OVERVIEW

This Report includes two chapters containing observations of Audit on the Finance and Appropriation Accounts of the State for the year 2007-08 and five other chapters with four performance reviews, an Integrated Audit and 29 other paragraphs dealing with results of audit of selected schemes, programmes and the financial transactions of the Government and its commercial and trading activities.

Copy of the performance reviews and paragraphs were sent to the Commissioners/Secretaries of the departments concerned by the Accountant General for furnishing replies within six weeks. Wherever received and appropriate, the departmental views and explanations have been incorporated in this Report.

FINANCES OF THE STATE GOVERNMENT

The financial position of the State viewed in terms of key fiscal parameters– revenue surplus, fiscal deficit and primary deficit – has shown deterioration in 2007-08 relative to previous year. Not only did revenue surplus decline by Rs. 260 crore in 2007-08, but fiscal deficit has also increased by 97 *per cent* (Rs. 859 crore) and primary surplus turned into a huge deficit as compared to previous year. However, the quality of fiscal deficit has improved, as the borrowed funds were utilised towards creation of assets.

The revenue receipts grew by seven *per cent* while the total expenditure increased 17 *per cent* in 2007-08 over that of previous year. State finances continued to be dependent upon Central transfers which contributed 57 *per cent* of the total revenue receipts during the year. The expenditure pattern of the State reveals that the revenue expenditure as a percentage of total expenditure, during the current year remained around 75 *per cent* leaving inadequate resources for expansion of services and creation of assets. Further, the salaries and wages, pensions and interest payments continued to consume a major share of NPRE which was around 69 *per cent* during 2007-08. Notwithstanding the fact that the State incurred expenditure higher than the normative TFC limits on salaries, critical sectors like health are operating at sub-optimal level due to non-availability of staff, with 50 per cent shortage in doctors and 55 per cent in paramedical staff. The increasing fiscal liabilities due to continued prevalence of fiscal deficit accompanied by negligible rate of return on Government investments might put a fiscal stress on the State in medium to long term.

(Paragraph 1.1 to 1.11)

ALLOCATIVE PRIORITIES AND APPROPRIATION

The net saving of Rs. 865.81 crore was a result of saving of Rs.1,599.60 crore in 57 cases of grants and appropriations, offset by excess of Rs.733.79 crore in 7 cases of grants/appropriations. The excess of Rs. 733.79 crore requires regularization under Article 205 of the Constitution.

(Paragraphs 2.2 & 2.3.2.2)

In case of 42 provisions under 14 grants the entire amount of Rs.304.12 crore remained unutilized. ***(Paragraph 2.3.1.2)***

Supplementary provision of Rs. 475.37 crore made in 32 cases during the year proved unnecessary as the savings in these grants/appropriations were more than the supplementary provision in each case.

(Paragraph 2.3.1.3)

Expenditure was persistently less than the total provisions by five *per cent* or more in 29 cases during 2003-2008. ***(Paragraph 2.3.1.4)***

PERFORMANCE REVIEWS (CIVIL)

Forest Department

3.1 Public Private Partnership project: Uttaranchal Bamboo Foundation

Public private partnership initiative was meant to promote bamboo plantation and create employment opportunities through social forestry and augment the incomes of marginalized rural communities through bamboo plantations in degraded land.

The decision to opt for a PPP route was not backed by a cost-benefit analysis and the project deliverables or the additionalities that a private party would bring, were not identified. The selection of the service provider was biased and other competent bids were ignored to pave way to a bidder who had no past experience in plantation. The risks were not identified; the payment structure was not dovetailed to identify performance levels; the contract did not provide remedial action in case of default by the Service Provider (SP) or commit the SP to a specified level or time frame of investment.

The Government showed extraordinary haste in release of funds without even the mandatory approval of the project report. But on its actual commitments - whether it be identifying land for plantation or expediting the installation of the processing unit by the SP, the Government slackness ultimately provided to the SP a safety net to renege on its own commitments. As a result, the advantages of a PPP were lost. The main stakeholders i.e., the VPs were not involved in the preparation of micro-plans. Import of seeds that were inherently defective and unsuitable to local conditions and use of sub-standard saplings led to the failure of the plantation and dissatisfaction among VPs, which would affect the viability of any further stepping up of plantation activity under the project. Physical verification showed wide discrepancies from the claims of UBF on plantation of bamboo saplings and distribution of lemon grass.

