

CHAPTER I

INTRODUCTION

1.1 About this Report

This Report of the Comptroller and Auditor General of India (C&AG) presents matters arising from compliance audit of the departments of the Government of Gujarat in the Economic Sector.

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.

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 actions 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 audit observations made during various types of audits and also briefly analyses the follow-up on the previous Audit Reports. Chapter-II contains Compliance Audit observations which includes one subject specific compliance audit *namely* “Implementation of Extension, Renovation and Modernisation (ERM) of Irrigation Projects” under Narmada, Water Resources, Water Supply and Kalpsar (Water Resources) Department and six individual audit observations on the expenditure transactions of Government Departments.

1.2 Audited Entity Profile

The Principal Accountant General (Economic & Revenue Sector Audit), Gujarat conducts audit of the expenditure incurred by 10 Departments under the Economic Services Sector in the State. It includes audit at the Secretariat level, the field offices, 59 autonomous bodies and 75 public sector undertakings (PSUs) falling under the jurisdiction of these 10 Departments¹. Each Department is headed by Additional Chief Secretary/ Principal Secretary/ Secretary, who are assisted by Directors/ Commissioners/ Chief Engineers and subordinate officers under them.

¹ (i) Agriculture, Farmers Welfare & Co-operation Department, (ii) Energy & Petrochemicals Department, (iii) Finance Department, (iv) Forests & Environment Department, (v) Industries & Mines Department, (vi) Narmada, Water Resources, Water Supply and Kalpsar Department (except Water Supply), (vii) Ports and Transport Department, (viii) Roads and Buildings Department, (ix) Science & Technology Department and (x) Climate Change Department.

The summary of fiscal transactions of the Government of Gujarat (GoG) during the year 2016-17 and 2017-18 is given in **Table 1** below:

Table 1: Summary of fiscal operations

(₹ in crore)

Receipts			Disbursements				
	2016-17	2017-18		2016-17	2017-18		
					State Fund Expenditure	Central Assistance including CSS/ CS	Total
Section-A: Revenue							
Revenue receipts	1,09,841.81	1,23,291.27	Revenue expenditure	1,03,894.83	1,03,046.76	15,012.90	1,18,059.66
Tax revenue	64,442.71	71,549.41	General services	35,804.35	40,932.63	468.93	41,401.56
Non-tax revenue	13,345.66	15,073.97	Social services	44,926.02	38,934.11	10,104.89	49,039.00
Share of Union taxes/ duties	18,835.39	20,782.29	Economic services	22,748.51	22,705.96	4,439.08	27,145.04
Grants from Government of India	13,218.05	15,885.60	Grants-in-aid and Contributions	415.95	474.06	0.00	474.06
Section-B: Capital							
Misc. Capital receipts	240.05	0.00	Capital Outlay	22,355.39	20,305.34	6,007.85	26,313.19
Recoveries of Loans and Advances	165.77	346.22	Loans and Advances disbursed	477.56	631.07	-	631.07
Public Debt receipts*	27,668.31	26,952.74	Repayment of Public Debt*	9073.17	-	-	13,700.23
Contingency Fund	3.75	0.00	Contingency Fund	0.00	-	-	0.00
Net Public ² Account	2,570.71	1,394.21	Net Public Account	0.00	-	-	0.00
Opening Cash Balance	18,559.48	23,248.93	Closing Cash Balance	23,248.93	-	-	16,529.22
Total	1,59,049.88	1,75,233.37		1,59,049.88			1,75,233.37

Source: Finance Accounts of the respective years.

* Excluding net transactions under ways & means advances and overdrafts

1.3 Authority for Audit

The authority for audit by the C&AG is derived from the Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The C&AG conducts audit of expenditure of the Departments of the Government of Gujarat under Section 13³ of the C&AG's (DPC) Act. The C&AG is the sole auditor in respect of bodies/ authorities which are audited under Sections 19(2)⁴,

² Net Public Account represents total public account receipts less disbursement. During 2017-18, public account receipts were ₹ 89,132.67 crore and disbursement were ₹ 87,738.46 crore, leaving a Net Public Account Balance of ₹ 1,394.21 crore.

