

APPENDIX 'B'

SOME KEY CASE STUDIES FROM AUDIT REPORTS

1

PROCUREMENT FOR OPERATION VIJAY (ARMY)

'Operation Vijay' was launched in May 1999 to flush out Kargil intruders. To cope with the emergency situation created by this development and to ensure expeditious procurement of items of stores specifically required for OP Vijay, Ministry of Defence issued orders in June 1999 modifying several payment terms like not insisting on performance bank guarantee from the vendors and payments through 'Letter of Credit' on dispatch of stores instead of the normal system of advance payment against bank guarantees.

The Audit Report on 'Procurement for OP Vijay (Army)' which the C&AG brought out in 2001 (No. 7A of 2001) relates to audit of Kargil operation purchases made during the calendar years 1999-2000. The origin of this review was a specific request from Government of India to the C&AG for a special audit relating to such purchases in view of allegations of irregularities in emergency procurements for these operations. The C&AG in his audit decided to (a) assess the efficiency, economy and effectiveness of the defence procurement system in an emergent situation, and (b) identify the major cases of irregularities. The Report was presented to Parliament in December 2001. A draft Audit Report on these purchases prepared by the office of DGA Defence Services was scrutinized in the Headquarters and a decision was taken to carry out a more indepth study with focused attention to the two objectives stated above. Accordingly, a team under the then Principal Director¹ in the C&AG's office dealing with Defence Audit Reports was formed for conducting a fresh exercise. After going through the various files of contracts and purchases and looking to the enormity of the data involved, he decided to create a computerized database of all the information for a better analysis of the procurement. This data eventually enabled the Audit to not only understand the big picture regarding Kargil operation purchases but also helped it to pinpoint the key cases of procurement. Of course, the individual purchase cases were scrutinized as usual through the concerned files. The final output of

this exercise was definitely a vastly improved account of the audit of procurement cases relating to Kargil War. The drafting for this new report which was mostly done by the Principal Director and ADAI (Defence) was very much accountability oriented bringing the glaring irregularities to light very effectively. Perhaps, pointed observations on the deficiencies and malpractices in procurement and the excellent drafting of the Report left no option for Ministry of Defence but to send a quick response.

C&AG's Audit Review created tremendous furore in the media and in Parliament. The report came down heavily on the procurement system and purchase of substandard equipment and material for the Kargil War. The report, inter alia, made the following observations:

- ❖ Even as Ministry relaxed extant procedures to secure supplies quickly for Operation Vijay yet the very purpose of relaxing the procedure was defeated since nearly all the supplies were either received, or contracted well after cessation of hostilities and therefore not meant to support Operation Vijay. Supplies valued at Rs.2150 crore were received after the end of the hostilities in July 1999 and, of this, supplies, of Rs 1762.21 crore were actually received six months after the end of hostilities.
- ❖ The relaxation of rules and procedures eventually cost the Govt. Rs.44.21 crore involving a number of items.
- ❖ Equipment and supplies of Rs 260.55 crore did not meet the quality parameters.
- ❖ Ammunition worth Rs 91.86 crore were such whose shelf life had expired.
- ❖ Purchases in excess of authorization of requirement were valued at Rs. 107.97 crore.

In addition to the above, Audit also discovered that ammunition of the value of Rs. 342.37 crore were contracted for import on grounds of operational emergency although the same was available inhouse since it was being produced in the ordnance factories or PSUs. In summary, therefore, while at one hand, critical supplies of clothing, ammunition, and arms could not reach the troops during the operation, Rs. 1046 crore (nearly half of the total expenditure on the operation) was spent without any result or use. In the process, established principles of propriety were breached.

When the report was placed in Parliament, it got wide publicity in the media because of the fact that it laid bare not merely the undue concessions that were granted in the purchase to the suppliers but, more importantly, it demonstrated the total callousness and lack of integrity on the part of persons concerned in the Army in a war like situation. The whole nation was aghast at the way in which the Army, to be precise, the Army Ordnance Corps, had prepared for the supply of essential equipment and material to the troops fighting with the enemy in Kargil. Since the report of the C&AG is referred suo-moto to the PAC, rightly the matter was not discussed much in Parliament but in PAC whose Report was eagerly awaited.

The PAC gave its report in August 2003 but it did not touch upon any of substantive matters contained in the Audit Report on some technical grounds. The Committee was upset with fact that the government i.e. Ministry of Defence, was not prepared to make available to the PAC the report of the CVC on

defence deals for reference. The Ministry declined to submit CVC report on the plea that 'it is based on secret and top secret documents and therefore it would be prejudicial to the interest of the state'. The Committee concluded that they were surprised that such a vital document which was considered essential for scrutiny of these procurement deals had been withheld from them on the ground of secrecy and therefore concluded that they were unable to give their findings on the C&AG's Report on Review of Procurement for OP Vijay (Army).

It is one of the very rare cases where the PAC did not deliver a report even after discussing audit report and taking evidence of the Ministry of Defence. The loss was entirely of public interest and accountability as a result of this confrontation between the government and the PAC, and the nation was deprived of the full story coming out. On hindsight it would appear that the government succeeded in preventing the PAC from giving their recommendations on this audit report which could have otherwise embarrassed them.

However, the Audit report had a far reaching impact otherwise on the government and internally government did proceed with inquiry against the culprit officers, many of whom were punished. More important, the govt. recognized the need for a more transparent and accountability oriented procurement system. To achieve this, the Defence Ministry first brought out a Defence Procurement Procedure Manual in 2005 and in 2006 the Ministry brought out a completely revamped Defence Procurement Procedure Manual which emphasized:

- a) all major decisions pertaining to the procurement process be taken simultaneously for reducing the timeframe for acquisitions;
- b) enhanced transparency by placing the generic requirements of the Services on Ministry of Defence website and generating vendor registration through Internet.
- c) Increased transparency in the conduct of field trials;
- d) Integrity Pact be made compulsory for all contracts above Rs. 100 crore;

In a reply dated 11 September 2007 to a question in the Parliament, the Defence Minister assured the House that action would be taken in 28 cases pertaining to discrepancies in purchases during the Kargil War pointed out by the C&AG in his Report. He also said that on the basis of C&AG's Report, CBI had already registered two regular cases. Minister also informed the House that independent monitors had been appointed in consultation with CVC to vet all defence procurements exceeding Rs. 100 crore as per the provisions of Integrity Pact defined in the Defence Procurement Procedure Manual for transparency in defence deals.

2

REVIEW OF INVENTORY MANAGEMENT IN ORDNANCE SERVICES²

This was an audit analysis of the Inventory System of the entire gamut of Inventory Management policies, practices and procedures in ordnance services. The voluminous Report of 164 pages (including annexures) dealt with exhaustively on Inventory Management philosophy, how the system operates and covered all essential functions of inventory management relating to provision, supply change management, inventory and budgetary controls, procurement, stock visibility, disposal and warehousing. The Review focused on Class 'B' stores managed at the Central Ordnance Depots (COD) level. It did not cover ammunition and explosives. The Audit Report also admitted that it did not cover several other areas also which were germane to Ordnance Services (the Report listed seven such functions). Another notable feature of this Review was that the IA&AD acknowledged the complete involvement and full cooperation of the Army, 'making a significant departure in approach from the established audit practice of identifying and reporting failures'. Only this Review will be known, amongst others, for another reason namely associating a consultant expert in the audit review. The terms of reference to the consultant were such that he was involved in the entire process of this review from the framing of audit objectives to assistance in the final drafting of the review.

Main Audit Findings: The Review pointed out to the outdated policies, practices and procedures of Inventory Management in the Army which were rooted essentially in the experiences of Second World War. Even though modified and adapted from time to time, these had not been subjected to any comprehensive appraisal to bring them in line with modern practices in the field of material management.

The audit review, therefore, examined whether the prevailing inventory management policies, practices and procedures were contemporary and cost effective, bearing in mind the imperative need for the Army to remain in a high state of operational readiness at all times.

The important findings of the Report are captured briefly below:-

- ❖ Provision review, (which is the most important function of Ordnance Services) requires authentic data on consumption and timely information on future force levels besides equipment maintenance policies to enable accurate forecast of requirements followed by prompt procurement action. Audit found that provision related documentation was incomplete or not updated, the system lacked selectivity resulting in according equal treatment to the entire range of inventory irrespective of cost, criticality or ease of availability. An analysis of a few transactions revealed avoidable lock up of inventory valuing Rs. 40.15 crore and procurement of spares worth Rs. 180.72 crore by circumventing the established procedures.
- ❖ The supply chain drew adverse comments and was found sluggish in responding to the needs of the troops. It was also highly inflexible chain and non-selective where almost all items were procured centrally and

then following the same channels of distribution. It ignored the ready availability of large inventory items of common civil end use in most parts of the country.

- ❖ Delays were galore in the issue of initial stocking guides. Certain stocks were so high that they were likely to last for indefinite period of time. There was no provision for financial approval of the inventory scales by Ministry of Defence.
- ❖ The existing arrangements for budget and inventory control were found inadequate and were fraught with risks of over or under provisioning.
- ❖ Audit commented heavily on the store keeping and clerical staff because there was no system or structural arrangement for induction training while their educational qualification was only up to SSC. A remedial measure suggested by Fifth Central Pay Commission could not be put to use due to resistance from staff.
- ❖ Inventory valuation procedure was unscientific and unreliable for decision making.
- ❖ On computerization of inventory, audit finding was that although initiated in late sixties, its implementation has been discontinuous and fragmented. As a result, full use of computerization could never be made. A project sanctioned in 1994 to get over the problems was lagging behind schedule.
- ❖ A serious point noted was absence of agreement in the inventory reported as verified by the depots and that reflected in the annual audit certificates rendered by the concerned Controllers of Defence Accounts. Surpluses/ deficiencies remained unreconciled for a long time. Huge inventory of spares as revealed by test check was lying unidentified even after four years of its receipt despite depots reporting continuously 100 percent stock verification every year.
- ❖ The overhaul / repair programmes were affected due to non—availability of critical and vital spares. Also, cases of rejection of stores not meeting the specifications were a common occurrence.
- ❖ Large scale proliferation in variety of items of civil end use was found in the Ordnance inventory. Standardization was never seriously attempted.
- ❖ The stock holdings were ranging from 2.79 times at one depot to 29.28 times at another depot, of the average annual issues made. Audit estimated that based on the prevailing consumption trend, the stores in hand were likely to last up to 100 years and beyond in some cases and for an indefinite period in some other cases.
- ❖ The prevailing system of identification of surplus stores and their disposal were severely constrained by time consuming procedures. Delays in disposal action were galore. Audit noted that while inventory valuing Rs. 55.09 crore was pending for disposal, serviceable stores valuing Rs. 156.4 crore were lying in open as unwanted stores and occupied precious covered accommodation.

Recommendations: A commendable feature of the Audit Report was that it made 68 recommendations and Ordnance Services and the Ministry fully agreed with 51 of these. Audit view was that if these recommendations were implemented, there could be great value addition in the following areas:-

- ❖ Segmentation of inventory for selective inventory control
- ❖ Reduction in procurement lead time resulting in lesser investment on inventory, besides saving of storage space and inventory carrying costs.
- ❖ Realistic scales for procurement resulting in avoidance of over—provisioning.
- ❖ Delaying of supply chain which would respond effectively and enhance user satisfaction
- ❖ Enhanced stock-visibility
- ❖ Variety reduction through standardization
- ❖ Speedy disposal of surplus stores.

Ministry of Defence had in July 2001 acknowledged that this review 'was sharply focused and very useful'³.

3

PERFORMANCE AUDIT OF THE DIRECTORATE GENERAL OF QUALITY ASSURANCE

QUALITY ASSURANCE OF ARMAMENTS⁴

A high quality Audit Report brought out in 2005 by C&AG dealt with a vital organization of the Defence Services namely, Directorate General of Quality Assurance (DGQA). This office has the responsibility of ensuring high standards of quality and reliability of defence equipments. The responsibility of this office extends to 'effective production and procurement quality management policies, procedures and practices that form the basis for establishing confidence that items inducted into service not only conform to the quality standards required by the users but would stand up to the rigours of expected use and also represent good value for money'. An Audit Report on Equipment Management brought out during the earlier periods had commented adversely on quality deficiency during production, procurement and exploitation stages of the equipment life cycle. This performance audit report, therefore, was very timely and aimed to examine 'whether the quality assurance policies, procedures and practices in vogue were in tune with the present day needs and whether DGQA was suitably organized, equipped and staffed to discharge its responsibilities effectively ...'.