The project appears to have lost steam after the 1st phase in which, only 4.3 *per cent* of the targeted area was covered. Dubious selection of vendors and non-production of documents to support the services provided by them and denial of services and supplies in some cases, point to suspected fraud.

(Paragraph 3.1)

Urban Development Department

3.2 Management of Waste

The Uttarakhand Environment Protection & Pollution Control Board restricted its role to grant of authorizations and its presence in overall planning and monitoring waste management in the State was negligible. Comprehensive and reliable data on Municipal Solid Waste and Bio Medical Waste(BMW) generated in the State as well as on the risks to health and environment was not collected. No effective 3R strategies were being implemented and the focus was only on disposal of the waste being generated. Nearly 51 *per cent* of the municipalities and 67 *per cent* of hospitals were handling waste without authorization. Waste generated was in excess of the capacity to handle it; 15 to 38 *per cent* of municipal waste remained unattended; overflowing dustbins and accumulation of waste in public places was a common sight. Waste-processing facilities are inadequate and there were no sanitary landfills.

The District hospitals were segregating waste in compliance with the BMW Rules but their transportation to disposal facilities required tighter controls. In the PHCs and CHCs, waste management was in an appalling condition. The violation of the stipulated rules resulted in contamination of the environment and posed risks to human and animal health.

(Paragraph 3.2)

AUDIT OF TRANSACTIONS (CIVIL)

FRAUDULENT DRAWAL /MISAPPROPRIATION/EMBEZZELMENT /LOSS

- In the absence of financial controls, Rs. 10.70 lakh was embezzled in a Government school.

(Paragraph 4.1)

INFRUCTUOUS/WASTEFUL EXPENDITURE AND OVER PAYMENT

- Substandard construction of a road by Temporary Division, PWD Chakrata (Dehradun) costing Rs. 5.36 crore led to damage of the road soon after its completion.

(Paragraph 4.3)

- A road (Niranjanpur Bend to Shimla by-pass) constructed by Construction Division, PWD, Dehradun at a cost of Rs. 1.25 crore without proper crust design was damaged within a year of its construction and patch repairs done thereon worth Rs. 48.10 lakh also proved wasteful.

(Paragraph 4.4)

- Quality of work was compromised by Provincial Division, PWD, Rudrapur causing damage to the road (Shimla-Pistaur-Kuraiya in Udham Singh Nagar), work on which was suspended after spending Rs. 2.43 crore.

(Paragraph 4.6)

- Road (Gadarpur-Dineshpur-Matkota) strengthened at a cost of Rs. 2.56 crore by Provincial Division, PWD, Rudrapur got damaged prematurely because the requisite specifications were not adhered to.

(Paragraph 4.7)

UNDUE FAVOUR TO CONTRACTORS/AVOIDABLE EXCESS EXPENDITURE

- Rs. 61 lakh was paid to three ineligible publishers for advertisement in excess of prescribed norms by the Information and Public Relations Department.

(Paragraph 4.8)

- An avoidable expenditure of Rs. 3.62 crore was incurred by the District Social Welfare Officers by not availing of an economical option of pension disbursement.

(Paragraph 4.12)

IDLE INVESTMENT/IDLE ESTABLISHMENT/BLOCKING OF FUNDS/DELAY IN COMMISSIONING EQUIPMENTS/ DIVERSION/MISUTILISATION

- Central assistance of Rs. 50 lakh for population stabilisation in Haridwar district remained unutilised since May 2002 in a bank account of the Chief Medical Officer.

(Paragraph 4.14)

- Community Health Centre (Thatyur, Tehri) constructed at a cost of Rs. 1.45 crore in 2005 is yet to be put to use in the absence of an approach road.

(Paragraph 4.15)

- Inherent flaws in a mushroom production project in Nainital, Almora and Udham Singh Nagar led to its failure and unfruitful expenditure of Rs. 2.13 crore.

(Paragraph 4.19)

INTEGRATED AUDIT OF POLICE DEPARTMENT

An evaluation of the Police Department showed that the new State is not equipped to meet the challenges of greater incidence of crime or of future enhancement in the levels of sophistication of crime. The beat police is the first level of contact between the police and community; it is this level that is most under-equipped and under-staffed. Similarly, fire stations lacked basic fire-fighting and safety equipment for firemen and chronic shortage of fire hydrants hampered its work.

