

Chapter I Introduction

1.1 *About this Report*

This Report of the Comptroller and Auditor General of India (CAG) on Economic sector of Government of Odisha relates to matters arising from Performance Audit of Contract Management in Department of Water Resources and Compliance Audit of Government Departments.

The primary purpose of the Report was to bring to the notice of the State Legislature significant results of audit. The audit findings are expected to enable the executive to take timely corrective action. This would help in framing policies and directives that will lead to improved 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 examined the extent to which the objectives of an organisation, programme or scheme were achieved economically, efficiently and effectively.

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

1.2 *Audited Entity's Profile*

There are 38 departments in the State at the Secretariat level headed by Additional Chief Secretaries/Principal Secretaries/Commissioner-cum-Secretaries. They are 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). This Report includes the results of audit of three departments out of 12 Departments dealt with in Economic Sector.

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 (CAG's DPC Act), 1971. The CAG conducts audit of expenditure of the departments of Government of Odisha under section 13¹ 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

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

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. The assessment was based on expenditure incurred, criticality/complexity of activities and level of delegated financial powers and assessment of internal controls. Previous audit findings were also considered in this exercise. Based on this risk assessment, the frequency and extent of audit were decided. An Annual Audit Plan was formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Inspection Reports 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 were received, audit findings were either settled or further action for compliance was advised. The important audit observations made in the Inspection Reports/Performance Audit were processed for inclusion in the Audit Reports. These are submitted to the Governor of Odisha under Article 151 of the Constitution of India.

1.5 Significant Observations of Performance Audit

This Report contains one Performance Audit on Contract Management in Department of Water Resources. It includes suitable recommendations that would assist the Executive in taking timely corrective action and improving service delivery to the citizens. Significant audit observations are discussed below:

1.5.1 Performance Audit of Contract Management in Department of Water Resources

Performance Audit covered the period 2012-17. Audit noted that contracts were awarded to Odisha Construction Corporation on nomination basis. Out of 198 works awarded to Odisha Construction Corporation (OCC), 96 works were not completed in time. Of those, 51 works were delayed by more than one year. It was observed that only 34 *per cent* of works awarded to OCC were completed in time. The department had not imposed penalty for failure to complete the work in stipulated time. Audit examination showed that there were delays at every stage of the contract process i.e. issue of letter of acceptance, signing of agreements and execution of works.

E-tendering introduced (January 2009) is yet to be fully utilised as all the required details were not uploaded on the portal.

Many projects remained incomplete due to award of work before acquisition of land and finalisation of design. Overall, there was an idle investment of ₹ 134.07 crore on seven works. Two bridges could not be opened to traffic as approach roads were not constructed. A canal was constructed without ensuring water flow which resulted in blockage of funds. This indicated poor planning and contract management.

The shortcomings in preparation of estimates inflated the unit rate and it resulted in extra expenditure.

The Quality Control Divisions and State Quality Monitoring Cell pointed out defects in quality of material used in works. Action taken reports were not, however, submitted and no follow up action was taken defeating the purpose. Land was not acquired for three water management projects i.e. Nuagaon distributary, Akhadasahi Creek and Construction of pond at Samanga. As a result, the objective of providing irrigation to 4850 ha of land and drinking water to Puri town was not achieved.

The construction of three flood protection embankments was partially completed. As a result investment on three works was lying idle. Further, the objective of protecting lives and property from flood water remained unfulfilled.

1.6 Significant Audit Observations on Compliance Audit

1.6.1 Interest on delayed payment of Net Present Value not realised

The user agencies deposited Net Present Value for diversion of forest land with delays ranging from 18 to 1115 days. However, interest of ₹ 1.31 crore for the period of delay in payment was neither demanded by the Divisional Forest Officers nor deposited by the user agencies. The Government stated that ₹ 0.29 crore had already been realised from two user agencies. Steps were being taken for collection of balance amount.

(Paragraph 3.1)

1.6.2 Sandal wood, timber and Poles not disposed

In 29 forest divisions, sandal wood, timber and other forest produce valued at ₹ 1.58 crore seized in 1281 undetected (UD) forest offence cases remained undisposed. The Government stated that timber and poles valuing ₹ 2.61 lakh involving 58 cases were disposed of and action would be taken to dispose of other materials. Thus, delay in disposal of timber, poles and sandal wood led to blocking of revenue of ₹ 1.55 crore (₹ 1.58 crore - ₹ 2.61 lakh).