This performance audit was undertaken by the Director General of Audit, Defence Services by involving a consultant expert who was a high ranking retired army officer. The involvement of a consultant expert, proved to be of great value. The report was prepared with the full involvement of DGQA, the Army and the Secretary (Defence Production Units) as well as heads of auditee (29 meetings with these authorities are listed in the Report). The Report contained eleven recommendations, most of which were accepted by Ministry of Defence and DGQA.

The Audit Report opened with the significant observation that DGQA's functioning under the Department of Defence Production was an organisational infirmity which was impinging on its independence. Audit supported the

assertion by comparing the position in this regard obtaining in several countries, specially in UK and Australia where the quality assurance was organised as an independent support group under Ministry of Defence, while in USA many of the quality assurance services were outsourced. Audit recommended that DGQA should be distanced from the production organisation and assume 'the role of a second party quality assurer within the ambit of the Ministry of Defence'. The report also recommended feasibility of creating a Defence Quality Assurance Board (DQAB) with due autonomy as per the recommendations of Rajadhyaksha Committee. The Ministry of Defence responded to this saying it had no objection to transfer control of DGQA to Defence Quality Assurance Board, as and when constituted.

The report brought out some more infirmities in the system as given below:

- ❖ No quality policies or standards had been laid down either by the Ministry of Defence or by the Army.
- ❖ Essentially DGQA had not been able to evolve from being an inspection agency into a quality assurance agency as regards systems, procedures and practices.
- ❖ Multiplicity of Controllerates of Quality Assurance, who were the nodal field formations for quality assurance, also contributed to inefficiencies and problems of coordination.
- ❖ DGQA was unable to effectively perform quality assurance functions primarily because of the inappropriate model of quality assurance where DGQA had assumed the role of first party quality assurer, even though, it was conceived as a second party quality agency on behalf of the Army. Its role of inspection in the production process was intensive and obviously diluted the responsibility of factory for quality.
- ❖ Similarly, the approach of DGQA to quality assurance of supplies from industry was inspection based. It was again defective since it did not take into account the risks involved in procurement of different categories of supplies.

The report depreciated the existing system of vendor management and vendor development being not conducive to tapping the potential of the industry and development of defence industrial base since DGQA was involved only in registration while the selection of vendors, price negotiation and placing of orders was in the hands of procurement agencies. In particular, Audit was concerned that while DGQA maintained information about the vendors which should ideally be shared with the procuring agencies to help them in taking procurement decisions, but, from an analysis of 25 cases of procurement decisions selected at random, it came out that, in atleast 7 cases the decisions taken were not in conformity with the vendor information available with DGQA; it also found that vendors' grading and rating were not made available to the Tender Purchase Committee (TPC) during selection of vendors for order placement which defeated the very purpose of vendor rating. The contractual provision was found weak by Audit and inadequate pre-despatch inspection militated against effective quality assurance of imports. Most of these were suppliers dictated with little or no redressal available. The accountability system suffered due to dispersal of responsibility for ensuring

serviceability and reliability of ammunition stocks held by the Army, between Ordnance Service and DGQA.

Audit was also concerned that documentation of specifications was not a priority issue with DGQA. The DGQA had been able to document the particulars in full for only 47 per cent of the defence products in use. Since the DGQA performed the function of Authority Holding Sealed Particulars (AHSP) any waiver or deviation required their approval. Audit also found that control in this regard lacked consistency and was often discretionary resulting in conflict with the manufacturers. Audit concluded that AHSP was an outdated method of controlling the specifications since world over countries were adopting the 'configuration management' to achieve documentation control and management of specifications.

Other points dealt with in the Audit Report related to direct recruitment of technically qualified personnel to DGQA and existence of multiple cadres and levels of posts that created a layered organization unsuited for quality assurance work.

The Report expressed the hope that since both Ministry of Defence and DGQA had accepted most of the recommendations of Audit, the implementation of these would help in improving the systems to be in tune with contemporary needs of production units and the Army.

In the opinion of C&AG Kaul this Performance Audit was conducted 'incorporating a management audit angle to enable the executive to streamline the organization and the system. The systems were studied by Audit in comparison to best practices world wide in other armies of the world.'

This paragraph was not selected by PAC for evidence. However, ATN received from the Ministry of Defence revealed that action as per the recommendations of the Audit Report had already been taken/ initiated in many cases.

4

ACQUISITION OF SU-30 AIRCRAFT⁵

The Air Force suffered serious combat capability due to fleet obsolescence most of which was inducted in mid nineteen seventies and early eighties and the Ministry of Defence entered into a contract with manufacturer of SU-30 aircraft to supply 40 SU-30 MK aircraft at a cost of Rs. 6310 crore inclusive of indigenous development and import of avionics systems. The contract was for supply of fully upgraded SU-30 MK aircraft in a phased manner commencing from the first half of 2001. The upgradation was to be completed by integrating avionics to be supplied by India to the aircraft manufacturer. The induction of the aircraft into the Air Force had been greatly delayed due to reasons which were analysed in Audit Report. As per the contract, 10 aircraft out of 40 were to be delivered fully upgraded during 2001 while the remaining 30 were to be upgraded in India/plant site in a phased manner during 2001 to 2002. Audit Report made following observations on the deal:

- ❖ Unrealistic assumptions were made regarding the indigenous development of certain avionics systems and lead time for import of the systems of western origin for upgradation of the SU-30K air defence aircraft into multirole SU-30MK version.
- ❖ The milestones set by the Ministry were unrealistic since the track record of government in this respect in the past, in similar circumstances of dependence on imports had been dismal, going by the 'failures and delays in development of vital defence equipment brought out in several cases by the Audit'.
- ❖ The original induction programme of SU-30MK multirole aircraft has already been delayed by 18 to 24 months and was likely to be further delayed. 'Meanwhile, the Air Force will have to either live with the depleted force level or will be compelled to use the ageing fleet despite an expenditure of Rs.2432 crore as of August 1999'.
- ❖ The Ministry chose to follow an uncertain route of joint development by equipping the SU-30K air defence aircraft with modern avionics systems to be imported and supplied by Government of India and through indigenous development and production, to convert it into a multirole aircraft. This divided responsibility for procurement of the systems and their integration blurred the responsibility of the manufacturer towards producing an integrated state-of-art multirole aircraft system.
- ❖ The development and production of key avionics systems like mission computer, display processor, radar computer etc. taken up by the DRDO and associated production agencies had been delayed by 30 months. Certain sub-systems were still in the development stage.
- ❖ Not only did the Ministry fail to ensure development of the systems identified for indigenous development, it also failed to place procurement orders for western avionics items for supply to the manufacturer as per contracted schedule. Selection and procurement of Western avionics systems had been delayed by 4 to 24 months. Contracts for some of the systems had not even been concluded.
- ❖ The delay compelled the Ministry to re-schedule the delivery of 22 partially upgraded and 10 fully upgraded versions of SU-30MK multi-role aircraft and ultimate upgradation of the eight SU-30K air defence aircraft. Even this revised schedule was not likely to be met. (The latest update indicated that the last batch of 10 aircraft were finally delivered by December 2004 without fully customized).
- ❖ The aircraft was evaluated without formulating the ASR and firming up the need in disregard of the approved guidelines issued in 1992, as recommended by the Public Accounts Committee.
- ❖ Due to delay in development and delivery of indigenous and western avionics, the Ministry was compelled to import 10 additional SU-30K aircraft at a cost of Rs. 1187 crore, which was not suitable for multi-role performance.
- ❖ The manufacturer violated the contractual provisions and supplied old, used, defective and unserviceable items valued at Rs. 15.51 crore. The Ministry had to release the payment as it was contractually bound.

PAC observed that the unrealistic assumptions regarding the capability of timely indigenous development of certain avionics systems and lead time for import of the system of western origin for upgradation of the SU-30K air defence aircraft into multi-role SU-30MKI version seriously jeopardized the schedule of induction of this aircraft into the Air Force. The delayed induction programme not only afflicted the operational equation of Indian Air Force 'but would also entail additional financial burden on the exchequer estimated to be US \$ 9.82 million towards upgradation of the aircraft to multi-role version'. Besides, indecisiveness of the Ministry led to non-establishment of a service Support Centre at the operating base of IAF, considered essential to reduce the down time of the aircraft, which also affected the maintainability of SU-30 fleet. The product support from the manufacturer was far from satisfactory, imposing operational limitation on the fleet. Another disquieting fact was that a viable repair / overhaul facility was yet to be realized even though the SU-30 fleet was more than three years old (at that time). Over and above, the manufacturer violated the contractual provisions and supplied defective and unserviceable items, but due to the faulty provisions drafted into the contract, the Ministry failed to adequately safeguard and secure the legitimate claims of the Government. The Committee came to the inescapable but unhappy conclusion that this complex collaborative venture, fraught with many uncertainties, was badly executed and ultimately turned out to be one of the main causes for abnormal delay in the availability of the SU-30 multi-role aircraft for the Air Force.

On the Action Taken Report on their recommendations placed in Parliament in December 2003, the Committee were extremely constrained to observe that the Ministry again failed in their joint development mission to accomplish the induction programme despite seeking repeated revisions in delivery schedule. While pointing out that the fully upgraded SU-30 multi-role aircraft still eluded the Air Force, the Committee urged upon the Ministry to gear up their core monitoring mechanism for expeditious completion of the Joint development programme so as to equip the Air Force with the much needed aircraft at the earliest.

5

PERFORMANCE AUDIT OF NATIONAL HIGHWAYS DEVELOPMENT
PROJECT
OF NATIONAL HIGHWAYS AUTHORITY OF INDIA⁶

National Highways Development Project (NHDP) is a flagship programme of the Government of India, being executed by National Highways Authority of India (NHAI). NHDP was to be executed in two phases: Phase 1 comprised 6,359 km of road length at an estimated cost of Rs. 30,300 crore scheduled to be completed by June 2004. The completion of Golden Quadrilateral which was meant to link four metro cities of Delhi-Mumbai-Chennai-Kolkata was the main component of this programme. Apart from the Golden Quadrilateral, the NHDP was also to execute in Phase I, 671 km of North-South-East-West

corridor out of total 7,300 km and in addition, 674 km was to be executed for works like port connectivity and by-passes. The scheduled completion date was June 2004, NHAI could complete works only to the extent of 1846 km (29 per cent). The latest update on this available from the COPU Report and based on the audit submission was that as of 30 April 2006, NHAI had completed 4026 km completely and 1298 km partially (83.71 per cent). This meant that the revised target date of December 2005 was also overshoot. In implementing the project NHAI, was expected to execute it within the time frame and within the cost estimates.

As an executive agency, NHAI had a broad mandate to source funding options including loans from external multilateral agencies, involve private sector in financing the construction, operation and maintenance of National Highways and wayside amenities, develop and maintain National Highway Network. Implementation of road safety measures including environmental management and introducing information technology in construction and maintenance of National Highways were other aspects of the mandate. The project was cleared by the Cabinet in April 2000 at an estimated cost of Rs. 58,000 crore. The NHAI followed an implementation model under which some works were outsourced like Detailed Project Reports (DPRs) through competitive bidding, Project Supervision through Project Supervision Consultants (PSC). In general, NHAI followed FIDIC (International Federation of Consulting Engineers) system of project supervision.

The audit of this project was initially taken up in 2002 with some pilot studies, results of which suggested that the assumptions of audit that this project was not being implemented efficiently and economically were correct. The pilot study covered sample size of six PIUs only and detected irregularities with financial implications of about Rs. 198 crore. After this, a full fledged review of the implementation of NHDP Phase I by NHAI was taken up in Audit.

This audit was carried out before the Performance Auditing Guidelines were published. However, its methodology and approach resembled so closely to the new performance audit methodology that it could as well be categorized as a performance audit conducted under the new guidelines. The audit objectives were clearly spelt out and as far as audit methodology was concerned apart from carrying out the pilot study, an expert consultant (M/s Central Road Research Institute) was also engaged for preparing detailed guidelines on the technical aspects and records to be seen during audit, technical inspection of selected stretches of National Highways and providing technical guidance during the course of audit. Audit discussed the audit programme methodology and audit objectives in an Entry Conference with the Member (Finance) of NHAI, in May 2003 besides having several meetings with the management during the course of audit. An Exit Conference was held after management's response was received by Audit. An Exit Conference was also held in April 2005 with the Secretary, Ministry of Shipping to obtain the views of the Ministry which was received on 19 April 2005. The Report was placed in Parliament on 11 May 2005. Audit Report has acknowledged the cooperation of NHAI during the meetings and during the course of audit.