³ This Section empowers C&AG to audit transactions made from the Consolidated Fund of the State, transactions relating to the Contingency Fund and Public Accounts, and trading, manufacturing, profit & loss accounts, balance sheets and other subsidiary accounts.

⁴ 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.

19(3)⁵ and 20(1)⁶ of the C&AG's (DPC) Act. In addition, C&AG also conducts audit of other autonomous bodies which are substantially funded by the Government, under Section 14⁷ of C&AG's (DPC) Act. Principles and methodologies for various audits are prescribed in the Regulations on Audit and Accounts, 2007 and the Auditing Standards and guidelines 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/ Government Companies/ Statutory Corporations/ Autonomous Bodies/ Institutions under the Economic and Revenue Sector. The Principal Accountant General (Economic & Revenue Sector Audit) is assisted by three Senior Deputy Accountants General and one Deputy Accountant General.

1.5 Planning and conduct of Audit

Audit process starts with the assessment of risks associated with various Government activities based on expenditure incurred, revenue earned, criticality and complexity of activities, delegated financial powers and responsibilities, analysis of 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 heads of the offices. The Departments are requested to furnish replies to the audit findings within one month of receipt of the Inspection Reports. On receipt of replies, 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 relevant Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India.

During 2017-18, in the Economic Sector Audit Wing 5,720 man-days⁸ were utilised for compliance audit of 139 units and for performance audits. The audit plan covered units/ entities selected on the basis of risk assessment.

⁵ Audit of accounts, on the request of the Governor, of Corporations established by law made by the State Legislature.

⁶ Where the audit of the accounts of any body or authority has not been entrusted to the C&AG by or under any law made by Parliament, he shall, if requested to do so 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.

⁷ This Section empowers the C&AG to audit receipts & expenditure of (i) a body/ authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) 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 are not less than ₹ one crore.

⁸ Inclusive of the man days provided for the audit of PSUs. The related audit findings have been included in the Audit Report on PSUs separately.

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 (including one subject specific compliance audit) pertaining to the Narmada, Water Resources, Water Supply & Kalpsar (NWRWS&K) Department, Science and Technology (S&T) Department, Climate Change (CC) Department and Roads and Buildings (R&B) Department.

1.6.1 Compliance Audit

Principal Accountant General (E&RSA) conducted compliance audit of 10 Departments of the Economic Sector of the State Government and their field offices and audit findings were reported to the respective Heads of the Departments through Inspection Reports. Chapter II of this report contains Department wise audit findings containing one subject specific compliance audit on “Implementation of Extension, Renovation and Modernisation (ERM) of Irrigation Projects” under Narmada, Water Resources, Water Supply and Kalpsar (NWRWS&K) Department and six individual paragraphs having significant audit findings relating to non-recovery of annual rent, maintenance and repair charges, blocking of funds due to non-utilisation of grants, non-recovery of annual certification charges, excess expenditure on star rate difference of asphalt, avoidable expenditure and undue benefit to the contractor amounting to ₹ 300.05 crore as narrated below:

NARMADA, WATER RESOURCES, WATER SUPPLY AND KALPSAR DEPARTMENT (WATER RESOURCES)

Implementation of extension, renovation and modernisation (ERM) of Irrigation Projects

Water Resources Department is responsible for construction, operation and maintenance of Major, Medium and Minor irrigation projects in Gujarat. ERM works of the canal systems contribute in reducing the gap between the created Culturable Command Area (CCA) and its utilisation.

The Water Resources Department is organised geographically into five regions namely North Gujarat, South Gujarat, Central Gujarat, Saurashtra and Kachchh. Out of five regions, projects located in three regions namely, South Gujarat, Central Gujarat and North Gujarat were selected for detailed audit examination to assess the efficacy of planning, implementation and monitoring of ERM works undertaken by the Department between 2012-13 and 2017-18.