(Paragraph 3.2)

1.6.3 Avoidable expenditure on purchase of gabions

In six forest divisions, against approved rate for gabion made of bamboo twigs, gabions made up of iron, fiber and poly wire mesh were purchased by Divisional officers. Rates paid were in excess of prescribed cost norm for use in different avenue plantations. This resulted in avoidable expenditure of ₹ 1.77 crore.

(Paragraph 3.3)

1.6.4 Avoidable expenditure on cement concrete

In Upper Indravati left canal Division No-II, Dharamgarh estimates for water course and field channels were prepared in deviation from Indian Standard Code. Against requirement of 75 mm thick cement concrete for lining of both bed and vertical side walls, provision had been made for 150 mm thick for bed and 200 mm thick for vertical side walls. The excess provision of cement concrete for 75mm on bed and 125mm in vertical side walls led to extra expenditure of ₹ 13.28 crore.

(Paragraph 3.4)

1.6.5 *Avoidable expenditure due to excess provision of cement concrete*

In Anandapur Barrage Project estimate for renovation of canal works was prepared adopting 100 mm thickness of cement concrete lining of canal for discharge of 5-50 cumecs of water. However, the required thickness as per Indian Standard Code should have been 75 mm as discharge capacity of canal was 46.534 cumecs. The excess provision of cement concrete inflated the estimated cost by ₹ 10.36 crore resulting in avoidable cost of ₹ 10.62 crore with tender premium.

(Paragraph 3.5)

1.6.6 *Improvement of roads and bridges with Central Road Fund and Additional Central Assistance*

Audit of projects under Improvement of Roads and Bridges with Central Road Fund (CRF)/ Additional Central Assistance (ACA) showed that the projects were selected in deviation from CRF/ACA guidelines. As a result, eight roads under CRF were not directly connected to places of important market centres, economic zone, agricultural region and tourist centres. Similarly, 42 roads under ACA were not connected to any places of tourist importance or cultural heritage.

The projects were not completed due to delay in acquisition of land, shifting of utility services, removal of encroachments and want of forest clearance. As a result there was delay in completion of projects. The delay ranged from 60 to 1188 days.

The guidelines required adherence to IRC specifications. There were several instances of deviations leading to avoidable extra expenditure of ₹ 87.44 crore. Preparation of estimates in deviation from OPWD Code, Schedule of Rates and Analysis of rates led to undue benefit of ₹ 25.68 crore to contractors.

Government of India released only 47 *per cent* of the sanctioned cost under CRF due to under utilisation of funds by Government of Odisha.

(Paragraph 3.6)

1.6.7 *Undue benefit to contractors*

In three Roads and Buildings divisions, average lead distance, instead of shortest lead distance, was adopted, in the estimates of seven road projects. This inflated the estimated cost of works by ₹ 27.24 crore. Award of works based on these inflated estimates led to undue benefit of ₹ 25.61 crore to contractors including tender premium.

(Paragraph 3.7)

1.6.8 *Extra cost due to incorrect inclusion of conveyance charges to prime cost for calculating overhead charges*

A review of the item rates of the works showed that conveyance charges were added to prime cost. Thereafter, overhead charges at eight/ten *per cent* and contractors profit at 10 *per cent* were calculated and added. Further, one *per cent* labour cess was also calculated on conveyance charges and added. These

inadmissible elements for purpose of calculating overhead charges, contractors' profit and labour cess had inflated the estimated cost by ₹11.01 crore.

(Paragraph 3.8)

1.6.9 Avoidable cost due to unwarranted/excess provision of Bituminous item

In Malkangiri (R&B) Division sanctioned estimates of seven works showed the traffic of one MSA² and CBR³ value ranged from two to five *per cent*. As per IRC specifications there was no requirement of Bituminous Macadam (BM). However, BM of 50 mm to 60 mm was provided. Further against requirement of 20 mm Semi Dense Bituminous Concrete provision was made for 25 mm to 30 mm. Thus, unwarranted provision of BM and excess provision of 05 to 10 mm SDBC inflated the estimates by ₹ 66.63 crore. The extra cost due to inflated estimates worked out to ₹ 65.38 crore taking into account the tender premium.