This audit was undertaken when the Project was still on and therefore, its merit lay in the fact that mid-course corrections or future corrections on the basis of recommendations made were possible. And as it came out subsequently, the NHAI did carry out a number of reforms based on the audit recommendations and subsequently, on the basis of COPU recommendations. This is the main achievement or impact of this Audit Report.

Main Findings: Findings on this Project revealed serious deficiencies in NHAI's procedures and contract documents causing execution of sub standard works in several stretches out of 32 examined in Audit. The main audit findings in the review can briefly be summarized as below:

- ❖ Serious deficiencies in planning were noted for e.g non-synchronization of pre-tender activities, non-preparation of DPR in many cases and non-coordination or prioritization of the various packages of the work.
- ❖ The foremost risk to the Project was due to imprecise terms of contract with design consultants who were to prepare Detailed Project Reports (DPR) and Project Supervision Consultants (PSCs) who were responsible for supervision of works. They were eventually the main reason for the underperformance of PSCs and resulted in time and cost overrun. The terms of reference for preparation of DPRs by the design consultants and of Project Supervision by PSCs were not determined comprehensively. Result: the quality of DPRs and the project supervision were left to the discretion of the consultants and their underperformance could not be linked to any relevant terms of reference like performance warranty and penalty for underperformance. DPRs were deficient in so many aspects (like precise determination of quantities, nature of items of works, land to be acquired, sub-soil investigation, bridge design, services/ utilities required to be shifted and design of key items of work etc.).
- ❖ Tender documents were not prepared with due care and inconsistencies in several clauses like variation clause, price escalation clause, recovery clause for mobilization advance were noticed in different documents, meant for different stretches of road (work packages). This observation of audit had an impact on the Ministry who responded to Audit saying that bid documents had been standardized in case of mobilization advance clause and variation clause.

A more worrisome aspect was wide variations in the estimated quantities and quantities actually executed. Bill of Quantity was also not standardized.

Audit noted that no uniform system or practice of tender evaluation was followed. There was no reliable system for verifying credentials of the bidders and for keeping bank guarantees valid through periodical renewals.

One of the key audit findings was the failure of the project supervisory consultants (PSC) in the discharge of their functions and audit reckoned this as one of the major cause of the underperformance of this project and time and cost overruns. The PSCs failed to demonstrate efficient contract management abilities. This was evident from a number of non-compliance to contractual provisions which were abandoned and which resulted in significant losses and extra payments. Some typical mismanagement included the issue of variation order in individual bill of quantity far above their own authority.

Liquidated damages in five works packages totaling Rs. 51.49 crore were not proposed even when due.

PSCs did not conduct eight mandatory tests out of 14 such tests prescribed for them. This, therefore, defeated the very purpose of engaging highly qualified engineers as PSCs. PSC failed to carry out several other responsibilities and duties assigned to them.

While PSCs performed very poorly and their deficient functioning and supervision was the main cause of the project's time and cost overrun, in the absence of any contractual clause regarding performance warranty or penalty for underperformance, no action could be taken against them. This showed total casual approach of the NHAI in the drafting of terms of reference for PSCs.

Another contributory factor for deficient management of the contract was non-mobilization of key personnel as defined in bid documents or their frequent replacement. This resulted in compromise of quality of supervision.

The audit comment on the role of PSCs was seemingly very pointed and the Ministry eventually moved in the matter by appointing a Committee in July 2003 with a promise to take action against erring PSCs.

In terms of overpayments and losses, a large number of cases were quoted in the Audit Report: the total implication of the lapses or deficient management in terms of overpayments, avoidable payments, extra payments etc. was Rs. 1547.97 (or 1548 crore rounded) in the sample checking of 32 stretches out of 175 stretches under execution. This would give an idea of sloppy performance of NHAI in executing such an important National Project.

COPU discussions: The COPU discussed the main areas of the working of NHDP as covered in the C&AG's Audit Report and made recommendations thereon. Of these, more important ones related to delay in completion of NHDP phase I, consultants and contractors, standardization of stretches, contract management, restructuring of NHAI, toll revenue, project monitoring, information system and accounting practices. COPU made twelve recommendations in all. The Committee recommended a modified system of monitoring so as to ensure that the delay occurred in phase I of the project was not repeated in subsequent phases of NHDP. This had a ten point agenda that comprised preparation of monthly progress reports project/ sub-projectwise by the NHAI, its consideration by the NHAI Board with a view to identify the areas of concern for taking remedial measures on them and more frequent meetings by Committee of Secretaries (COS) headed by the Cabinet Secretary for review meetings at least every quarter on the Action Taken Note of NHAI Board.

The main recommendation on this subject related to speedy resolution of problems relating to land acquisition and other matters. The Committee made recommendations for review of existing procedure on land acquisition in the light of experience gained during the implementation of NHDP. Another recommendation of concern was laying down a time limit for processing of bids for award of contracts to avoid any delay in this work.

It wanted a day to day monitoring of performance of contractors and stiffer penalty if they underperformed. Similarly, the Committee wanted that

monitoring role of Project Implementation Unit (PIU) of NHAI should be strengthened. Finally, the Committee recommended that National Highways Act, 1956 needed suitable amendment for expeditious acquisition of land. It also outlined the lines on which such amendments should be carried out.

Although, the Committee fully agreed with the recommendations of Audit that NHAI needed to frame and issue guidelines/policy directives to the DPR consultants for ensuring uniform design practices and for initiating action against consultants in case of deficiencies etc. it noted with some satisfaction that NHAI already had strengthened the system by revamping the system of DPR preparation, providing for peer review of DPRs and associating the field officers of NHAI in preparation of DPRs. On the role of Project Supervision Consultants (PSCs) who were responsible for the overall supervision of the works related to project implementation, the Committee while accepting the audit view in the matter reviewed NHAI's reply and their efforts to proceed against erring PSCs including debarment of the consultants for participating in future contracts and for recovering damages for negligence and misconduct. They came to the conclusion that the shortcomings have been properly addressed and with the modification of standard contract documents for civil contracts as well as consultancy contracts, the position had become much better.

The Committee further observed that NHAI miserably failed in lot of areas concerning project supervision and recommended that overall mechanism of supervision by NHAI should be strengthened and given a radical reorientation for making it more effective. The Committee appreciated audit observations on quality of work executed and felt that adherence to quality assurance procedures was vital for the success of the entire NHDP. The Committee was very sore that NHAI did not react to the quality audit reports endorsed to them by the Audit. The Committee called it a bluff of NHAI that they had issued guidelines to all Project Implementation Units covering general deficiencies observed by Audit because their own consultants Engineers India Limited pointed out several deficiencies in the quality assurance procedures. The Committee finally agreed with the recommendations of Steering Group constituted by the Ministry in the year 2001 and recommended that NHAI should follow these recommendations in letter and spirit and should not compromise on any aspect of quality of the executed works.

Regarding preparation of contract documents, the Committee noted with satisfaction that the deficiencies pointed out by Audit have been corrected by the NHAI and the same had been verified and found correct in the follow up of audit conducted by C&AG.

Regarding the issues of standardization of Bills of Quantities, specially standardizing the per km quantity of bituminous work, the Committee were not satisfied with the response of the NHAI that it was not feasible to do such standardization for various reasons. The Committee were of the strong view that NHAI must explore the possibility of standardization of bituminous course to the best possible extent in view of data collected so far in this regard. It also wanted that the whole set of operations be made more transparent and accountable.

On the Bank Guarantees, where the Audit comment was that no reliable system or mechanism of verifying the credentials of the bidders and keeping

the bank guarantees valid through periodical renewals to avoid their expiry existed, the Committee came down heavily on the NHAI and recommended that responsibility must be fixed on the concerned officers of NHAI who were responsible for verification and timely renewal of bank guarantees in view of the losses suffered by NHAI on these counts. It further, wanted that NHAI must put into place a fool proof and legally sound system of handling the bank guarantees.

Regarding the escalation payment, the Committee noted that NHAI/ Ministry admitted that contract conditions for 15 out of 28 contract packages relating to escalation payment were worded differently leading to inadmissible payment of escalation. The Committee strongly recommended, therefore, that NHAI should make all possible efforts to recover Rs. 65.98 crore so paid after reducing the recovered amount of Rs. 11.73 crore.

On the toll collection which was a very important point in the Audit Report and on which as per audit observation, there was a loss of toll revenue of Rs. 42.23 crore, the Committee was of the view that proper collection of toll revenue was of great significance and wanted that proper planning, timely action for issuance of toll notifications and putting up of toll plazas and engagements of agencies timely for toll collections are of paramount importance. It wanted the implementation of the Modern Toll Collection System as a future solution. It gave detailed directions as to how NHAI must proceed for future tollable stretches.

In a significant recommendation, the Committee, while recommending restructuring of National Highways Authority of India in line with the recommendation of Inter-Ministerial Committee constituted under the chairmanship of Secretary, Road Transport and Highways, lamented that there was a laxity on the part of Government for not initiating these measures during the initial stages of NHDP. It desired that all efforts must be made to complete the whole exercise of restructuring the NHAI by the end of the year 2006.

Overall, the Committee said that it was inclined to give a lenient view to NHAI with regard to the deficiencies pointed out in Audit, keeping in view, the fact that 'Authority' was performing such a mammoth task for the first time. It attributed this to the lack of experience by NHAI in handling projects and programmes of this magnitude. It hoped that in subsequent phases i.e. phases II and phase III already under implementation by NHAI and the approval for other phases like phase IV to phase VI which were already being given by government would be implemented without lapses. It wanted the NHAI to evolve the system for continuously storing and using experiences gained over the passage of time.

From the foregoing fact, what comes out very strikingly is that the Audit Report made after the fourth of the operation of the scheme was able to bring about substantial improvements in systems and procedures of NHAI. Apart from this, audit observations led to recovery of a significant amount due to its pointing out the overpayments etc. to the executive. Overall, the impact, this Audit Report produced either directly or via the recommendations of the COPU was tremendous and possibly it was one of the most productive audit reports in that sense and the fact is that all these were achieved with the involvement and cooperation of the executive.

ADVANCE LICENSING SCHEME

The Advance Licensing Scheme⁷ also called Duty Exemption Entitlement Certificate (DEEC) introduced in 1976 had the objective of providing registered exporters with basic inputs at international prices without payment of customs duty in India. Various notifications issued from time to time granted duty free inputs of raw materials, intermediates, components, consumables, parts, computer software, accessories, mandatory spares, etc. The scheme permitted the exporters to import all of these without any payment of customs duty but the underlying condition was an obligation on the part of the importers to export the finished product as per the prescribed input/output norms within the prescribed time frame. The licensing authority was to obtain a bond/bank Guarantee or legal undertaking from the importer which could be, if necessary, enforced by licensing /custom authorities in the event of default in the prescribed conditions by the importer.

The scheme is administered by Ministry of Commerce/DGFT and the Ministry of Finance Accounts (customs) issues sanctions for exemption from levy of customs duty on imported inputs. Advance licensing offices are granted under relevant Exim policy.

Advance licensing scheme has been reviewed in Audit from time to time and specially the noteworthy Audit Reports were Audit Report No. 4 of 1996 on Indirect Taxes, Audit Report for the year ended 31 March 1998 (presented to the Parliament in October 1999) and the latest Report on this was Audit Report on Indirect Taxes-customs, Central Excise and Service Tax (Performance Audit) No. 6 of 2006.

The 1995 Audit Report had reported the weak implementation of the scheme and absolutely dismal monitoring mechanism resulting in short fulfillment/non fulfillment of export obligations against the duty free imports. The penal custom duty recoverable for unfulfilled export obligation was not realized and eventually when the Audit Report was discussed in the PAC in 1997, it came down heavily on the malfunctioning of the scheme in its Report presented to the Parliament in November 1997. Amongst the more glaring deficiencies on which the PAC commented included substantially different figures of number of licences issued, their CIF value, export obligation attached etc to the Audit and to the PAC in addition, the figures supplied by the Ministry of Commerce, and that compiled by the Ministry of Finance from the custom houses also differed widely hence the very database was defective on which the PAC expressed its grave dissatisfaction and desired that responsibility be fixed for these lapses in the maintenance of the cost. The second point that disturbed the PAC was shifting data of the Ministry regarding export obligations. The PAC was very much concerned about laxity /failure in monitoring the fulfillment of export obligations.

