were not adhered to.

Failure of review, monitoring and evaluation mechanism indicated gross deficiencies in review of activities and evaluation of execution of the schemes at the highest level. While the General Body (GB) of Orissa Primary Education Programme Authority did not hold meeting since 1997, the GB of Orissa Rural Development and Marketing Society (ORMAS) had shortfall of four out of six such meetings during 2002.

(Paragraph 5.1)