There were delays in registration of FIRs but the cause for delay was not recorded, posing an unmitigated risk of police inaction in registration. The investigating officers (IO) are burdened with an average of nine cases being investigated at any given point of time, all the cases being recorded by the IO in one case diary. Supervisory control was near absent. The police stations did not have the most basic equipment to collect forensic evidence, the forensic laboratory was under equipped, with the consequence of forensic evidence being used but rarely. There was shortage of radio equipment and of weaponry; 46 *per cent* of the available weapons were 40-90 years old. The State did not have training facilities and even firing range for regular weapons drill for its staff. The shortage of staff, continuous deployment as gunners/shadow in VIP duty in contravention of norms, a very high turnover of station house officers affecting continuity of tenure, are priority areas that need to be addressed in manpower management.

(Paragraph 5.1 to 5.7)

PERFORMANCE REVIEW (REVENUE)

A review of "Scheme for the tax incentives to new industrial units U/S 4-A of UP Trade Tax Act 1948 (as adopted)" revealed the following:

- 62 units, representing 38 *per cent* of the units test checked in audit, discontinued their operations after availing tax exemption of Rs. 31.04 crore.
  (Paragraph 6.2.8)
- 21 units in six circles were granted inadmissible eligibility certificates for tax exemption of Rs. 195.84 crore.
  (Paragraph 6.2.9 and 6.2.10)
- Tax exemption of a unit was reckoned at concessional rates and adjusted against the limits of EC resulting in short adjustment of tax of Rs. 44.42 crore.
  (Paragraph 6.2.11)

AUDIT OF TRANSACTION (REVENUE)

- Under valuation of Commercial Property resulted in short Levy of Stamp duty of Rs. 2.51 Crore.

  (Paragraph 6.3)
- Low production of Alcohol from fermentable Sugar content of molasses than the prescribed minimum norms resulted in loss of revenue of Rs. 8 lakh.

  (Paragraph 6.5)

COMMERCIAL

Overview of Government Companies and Statutory Corporations

As on 31 March 2008, the State had 20 Government Companies, two Statutory Corporations and one Electricity Regulatory Commission. Total investment in 18 working PSUs (16 Government Companies and two Statutory Corporations) was Rs. 3,371.73 crore. Out of 16 Government Companies and two Statutory Corporations, none had finalised their accounts for 2007-08. According to the latest finalised accounts, four Government Companies had earned aggregate profit of Rs. 59.46 crore while eleven Government Companies and one Statutory Corporation incurred an aggregate loss of Rs. 203.82 crore.

(Paragraphs 7.1.1, 7.1.2, 7.1.7 and 7.1.9)

Implementation of Accelerated Power Development Reforms Programme by Uttarakhand Power Corporation Limited (UPCL)

The projects undertaken by UPCL were focused on augmenting the capacity of the distribution network to meet the increasing energy needs of the newly formed State. The Corporation managed to increase the consumer base, however in this process, the primary objective of APDRP which was reduction of Aggregate Technical & Commercial losses did not receive the priority attention as envisaged. The losses reduced but marginally to 37 *per cent*, which was far higher than the required 15 *per cent*. Initiatives envisaged in the APDRP with regard to energy accounting were taken in isolation and their integration to achieve higher objective of greater monitoring of collections and thus reduction of losses, was lacking. Accountability for billing and collection efficiency was not fixed at all levels. Some of the significant findings are mentioned below:

- Reliability and quality of power supply as measured by frequency of outages and their duration, deteriorated because of disproportionate burdening of lower ends of transmission.
- The Corporation diverted funds of Rs. 13.84 crore to works not included in the detailed project reports.
- The Corporation paid interest free mobilisation advance of Rs. 7.73 crore to 15 contractors without having any provision in DPRs and financial rules.

(Paragraph 7.2)

Miscellaneous Topics Of Interest Relating To Government Companies

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in adverse financial implications. Some important findings are as follows.

- Uttarakhand Power Corporation Limited awarded a contract without obtaining clearance for diversion of forest land, resulting in unfruitful expenditure of Rs. 5.07 crore.

(Paragraph 7.3)

- The Uttarakhand Power Corporation Limited suffered extra financial burden of Rs. 2.29 crore due to non-recovery of security deposits.

(Paragraph 7.4)

- Power Transmission Corporation of Uttarakhand Limited failed to recover Rs. 1.53 crore as liquidated damages from a contractor despite an enabling provision in the agreement.

(Paragraph 7.6)