PAC was also concerned about the grant of extensions to exporters where it came out due to sustained questioning by the PAC that complete information of extension cases was not available and more important no precise guidelines were laid down for the grant of extensions to exporters. It therefore, desired a

thorough probe into the matter of grant of extensions to ensure the exercise of powers in a discreet and transparent manner in genuine cases only and timely fulfillment of export obligations.

The PAC's own assessment, in the case of government's inability to furnish complete and reliable data of the customs duty forgone due to failure to fulfill the export obligations was that about Rs. 5,900 crore were due as customs duty and Rs. 32,805 crore to licensing authorities from these defaulting exporters. The PAC wanted that these cases of default should be firmly dealt with and stern action taken against the defaulters.

The PAC was shocked that the most important and only yardstick for efficacy of the scheme, namely, the amount of additional foreign exchange actually generated through the scheme was not being tracked by anyone of the government agencies. In this matter, there was a blame game played by all the concerned authorities during their evidence. The PAC eventually made recommendation that the RBI should be made responsible for scheme-wise accounting of the collection of foreign exchange.

The PAC was also concerned about the absence of any mechanism for verification of information supplied by the importers in their applications for grant of advance licences, and in regard to the availment of relief by certain importers in excise duty in violation of the scheme, the Committee was extremely unhappy with the dealing of the matter and concluded that 'the inescapable impression that the Ministry of Finance was rather over-concerned in helping out the unscrupulous exporters with little concern for realization of the legitimate dues of the Government'. These remarks followed after the PAC gathered during evidence that even after it became clear through the Audit Report and otherwise that importers had availed of the MODVAT benefit as well as import duty exemptions simultaneously and that Rs. 146.17 crore were recoverable in these cases, no worthwhile action was been taken on this. The lack of accountability was obvious from the fact that these irregular availment were in the knowledge of Finance Ministry since 1994 and the MODVAT credit amount in December 1994 was placed at amount Rs. 500 crore but in January 1995, a study revealed that this was under estimation and actual loss was much more since in one collectorate alone the manufacturer/exporters of one product had taken undue benefit of exemption of Rs. 240 crore. No effective action was taken to recover the amounts and fixing the responsibility for lapses despite orders of the Finance Minister to this effect.

While PAC wanted strong action against erring officials but sadly nothing was done despite the orders of the Finance Minister. The Revenue Secretary admitted as much to the PAC but assured the PAC that 'he would now immediately get an inquiry conducted'. PAC had recommended that a high powered independent inquiry to find out the unscrupulous elements responsible for rampant abuse of the scheme and fix responsibility of the officers for various acts of omission and commission. While the Ministry took remedial steps in line with the recommendations of the PAC, it stated that the failure of the export obligation monitoring system in the past was widespread and therefore, the lapse was collective and it was not possible to identify the specific officers for punishment. The PAC, of course, was not happy with this explanation of the Ministry and reiterated its earlier recommendation for its

responsibility. The Ministry then informed the PAC that a high powered independent inquiry Committee as recommended by the PAC had been entrusted to a group of officers which was being set up to independently inquire into the operation of the Duty Exemption Scheme.

A revisit by Audit on the basis of its earlier study brought out in C&AG's Audit Report for the year ended 31 March 1998 (presented to Parliament in October 1999) that nothing much had changed. This study brought out a loss of revenue of Rs. 3532.20 crore as a result of misuse of the scheme. This was based on a study on three main Regional Licensing Authority (RLA) at Delhi, Kolkatta and Mumbai. Apparently, the old ways were continuing. In 2005, when C&AG yet again reviewed the implementation of the scheme, the results were no better. The data discrepancies on which both Audit and PAC had made such strong comments earlier in 1995 and 1997 respectively showed no improvement. Default in export obligations featured unabated even though the new Exim Policy had extended the period of fulfilling the export obligations from 12 months to 18 months. The outstanding customs duty (Rs. 67.85 crore) alongwith interest (Rs. 26.10 crore) payable to customs authorities was accepted by the RLAs and action was initiated for recovery of these amounts. Customs authorities continued to fail in their duty to initiate action against defaulting importers. Poor monitoring by the authorities was reflected in the non monitoring of 185 cases of non- submission of documents regarding fulfillment of export orders on the expiry of the prescribed period for such fulfillment which resulted in duty forgone of Rs. 187.82 crore besides interest of Rs. 56.02 crore. Several cases of non-monitoring of bonds and non- renewal of bank guarantees were noted involving Rs. 2537.50 crore and Rs. 33.52 crore respectively. The result was non discharge/non- enforcement of bonds/bank guarantees on expiry of their validity. Lack of coordination between the licensing authority i.e. DGFT and customs authority continued. Audit on its own by correlating the data from both Customs and EDI department established, that even though licencees had imported goods worth Rs. 128.21 crore but no export details were available and therefore customs duty of Rs. 76.79 crore with interest of Rs. 36.75 crore plus Rs. 1.28 crore representing one percent of the CIF value of unutilized import material, was recoverable.

Overall, in the audit scrutiny, it was found that as a result of the absence of proper mechanism for coordination between DGFT and customs authorities where importers defaulted, Rs. 130.03 crore remained without any demand and collection from licence holders. Total financial implication of audit comments in this review was Rs. 1371.46 crore, out of which at Audit's behest demand of Rs. 17.27 crore was confirmed in 40 cases. Audit Report therefore, broadly concluded on the same lines as it had in the earlier reviews about shortcomings of the implementation.

VOLUNTARY DISCLOSURE OF INCOME SCHEME⁸, 1997

The Finance Minister introduced the Voluntary Disclosure of Income Scheme, 1997 with effect from 1 July 1997. This Scheme offered a kind of amnesty to persons who had evaded tax in the past to declare their undisclosed income and thereby to return to the path of rectitude and civic responsibility. Broadly the objective was to unearth the undisclosed income. The Scheme was stated to be simple and easy to administer.

An audit scrutiny of the Scheme found it extremely complex because of several lacunae in the text of the scheme which were further compounded by the circulars, notifications, clarifications and press briefings by the CBDT, not all of them consistent with the provisions of the Finance Act 1997. These provided the declarants with an opportunity for widespread misuse through undervaluation of jewellery, bullion, shares and real estate and also 'creation' of capital loss to be set off against income in future years.

The Report also found that ineligible persons took advantage of the Scheme. Their subsequent assessments were also accepted summarily, thereby affording the benefits of the Scheme. The CBDT also created categories of eligible persons not envisaged in the Act such as minors whereby *benami* declarations were made possible. The net effect was that the immediate revenue gain was wiped out in the next few years. An important omission was that the Parliament was not informed of these circulars and notifications though expressly required under the Act.

Post-VDIS action was found missing in the department, which did not monitor the cases of declarations and the Commissioners failed to share information with the Assessing Officers. Audit found that most of assessments were completed under summary manner. Several kinds of irregularities in the implementation of the Scheme, such as multiple declarations, could not be rectified at the assessment stage during the preceding three years enabling the declarants to reap the unintended benefits.

Audit was also able to establish that most of the declarants were found to have taken advantage of earlier amnesty schemes too. A few business houses and family groups declared huge unaccounted income, which pointed towards failure of the department to properly assess such high tax groups in their normal tax collection efforts. There were very revealing findings about the competency gaps or system weaknesses in Revenue Department.

Audit, therefore, concluded that the scheme was not in the interest of revenue collection and in fact, it provided one more opportunity to dishonest assesses to pay tax at the preferred rate and then retire to the old habit of concealing income.

This review contained some observations that touched on the policy. For example, about the secrecy clause of the scheme, the C&AG said, 'while secrecy clause may have its advantage vis-à-vis the declarants who wish to make a clean breast of all the guilt of past years, it afforded an opportunity to several others for manipulations to their advantage'.

The CBDT 'adopted dilatory tactics to deny the C&AG access to VDIS documents and made a reference to Attorney General ignoring completely the provision of Section 72(2) of the VDI Scheme expressly providing for audit by C&AG. CBDT agreed to C&AG's audit after 8 months of C&AG's initiation and still the CBDT failed to furnish a key file requisitioned by Audit. Field parties too faced some problems.

This Review will be rated as a pioneering audit study for a very simple reason that apart from the significance of the subject audited, the audit methodology used was attempted for the first time successfully in this audit. This is best explained in the language of Audit Report itself. On the audit methodology used, the Audit Report says:

'As the declaration form contained minimal information as to the declarant and in view of the secrecy of the information thereof, audit could be conducted only with reference to the stated objectives, database analysis and implications vis-à-vis the regular returns of income and future impact of the Scheme.

Specially designed input sheet containing about 100 fields was used by the field audit staff to collect information. Additional information was extracted from the folders of the declarants on to notepads for eventual computerization. Approximately 12 lakh input sheets were scanned to convert the information into a database.

Separate databases were prepared for the names and addresses of the declarants, for the valuers of jewellery, for the notepad entries, for the search and seizure cases, for the names and addresses of the directors of companies, etc. These were analysed.

Micro-analysis of CIT-wise top 100 declarants was conducted by the field audit offices and for verification of other data.

The audit findings based on the analysis of data, field work of correlation with other files and conclusions have been included in this report'.

The foregoing brings out the enormous data mining done by the audit team, despite heavy odds and not too much of a co-operation from the Income Tax Department. And then the close scrutiny of the database created brought out wonderful audit results in this Review.

8

STATUS AND ADEQUACY OF 'FOLLOW-UP' ACTION IN SELECTED POST-VDIS-1997 ASSESSMENTS⁹

Audit attempted an evaluation of the status and adequacy of 'follow up' action in selected post VDIS 1997 assessments based on audit comments on VDIS 1997 in the Audit Report 12A of 2000. Audit requisitioned assessment records in respect of 21,853 VDIS declarations that were either 'invalid/ non-est' or pertained to new assessee, out of which the department could produce only 4906 cases. The limited test check in Audit revealed short levy of tax of Rs. 228.55 crore in 1081 cases only.

Audit noticed that the action taken by the Income Tax Department to bring such declarants to tax under normal provisions of the Act where

certificates were issued even though tax was paid after the lapse of prescribed period of three months from the date of declaration was inadequate. The department did not have a system to monitor whether the declarants who had declared under VDIS, 1997 had continued to file their income tax and wealth tax returns in subsequent years also.

Audit could not ascertain whether the department had taken action to apply the normal provisions of the Income Tax Act in respect of ineligible persons involved in the 'cobbler scam' or in the 'loan hawala racket' in 9 out of 23 cases produced to Audit which involved a tax effect of Rs. 35.10 crore.

Only one out of 25 cases of 'multiple' declarations produced to Audit had been taxed under normal provisions of the Act.

9

SYSTEM APPRAISAL ON SERVICE TAX

Service Tax was introduced first time from 1 July 1994 on the basis of recommendations of Tax Reforms Committee under Chairmanship of Dr. Raja J. Chelliah, set up by Government of India in August 1991. The Finance Minister admitted that he was beginning with a modest effort in this direction when he introduced the tax from July 1994. In the initial 5 years of introduction, service tax contribution towards additional resource mobilization or correction of physical imbalance was not significant. The appraisal on Service tax, included in the Audit Report¹⁰ of C&AG of India, (Indirect Taxes) for the year 1998-99 highlighted, in the main, the following:

- (i) Full revenue potential from service tax has not been realized due to the inadequate coverage of services.
- (ii) The rate of tax of 5 percent is not in consonance with the rationalized tariff structure of Central Excise and needs to be reviewed in the context of the imminent transition to a comprehensive VAT.
- (iii) Legislative and administrative arrangements for levy and collection of service tax are not at par with other taxes thereby weakening the efficacy of the tax machinery to protect revenue.

The Audit Report analyzed the reasons, which caused this meagre contribution by service tax. These were inadequate coverage of services, staggered coverage of services, exclusion of sub segments of service, grant of exemptions after notifying coverage and ineffective tax administration. The audit emphasis was that compared to the vast potential that this tax had, during the six-year period of its introduction, this tax has added only marginally to revenue realization. The Audit Report made the following comment in this regard '... the Government has failed to extend coverage of service tax to any other major service since its introduction and 72 per cent of its collections are coming from State owned service providers'. Audit, therefore, concluded that major segments of the service sector had been left untaxed. It went on to demonstrate its vast potential, which had been left out. It quoted the report of

the National Institute of Public Finance and Policy of 1995, which had estimated that Government could realize at least Rs. 5,000 crore from such services at the then prevailing prices.