(Paragraph 3.9)

1.6.10 Avoidable cost due to provision of surface dressing

As per Indian Roads Congress specifications the bituminous surfacing shall consist of either a wearing course or a binder course with wearing course depending upon the traffic. However, in five Divisions, in the estimates of 19 works, provision of surface dressing was made over and above the binder course and a wearing course. This violated the Indian Roads Congress specifications leading to extra cost of ₹ 12.08 crore.

(Paragraph 3.10)

1.6.11 Undue benefit to contractors

As per the State Analysis of Rates, the total distance from quarry to work site should not exceed the distance from quarry to mixing plant plus distance from mixing plant to work site to carry mixed materials. However, in two divisions the estimates of three road works included extra lead charges⁴ from mixing plant to work site. This was in addition to lead charges provided from quarries to work site for transportation of stone products. This inflated the estimated cost leading to extra cost and undue benefit of ₹ 4.77 crore.

(Paragraph 3.11)

1.6.12 Avoidable cost

As per Indian Roads Congress guidelines where California Bearing Ratio (CBR) of sub grade soil is less than two *per cent*, the design should be based on sub grade CBR value of two *per cent*. Capping layer is provided where the CBR value of sub base is less than 2 percent to raise the CBR value to 10 percent. In six divisions, estimates provided capping layer of sand ranging from 115 mm to 450 mm although CBR value was more than two *per cent*. The unwarranted provision of sand, deviating from Indian Road Congress

² Million standard axles: vehicles per day

³ California Bearing Ratio is a penetration test for evaluation of the mechanical strength of natural ground, subgrades and base courses beneath new carriageway construction.

⁴ Transportation charges for carrying materials from the quarry located at a particular distance

guidelines inflated the estimated cost by ₹ 8.12 crore. With tender premium/discount the extra cost worked out to ₹ 7.55 crore.

(Paragraph 3.12)

1.6.13 *Avoidable expenditure due to use of morrum and sand instead of earth*

As per Indian Roads Congress specifications, sub-grade constructed for road formation should be well compacted with earth available on project area or borrow earth. In four divisions, provisions were made in the estimates of four works for 0.78 lakh cum of morrum and 6.57 lakh cum of sand instead of earth. The undue provision of morrum and sand against earth resulted in extra cost of ₹ 12.66 crore. As of March 2017, with tender premium ₹ 13.09 crore had already been passed on to the contractors.

(Paragraph 3.13)

1.6.14 *Excess provision of pavement thickness led to extra cost*

In five divisions, estimate of five road projects showed the CBR of sub grade soil ranged from four to eight *per cent* and cumulative traffic from three to eight MSA. As per IRC specifications, the required thickness of pavement consisting of Granular Sub Base, Granular Base and Bituminous Surface ranged from 515 to 620 millimeter (mm). However, pavement thickness ranging from 535 to 685 mm was provided against 515 to 620 mm resulting in excess provision between 5 and 100 mm. This inflated the estimated cost by ₹ 15.65 crore and considering rates quoted by bidders the extra cost worked out to ₹ 13.16 crore.

(Paragraph 3.14)

1.6.15 *Response to Audit*

A review of IRs issued up to March 2017 pertaining to 12 departments showed that 9,219 paragraphs relating to 2,944 IRs were outstanding at the end of June 2017. Of these, 1,046 IRs containing 2,213 paragraphs are outstanding for more than 10 years. Even first replies from the Heads of Offices, which was to be furnished within one month, have not been received in respect of 319 IRs issued up to March 2017.

Serious irregularities noticed in audit were included in the Reports of the Comptroller and Auditor General that were presented to the State Legislature. The Administrative Departments were required to furnish explanatory notes on transaction audit and performance audit paragraphs included in the Audit Reports within three months of their presentation to the State Legislature. Audit observed that in respect of Audit Reports from the year 2007-08 to 2014-15, nine departments did not submit explanatory notes on 35 paragraphs. Four departments did not submit explanatory notes on five performance audits as of March 2017.

The Public Accounts Committee (PAC) made 730 recommendations on Audit Report paragraphs from the First Report of Tenth Assembly (1990-95) to Fifth Report of Fourteenth Assembly (2009-14). Final action on 42 recommendations out of 730 recommendations was awaited as of March 2017.

(Paragraph 3.15)