

# **Chapter 1**

## **Introduction**

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#### ***1.1 About this Report***

This Report of the Comptroller and Auditor General of India (CAG) on Government of Odisha relates to matters arising from Performance Audit of Accelerated Irrigation Benefit Programme, Environment Audit on Air and Water Pollution in Odisha and Compliance Audit of Government Departments/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 applicable Rules, Laws, Regulations, various orders and instructions issued by the competent authorities are being complied with.

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

Environment Audit examines the extent to which the objectives of adequate measures for compliance to Environmental Laws, infrastructure and funding, effective monitoring mechanism framed for timely identification and remediation of sources of pollution, proper management information system for evaluating impact of pollution on environment and checking Water and Air Pollution in Odisha have been achieved.

This chapter provides the audited entity's profile, the planning and extent of audit and a synopsis of the significant audit observations. Chapter 2 of this Report deals with the findings of Performance Audit and Environment Audit and Chapter 3 deals with Compliance Audit of various departments.

The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2013-14 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 2013-14 have also been included, wherever necessary.

## **1.2 Audited entity's profile**

There were 38 departments in the State at the Secretariat level headed by Additional Chief Secretaries/ Principal Secretaries/ Commissioner-cum-Secretaries/ Secretaries, assisted by Directors and Sub-ordinate Officers. Of these, 17 Departments including PSUs/Autonomous bodies coming under these Departments are under the audit jurisdiction of the Principal Accountant General (Economic and Revenue Sector Audit).

## **1.3 Authority for Audit**

The authority for Audit by the CAG 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. The CAG conducts audit of expenditure of the departments of Government of Odisha under section 13<sup>1</sup> of the CAG's (DPC) Act 1971. In addition, the CAG conducts audit of Autonomous Bodies substantially funded by the State Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts 2007 issued by the CAG.

## **1.4 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, concerns of stakeholders and the likely impact of such risks. 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 made in these Inspection Reports/Performance Audits are processed for inclusion in the Audit Reports which are submitted to the Governor of Odisha under Article 151 of the Constitution of India.

## **1.5 Significant observations on Performance Audit**

This Report contains two Performance Audits. The focus has been on the audit of specific programmes/ schemes/ activities and offering suitable recommendations, with the intention to assist the Executive in taking corrective action and improving service delivery to the citizens. Significant audit observations are discussed below:

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<sup>1</sup> 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.

### **1.5.1 Performance Audit of Accelerated Irrigation Benefit Programme**

Performance Audit conducted for the period 2009-14 revealed that Department of Water Resources (DoWR) has mandate to plan, develop, utilise and manage water resources. Department implements irrigation projects with funds provided by Government of India (GoI) and State Government.

GoI launched Accelerated Irrigation Benefit Programme (AIBP) in 1996-97 to accelerate implementation of large irrigation projects which are beyond resource capability of State Government and expeditious completion of projects which were in advanced stage of completion. Implementation of AIBP funded irrigation project was last reviewed by Audit and findings included in the Report of Comptroller and Auditor General for the years ended March 2003 and March 2009. Persistent deficiencies pointed out in earlier Audit Reports prompted Performance Audit (May to July 2014) covering eight major/medium and 13 minor irrigation projects (MIPs). Broad objectives of audit were to assess effectiveness of planning process, financial management and execution of projects as per programme guidelines, manual provisions and approved Schedule of Rates (SoR).

Performance Audit revealed that despite being pointed out earlier, projects still suffered time and cost overrun due to delay in acquisition of land, finalisation of drawing and design and clearance of project site etc. With escalating expenditure on projects, proportion of benefits likely to accrue declined and some projects ran the risk of becoming unviable. Instances of calculation of Benefit Cost Ratios (BCRs) not holding good were also noticed.

Extra expenditure on account of estimates deviating from SoR, deficiencies in tendering process, etc. was noticed. Monitoring and internal control needed improvement. Financial implication by way of cost escalation and other deficiencies worked out to ₹ 3,157.97 crore. As a result of delay in completion of projects, people of the State were deprived of assured irrigation facility to that extent.

*(Paragraph 2.1)*

### **1.5.2 Environment Audit on Air and Water pollution in Odisha**

Performance Audit of Environment conducted for the period 2009-14 revealed that environmental degradation, air and water pollution is of global significance. It was observed that Comprehensive Environmental Pollution Index scores remained at critical level at Angul-Talcher, Ib-Valley and Jharsuguda. Operation of Stone Crusher Units without Consent to Establish (CTE)/ Consent to Operate (CTO), delay in upgradation of Pollution Control Equipment (PCE) by Thermal Power Plants (TPPs) to achieve the desired stack emission norm were observed. State Transport Authority also failed to check vehicular pollution in the State.