Audit questioned the uniform rate of 5 per cent on the plea that since expenditure on services as a proportion of income increased with the increase in house hold incomes, the principles of equity would therefore require categorization of services along with such goods which were covered in the demerit rate of taxation in the rationalized duty structure enunciated in 1999–2000 Budget. Audit argued that the rate of tax levied was neither based on a realistic estimation of value added in the service sector nor in consonance with the indirect taxation philosophy as elucidated in the rationalized tax structure.

The foregoing remarks essentially attempted to demolish the flat tax policy as regards the coverage of services and the tax rates. Notably, it was articulated in the context of rationalization of tax infrastructure proposed by the government. Audit also observed that in the absence of an independent Act on service tax, revenue authorities were not been vested with punitive powers at par with administration of other taxes.

Audit also commented on the grant of exemptions of some services from levy of service tax after imposing tax on them for some period. In an oblique criticism, Audit commented that by this action of exemption, based on actual collections during the period of levy of service tax on these services 'the Government had chosen to forego estimated revenue of Rs.342.48 crore per year'.

In the foregoing observations of Audit, it can be seen that a discussion of the policy issues was involved. It is worthwhile to mention that all the forgoing comments on policy decisions were made, keeping the interest of revenue in view and it was very much in the mind of the Audit, as it pointed out in its internal notings, that these comments on extent of coverage, staggered coverage, rate of tax and grant of exemptions etc. might not meet traditional norms.

Audit venturing, sometimes, into a discussion on the taxation policy of the government, need not be taken as a violation of the usual norm that Audit does not discuss merits or demerits of government policies. That principle remains very much valid. But in the context of audit of receipts, exceptions to this guiding principle can arise occasionally. As the former C&AG C.G. Somiah said '...Audit evaluation of the raising of resources and their utilization as well as of the achievement of objectives may at times reflect on questions of policies and selection of strategies'¹¹.

The sore point in this audit was the stubborn attitude of the Ministry of Finance not to part with files on the subject even though earlier they had agreed to show these files to a sufficiently Senior Officer. There is a specific mention of a file on service tax relating to levy of the tax on goods, transport and subsequent exemption to it. The department refused to give this file. This was something very regrettable specially coming from the Ministry of Finance, which speaks on behalf of IA&AD in Parliament, if need arises.

Audit, therefore, had to do with a detailed questionnaire on service tax, which was issued to the Ministry. Regrettably, the CBEC did not furnish the information sought in the questionnaire despite the matter being taken up by Additional Deputy C&AG with the Chairman CBEC.

On the basis of audit paragraph, government appointed a Committee to recommend further potentials of service tax. Ten more services were proposed to be brought under Tax Net from Budget 2002.

Standing Committee on Finance in their Fourteenth Report on Demands for Grants (2001–2002) of the Ministry of Finance (Department of Revenue) recommended (April 2001) inter alia introduction of an independent Act on Service Tax, progressive increase on incidence of taxation on services, inclusion of PAN details in ST-1 Form to facilitate cross check of facts and figures provided by assesses. These recommendations endorsed audit conclusions.

10

PACKAGE OF CONCESSIONS TO EXISTING CELLULAR AND BASIC TELEPHONE SERVICE OPERATORS

C&AG conducted a special audit of cellular and basic telephone service operators at the request of the then Minister of Communication. Earlier, Audit had conducted a study of licencing of cellular mobile services in its Audit Report of 1998 and had come to the conclusion that in the licencing for cellular mobile telephone services in the four metros (Chennai, Kolkata, Delhi, Mumbai) in November 1994, the department had suffered a loss/given undue benefit totaling Rs. 837 crore to the licensees. The special audit in 1999, results of which were brought out in Audit Report No. 6 of 2000, had within its scope the following:

- ❖ Implementation of terms and conditions of licence agreements signed under National Telecom Policy 1994
- ❖ Offer to the existing licensees for migration from fixed licence fee regime to revenue sharing regime under New Telecom Policy 1999.

Audit came to the conclusion that licensees of cellular mobile and basic telephone services were given undue favour by the government decision to allow them to migrate from fixed licence fee regime to revenue sharing regime under the New Telecom Policy, 1999 on the basis of their plea that their projections of market size had gone wrong. Audit contended that the above presumption was not correct since the subscriber base of cellular licensees in metros was several times higher than their projections and in telecom circles, licensees were not covering the number of district Headquarters as per the prescribed schedule.

Audit also contended that no detailed study about the financial viability of the projects of basic service licensees was ever conducted.

Audit questioned government resorting to the reports of ICICI and BICP on the financial viability of cellular projects to grant these concessions. This was because the government had already taken action on these reports by March 1999 and granted concessions on the basis of those reports. Taking these reports again as basis for extending further major concessions and justifying the revenue sharing without any fresh studies by an independent agency, in Audit view, amounted to 'grant of double concessions and undue favour to licensees'.

Audit highlighted several other concessions that were uncalled for. For example:

- ❖ across the board extension of six months in effective date to all the existing licensees of basic and cellular operators without examining the cases on merit;
- ❖ for non –charging of one time entry fee from the licensees for migration to NTP 1999;
- ❖ non-payment by cellular licensees of wireless planning and co-ordination license fee and royalty as per Government of India orders (amount outstanding Rs. 162 crore on 31 May 1999).

Audit concluded that government gave the offer of migration in haste without (i) finally deciding the quantum of revenue share chargeable as licence fee, (ii) defining the gross revenue and (iii) finalizing modalities of verification of gross revenue of licensees and prescribing records to be maintained by each licensee for assessment of government share. Also, the undue haste shown in issuing offer of migration was fraught with serious risk of fraud and Audit feared that it might lead to demand for more concessions to licensees in future on similar grounds.

In nutshell, Audit was harsh on the decision of the government for the reasons stated above and concluded that whereas outstanding dues against these licensees stood at Rs. 3779.45 crore, the financial bank guarantees available were only of Rs. 1581.56 crore.

While today these companies look in pink of health and have huge projects and reserves, credit must go to government's largesse given to them at that time as brought out in Audit Report. Since Audit has to go by the rule book, the objections were valid. The reply of Government to Audit Review, reproduced below, will testify to this:

'Ministry in their reply in January 2000 stated that there were problems of financial viability and financial closures of telecom projects; it was in public interest to resolve the problems of private licensees. The Ministry further stated that under the old scheme of fixed licence fee, the basic and cellular licensees had their contractual rights to operate in a limited competition and it was not possible to induct additional operators considered critical and necessary to realize the vision of making India an IT superpower for which telecom infrastructure was a vehicle.'

Such a reply itself proves the audit contention that there was enough demand for cellular and basic services and their projects were financially viable and therefore, grant of migration package and concession was not justified. If that was not the case, how could government induct additional operators in the existing service area where the existing limited number of licensees were not able to profitably run the services in view of lack of demand.

EXCESS FRAUDULENT DRAWALS IN THE ANIMAL HUSBANDRY
DEPARTMENT

A review on the above subject was included in C&AG's Audit Report for the year ended 31 March 1996 on Government of Bihar. The entire report is devoted to this subject. This is one of the most high profile cases which occurred in the recent times involving the names of high and mighty in the Government of Bihar. Popularly called the Fodder Scam case, it attracted media attention. A case registered by the CBI on the Fodder Scam is still pending in the courts against many accused in that case including the then Chief Minister of Bihar.

The case, as reported by C&AG, in brief, is detailed below:

The Animal Husbandry Department of the Government of Bihar was consistently incurring excess expenditure over its budget provisions from 1987-88 (21 per cent) to 1994-95 (229 per cent). The Audit Report highlighted that more than 80 per cent of the total drawals during 1993-96 was made from treasuries in Ranchi, Chaibasa, Dumka, Jamshedpur, Gumla and Patna districts. Audit calculated that as per approved scale, Rs.10.5 crore were required for feed/fodder for all kinds of animals that were kept by the Animal Husbandry Department for three years period mentioned above. Against this, Rs. 279.34 crore were drawn from six treasuries during these three years for purchase of feed and fodder. The Audit Report brings to light the fact that even though Finance Department knew the excess drawals in the Animal Husbandry Department at various stages, it took no action to investigate the excess drawals. Even though Finance Department had issued instructions every month restricting bill payments beyond budget allocation, these were totally disregarded by the Animal Husbandry Department Officers and Treasury Officers. The Finance Department failed to catch the excess drawals despite Chief Secretary's orders to enquire into few drawals from the treasuries. The Department did not even analyze the Reserve Bank of India's (RBI) statement of cash disbursements. The RBI's reports were dealt with only by the officers of the level of budget officers whereas it should have gone upto the Finance Commissioner. Similarly, Finance Department ignored the fact that monthly civil accounts were not received by the Accountant General (A&E) which reflected about non-availability of accounts of different months from treasuries.

Some other notable audit findings were:

Failure to render timely accounts by Treasuries to Accountant General was a big contributory factor and even when AG sent the delayed account these showed huge excess drawals which were not investigated. The fact of delay was brought to the notice of the Government at the highest level. While, the Principal AG (A&E) in February 1990, informed the Financial Commissioner that chronic delays in rendering accounts might lead to malpractice, when no improvement occurred, C&AG brought to the attention of the Chief Minister in February 1994 about these delays—this was an unusual letter for an unusual situation. Finally, the Principal AG (A&E) with the co-operation of Chief Secretary and Finance Commissioner was able to finalize, in a span of one and a half years four Annual Appropriation Accounts.

Some of the glaring misdeeds of the Animal Husbandry Department will be evident from the following cases as mentioned in the Audit Report:

- ❖ While as per the approved scale, estimated requirement of feed for the animals in the Government animal farms for three years was Rs. 10.50 crore. However, the department spent Rs. 279.34 crore during 1993–1996 on purchase of feed and fodder.
- ❖ Yellow maize and groundnut cake constituted 10 per cent and 15 per cent of the composite feed. Expenditure on these items during three years for Rs. 164.22 crore and Rs. 86.54 crore respectively amounted to excess purchase by 147 times and 55 times of their requirement.
- ❖ Vehicles types mentioned in the transport bills (for Rs. 1.24 crore) for transportation of feed and fodder to remote blocks included mopeds, scooters, motorcycle, trekkers, police van, bus, oil tankers and autorickshaw.
- ❖ Rs. 151.50 crore were paid for purchase of medicines in the six districts in 3 years. The districts hospitals and dispensaries confirmed that negligible amount of medicine was actually supplied to them and that no indents of medicines were asked from them. Thus the huge purchase of medicines were mostly fictitious.
- ❖ Test check of records of the Key Village Officers revealed that they did not indent for the equipment and materials required for artificial insemination. Many of such items paid for were never supplied to the field units.
- ❖ The DDOs manipulated allotment figures in the bills drawn on Treasuries. For example, bills drawn from Doranda, Ranchi and Jamshedpur were abnormally high such as Rs. 49.30 crore in Doranda and Rs. 22.90 crore in Jamshedpur. The allotment figures had no relation to budget provisions for Animal Husbandry Department.
- ❖ Many fictitious allotment figures of heavy amounts were quoted by the DDOs in the bills. The department did not have as many schemes or minor heads to justify so many allotment figures.

12

AUDIT REVIEWS ON FOOD SECURITY AND NUTRITIONAL SUPPORT

C&AG in his Audit Report of 2000 produced results of review of four schemes connected with Food Security and Nutritional Support namely Public Distribution System (PDS), Rural Employment Generation Programme, Integrated Child Development Services (ICDS) Scheme and Nutritional support to Primary Education. The Report was laid in Parliament during the winter session of 2000–01. During the period 1992 to ending March 1999, Government spent Rs. 82,763 crore on these schemes.

Public Distribution System: The objective of PDS was defined as ‘improving the availability, affordability and acceptability of food grains for all besides their accessibility’.

