Chapter I

Introduction

1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) on Government of Odisha relates to matters arising from Performance Audit of Schemes of Cooperation Department, Selected Schemes of Animal Resources Development Sector and Compliance Audit of Government Departments / Autonomous Bodies.

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

Compliance Audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of the audited entities to ascertain whether the provisions of the applicable Rules, Laws, Regulations, various orders and instructions issued by the competent authorities are being complied with.

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

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

The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2014-15 as well as those which had come to light in earlier years but could not be dealt with in previous Reports. Matters relating to the period subsequent to 2014-15 have also been included, wherever necessary.

1.2 Audited entity's profile

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

1.3 Authority for Audit

The authority for Audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Services) Act, 1971. The CAG conducts audit of expenditure of the departments of Government of Odisha under section 13[1] of the CAG's (DPC) Act 1971. In addition, the CAG conducts audit of Autonomous Bodies substantially funded by the State Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts 2007 issued by the CAG.

1.4 Planning and conduct of audit

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

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

1.5 Significant observations on Performance Audit

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

1.5.1 Performance Audit of Schemes of Co-operation Department

Performance Audit conducted for the period 2009-14 revealed that Co-operation Department in Odisha was created with the basic objective of strengthening the Co-operative movement in the State. For providing timely and adequate credit to farmers for financing their agricultural activities and administering the Crop Insurance Scheme to provide relief to farmers in the event of crop failure, two schemes viz.; 'interest subvention for providing crop loans through Co-operative banks/ Primary Agriculture Co-operative Societies

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

(PACS)' and 'indemnity for crop insurance' were implemented with assistance from Government of India (GoI).

In pursuance of the decision of GoI and Government of Odisha (GoO), the Odisha State Co-operative Bank (OSCB), District Central Co-operative Bank (DCCB) and PACS were to advance crop loans to the borrowers at seven per cent interest per annum irrespective of the cost of resources. As per GoO direction, crop loans were disbursed at five *per cent* interest per annum from Rabi 2008 onwards. GoI also provided interest incentive to those farmers who repaid their crop loan in due time. Performance audit revealed that OSCB did not adhere to the guidelines of GoO and claimed excess interest subvention of ₹ 263.55 crore and of this claims, GoO had already paid ₹ 226.27 crore. Due to non issue of 'Annewari' certificate by the District Collectors/Government after the natural calamities, farmers were deprived of relief available under the scheme.

Under crop insurance scheme, GoO adopted blocks or districts as units of insurance instead of Gram Panchayat (GP) in respect of all crops except paddy leading to inaccuracy in calculation of loss of crop yield. Extent of cropped areas was not considered while notifying the crops and districts for coverage under insurance. The notifications for implementation of the schemes for Khariff and Rabi seasons were issued much after the date of commencement of the seasons leading to low coverage of non loanee farmers. Since Crop Cutting Experiment (CCE) was less than the mandatory numbers, GoI declined to bear its share of claims resulting in extra financial burden on GoO. Delay in submission of yield data to Agricultural Insurance Company (AIC) coupled with non creation of Corpus Fund delayed the settlement of claims. Delay in submission of declaration of insurance proposals and misclassification of proposals by the nodal banks resulted in non-settlement of claims of the farmers. Claims which were released by AIC were credited to the farmers' account with delay by PACS. Monitoring and internal control over the implementation of the schemes by the Department was not adequate. Though, evaluation studies conducted by GoI and GoO revealed deficiencies in implementation of the schemes, remedial action on the recommendations were not initiated till the date of audit.

(Paragraph 2.1)

1.5.2 Performance Audit of Selected Schemes of Animal Resources Development Sector

Performance Audit conducted for the period 2010-15 revealed that livestock rearing is one of the most important economic activities in rural areas of Odisha providing supplementary income for most of the families dependent on agriculture. Various schemes were implemented by the Department for providing, securing and facilitating effective and efficient services to become self-sufficient / surplus in milk, egg and meat by enhancing livestock productivity for sustainable livelihood. Instances were noticed where the Department was not taking adequate action to achieve the targets set in the

Perspective Plan (PP). As envisaged in the PP, New Livestock Aid Centres could not be provided to each Gram Panchayat by March 2015 and construction of a new Semen Station and an Embryo Transfer Technology (ETT) laboratory was not completed even by March 2015 although proposed to be completed by 2012-13. Also there was shortfall in production of fodder, certified seeds and distribution of mini kits for seasonal cultivation and perennial root slips for long term fodder production respectively. Due to capacity constraints in the cattle feed plant of OMFED only a part of requirement of calf feed could be supplied**.** Due to non-implementation of planned activities, actual production of milk in Odisha continues to be less than the target. Forty eight hatcheries set up during 2009-11 remained defunct (June 2015) indicating lack of seriousness of the department in operationalisation of the hatcheries.