Against the total CCA of 12.96 lakh ha, CCA of 7.96 lakh ha (61 *per cent*) has been covered under ERM works up to March 2018. Absence of project wise

plans in eight out of 12 test-checked projects, not preparing the Detailed Project Reports, improper planning for works *etc.*, were observed during the course of Audit. Thus, gap between the CCA created *vis-à-vis* utilised was not bridged even after taking up of works under ERM of canal systems.

In Jhuj Irrigation Project; Sabarmati Right Bank Canal & Bhavsor and Ladol distributaries of Dharoi Project; and Kadana Project, the utilisation of CCA was less as compared to the CCA created, due to requisite works not being accorded priority while carrying out the ERM works. Similarly, in four projects namely Waidy Minor Irrigation Project, Kakrapar Right Bank Main Canal, Fatewadi Canal System and Tail Extended Distributary of Watrak Main Canal, improper planning in taking up of works led to under utilisation of the created CCA.

The Department also accepted unworkable rates in tender relating to two works leading to those works remaining incomplete. In 31 works, the Divisions split up the works without obtaining approval from the competent authority and allowed the Executive Engineer to exercise the power both as a technical sanctioning authority and tender accepting authority besides depriving scrutiny and monitoring of tenders at higher levels. In nine works, Division had irregularly paid for excess and extra items to the contractors though the approval of the Department was not received. Further, due to not fixing the closure period for the canals in Mazam and Meshwo Projects and in 13 other works, the ERM works could not be completed. The Divisions had not conducted pre and post monsoon inspections of the canals as per the Department's own Guidelines relating to it. As a result, damages in the canals went unnoticed. No evaluation study was conducted after completion of the works to assess the adequacy, effectiveness and efficiency of the ERM works undertaken by the Department.

(Paragraph 2.1)

Twenty three Divisions of the Department did not recover the prescribed annual rent and annual charges for maintenance & repair from licensees who had been given permission for laying of pipelines crossing rivers, canals and drains which led to non-recovery of revenue of ₹ 7.35 crore.

(Paragraph 2.2)

SCIENCE AND TECHNOLOGY DEPARTMENT

Department of Science and Technology failed to monitor the utilisation of grants-in-aid by its subordinate institutions which resulted in non-utilisation of grants. Further, the institutions funded did not surrender the unutilised grant to the Department which led to blocking of ₹ 109.94 crore during the year 2013-14 to 2017-18.

(Paragraph 2.3)

CLIMATE CHANGE DEPARTMENT

Gujarat Energy Development Agency failed to recover annual certification charges of ₹ 5.62 crore as of January 2019 due to absence of proper monitoring system for recovery of annual certification charges from windfarm owners.

(Paragraph 2.4)

ROADS AND BUILDINGS DEPARTMENT

Non-adoption of star rate prevailing at the time of approval of Draft Tender Papers for payment of price variation for asphalt resulted in excess expenditure on price variation of ₹ 5.84 crore in 11 works of five Divisions.

(Paragraph 2.5)

Preparation of incorrect estimates by two Divisions of Roads and Buildings Department based on (i) visual inspection in one work; (ii) without considering actual site conditions in the second work; and (iii) adoption of incorrect rate in the third work, led to avoidable expenditure of ₹ 1.95 crore.

(Paragraph 2.6)

The Government revised the star rate as prevalent on the date of approval of excess items which was lower than the star rate originally adopted in the tender which led to undue benefit of ₹ 1.18 crore to the contractor.

(Paragraph 2.7)

1.7 Response of the Government to Audit

1.7.1 Inspection Reports

The Hand Book of Instructions for prompt Settlement of Audit Objections/ Inspection Report issued by the Finance Department, GoG in 1992 provides for prompt response by the Executive to the Inspection Reports (IRs) issued by the Accountant General (AG) to ensure rectifying action in compliance with the prescribed rules and procedures and fix 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 AG within four weeks of receipt of the IRs. Periodical reminders are issued to the Heads of the Departments requesting them to furnish the replies expeditiously on the outstanding paragraphs in the IRs.