An important point that emerges from the Audit Report is that the total off-take of food grains was significantly less than procurement. Secondly,

while the objective of remunerative minimum support prices every year was achieved to a large extent, the other objective of supply of food grains, particularly to weaker sections at subsidized rates was, by and large not achieved. Thirdly, leakages and inefficiency in the procurement and release were galore. The estimate was that 60–70 per cent ration card holders did not purchase either rice or wheat from Fair Price Shops. Many of them visited the ration shop but only for buying sugar and kerosene and not for wheat or rice while the PDS policy provided for issue of 5 kg. of food grains per head limited to 20 kg. per family and in addition, TPDS (Targeted Public Distribution System) was to provide 10 kg. to BPL households at lower price; the total requirements on this basis (45 million tones) was far more than what the procurement was (23 million tones). This showed a clear mismatch between the policy aspiration and capability. The scheme of TPDS was clandestinely maneuvered by some of the states so that in the name of the poor there was an ever enlarging section of the population clubbed as BPL families. A typical case was of Andhra Pradesh where TPDS entitlements were over 80 per cent of the population.

The rampant corruption and malpractices in the fair price shops (test cases revealed 4.53 lakh such FPS) was another contributory factor to the failure of the scheme. FPS opened infrequently, harassed the consumers and 'stock out' was displayed by all too often.

The audit report summarized the findings as below:

'In summary, PDS has had several shortcomings, most significant of them being targeting inefficiencies. Leakages were widespread. Ineffective implementation, poor administrative arrangements and blurred accountability structure impaired the effectiveness of delivery. Distribution infrastructure and the quality of foodgrains supplied needed significant improvement. Besides, under PDS, per capita entitlement was inadequate and per capita off take was still worse. It delivered food at highly subsidized cost to poor in the states, which provided additional subsidy, but state governments, which had the highest population of poor, and incidence of poverty did not fully utilize PDS. This impacted on the efficacy of PDS. The basic pitfalls of the scheme were mostly in design...Overall, the benefit to the consumers in terms of food availability, income transfer, coverage of the needy and nutrition support did not accrue. However, the government incurred enormous expenditure for these very objectives over the years.'

Audit review of Public Distribution System (PDS) by the C&AG would rank as one of the pioneering performance audits on account of several factors : firstly, it was the most comprehensive examination of the implementation of the PDS scheme. Secondly, for the first time, C&AG engaged a reputed outside agency and commissioned them to carry out beneficiary survey of the targeted population to assess the impact of the scheme. Thirdly, an eminent retired civil servant who was earlier Food Secretary in the Government of India was associated as a consultant¹² with this study.

Rural Employment Generation Programme: The Rural employment programmes were intended to transfer incomes to the poor people, landless labourers which would increase their purchasing power so that they could use it for buying food grains. The two programmes covered in audit report were

Jawahar Rojgar Yojna (JRY) and Employment Assurance Scheme (EAS). The audit reviews revealed 'serious shortcomings in the critical area of targeting, adequacy of resources leading to insignificant employment generation, absence of evidence of employment actually generated and assets stated to have been created'. Cases of misuse of the funds for unauthorized purposes were noted in Audit (about 30 per cent of total expenditure). The financial resources provided could give employment, on an average of only 16 days to a person seeking employment. Objective of Rural Employment Programmes, therefore, was not fulfilled due to unsatisfactory execution.

The ORG market survey revealed:

- 1) significant presence of beneficiaries from the better off category (above poverty line category).
- 2) Lack of awareness on the part of the targeted people of the general features of the scheme.
- 3) Absence of beneficiary participation in Gram Sabha meetings to decide development works.
- 4) Significant presence of contractors in execution of works.

Often, the assets were created on private land. The ORG survey concluded that almost 1/5th of all rural house holds faced the prospect of hunger specially in States like Bihar, Orissa, Assam, Nagaland, Tripura and Madhya Pradesh. These were also the states which misused the funds mechanism by diverting them to the personal ledger accounts.

Integrated Child Development Services: This scheme launched in 1975 on an experimental basis in 33 blocks was universalized in the beginning of Eighth Plan and extended to all the 5320 development blocks of the country. It aimed at promoting comprehensive development of children under six years of age and included a component directed at the well being and awareness of mothers, including adolescent girls as potential mothers.

While the scheme objectives are laudable, audit appraisal found the delivery mechanism very deficient. The focal point in the delivery mechanism is Anganwadi which numbered 100. The main functionaries of the scheme viz. Child Development Project officer (incharge for each Project), helped by ACDPOS, Supervisor called Mukhya, who is responsible for supervision and guidance of Anganwadi works and finally, the Anganwadi worker who is a community based voluntary frontline worker of the programme responsible for delivery of all services under the scheme to the beneficiaries. A large percentage of above posts were vacant persistently from 1992-93 to 1998-99, averaging about 32 per cent for CDPO/ACDPO, 33 per cent for supervisors and 26 per cent for anganwadi workers. As audit report observed 'with more than one third vacancy in the cadre of anganwadi workers which constitutes the very foundation of the delivery system, the working of scheme suffered'.

The Ministry failed to implement the policy of universalisation of the scheme and the policy remained a paper policy only.

Regarding the major causes for the poor performance of the scheme, the Audit Report said 'despite so many inputs in the programme from multifarious agencies, the scheme could not achieve the desired goals, because of the

incredible/un-manageable complexity of the programme as is evident from the review findings on medicine kits, provision of Vitamin 'A' and utilization of foreign aids in cash/kind etc.'.

The supplementary nutrition component 'failed to improve the health status of beneficiaries due to various reasons like non-identification of beneficiaries, insufficient coverage of beneficiaries, significant interruptions in feeding, deficiencies in the nutritive value of food, sub-standard food, etc.'.

'The implementation of the component of health check up and referral services was found to be particularly deficient due to absence of baseline surveys for identification, incomplete/non-maintenance of concerned records/registers, lack of co-ordination with the State Health Department'.

As regards immunization component the Report concluded 'In providing immunization as a component of the Scheme, the major bottlenecks were non-fixation of targets, absence of monitoring mechanism to ensure full coverage, non-maintenance/ incomplete maintenance of records besides numerous cases of shortfalls in coverage'.

The Audit Report came down heavily on the system of monitoring of the ICDS scheme which was 'largely ineffective due to lack of proper commitments towards ICDS on the part of State Governments and due to dependence of the Ministry only on the monthly progress reports and monthly monitoring reports for evaluation'.

Nutritional Support to Primary Education: This is a hundred percent centrally funded scheme with the objective of improving the nutritional status of school going children in the age group of 6–11 years; additionally, the scheme aims at improving enrolment and retention of children in the school. According to the Audit Report, the programme, introduced in August 1995, had incurred an expenditure of around Rs. 4,000 crore till 1999–2000 but it was not a success. Amongst the failures of the scheme, audit identified failures in the conception, the execution and monitoring of the scheme. The significant findings were:

- (i) the basic component of the scheme viz supply of cooked food to the students was not implemented in most of the States—only 2.18 crore out of the total 11.50 crore children were provided cooked or processed food.
- (ii) Insufficient budget provision was attributed as one of the reasons for low take off of the food grains by the State Governments. Additionally, there was no clear cut demarcation of responsibilities in the matters of supply chain of food grains, transportation, distribution network and ensuring the arrangements for cooking.
- (iii) The basic failure of the scheme was its inability to achieve either the goals of increased enrolment or higher retention and also improvement in nutritional status. In fact, enrolment decreased in many states and retention levels worsened after the introduction of the programme. As regards, improvement of nutritional level of students, the fact that average food grains actually reaching the beneficiaries was merely 1.17 kg. per student per month would be enough indication of the absence of any dent made by the scheme in this area.

Common weaknesses in the programmes: The C&AG's Audit Report for year ended March 1999, was remarkable in the sense that it carried audit appraisals

on four centrally sponsored/funded schemes (as described above) that were inter related and in the main dealt with the common themes viz. food security, income transfer and nutritional support. C&AG, in his Overview to this Audit Report, summarized the similar set of shortcomings observed in audit in these 4 schemes leading to sub-optimal benefits to the beneficiaries and consequent significantly low value for money'. These reproduced below:

- ❖ All four programmes suffered from serious targeting problems. The coverage in each of them was substantially less than the targeted output.
- ❖ The execution of the programmes by the state governments betrayed lack of sense of ownership by them. The manner of implementation of the programme by the state governments provided an impression that mostly these were run essentially with the objective of spending the money rather than on ensuring the benefits to the target population.
- ❖ There was no attempt either by the executing agencies/state governments or by the Central Government to correlate the actual output of these programmes with either the targets set by Union/state governments or with reference to any acceptable/established criteria.
- ❖ There were wide spread diversions and misuse of the resources provided under different programmes for the weaker sections.
- ❖ The inaccuracy in reporting the physical and financial performance by the state governments and their failure to substantiate the claimed performance continued, despite similar acts of omissions and commissions having been pointed out through earlier Audit Reports. The Ministries were unable to either verify the correctness of the reports or ensure their correctness, leave alone taking any measures for establishing accountability for deliberate error in reporting or failure to substantiate them.
- ❖ Despite questionable execution of the programmes and poor or unsubstantiated outputs and misuse/diversion of funds, no accountability procedures/systems have been formally established under any of the programmes. This depressed the standard of responsibility/accountability of individuals and agencies towards faithful implementation of the programme and, in fact, encouraged poor performance.
- ❖ The resources deployed by the Government on these programmes, though large in absolute terms, were uniformly inadequate to fulfill the ambitious objectives. The budget provisions and infrastructure never matched the total requirement for achieving the stated objectives.
- ❖ The most significant cause of failure of the programmes was the complex executing mechanism and reporting system, which did not provide specific accountability of the individuals running the programme on one hand and on the other, made it extremely difficult, rather impossible, to monitor their execution centrally.
- ❖ The net result was that while Government spent an amount of the order of Rs. 13790 crore annually on these four programmes, the benefits either did not reach the target in the intended manner or the benefits claimed to have been provided remained unsubstantiated. The trickle benefits were too meagre to make a difference to the institutional support and food security to target population.

SAFETY PERFORMANCE OF INDIAN RAILWAYS¹³

Organizationally, Railway Board has a Safety Directorate headed by an Executive Director. At the Board level, the Safety Directorate is more concerned with accidents, their enquiries, analysis and follow-up. It does not really function as the nodal agency for over-all safety performance. Thus, there is no clear responsibility centre. Out of 14,000 accidents during 1993-98 (3,782 consequential and 10,218 miscellaneous), only 3,157 accidents (22.55 per cent) were reported to Railway Board. In turn, Railway Board reported 2,187 accidents (15.62 per cent) to the Parliament.

Commissioners of Railway Safety (CRS) are supposed to enquire into all the serious accidents. Yet, out of 2,274 serious accidents reported during the period of review, only 126 (5.54 per cent) were enquired into by Commissioners of Railway Safety. Out of 1,529 stations required to be track circuited on A and B routes on eight zonal railways till 31 March 1998, track circuiting had been completed only on 911 stations. The provision of Auxiliary Warning System (AWS) on trunk routes with speed level of 100 kmph and above had not even been taken up in five Railways. Provision of radio communications between trains and control centers has not been provided at all. In the others, there has been some implementation, but to a rather limited extent. Remote Controlled Train Activated Automatic Warning devices at unmanned level crossings were not installed at any of the 1,707 unmanned level crossings on A and B routes. Incidentally, during 1993-98, 581 deaths (24.70 per cent of total deaths) had occurred at unmanned level crossings on A and B routes.

In 9 Zonal Railways and in 21.89 per cent trips of drivers, the duty hours exceeded 10 hours. There has been substantial shortfall in training of 'Safety category staff'. Study of 1,327 accident cases on eight Zonal Railways indicated that around 30 per cent were due to equipment failure related to rolling stock and permanent way. In 18 divisions test checked on 8 Zonal Railways, 8,758.68 kms of track were not replaced with higher standard rails. 64.06 per cent of wagons / coaches (3,86,293 out of 6,03,023 rejected by the Neutral Control Wing (NCW) were passed locally by Railway Administration on 8 Zonal Railways without final clearance of NCW. The failure to adhere to the prescribed procedure was very pronounced in 3 Railways (100 per cent on Central Railway 91.98 per cent on Southern Railway and 89.24 per cent on Eastern Railway).

In order to clear the arrears of safety related works, Ministry of Railways created a Special Railway Safety Fund and prepared a plan for clearance of the arrear works within a time bound manner. Rs. 17,000 crore was allocated under SRSF and as a result the entire arrears in track renewal works are likely to be wiped out by the end of 2007-08. Apart from track renewal works, the fund was also utilized for replacement of distressed bridges, improving Signal and Telecommunication system, and introduction of new design rolling stock. With the measure now taken / initiated, train accidents have been reduced to some extent and expected to be reduced further in due course of time.