Wide regional disparity was noticed in induction of calves for Calf Rearing Scheme. Concentrate feed mixture could not be supplied to beneficiaries under Goat Development Scheme. Under the scheme "Assistance to States for Control of Animal Diseases (ASCAD)" shortfall in production of vaccines were noticed. The funds meant for routine collection of serum/morbid materials for surveillance work for controlling exotic and emergent diseases remained unspent due to shortage of field functionaries. Target set for Mobile Veterinary Units (MVUs) remained unachieved. In the Rural Backyard Poultry Development Scheme differential cost was collected from beneficiaries in violation to GoI guidelines.

Budgetary and financial controls were ineffective as savings under plan head ranged from 25 - 43 *per cent* during 2010-15 indicating delay in achievement of objectives of various schemes. There were instances where Utilisation Certificates (UCs) were submitted without incurring actual expenditure. Besides other irregularities like drawal of scheme funds and parking in bank accounts, non-adjustment of advances to Departmental officers for years together were also noticed.

In case of Human Resources Management, shortage of personnel in various cadres was continuing for years together thereby adversely affecting the achievement of scheme objectives

(Paragraph 2.2)

1.6 Significant Audit observations on Compliance Audit

1.6.1 Odisha State Agricultural Marketing Board

Master Plan for development of agricultural marketing as envisaged in the operational guidelines was not prepared. Funds available for creation of market infrastructures could not be utilised due to non preparation of feasibility study and delay in land acquisition. Some of the Krushak Bazaars set up under Chief Minister's 12 point programme to facilitate direct marketing by farmers were not functional due to isolated locations. Market yards lacked core facilities and amenities such as boundary wall, weigh bridge, auction platform, grading equipment, cooling chambers etc. There was wide gap between agricultural production and arrival of produce of main crops to the market yards. System of dissemination of market information through computer systems to upload market data / information relating to agricultural produce was not functional. Lack of planning hindered utilisation of funds leading to non creation of infrastructure in market yards. Funds for creation of market infrastructure received under TFC, RKVY and State Plan remained unutilised, resulting in farmers being deprived of the benefits from these schemes.

(Paragraph 3.1)

1.6.2 Short realisation of cost of compensatory afforestation

As per conditions of general approval, User Agency (UA) had to deposit cost of Compensatory Afforestation (CA) as per assessment of Divisional Forest Officer (DFO). Accordingly, DFO Malkangiri intimated (November 2013) the UA to pay the cost of CA of ₹ 19.79 lakh. However, UA deposited ₹ eight lakh (March 2014 and November 2014) towards CA which resulted in short realisation of ₹ 11.79 lakh till the date of audit (December 2014).

(Paragraph 3.2)

1.6.3 Non-levy of interest on belated payment of royalty

Odisha Forest Development Corporation (OFDC) Ltd. paid royalty of ₹ 2.81 crore for timber / poles involving 520 irregular lots during the period from 2012-13 to 2013-14 with delay ranging from two to 142 months. However, interest of ₹ 16.18 lakh payable by OFDC Ltd. towards delayed payment of dues, were not levied by DFOs till February 2015.

(Paragraph 3.3)

1.6.4 Non disposal of timber

Timber and forest produce valued at ₹ 33.28 lakh which were seized under 1,087 undetected (UD) forest offence cases during 2010-11 to 2013-14 were lying undisposed (February 2015) due to lack of effective and timely action by the Departmental authorities such as Range Officers (ROs) and DFOs and resulted in blockage of revenue to that extent.

