

CHAPTER-I

INTRODUCTION

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) relates to matters arising from Chief Controlling Officer (CCO) based audit of selected departments and compliance audit of Government departments.

Compliance audit refers to examination of the transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with. On the other hand, CCO based audit, besides conducting a compliance audit, assesses the performance of a particular department with reference to its mandate and goals.

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

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies in performance of selected departments, significant audit observations made during the audit of transactions and follow-up on previous Audit Reports. Chapter-2 of this Report contains observations on audit of transactions in Government departments and Chapter-3 contains findings arising out of CCO based audit of Agriculture and Co-operation Department and Roads & Buildings Department.

1.2 Audited Entity Profile

The Principal Accountant General (Economic & Revenue Sector Audit), Gujarat conducts audit of the expenditure under the Economic Services incurred by nine departments in the State at the Secretariat level and 53 autonomous bodies. The departments are headed by Additional Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Directors/Commissioners/Chief Engineers and subordinate officers under them.

The summary of fiscal transactions during the year 2010-11 and 2011-12 is given in **Table-1** below.

(₹ in crore)

Receipts			Disbursements				
2010-11		2011-12	2010-11		2011-12		
					Non- Plan	Plan	Total
Section-A: Revenue							
52,363.64	Revenue receipts	62,958.99	57,440.02	Revenue expenditure	43,053.93	16,690.53	59,744.46
36,338.63	Tax revenue	44,252.29	19,840.46	General services	20,738.84	741.68	21,480.52
4,915.02	Non-tax revenue	5,276.52	23,701.61	Social services	14,902.66	9,643.13	24,545.79
6,679.44	Share of Union taxes/ duties	7,780.31	13,712.67	Economic services	7,212.65	6,305.72	13,518.37
4,430.55	Grants from Government of India	5,649.87	185.28	Grants-in-aid and Contributions	199.78		199.78
Section-B: Capital							
91.18	Misc. Capital receipts	10.00	9,683.54	Capital Outlay	204.47	13,607.23	13,811.70
283.10	Recoveries of Loans and Advances	165.44	687.99	Loans and Advances disbursed	70.57	534.77	605.34
16,681.34	Public Debt receipts*	17,534.76	3,817.53	Repayment of Public Debt*	-	-	5,275.19
47.12	Contingency Fund	0.66	0.66	Contingency Fund	-	-	80.50
72,281.47	Public Account receipts	79,653.14	66,655.62	Public Account disbursements	-	-	77,160.79
11,524.31	Opening Cash Balance	14,986.80	14,986.80	Closing Cash Balance	-	-	18,631.81
1,53,272.16	Total	1,75,309.79	1,53,272.16	Total			1,75,309.79

Source: Finance Accounts for the years 2010-11 and 2011-12.

* Excluding net transactions under ways and means advances and overdrafts.

1.3 Authority for Audit

The authority for audit by the C&AG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. C&AG conducts audit of expenditure of the Departments of Government of Gujarat under Section 13¹ of the C&AG's (DPC) Act. C&AG is the sole auditor in respect of autonomous bodies which are audited under Sections 19 (2)², 19 (3)³ and 20(1)⁴ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of other autonomous bodies, under Section 14⁵ of C&AG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for

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

² Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations.

³ Audit of accounts of Corporations established by law made by the State Legislature, on the request of the Governor.

⁴ Where the audit of the accounts of any body or authority has not been entrusted to the CAG by or under any law made by Parliament, he shall, if requested so to do by the Governor of a State, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the Government.

⁵ Audit of all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated fund of the State in a financial year is not less than ₹ one crore.

various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the C&AG.

1.4 Organisational structure of the Office of the Principal Accountant General (E&RSA), Gujarat

Under the directions of the C&AG, the Office of the Principal Accountant General (Economic & Revenue Sector Audit), Gujarat conducts audit of Government Departments/Offices/Autonomous Bodies/Institutions under the Economic and Revenue Sector which are spread all over the State. The Principal Accountant General (Economic & Revenue Sector Audit) is assisted by four Group Officers.

1.5 Planning and conduct of Audit

Audit process starts with the assessment of risks faced by various departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided.

After completion of audit of each unit, Inspection Reports containing audit findings are issued to the head of the departments. The departments are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports, which are submitted to the Governor of State under Article 151 of the Constitution of India.

During 2011-12, in the Economic Sector Audit Wing, 2,236 party-days were used to carry out audit of total 324 units and two Chief Controlling Officer based audits. The audit plan covered those units/entities which were vulnerable to significant risk as per our assessment.

1.6 Significant audit observations

In the last few years, Audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits, as well as on the quality of internal controls in selected departments which impact the success of programmes and functioning of the departments. Similarly, the deficiencies noticed during compliance audit of the Government departments/organisations were also reported upon.

The present Report contains, seven compliance audit paragraphs and CCO based audit of two departments *viz.* Agriculture and Co-operation and Roads and Buildings Department.

1.6.1 Compliance audit

Compliance audit of the Narmada, Water Resources, Water Supply & Kalpsar and Roads & Buildings departments of the Government and their field offices revealed cases of infructuous and wasteful expenditure, avoidable /unfruitful expenditure, and blockage of funds aggregating ₹ 38.96 crore as detailed below:

1. Infructuous/wasteful expenditure and overpayment of ₹ 1.12 crore was noticed in the Roads & Buildings Department due to adoption of depot rates instead of ex-refinery rates for adjustment of price variation on asphalt.

