

Chapter 1

Introduction

1.1 About this Report

This report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from performance audit of selected programmes and activities and compliance audit of Government departments and autonomous bodies.

The primary purpose of the Report is to bring to the notice of the State Legislature, important results of audit. Auditing standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The audit findings are expected to enable the executive to take corrective action as also to frame policies and directives that will lead to improved financial management of the organisations, thus contributing to better governance.

Compliance audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with.

Performance audit examines the extent to which the objectives of an organization, programme or scheme have been achieved economically, efficiently and effectively.

This chapter provides the auditee profile, the planning and extent of audit, a synopsis of the significant audit observations and follow-up on audit reports. Chapter 2 of this Report deals with the findings of performance audit and Chapter 3 deals with compliance audit in the various departments and autonomous bodies. Chapter 4 contains observations on evaluation of internal controls in the Labour and Employment Department.

The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2008-09 as well as those which had come to light in earlier years but could not be dealt with in previous Reports. Matters relating to the period subsequent to 2008-09 have also been included wherever necessary.

1.2 Auditee profile

There were 38 departments in the State at the Secretariat level, headed by Additional Chief Secretaries/ Principal Secretaries/ Commissioner-cum-Secretaries, assisted by Directors and subordinate officers. All the offices of these departments including 197 autonomous bodies were under the audit jurisdiction of the Principal Accountant General (Civil Audit) and Accountant General (Commercial, Works and Receipt Audit).

The comparative position of expenditure incurred by the Government during the year 2008-09 and in preceding two years is given in table 1.1.

Table 1.1: Comparative position of expenditure

(Rupees in crore)

| Particulars | 2006-07 | | | 2007-08 | | | 2008-09 | | |
|------------------------------|----------------|-----------------|-----------------|----------------|-----------------|-----------------|----------------|-----------------|-----------------|
| | Plan | Non-plan | Total | Plan | Non-plan | Total | Plan | Non-plan | Total |
| Revenue Expenditure | | | | | | | | | |
| General Services | 11.74 | 7491.03 | 7502.77 | 30.80 | 7196.41 | 7227.21 | 52.92 | 6908.95 | 6961.87 |
| Social Services | 1513.09 | 3707.46 | 5220.55 | 2317.82 | 4098.69 | 6416.51 | 2598.00 | 5686.41 | 8284.41 |
| Economic Services | 1201.74 | 1574.70 | 2776.44 | 1740.46 | 1988.19 | 3728.65 | 2657.11 | 2893.97 | 5551.08 |
| Grants-in-aid | -- | 272.26 | 272.26 | -- | 350.90 | 350.90 | -- | 392.76 | 392.76 |
| Total | 2726.57 | 13045.45 | 15772.02 | 4089.08 | 13634.19 | 17723.27 | 5308.03 | 15882.09 | 21190.12 |
| Capital Expenditure | | | | | | | | | |
| Capital Outlay | 1339.87 | 111.59 | 1451.46 | 2656.19 | 187.22 | 2843.41 | 3570.63 | 208.54 | 3779.17 |
| Loans and Advances disbursed | 138.35 | 133.42 | 271.77 | 300.61 | 132.07 | 432.68 | 55.50 | 155.47 | 210.97 |
| Repayment of Public Debt | -- | -- | 1850.74 | -- | -- | 1844.97 | -- | -- | 1492.61 |
| Public Account disbursement | -- | -- | 7958.06 | -- | -- | 8971.58 | -- | -- | 10895.52 |
| Total | 1478.22 | 245.01 | 11532.03 | 2956.80 | 319.29 | 14092.64 | 3626.13 | 364.01 | 16378.27 |
| Grand Total | 4204.79 | 13290.46 | 27304.05 | 7045.88 | 13953.48 | 31815.91 | 8934.16 | 16246.10 | 37568.39 |

(Source: Finance Accounts)

1.3 Authority for audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Services) Act 1971. C&AG conducts audit of expenditure of the departments of Government of Orissa under section 13¹ of the C&AG's (DPC) Act 1971. C&AG is the sole auditor in respect of 31 autonomous bodies² which are audited under section 19(2) of the said Act. In addition, C&AG conducts audit of 166 other autonomous bodies substantially funded by the Government. C&AG's audit jurisdiction also covers the Urban Local Bodies and Panchayati Raj Institutions. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts 2007 issued by the C&AG.

¹ Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts

² 30 District Legal Services authorities and one State Legal Services Authority

1.4 Organisation structure of the Principal Accountant General (Civil Audit) and Accountant General (CW&RA), Orissa

Under the directions of the C&AG, the expenditure audit of 34 out of 38 departments of the State Government and the autonomous bodies financed by the State Government are conducted by the office of the Principal Accountant General (Civil Audit). Audit of remaining four Departments³ are conducted by the office of the Accountant General (CW&RA). The audit of Urban Local Bodies and Panchayati Raj Institutions is being done by Senior Deputy Accountant General (Local Bodies Audit and Accounts) under supervision of Principal Accountant General (Civil Audit).