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CHIEF MINISTER'S DISCRETIONARY FUND

As per the rules and procedure grants could be given to an individual / organization upto Rs.5000 (Rs. 35,000 in certain cases). This rule was amended in April 1994 giving unlimited power to the Chief Minister to grant any amount in special cases. On scrutiny of the transactions of the Fund the following irregularities and lapses were noticed in Audit:

- (i) During the years 1991-95, budget allocations against this Fund was Rs. 20 lakh per year. As against this, actual release by Chief Ministers varied between Rs.80 lakh and Rs.30.65 crore.
- (ii) Rs. 67.91 crore was released from this Fund by Chief Minister / Governors as furnished below :

Chief Minister / Governor	Period		Rs. / crore
	From	To	
Shri Mulayam Singh	1 April 1991	23 June 1991	41.44
Yadav	5 Dec 1993	3 June 1995	
Shri Kalyan Singh	24 June 1991	6 December 1992	2.11
Km. Mayawati	4 June 1995	18 October 1995	2.5
	21 March 1997	31 March 1997	
Governors	7 Dec. 1992	4 Dec. 1993	21.86
	19 Oct. 1995	20 March 1997	
Total			67.91

- (iii) Chief Minister's Discretionary Fund does not prescribe sanction of grants for award or gifts. But in violation of rules and propriety Rs. 33.18 lakh were given to staff attached mainly to Chief Minister's / Governor's Secretariat.
- (iv) This Fund was used by the Chief Minister as a means of patronage for a particular individual / institutions at the cost of the exchequer. Rs. 861 lakh were disbursed to various press clubs and media centres.
- (v) Grants of Rs. 1.21 crore were given to various Bar Associations / Judge's Clubs without recording any justification. A few instances for construction of buildings / chambers and for furniture and books came to notice.

The above para was significant in the sense it brought before the Legislature and the people at large, the improper use of these funds in several cases by high dignitaries.

MEMBER OF PARLIAMENT LOCAL AREA DEVELOPMENT SCHEME
(MPLADS)¹⁴

Member of Parliament Local Area Development Scheme (MPLADS) which was launched from December 1993, authorized the Members of Parliament to spend upto Rs. 2 crore per year on small works of capital nature which the MP identifies based on locally felt need in his constituency (a Rajya Sabha MP can recommend such work located in one or more districts of his/her choice from the state from where he/she has been elected). The grants are non-lapsable and are released to the concerned District Collectors directly by the Central Government (Ministry of Programme Implementation). While the district collector (DC) is the implementing authority, the works are selected and recommended to him for implementation by the concerned Member of Parliament. The works are implemented through Government agencies. The work should result in creation of durable assets and these should be completed in one or two working seasons. The works taken up should be developmental in nature and based on locally felt needs. There is a list of works which are prohibited to be taken up under the scheme while another list details the works which can be taken up under the scheme.

MPLADS has generated considerable discussion and debate in the media and in public in general as regards its necessity, use and utilization of funds under the scheme. The C&AG reviewed this scheme on two occasions- his first review on the scheme appeared in his Audit Report for the Union Government for the year ended March 1997 and his second Audit Report on this scheme appeared as stand alone Audit Report on Union Government (Civil) for the year ended March 2000.

Audit Findings: The one common striking outcome of scheme review is the very poor utilization of the funds—roughly, about 64.2 per cent of the total funds released since its inception had been utilized till the year ending March 2000. Worse, the fund utilized had not yielded commensurate assets. The District Collectors were sitting on the remaining unspent funds totaling Rs. 1796.59 crore stacked in bank accounts.

The poor utilization of funds had been commented by the C&AG in his first Report also. An interesting finding in this context was the wide variation in the utilization of funds amongst various regions. A table printed in audit report depicting regional stratification of the use of these funds brought out that UTs like Manipur, Meghalaya, Mizoram, Nagaland, Sikkim , Andaman and Nicobar and Daman and Diu fared much better compared to others by utilising more than 80 per cent of their funds allocation. Five States/UT namely Jammu and Kashmir, Tripura, Dadra and Nagar, Lakshwadeep and Puducherry were the worst offenders in utilising the funds having made use of less than 50 per cent of their allotted funds. The remaining 20 States/UTs had a percentage utilisation of funds ranging from 50 per cent to 80 per cent. The percentage utilisation of funds was slightly better at the end of March 2000 compared to what it was at the time of previous audit review i.e. for period ending March

1997. Funds shown as utilized as per accounts but not actually incurred as detected by Audit in their test check of various districts amounted to Rs. 168.18 crore. To this extent, the actual expenditure shown in accounts was overstated.

Audit commented upon the flawed financial administration of the scheme at the Ministry's level. This was based on several factors as releasing funds without any correlation with their end use i.e. without even insisting upon the utilisation certificates, not devising any appropriate accounting procedure either at the stage of formulation of the scheme or upto the seven years later when the second audit review was done and finally the Ministry washed its hands off from conducting any evaluation or monitoring of the programme.

An interesting point brought out in first Audit Report was that works of Rs. 24.89 crore were sanctioned on the recommendations of representatives of MPs. The scheme clearly prohibits such an action because under the scheme recommendations made by the MP on his letter head and under his signature alone is to be considered by the DCs. Cases quoted in this regard are very interesting. In Haryana, e.g. a Rajya Sabha MP authorised the Chief Minister of the State to utilise Rs. 1 crore from his funds 'anywhere and for any work'. The Chief Minister promptly acted upon his authorization recommending work of Rs. 51 lakh and for the remaining 49 lakh he in turn authorized 5 other MLAs of Ambala district to suggest the works. In UP, District Magistrates of three districts sanctioned work costing 22.01 crore on the basis of recommendations made by representatives of the MPs concerned.

The second review by Audit also brought out that a large number of irregularities pointed out in the earlier review report were not only persisting but the situation actually worsened. Some of these were:-

- ❖ the implementing agencies did not submit the utilization certificates to the District Collectors;
- ❖ they did not refund unspent balance;
- ❖ there was misreporting of the financial progress of works by them;
- ❖ they irregularly clubbed the schemes funds with the other schemes;
- ❖ diverted funds to inadmissible purpose;
- ❖ there were executions of inadmissible works;
- ❖ the District Collectors sanctioned works for commercial and private organizations, for repairs and maintenance works and on places of religious worship;
- ❖ there were unauthorized purchases of stores and stock items;
- ❖ District Collectors sanctioned and executed the works without the recommendation of the MPs without technical sanction and administrative approval;
- ❖ The nodal agencies did not maintain any asset records.
- ❖ The scheme guidelines contain contradictory provisions.

Audit findings included execution of works at an estimated cost of Rs. 35.79 crore without technical sanction. Similarly, in a test check of 23 constituencies, Audit discovered 1688 contracts being awarded by DCs involving work costing Rs. 35.74 crore in an irregular manner. There were several cases cited of short recovery from the contractors, of the irregular expenditure noticed in Audit, Rs. 74.12 lakh related to such expenditure on places of religious worship,

Rs. 54.55 lakh in the audit sample of 13 works of memorial buildings and an expenditure of over Rs. 1.85 crore involving execution of works on private land without surrender of title. The inadmissible construction included rest houses, railway rest houses, buildings for bar association, shopping complex, etc. In Orissa, 69 schools were provided with computer systems at a cost of Rs. 188.10 lakh during 1997–2000 when none of these schools were eligible for having computer systems and in procurement of those computer systems, the prescribed formalities were not gone through and these were not purchased from any of the firms listed in the list of indigenous manufactures contained in Project Guidelines, through an open tender or from enlisted firms. The cost of Rs. 188.10 lakh included 89.70 lakh as recurring expenditure.

The overall picture which emerged from audit review was that implementation of the scheme had become worse during the subsequent period of 1997–2000 when the second review was conducted. This is evidenced by low utilization of released funds and a very poor record of completion of the work. These achievements were worse than previous period. The most disturbing position was that the amount spent had not yielded commensurate assets due to a large percentage of works remaining incomplete. Worse, works carried out in a large number of cases did not qualify for the definition of durable assets. Audit, therefore, concluded that the scheme failed on several fronts like in operationalising the MPLADS in meeting its stated objectives, in conferring to the prescription of the schemes by MPs at the recommendation stage and later by District Officers at the execution stage and finally the failure of the Ministry to effectively monitor and administer the scheme. The report recommended, therefore, the Central Government 'needs to re-evaluate the need, manner and modality of resource transfer under the scheme as at present'.

16

SOCIO-ECONOMIC DEVELOPMENTS OF BASTAR REGION¹⁵

This is one of the first attempts to carry out an audit evaluation of the socio-economic development programmes, launched by government in a particular district. This approach differed from the standard audit practice of auditing DDO wise as far as transaction audit was concerned, or scheme wise/programme wise as far as Performance Audit was concerned. This study combined the entire range of developmental programme in Bastar region. This involved audit party not only examining the records of various offices involved in executing such programmes but also looking at the results of Government investment in an integrated fashion from the perspective of the development of the entire region. It needed a very knowledgeable audit team backed by a competent leader of the Audit party and a clear perception by the Accountant General/Headquarters of what such audit should look at. The preparatory work like preparing suitable guidelines for audit assumed great significance.

This audit covered and commented on activities of the 10 departments of the Government which together made an investment of Rs. 1083.98 crore in the three districts of Bastar division during 1992–99. Despite such investments,

the number of families living below poverty line increased from 1.99 lakh in 1991–92 to 2.19 lakh in 1997–98, the region was beset with extremely poor medical facilities, and lacked basic infrastructure, such as roads, irrigation and power. Many areas went without safe drinking water, and exploitation by middlemen was common. Some specific findings were:

- ❖ Irrigated area decreased from 3 per cent of net sown area in 1993–94 to 2.87 per cent in 1996–97;
- ❖ The per hectare yield of the major crop rice declined drastically over the period. Similarly, utilization of advanced seed declined.
- ❖ Education was found to be in a mess with literacy rate just 24.9 per cent against 44 per cent in the State. The retention rate at the primary level was 36.2 per cent as against 61.3 per cent of the State;
- ❖ Medical facilities were in shambles and forest, which is the main stay of the economy of Bastar remained un-surveyed and un-demarcated by 22.6 per cent of the total area even after 50 years of being declared as protected forest. Illicit felling of forest was rampant. While area under dense forest reduced by 16 per cent during two years 1995–97 bad management of forest resulted in apart from other things loss of crore of rupees in production and in mandays. Losses due to exploitation of the tribal by the middle men in the purchase of minor forest produces was reckoned by Audit at Rs. 510 crore annually.
- ❖ There were number of cases of cost overrun in road construction;

This report generated great interest in the PAC of the newly formed Chhattisgarh State which made several recommendations in their three Reports—Report of July 2003, December 2005 and March 2006 in the light of audit observations and departmental evidence.

NATIONAL SCHEME OF LIBERATION AND REHABILITATION OF SCAVENGERS AND THEIR DEPENDENTS¹⁶

The programme for liberation and rehabilitation of scavengers and their dependents attracted the attention of Government from very early times—the first initiative in this direction was taken by erstwhile state of Bombay in 1952. Subsequently, in 1995, first Backward Classes Commission had also recommended measures for alleviation of ‘sub-human living conditions of scavengers’ which were brought to the notice of state Governments in 1956. In 1956, Central Government constituted a Central Advisory Board of Harijan Welfare which reviewed the working and living conditions of scavengers and recommended that a Centrally Sponsored Scheme for the alleviation of their conditions may be introduced in the Third Five Year Plan. This was indeed introduced but it did not yield desired results, primarily, because it only concentrated on shifting the mode of carrying night soil from the head to a wheel-barrow module. This scheme was discontinued during Fifth Five Year Plan. After some more abortive attempts to upgrade their living conditions, a major initiative was taken in 1980 when Ministry of Home Affairs introduced

a scheme for conversion of dry latrines into sanitary latrines and rehabilitation of the liberated scavengers and their dependents in dignified occupations in selected towns. Finally, the scheme by the name 'The National Scheme of Liberation and Rehabilitation of Scavengers and their Dependents' was launched in Eighth Five Year Plan with the objective of providing alternative, dignified and viable occupations to scavengers and their dependents by the end of Eighth Plan period.