(Paragraph 2.1.1)

2. Avoidable/excess/unfruitful expenditure of ₹ 35.76 crore was noticed in the Narmada, Water Resources, Water Supply & Kalpsar Department (₹ 32.67 crore) and Roads & Buildings Department (₹ 3.09 crore) as shown below:

➤ *Non-commencement of construction of canals simultaneously with the head works of Machhu-III Water Resources Project led to non-achievement of the targeted irrigation benefits even after investment of ₹ 25.64 crore*

(Paragraph 2.2.1)

➤ *Commencement of construction of spreading channel without ensuring the acquisition of required land led to unproductive expenditure of ₹ 2.23 crore and irregular parking of Twelfth Finance Commission funds of ₹ 4.00 crore*

(Paragraph 2.2.2)

➤ *Failure to conduct energy audit led to non-detection of inefficient use of electrical energy in operation of Chinchai Lift Irrigation Pumping Station and consequent avoidable expenditure of ₹ 79.63 lakh on electricity charges*

(Paragraph 2.2.3)

➤ *Imprudent decision of the Department to construct alternate route and install ultramodern road furniture to facilitate inauguration of incomplete bypass road had resulted in avoidable expenditure of ₹ 2.24 crore*

(Paragraph 2.2.4)

➤ *Preparation of estimates for construction of road works without taking into account relevant factors led to avoidable expenditure of ₹ 84.57 lakh*

(Paragraph 2.2.5)

3. Idle investment/idle establishment/blockage of funds of ₹ 2.08 crore was noticed in the Roads & Buildings Department due to lack of adequate and

timely action related to acquisition of land and obtaining the permission from Railways.

(Paragraph 2.3.1)

1.6.2 Chief Controlling Officer (CCO) based audit

Chapter III of this Report contains observations made during CCO based audit of two departments *viz.* Agriculture and Co-operation and Roads & Buildings Department conducted during the period 2011-12.

1.6.2.1 Chief Controlling Officer based audit of Agriculture and Co-operation Department

The responsibility of the Agriculture and Co-operation Department is to provide agricultural extension services to farmers involving transfer of the latest technical knowhow to the farming community, introduce high yielding varieties of seeds, ensure timely supply of seeds, fertilizers and pesticides, impart training and awareness to farmers to boost agricultural production and productivity, etc. thereby increasing the income of the farmers. The Chief Controlling Officer based audit of Agriculture and Co-operation Department revealed following deficiencies.

Budget management had weak control mechanism leading to savings ranging from 41 *per cent* to 90 *per cent* in Capital Head, unrealistic supplementary demands and surrenders at the end of the year. Management of Soil Health Card intended to equip the farmers with the status of their soil for assessing the fertilizer requirement did not work at desired level. There were shortfalls in supply of quality seeds. Implementation of Seed Village Programme was inadequate; funds earmarked for SC/ST farmers and for storage bins under the programme were not utilised. Testing of seeds, fertilizers and insecticides was not complete; laboratories were not functioning to their optimum level. Failure in strengthening the Soil Testing Laboratories led to dependence on external agencies for collection of soil samples and testing. Crop production fell short of targets. Vacancies in functional posts ranged from 29 *per cent* to 48 *per cent*. Internal audits were in arrears due to inadequate staff. In Horticulture sector, payments of assistance for Green Houses and Net Houses have been made without verifying the genuineness of the documents submitted.

(Paragraph 3.1)

1.6.2.2 Chief Controlling Officer based audit of Roads & Buildings Department

The CCO based audit of Roads and Buildings Department covered transactions of four year period 2008-12, conducted during May 2011 to March 2012 revealed following important deficiencies:

There were substantial savings of ₹ 1,548.88 crore (18.82 *per cent*) during the years 2008-09 to 2011-12 in capital expenditure. Instances of inadequate estimation while demanding supplementary grants, non-surrender of grants,

rush of expenditure, non-preparation of estimates for Maintenance & Repairing works were noticed. The provisions of Gujarat Public Works Manual regarding tender procedures, obtaining approval for execution of works, deposit works, etc., recording the measurement of work done, deduction of payments from the RA bills of the contractors as per terms and conditions of the contract/government instructions were not adhered to. In contravention of the Government circulars, the divisions had adopted incorrect star rate for asphalt resulting in extra expenditure of ₹ 17.76 crore. Additional road works amounting to ₹ 13.57 crore were awarded to the same contractors without adhering to tendering process. There were deficiencies in maintenance of cash books and deposit registers.

(Paragraph 3.2)

1.7 Lack of responsiveness of Government to Audit

1.7.1 Inspection Reports outstanding

The Hand Book of Instructions for prompt Settlement of Audit Objections/Inspection Report issued by the Finance Department in 1992 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectificatory action in compliance with the prescribed rules and procedures and accountability for the deficiencies, omissions etc., noticed during the inspections. The Heads of Offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to the Accountant General within four weeks of receipt of the IRs. Periodical reminders are issued to the Head of the Department requesting them to furnish the replies expeditiously on the outstanding paragraphs in the IRs.

As of 30 September 2012, 1,988 IRs (5,602 paragraphs) were outstanding against nine departments under the economic sector. Year-wise details of IRs and paragraphs outstanding are given in **Appendix I**.

1.7.2 Response of departments to the Draft Paragraphs

Seven Draft Paragraphs and two CCO based audit reports were forwarded to the Principal Secretaries/Secretaries of the departments concerned between May and July 2012 with a request to send their responses within four weeks. The departments replied to all the seven Draft Paragraphs and the two CCO based audit reports featured in this Report. Meetings were also held with the concerned departments on the audit findings included in the draft report of the CCOs based audits. The replies of the departments and the views expressed by them have duly been considered while finalising this Report.