1.5 Planning and conduct of audit

Audit process starts with the risk assessment of the Department/Organisation as a whole and that of each unit based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An Annual Audit Plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Inspection Reports (IRs) containing audit findings are issued to the heads of the entities. The entities are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations pointed out in these Inspection Reports are processed for inclusion in the audit reports which are submitted to the Governor of Orissa under Article 151 of the Constitution of India.

During 2008-09, 16364⁴ party-days were used for compliance audit of 1701 out of 6849 units of various departments/organisations/local bodies/autonomous bodies and 3513 party-days were utilised for performance audits in which 462 units were partly covered. The audit plan covered those units/entities which were vulnerable to significant risks as per our assessment.

1.6 Significant observations of performance audit

This report contains five performance audits including one Information Technology audit. The focus has been on auditing the specific programmes/schemes and offering suitable recommendations, with the intention to provide an aid to the executives in taking corrective action and improving service delivery to the citizens. Significant audit observations are discussed below:

1.6.1 National Rural Employment Guarantee Scheme

National Rural Employment Guarantee Scheme (NREGS) aims at providing 100 days of wage employment on demand every year to the rural households. Implementation of the Scheme in the State during 2006-09 suffered due to absence of institutional arrangements with dedicated staff for proper planning and monitoring. Full time Programme Officer and professionals with

³ Works, Water Resources, Rural Development and Housing and Urban Development Department (Public Health Engineering wing)

⁴ Included 933 party days for conducting audit of cash and contingencies at 20 per cent of 4666 party days taken by State Receipt Audit Group

necessary support staff were not provided. Belated release of State's share, delays in release of funds to the implementing agencies, parking of funds in personal ledger account and diversion of scheme funds affected implementation of the scheme. Only 3.4 to 11 *per cent* of households seeking employment were provided with 100 days of employment. Execution of low priority works, execution of works through contractors/ middlemen, utilisation of labour displacing machines also adversely affected employment generation. There were instances of fictitious payment and delayed payment of wages and non-payment of unemployment allowance. Beneficiary interview disclosed that the labourers were not aware of their rights and privileges under the scheme. The required inspection, monitoring, social audit and grievance redressal activities were almost absent. Corrective action on error signals pointed out by National Institute of Rural Development was not followed. Implementation of the scheme did not deter migration of rural workforce.

(Paragraph 2.1)

1.6.2 National Horticulture Mission

Implementation of National Horticulture Mission in the State during 2005-09 suffered due to low spending levels by the implementing agencies, diversion of funds, non-collection of token money from beneficiaries, misutilisation of scheme funds and unfruitful expenditure on unsuccessful plantation. Important components like establishment of small nurseries in private sector, seed production in both public and private sector, establishment of betel vine gardens, organic farming, post harvest management, innovative programme and bee keeping etc. were not taken up. Over 5449 hectare of plantation raised in farmers' field was left without maintenance due to poor survival. Lack of supervision and monitoring by the departmental officers affected the implementation of the scheme. No follow up action was taken on the error signals noticed in mid-term evaluation.

(Paragraph 2.2)

1.6.3 Accelerated Irrigation Benefit Programme

Performance Audit of the Accelerated Irrigation Benefit Programme revealed that the projects lagged behind the target dates for completion which indicated deficiencies in the planning process. There was cost overrun of Rs 3537 crore and time overrun up to 12 years. Irrigation potential created was only 0.88 lakh hectare (*27 per cent*) despite huge investment of Rs 3121.27 crore. There were mismanagement of funds involving significant excess payment to contractors as well as extra/wasteful expenditure and fraudulent payments amounting to Rs 836 crore. No monitoring committee was constituted at the project level. The committee which was required to meet quarterly to advise the Government on removal of the bottlenecks in the projects met only once in October 2006, after it's constitution. It had never visited any project site. The Government was still to attend to the bottlenecks in implementation and suggestions of Central Water Commission for speedy completion of projects. The Department had adopted good practices such as using remote sensing technology for verification of irrigation potential actually created and also introducing e-procurement for early finalisation of tenders.

(Paragraph 2.3)

1.6.4 Micro projects for development of Primitive Tribal Groups

Review of the scheme 'Development of Primitive Tribal Groups (PTG)' revealed weak planning and lack of focused measures to achieve accelerated

development to bring them at par with other tribal communities in a time bound manner. Annual Action Plans covered only 40 *per cent* of the Perspective Plan projection and there was slow pace of creating development infrastructure. The quality of life of PTGs continued to remain very poor due to inaccessibility of villages to plain areas, unhygienic living conditions coupled with inadequate health care, housing facilities and low income generation. Demographic profile revealed that population of two out of 13 PTGs were on the decline raising serious apprehensions about their continued existence and specific action to arrest the same had not been taken. Management of micro-projects was very poor due to vacancies at the level of key technical manpower.