(Paragraph 3.4)

1.6.5 Non realisation of interest on delayed payment of Net Present Value

The User Agencies (UAs) deposited NPV amount between May 2013 and April 2014 which was delayed by 1,046 to 1,380 days from the date of demand. But interest of ₹ 8.96 crore at the prescribed rate of nine *per cent* per annum for delayed payment of NPV was neither demanded by DFO nor deposited by user agencies.

(Paragraph 3.5)

1.6.6 Construction of Check Dams

Formation of Pani Panchayat was not ensured before selection of site. Construction of check dams without shutters had defeated the very purpose of check dams. With delays in construction of Check Dams, lack of quality control measures and non monitoring of progress, intended objectives of conserving water at the end of monsoon could not be achieved as per guidelines.

(Paragraph 3.6)

1.6.7 Undue benefit to contractors

In respect of two works viz. Jambhira Earth Dam from Road Distance (RD) 2,830 m to 3,930 m and from RD 4,960 m to 6,060 m, cost of base stripping at ₹ 5.84 per cum and at ₹ 7.30 per cum for other two works viz. Haladia Earth Dam and Jambhira Earth Dam from RD 3,930 m to 4,440 m had been provided. The above unwarranted provision of cost of base stripping increased the estimated cost of above four works by ₹ 2.87 crore towards execution of 42.80 lakh cum of burrow earth. As the works were awarded at less tender premium, undue payment to contractors worked out to ₹ 2.14 crore and of this, a sum of ₹ 1.88 crore had already been passed on to the contractors towards execution of 37.96 lakh cum burrow earth.

(Paragraph 3.7)

1.6.8 Avoidable extra expenditure

Adoption of excess average lead of 1.5 km in analysis of rates and incorporation of additional two kilometre lead in bill of quantity inflated the estimates by ₹ 4.49 crore for transportation of 17.25 lakh cum of burrow earth. Considering tender premium, extra cost worked out to ₹ 3.34 crore out of which a sum of ₹ 2.43 crore had already been passed on to contractor for transportation of 12.77 lakh cum of burrow earth. Thus, provision of excess lead for transportation of burrow earth led to extra expenditure to Government and undue benefit to contractor.

(Paragraph 3.8)

1.6.9 Avoidable extra cost

Rejection of a technically qualified bid and subsequent award of the work to Odisha Construction Corporation Limited (OCC) led to the work being awarded at a higher cost.

(Paragraph 3.9)

1.6.10 Extra cost due to non awarding of work to qualified lowest bidder

Chief Construction Engineer (CCE) recommended (December 2011) to award the work to OCC on the ground of saving time from lingering tender process. However, after 16 months, the work was awarded to OCC in April 2013 at their offered rate of ₹ 59.90 crore. As of March 2014, the work was in progress with payment of ₹ 7.16 crore already made. Action of the Department for insisting on deposit of additional performance security of ₹ 5.82 crore instead of bank guarantee, non-allowing 30 days time to a qualified lowest bidder to execute agreement who had extended his bid validity twice for 180 days on request of EE was not in the financial interest of Government. Thus, awarding of work to OCC without any justification resulted in extra expenditure of ₹ 26.12 crore.

(Paragraph 3.10)

1.6.11 Loss of Revenue

Due to non-conduct of joint verification of ayacut, water tax of ₹ 43.88 lakh at the rate of ₹ 250 per hectare per annum for 1950 ha for nine years could not be realised from the beneficiaries.

(Paragraph 3.11)

1.6.12 Extra cost on award of work to OCC

The works were awarded to OCC at their offered price which was eight to 25 per cent excess over sanctioned estimates before revision of Schedule of Rates (SoR) especially when there were no exigencies or security reasons. Thus, works not urgent in nature awarded to OCC at their offered rates resulted in extra cost of ₹ 56.45 crore to department and non levy of liquidated damage (LD) of ₹ 10.79 crore for non completion of works within due date led to extension of undue benefit to OCC.

(Paragraph 3.12)

1.6.13 Undue benefit to contractors

According to prevalent SoR, admissible transportation cost for burrow earth within two km was ₹ 95.84 per cum whereas the divisions had adopted ₹ 124 per cum. Thus, adoption of the higher rate resulted in increase in estimated cost by ₹ 3.22 crore including tender premium as per agreement value.