It was just apt that this subject was chosen for audit evaluation in 2002. The results of this performance appraisal of the scheme laid bare the 'half hearted efforts' and 'absence of a coherent strategy for policy initiatives'. As the Report said 'Divorcing liberation from rehabilitation was an error of judgment that weakened the foundation of the Scheme and led to uncoordinated efforts without focus'. Audit came to the conclusion that the scheme failed miserably to achieve its intended objectives even after a decade of implementation and an investment of more than Rs. 600 crore. The Report highlighted the fact that 'The Employment of Manual Scavengers and Construction of Dry Latrines (Prohibition) Act', 1993 even though adopted by 16 States upto April 2002, was not seriously enforced in any State. Apparently, the scheme suffered due to absence of linkage with the law. In fact as the Audit Report brought out, the scheme did not even make a mention of the existence of the Law. The Report found fault with the targets fixed by the Ministry for training of scavengers in low-skill areas. Shortfall of such trainees was a key failure of the scheme. As regards liberation of the scavengers, even after reduced targets from 4 lakh to 2.02 lakh in the Ninth Plan, the performance slipped and target was not achieved. The specific shortcomings in occupational rehabilitation as revealed in Audit Review were mis-application of the resources, preponderance of unviable low cost projects and rehabilitation of untrained scavengers even as trained scavengers remained un-rehabilitated. More serious was the role of organizational mismatches. The role of District Collectors who were to act as key functionary in all matters and coordination etc. was reduced due to the transfer of scheme to Scheduled Castes Development Financial Corporation which was not accountable to the District Collectors in the normal course of their functioning.

And finally, the Audit Report analysis established that loss of link between 'liberation' and 'rehabilitation' defocused the scheme in its work. This was vividly demonstrated by the fact that the Ministry of Social Justice and Empowerment, the nodal Ministry for the scheme claimed to have rehabilitated 4.71 lakh scavengers during 1992-2002 while the Ministries of Urban and Rural Development projected that only 0.37 lakh scavengers were liberated during the period. There was no evidence to suggest if those liberated were in fact rehabilitated.

Overall, the Audit Review found the scheme lacking in performance on all critical parameters namely, identification of scavengers, training of beneficiaries, rehabilitation, monitoring and evaluation of the scheme.

The PAC which took up this review for detailed examination and in its 9th Report (Fourteenth Lok Sabha) gave its observations and recommendations on the scheme. While the Committee acknowledged that the scheme was 'well intentioned with the objective to provide and alternate, dignified and viable occupation to scavengers and their dependents in a stipulated time span', it was disappointed at the way the scheme was implemented. It observed in this context

that the Ministry failed to implement the operational parameters of the scheme in a highly stratified society resisting change from a hereditary occupational structure even after ten years of its implementation involving investment of more than Rs. 620 crore. The committee further observed that scheme continued to remain a prisoner of its own statistics. Committee attributed failure of the scheme thus 'it was not calibrated to relate its parameters to the legal framework provided by the Act'. The committee highlighted the continuing shortcomings of the scheme and after identifying these shortcomings, the committee recommended that Ministry should lay down requisite targets for training purposes of the scavengers liberated and that the need for revitalizing training infrastructure needed to be looked into in greater depth. Noticing that more than 40 per cent of the beneficiaries remained unrehabilitated even after a decade of implementation of the scheme, the committee felt that rehabilitation efforts were characterized by misapplication of resources, emphasis on low cost projects without income generation and mismatch between skills and occupations. The Committee depreciated the diminishing role of District Collectors who were to act as key functionaries for coordinating with training institutions, financial institutions and various departments of state governments executing welfare schemes. The Committee wanted Ministry of Urban Development and Poverty Alleviation to impress upon the Scheduled Castes Development Financial Corporation (through the State Governments) to formulate technically and commercially viable projects to avoid rejection of loan applications by banks. The Committee criticized the role of Central Monitoring Committee who met only once during 1992–2002 while it should have met at least 40 times. It found deficiency in monitoring at all levels. The Committee wanted District Collectors to be involved in finalization of projects and disbursement of funds.

18

PERFORMANCE REVIEWS ON EMPLOYMENT GENERATION
PROGRAMMES CONDUCTED BY C&AG FROM 1990

In the planning process of the country, perhaps the most important and also recurring programme has been the Rural Employment programme. These programmes, by whatever names they have been called, have been a continuous feature of successive Plans. Since 1990, Audit has carried out performance audits of eight such programmes mentioned below:

Serial no.	Audit Report No.	Name of Scheme
1.	13 of 1990	Jawahar Rozgar Yojna
2.	19 of 1990	Landless Employment Guarantee Programme
3.	2 of 1994	Integrated Rural Development Programme
4.	2 of 1994	Nehru Rozgar Yojana
5.	2 of 1995	Jawahar Rozgar Yojana
6.	3 of 1997	Employment Assurance Scheme
7.	3 of 2000	Rural Employment Generation Programme
8.	3 of 2003	Swarnjayanti Gram Swarozgar Yojana

A recurring weak area, which has attracted audit comments in practically all the programmes, was the deficient design and very poor implementation of the programmes resulting in negligible achievements vis-à-vis the expected targets. Most of the Audit Reports on these programmes have highlighted factors like poor targeting system of beneficiaries, inefficient and perhaps non transparent delivery system, lack of coordination amongst the various agencies involved in the programme and poor funding of the programme. The Government funds provided employment ranging between 7 and 21 days under Jawahar Rozgar Yojana and between 9 and 18 days under Employment Assurance Scheme respectively in a year. The reading of the successive audit reports brings out that same mistakes were recurring in each scheme and overall results were same—there was no evidence of the succeeding programme taking corrective lessons from the previous to improve the matters.

C&AG, in a communication to Deputy Chairman, Planning Commission in September 2005, in the context of the then promulgated National Rural Employment Guarantee Act that promised 100 days employment to a person from each rural household in selected district of the country mentioned that flagship programme would succeed only if lessons learnt from past programmes of this nature were kept in mind while implementing the programme. In this context, C&AG forwarded highlights of two audit reviews of Rural Employment Generation Programme (REGP) that appeared in Audit Report 3 of 2000 and Swarnjayanti Gram Swarozgar Yojana (SGSY) in Audit Report 3 of 2003.

This Appendix, separately discusses the findings of the Audit Report on REGP appearing in Audit Report 3 of 2000. Below is presented highlights of SGSY as extracted from Audit Report 3 of 2003.

The Swarnjayanti Gram Swarozgar Yojana was launched in April 1999 in place of the earlier Integrated Rural Development Programme and other complementary self-employment schemes. The programme envisaged development of micro enterprises in rural areas through social mobilization of the rural poor and coverage of all aspects of self-employment and through the integration of various agencies—DRDAs, banks, line departments, Panchayati Raj Institutions, non-government organisations and other semi-government organisations. The success of the programme largely depended on proper execution of the complex design and net working envisaged in the guidelines of the scheme. The mid-term audit review revealed that the various assumptions underlying the scheme, particularly in regard to co-ordination amongst the different agencies involved, were not grounded in reality. The implementation of the programme was deficient in certain critical areas.

- ❖ Achievement of the objective of covering 30 *per cent* of the BPL families in a time frame of 5 years would appear to be difficult because only 4.59 *per cent* of the population had been covered in the initial three years.
- ❖ The shift of focus from the individual beneficiary to Self Help Groups (SHGs) was not evident at the field level. The evolution of SHGs could not also be ensured by the implementing agencies as only 32.21 *per cent* of the total SHGs formed had reached the income generation stage.
- ❖ In most States, there was no evidence of proper planning and survey. Identification of key activities, preparation of project reports, and

identification of infrastructure, technology and marketing support, which were essential processes for sustainable income generation, was not pursued, as envisaged, effectively.

- ❖ There were large-scale diversions, mis-utilisation and retention of funds in deposits, restricting the availability of resources for the programme.
- ❖ The forward and backward linkages at the operational level were largely not established owing to lack of coordination amongst the multiple agencies involved in programme implementation.
- ❖ Instances of delay in disbursement of loans and subsidy by the banks and under-financing of the projects were prevalent as in the case of the earlier programme.
- ❖ Implementation of Special Projects was also deficient. 15 Special Projects sanctioned during 1999–2000 in 8 States, scheduled for completion by March 2002, remained incomplete as of June 2002.
- ❖ The restructured programme does not appear to have emerged as yet, as an improvement over the earlier programmes’

REPORT ON NON-TAX REVENUE

A standalone Audit Report on Non-Tax Revenue, titled ‘Union Government (Non-Tax Receipts) No.9 of 2006’ was placed in Parliament in December 2006; this was a landmark development in Receipt Audit reporting, since it was first time that an Audit Report exclusively on non-tax revenue was presented to Parliament by C&AG.

While the report highlighted several systems deficiencies in revenue management of telephone department: it also unearthed several cases where considerable revenue was either foregone, lost or was not realized due to weak verification procedure.

The report highlighted some very interesting and important points in the audit of the Registrar of the Companies and one of these highlights of the report was that Investor Education and Protection Fund which was to be created as per the provisions of section 205 (c) of the Companies Act was yet to be created despite the fact that the amended Section 205 (c) to the Companies Act was effective from October, 1998 and the fund was to be credited with the proceeds of unclaimed or unpaid dividend, share application money, matured deposits etc. for 7 years with the companies. The total amount to the credit in this manner was Rs. 320.85 crore but in the absence of setting up of the fund, this amount was credited to the Consolidated Fund of India whereas expenditure on Investor Education and Protection Fund of a small investor awareness was funded through normal budgetary procedure.

In another very significant finding, the report highlighted a serious lacunae in the nature of lack of coordination and information sharing between Registrar of Companies and the RBI, as a result of which the test check in audit of records of Regional Office of Registrar of Companies in 4 States disclosed 303 Non-Banking Financial Companies (NBFC) functioning without certification of registration from the RBI. One of the highlights of the report was its

recommendation for the better management and accountal of revenue receipts by the Department of Atomic Energy.

Another interesting aspect of this report was that this report was prepared in a very short period by a small team of 3 officers led by PD (DT). It is creditable that this report, first of its kind, was brought out with the initial work being directly handled by the senior officers. The report is also noteworthy for the fact that extensive use of I.T. skills was made specially in the case of auditing of Registrar of Companies where analysis of computerized data was done using Computer Aided Audit Technique, Interactive Data Extraction and Analysis (IDEA, 2001) was used.

The audit report was well received by the concerned ministries and the Finance Secretary¹⁷ stated in his DO to C&AG that 'recognizing the importance of this contribution, a meeting of the concerned Financial Advisors was convened under the Chairmanship of the Finance Minister during the course of which the Financial Advisors were asked to take corrective action based on the recommendations contained in the report'.

While an exclusive report on the non-tax receipts may not be an annual feature, the expectation of C&AG was that it would appear periodically.

NOTES: APPENDIX-B

¹ S.K. Bahri

² Report of the Comptroller and Auditor General for the year ended March 2000 No. 7A of 2000, Union Government (Defence Services)

³ DO No. 8752/JS(O)/2001 dated 25 July, 2001 from Shri Ranjit Issar Joint Secretary (Ordnance) to Shri. S. Lakshminarayanan , Addl. Dy C&AG (Defence)

⁴ Audit Report of the C&AG for the year ended March 2004—Union Government (Defence Services) Army and Ordnance Factories—No. 18 of 2005.

⁵ Para 2 of Audit Report No. 8 of 2000

⁶ C&AG's Audit Report Commercial No.7 of 2005

⁷ The write up draws heavily on the article by Shri DharamVir titled 'The Advance Licensing Scheme Yes, Minister; Yes, PAC' published in Indian Journal of Public Audit and Accountability Volume 1 No. 1 January 2007.

⁸ Report No. 12 A of 2000

⁹ Chapter VI of Report No. 12 of 2005

¹⁰ C&AG's Audit Report No. 11 of 2000—Indirect Taxes

¹¹ From the selected speeches of C.G. Somiah Comptroller and Auditor General of India, Research and International Relations Division, Office of the C&AG of India December 1995—Valedictory address by Shri C.G. Somiah at the course on Fiscal Policy and Economic Development on October 27,1990

¹² B.K. Taimini

¹³ Para 5.3 of Audit Report No. 9 of 1999

¹⁴ C&AG's Audit Report—Union Government (Civil), Performance Appraisals No. 3 of 1998 & 3A of 2001

¹⁵ Para 5.1 of C&AG's Audit Report (Civil) No. 4 of 2000

¹⁶ Chapter I of Audit Report No. 3 of 2003 Union Government, Performance Appraisals

¹⁷ DO No. 6(23)-B(R)/2006 dated February 12, 2007 from Ashok Jha, Finance Secretary to C&AG