(Paragraph 2.4)

1.6.5 Information Technology audit of Orissa Treasury Management System (OTMS)

As a part of the Orissa Public Sector Reform Programme, Government had computerised the Directorate of Treasuries and Inspection (DTI) and its network of 164 treasuries. The primary objective is real time allocation of Chart of Account (CoA) against budget provisions for Drawing and Disbursing Officers, passing of bills within the allocated funds, speedy processing of the bills and generation of reports and returns provided to client departments/organisations. The OTMS did not have interface with the banks, AG's office and the DDOs resulting in repetition of data entry, continued dependence on manual operation and delays in processing of bills. The payroll modules developed were not implemented and pension module was implemented partially. Deficiencies in application controls like duplicities in generation of token numbers, voucher numbers, bill numbers and challan numbers, frequent back end entries for correction of front end omissions and errors, inconsistent workflow in passing of bills, underutilisation of OTMS in generation of certain MIS reports were noticed. System security was found to be flexible and disaster recovery plan was poor. The most significant limitation of OTMS was its architecture, i.e., distributed processing rather than a centralised processing system which did not provide real time data.

(Paragraph 2.5)

1.7 Significant audit observations of Compliance audit

Audit observed several significant deficiencies in critical areas which had adverse impact on effective functioning of the Government Departments/Organisations. Key findings on compliance audit have been reported and they relate to:

- Non-compliance with rules and regulations;
- Audit against propriety/ expenditure without justification;
- Persistent and pervasive irregularities;
- Failure of oversight/governance.

1.7.1 Non-compliance with rules and regulations

- Non-observance of codal provisions in maintenance of cash book and relevant records by Medical Officer of one Primary Health Centre (Laing) led to misappropriation of Rs 2.62 lakh.

(Paragraph 3.1.1)

- Payments of medical allowance in excess of the ceiling fixed by the Government to the employees of the Berhampur University led to excess payment of Rs 1.82 crore during 1992-2009.
(Paragraph 3.1.2)
- Subsidised rice (20198 quintals) costing Rs 2.89 crore issued as wage component under SGRY and NFFW programme was utilised by the Village Labour Leaders (VLLs) / Executants for non-wage purposes, but cost thereof recovered was limited to subsidised price instead of FCI economic cost price. Undue benefit to the executants was Rs 1.62 crore.
(Paragraph 3.1.5)
- Non-conducting of annual physical verification of stock at storage godowns by the Block authorities facilitated misappropriation of 4169 quintals of rice under SGRY and NFFW programme worth Rs 57.11 lakh besides damage of 128 quintals of rice costing Rs 1.75 lakh.
(Paragraph 3.1.6)
- Non-compliance of codal provision and cancellation of a valid tender for a bridge work on the ground of single participation after failing to finalise it within the validity period led to extra cost of Rs 4.05 crore.
(Paragraph 3.1.7)
- Five Executive Engineers drew Rs 278.87 crore from Treasury without immediate requirement to avoid lapse of budget and retained the amount in civil deposits in disregard of the financial rules.
(Paragraph 3.1.11)

1.7.2 Audit against propriety / expenditure without justification

- Non-commissioning of the piped water supply to Rairangpur Municipality led to unfruitful expenditure of Rs 5.65 crore.
(Paragraph 3.2.2)
- Non-completion of works under Pradhan Mantri Gram Sadak Yojana by a contractor involved extra cost of Rs 6.03 crore. Despite that, penalty for Rs 1.74 crore was not recovered from the defaulting contractor.
(Paragraph 3.2.5)
- Although execution of Water Bound Macadam by mechanical means was more economical, execution of the item by manual means for construction of the roads under Pradhan Mantri Gram Sadak Yojana resulted in avoidable extra expenditure of Rs 8.31 crore.
(Paragraph 3.2.6)
- Construction of 29 school buildings undertaken during 2003-06 under "Reconstruction of School Building Programme" remained incomplete as disputes between Headmasters and Village Education Committees remained unsolved. These abandoned works could not be resumed resulting in unfruitful expenditure of Rs 81.30 lakh.
(Paragraph 3.2.7)
- Non-supply of water for irrigation from a Minor Irrigation Project rendered the expenditure of Rs 5.34 crore spent on the project unfruitful.
(Paragraph 3.2.9)
- Non-commencement of drainage congestion remedial works despite advance payment to the agency resulted in blockage of Rs 5.77 crore

with loss of interest of Rs 1.04 crore. Besides, there were avoidable flood damage repairs for Rs 2.04 crore.