(Paragraph 3.13)

1.6.14 Assessment of Infrastructure in Government Engineering Colleges and Universities

There was inadequate fund provision in the scheme to create required infrastructure in two Universities and seven Colleges despite increase in intake of students. Lack of laboratory and workshop facilities in these institutes deprived the students of required practical knowledge as per syllabus. Due to deficiency of infrastructure, approval of All India Council for Technical Education (AICTE) could not be obtained for the newly introduced courses. There was shortage of required faculties as per AICTE norms in all the Colleges and Universities. Lack of monitoring also resulted in delay in completion of infrastructure work.

(Paragraph 3.14)

1.6.15 Arbitrary and non transparent expenditure

Failure of Odisha Industrial Infrastructure Development Corporation (IDCO) in drawing a definite policy resulted in irregular expenditure of ₹ 14.73 crore towards promotion of commercial interest of its own and others under the "Corporate Social Responsibility (CSR) activities" in a non transparent and arbitrary manner.

(Paragraph 3.15)

1.6.16 Undue benefit to contractors

The excess provision of lead between five and 28 km for different projects inflated the transportation cost between ₹ 36.50 to ₹ 224 per cum. For transportation of 7.99 lakh cum of construction materials (stone and chips), estimated cost of projects were increased by ₹ 7.81 crore. As of February 2015, 2.03 lakh cum of construction materials were transported for which undue benefit of ₹ 2.32 crore had already been extended to contractors.

(Paragraph 3.16)

1.6.17 Non recovery of Government dues from defaulting contractors

The divisions had to realise a sum of ₹ 3.32 crore towards compensation for left over work, penalty for non execution of works and differential cost for under quoted rates against which, only a sum of ₹ 0.83 crore was available with divisions in the form of security deposit and withheld amounts.

(Paragraph 3.17)

1.6.18 Avoidable Extra Expenditure

The unwarranted provision of capping layers of sand along with variations in Granular Sub Base (GSB) resulted in avoidable extra expenditure of ₹ 7.02 crore.

(Paragraph 3.18)

1.6.19 Avoidable extra cost

While framing estimates, EEs provided excessive GSB of 13,644 cum for existing roads. The provision of excessive GSB inflated the estimate by ₹ 3.97 crore and without deduction of GSB in existing pavement; with tender premium avoidable extra cost works out to ₹ 2.70 crore.

(Paragraph 3.19)

1.6.20 Avoidable extra expenditure due to unwarranted provision of overhead charges

Irregular inclusion of Overhead Charges (OHC) at 10 *per cent* on cost of conveyance of stone and stone products along with cost of materials, labour and machineries in the estimates of seven road projects increased the cost by ₹ 5.58 crore**.**

(Paragraph 3.20)

1.6.21 Avoidable extra expenditure

Provision of 1.78 lakh cum of GSB as against actual requirement of 1.01 lakh GSB in the estimates of nine road works led to avoidable extra expenditure of ₹ 8.90 crore including tender premium

(Paragraph 3.21)

1.6.22 Response to Audit

A review of IRs issued upto March 2015 pertaining to 17 departments showed that 13,570 paragraphs relating to 4,352 IRs were outstanding at the end of June 2015. Of these, 1,806 IRs containing 4,143 paragraphs are outstanding for more than 10 years. Even first reply from the Heads of Offices which was to be furnished within one month have not been received in respect of 652 IRs issued up to March 2015.

Serious irregularities noticed in audit are included in the Reports of the Comptroller and Auditor General that are presented to State Legislature. According to Finance Department instructions (December 1993), Administrative Departments are required to furnish explanatory notes on transaction paragraphs, reviews/ Performance Audits, etc. included in Audit

Reports within three months of their presentation to State Legislature. It was noticed that in respect of Audit Reports from year 1997-98 to 2012-13, six[2] out of 17 departments, which were commented upon, did not submit explanatory notes on paragraphs and reviews as of March 2015.

Out of 732 recommendations relating to Audit Report made by the PAC from first Report of 10th Assembly (1990-95) to 5th Report of 14th Assembly (2009-14), final action on 67 recommendations was awaited as on March 2015.

(Paragraph 3.22)

[2] Works, Water Resources, Agriculture, Fisheries and Animal Resources Development, Industries and Forest and Environment Departments.