There were deficiencies in monitoring of water quality. Untreated sewage of Urban Local Bodies (ULBs) of State were being discharged to nearby water

bodies accompanied with untreated effluents of industrial units due to absence of effluent treatment plants (ETPs). Water samples of three tributaries of Mahanadi near Cuttack and Bhubaneswar were checked in State Pollution Control Board (SPCB) laboratory and showed non compliance to norms in respect of Bio-chemical Oxygen Demand (BOD), Dissolved Oxygen (DO) and Total Coliform (TC). This apart, relaxation of norms in consent administration, non implementation of Continuous Ambient Air Quality Monitoring Stations (CAAQMS) and Online Emission Monitoring Systems (OEMS) indicated areas for improvement by SPCB. Besides, absence of complete database of all sources of pollution, their timely monitoring and issue of conditional consents have resulted in need to put in far more concerted efforts.

*(Paragraph 2.2)*

### **1.6 Significant Audit observations on Compliance Audit**

#### **1.6.1 Functioning of Orissa University of Agriculture and Technology**

Ten Agro Polytechnic Centres were created without ensuring teachers and basic infrastructure. As a result, infrastructure and establishment of KVKs were utilised for Agro Polytechnic Centres in violation of ICAR guidelines. Balance required land for KVKs was not provided, resulting in non achievement of KVKs objectives. Non filling up post of teachers in colleges/ research stations led to non utilisation of central assistance, besides non imparting of quality education to students in absence of faculty.

*(Paragraph 3.1)*

#### **1.6.2 Idle investment**

Failure of Executive Engineer to ensure acquisition of land for canal systems before commencing project works led to idle investment of ₹ 5.50 crore on head works of five MIPs.

*(Paragraph 3.2)*

#### **1.6.3 Undue benefit to contractors**

Executive Engineer's adoption of rates for manual excavation of earth at rate of ₹ 33.48 to ₹ 43.77 per cum was in deviation to description of items of work to be done by mechanical means at an admissible rate of ₹ 15.38 per cum as per SoR. Adoption of unwarranted manual excavation rates for total quantity of 5.76 lakh cum of earth led to escalation of item rates from ₹ 18.10 to ₹ 28.39 per cum in three estimates. Total extra cost due to escalation of item rates was ₹ 1.79 crore which ultimately resulted in undue benefit to contractors.

*(Paragraph 3.3)*

**1.6.4      *Upgradation of Industrial Training Institutes through Public Private Partnership and Setting up of New Polytechnics***

Government of India (GoI) launched scheme for upgradation of existing ITIs into Centre of Excellence (CoE) in 2004-05 through PPP mode with World Bank (WB) assistance and without WB assistance. Schemes were implemented as per Institute Development Plans (IDPs) in 11 ITIs of the state during 2004-05 to 2013-14 and 14 ITIs of State during 2007-08 to 2013-14 respectively. There was shortfall in trade/ CoE sector upgradation/introduction and funds allotted remained unutilised as of March 2014. Academic activities fell short of required target fixed because of shortage of instructors, inadequate infrastructure and delay in getting NCVT affiliation. Consequently, trainees had been deprived of quality training and better employment opportunity.

GoI launched scheme “setting up of new polytechnics” as a component of the Sub-mission on Polytechnics to be implemented in unserved and underserved districts in the country during 11<sup>th</sup> Plan period. Accordingly, 22 polytechnics were sanctioned to be set up in Odisha. Fourteen polytechnics had not been completed mainly due to non commencement of construction works, delay in handing over of land and lack of monitoring of implementation of scheme. There were shortfalls in equipment and enrollment of trainees depriving students of getting quality teaching for better employment.

*(Paragraph 3.4)*

**1.6.5      *Implementation and effectiveness of plantation***

Plantation activities were being sometimes carried out by Divisions as per targets fixed by PCCF without fully checking site conditions. In some cases plantation activities were carried out on contract basis and not departmentally as required. In plantation activities, time schedules were not adhered to. Stumps and seeds were procured from private parties instead of collecting departmentally or obtaining from Silvicultural Divisions. Periodical supervisions by ROs, DFOs and higher authorities were not conducted to ensure successful plantation.

*(Paragraph 3.5)*

**1.6.6      *Short realisation of Net Present Value***

As against NPV realisable for ₹ six crore from two user agencies, a sum of ₹ 4.78 crore was realised resulting in short realisation of ₹ 1.22 crore. Neither did the user agencies deposit the differential dues of NPV nor did the DFOs issue demand notices against the agencies for recovery of balance NPV.