(Paragraph 3.2.10)

1.7.3 Persistent and pervasive irregularities

- Subsidised rice of 2250 MT was shown as issued to labourers through contractors long after completion of the works resulting in misappropriation of subsidy of Rs 1.64 crore. Despite mention of such irregularities in the earlier Audit Reports, the irregular practice persisted.

(Paragraph 3.3.1)

1.7.4 Failure of oversight / governance

- Incorrect decision of the Government to categorise two districts under hilly/difficult areas for construction of IAY houses led to extra expenditure of Rs 1.51 crore which denied 1935 beneficiaries of availing IAY houses.

(Paragraph 3.4.2)

- Execution of repair and maintenance works of a State Highway through other agencies even during the currency of improvement and maintenance contract for the road resulted in extension of undue benefit of Rs 5.92 crore to a contractor.

(Paragraph 3.4.5)

1.8 Internal Controls in Labour and Employment Department

Internal controls are the organisation's management processes, established to provide reasonable assurance that the operations are being carried out effectively and efficiently, financial and operational data are reliable and the applicable laws and regulations are being complied with so as to achieve the organisation's objectives.

Review of the Internal Controls in the Labour and Employment Department revealed deficiencies in budgetary and financial controls leading to injudicious supplementary provision, belated surrender of savings, provision against vacant posts, non-observance of financial discipline in management of Government cash and Workmen Compensation Fund. Enforcement of provisions of various industrial /labour laws is possible only through regular inspection of units/ establishments but the department failed to provide inspections even once in a year. As a result, exact number of cases and nature of violations could not be ascertained in audit. Large number of vacancies in technical posts had affected efficient functioning of the Department in enforcing various labour laws. System of issue of licence and renewal suffered from serious deficiencies like large number of units remained unregistered and licences remaining lapsed and lack of basic records.

(Paragraph 4.1)

1.9 Response of the Departments to draft paragraphs

As per the instructions issued by the Finance Department on 20 May 1967 and provision of C&AG's Regulation on Audit and Accounts 2007, the departments are required to send their response to the draft audit paragraphs

proposed to be included in the C&AG's Audit Report within six weeks. The draft paragraphs are forwarded to the Secretaries of the concerned departments drawing their attention to the audit findings and requesting them to send their response within six weeks. Draft paragraphs and Performance Audit Reports proposed for inclusion in this report were forwarded to the Secretaries concerned between April 2009 and July 2009 through letters addressed to them demi-officially. Concerned Departments did not send replies in respect of 17 out of 39 Paragraphs featured in this report. The response of the concerned departments received in respect of 22 paragraphs has been suitably incorporated in the report.

1.10 Follow up action on Audit Report paragraphs

Serious irregularities noticed in audit are included in the Reports of the Comptroller and Auditor General that are presented to the State Legislature. The Administrative Departments are required to furnish explanatory notes on the paragraphs/reviews included therein within three months. However, in respect of Audit Reports from the year 1997-98 to 2007-08, 19 out of 37 departments did not submit compliance notes in respect of 45 individual paragraphs and 23 review paragraphs as of December 2009. Similarly, out of 1353 recommendations made by the Public Accounts Committee (PAC) in its First Report of 10th Assembly (1990-95) to 40th Report of 13th Assembly (2004-09), final action was awaited in respect of 1108 recommendations where Action Taken Notes (ATNs) were received. In case of remaining 245 recommendations of PAC relating to 18 departments, ATNs were not received (November 2009) though ATNs are required to be submitted by Government Departments within six months⁵ after PAC reports are laid before the Legislature. Besides, proceedings of Departmental Monitoring Committees (DMCs) meetings were not received from 30 out of 38 departments during 2008-09 despite formation of DMCs in all the departments of the Government to monitor the follow up action on Audit Reports and recommendations of the PAC. In addition, 46183 paragraphs relating to 14486 Inspection Reports (IRs) in respect of 3939 offices of 33 departments remained outstanding at the end of June 2009. Of these, 5083 IRs containing 13720 paragraphs remained unsettled for more than 10 years for want of proper compliance. Even first reply from the Head of the Office was not received in respect of 1972 IRs issued up to March 2009. A total of 73 Triangular Committee meetings were held during 2008-09 in which 574 IRs and 2213 paragraphs relating to 632 offices of 12 departments were settled.

1.11 Recommendations

This report contains specific recommendations on a number of issues involving non-observance of the prescribed internal procedures and systems, compliance with which would help in promoting good governance and better oversight on implementation of developmental programmes and objectives at large. The State Government is impressed upon to take cognizance of these recommendations in a time bound manner.

⁵ Revised to four months in April 2005