Three Audit Committee meetings were held during the year 2017-18 in respect of paragraphs contained in IRs pertaining to the Departments under Economic Sector. As of 30 September 2018, 447 IRs (1,682 Paragraphs) were outstanding against 10 Departments under the Economic Sector. Year-wise details of IRs and paragraphs outstanding are given in **Appendix I**.

1.7.2 Draft Paragraphs

One subject specific compliance audit Paragraph and six Paragraphs were forwarded to the Principal Secretaries/ Secretaries of the concerned Departments between June and October 2018 with a request to send their responses within six weeks.

Out of seven compliance audit paragraphs (including one subject specific compliance audit), replies to subject specific compliance audit of “Implementation of Extension, Renovation and Modernisation (ERM) of Irrigation Projects” and five individual paragraphs (one each of Water Resources Department and S&T Department and three relating to R&B Department) have been received up to January 2019. Reply to one paragraph (of Climate Change Department) has been received from Gujarat Energy Development Agency but awaited from the Department (May 2019). The replies of the Departments and the views expressed by them have been duly considered while finalising this Report.

1.7.3 Recovery at the instance of audit

The Executive Engineer, Bhavnagar Irrigation Division, Bhavnagar recovered ₹ 3.42 crore from the contractor on account of price variation in March 2018 after being pointed out in Audit in January 2018. Further, the Water Resources Department recovered ₹ 7.37 crore from licensees on account of annual rent, maintenance and repair charges after being pointed out in Audit.

During subject specific compliance audit of the “Implementation of Extension, Renovation and Modernisation (ERM) of Irrigation Projects”, the non-recovery of price variation amounting to ₹ 54.48 lakh were pointed by Audit in 21 ERM works of three Divisions, namely, EE, Surat Canal Division, Surat; Ukai Right Bank Canal Investigation Division, Ankleshwar; and Dharoi Head Works Division, Dharoi of the Water Resources Department. The Department intimated (October 2018) that recoveries of ₹ 34.94 lakh as pointed by Audit in 14 works were made and also assured to recover ₹ 19.65 lakh in six other works.

1.7.4 Follow up of Audit Reports

Rule 7 of Public Accounts Committee (PAC) (Rules of Procedure), 1990 provides for furnishing Detailed Explanation (DE) by all the Departments of Government to the observations which featured in Audit Reports within 90 days of their being laid on the Table of the Legislative Assembly. These DEs are required to be furnished to the PAC after vetting by the concerned Accountant General.

The Audit Reports for the year 2011-12, 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 were placed in Gujarat Legislative Assembly in April 2013, July 2014, March 2015, March 2016, March 2017 and March 2018 respectively which included 65 paragraphs pertaining to seven Departments as detailed in **Table 2** below:

Table 2: Details of paragraphs included in Audit Reports

Sl. No.	Name of the Department	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Total	DEs received
1	Agriculture, Farmers Welfare & Co-operation	1	0	1	0	0	1	3	1
2	Narmada, Water Resources, Water Supply & Kalpsar (Water Resources)	3	6*	3*	5*	6	3	26	16
3	Ports & Transport	0	1	0	0	1	0	2	1
4	Roads & Buildings	5	4	5	3*	3	4	24	16
5	Forests & Environment	0	0	1	3*	0	1	5	1
6	Industries & Mines	0	0	0	2*	1	0	3	1
7	Finance Department	0	0	0	2*	0	0	2	2
Total		9	11	10	15	11	9	65	38

*Paragraph pertains to two Departments hence considered separate paragraph in each Department.

Out of 65 paragraphs for the years 2011-12 to 2016-17, DEs for 38 paragraphs have been received up to October 2018. No DEs for 27 paragraphs for the year 2011-12 (two paragraphs), 2014-15 (eight paragraphs), 2015-16 (eight paragraphs) and 2016-17 (nine paragraphs) were received as of October 2018.