*(Paragraph 3.6)*

**1.6.7                      *Non disposal of timber***

Timber and forest produce valued at ₹ 39.25 lakhs seized under 9,857 UD forest offence cases in 2011-12 to 2012-13 were lying undisposed (March 2014), which resulted in blockage of revenue of ₹ 39.25 lakh

*(Paragraph 3.7)*

**1.6.8                      *Implementation of Single Window Mechanism and Financial Incentives under Industrial Policy Resolution 2007***

The Industrial Policy Resolution (IPR), a policy framework for industrial promotion and investment facilitation including operationalisation of Single Window mechanism was introduced in the State with effect from 2 March 2007 to facilitate setting up of industries and extension of financial incentives to industrial units. Audit of implementation of the scheme revealed that the numbers of CAFs declined year after year. Further, the finalisation of CAFs received during the period 2007-14 was also delayed due to non holding of SLSWCA/ HLCA/DLSWCA and lack of monitoring on the part of IPICOL. Audit further, noticed deficiencies in implementation of various incentive schemes provided in the IPR such as exemption from stamp duty, reimbursement of value added tax, exemption of electricity duty which were extended to ineligible units. Monitoring and internal control required improvement.

*(Paragraph 3.8)*

**1.6.9                      *Extra cost due to inflated rate in estimate***

Unwarranted deviation in estimate of excavation work from mechanical to manual means inflated item rate involving extra cost and undue benefit of ₹ 1.48 crore to contractor.

*(Paragraph 3.9)*

**1.6.10                    *Non recovery of Government dues from the defaulting contractor***

Contractor abandoned work leaving balance of works valued at ₹ 5.26 crore. As such a sum of ₹ 0.67 crore being 10 *per cent* of estimated cost as LD and penalty of ₹ 1.05 crore being 20 *per cent* of the value of left over work (total ₹ 1.72 crore) was recoverable from contractor as per terms and conditions of agreements. Only a sum of ₹ 19.80 lakh was forfeited and balance LD and penalty of ₹ 1.52 crore remained unrecovered.

*(Paragraph 3.10)*

### **1.6.11      *Extra cost due to non finalisation of tender within extended validity period***

Non finalisation of tender even during the extended validity period not only resulted in extra cost of ₹ 1.11 crore but also delayed improvement of road.

*(Paragraph 3.11)*

### **1.6.12      *Extra cost due to non execution of agreement within validity period***

Delay at each stage of tender finalisation led to non execution of agreement within the extended validity period. The work was awarded (February 2014) on retender to a contractor at a cost of ₹ 23.96 crore to complete the work in February 2016 which resulted in extra cost of ₹ 4.73 crore.

*(Paragraph 3.12)*

### **1.6.13      *Avoidable extra expenditure***

It was observed from the records that though CBR values of subgrade soil were more than the required two *per cent* (i.e. three to 10 *per cent*) indicating adequate load bearing capacity, divisions provided capping layer of sand with thickness ranging from 150 mm to 500 mm. Unwarranted provision of capping layer of sand and reducing the thickness of GSB resulted in avoidable extra expenditure of ₹ 7.54 crore.

*(Paragraph 3.13)*

### **1.6.14      *Response to Audit***

A review of IRs issued upto March 2014 pertaining to 17 departments showed that 18,940 paragraphs relating to 5,471 IRs were outstanding at the end of June 2014. Of these, 1,848 IRs containing 5,222 paragraphs are outstanding for more than 10 years. Even first reply from the Heads of Offices which was to be furnished within one month was not received in respect of 1,115 IRs issued upto March 2014.

Serious irregularities noticed in audit are included in the Reports of the Comptroller and Auditor General that are presented to State Legislature. According to Finance Department instructions (December 1993), Administrative Departments are required to furnish explanatory notes on transaction paragraphs, reviews/performance audits, etc. included in Audit Reports within three months of their presentation to State Legislature. It was noticed that in respect of Audit Reports from year 1997-98 to 2011-12, seven<sup>2</sup> out of 17 departments, which were commented upon, did not submit explanatory notes on paragraphs and reviews as of March 2014.

<sup>2</sup> Works, Water Resources, Agriculture, Energy, Fisheries and Animal Resources Development, Industries and Forest Departments.



Out of 573 recommendations relating to Audit Report made by the PAC from first Report of 10<sup>th</sup> Assembly (1990-95) to 40<sup>th</sup> Report of 13<sup>th</sup> Assembly (2004-09), final action on 89 recommendations was awaited as on March 2014.

*(Paragraph 3.14)*