

Preface

1. This Report has been prepared for submission to the Governor under Article 151 of the Constitution.
2. Chapters I and II of this Report respectively contain audit observations on matters arising from examination of the Finance Accounts and the Appropriation Accounts of the State Government for the year ended 31 March 2004.
3. The remaining chapters deal with the findings of performance audit and audit of transactions in the various departments including the Public Works Departments, audit of stores and stock, audit of autonomous bodies and departmentally run commercial undertakings and Internal Control Mechanism in Government Departments.
4. The Report containing the observations arising out of audit of Statutory Corporations, Boards and Government companies and the Report containing such observations on Revenue Receipts are presented separately.
5. The cases mentioned in the Report are among those which came to notice in the course of test audit of accounts during the year 2003-2004 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports. Matters relating to the period subsequent to 2003-2004 have also been included wherever necessary.

OVERVIEW

This Report includes two chapters on the Finance and Appropriation Accounts of the State Government for the year 2003-04. The next three chapters comprise four reviews, two long paragraphs based on the audit of selected programmes and activities and 31 paragraphs on individual financial transactions and one paragraph on the internal control systems of the Government. A synopsis of the important findings contained in the Report is presented in this overview.

1. An overview of the Finances of the State Government

Large revenue and fiscal deficit year after year is a reflection of the continued macro imbalances in the State. The revenue deficit, however, showed a declining trend during the five year period 1999-2004. The fiscal deficit which reached a peak at Rs.3968 crore in 2001-02, sharply declined to Rs.2816 crore in 2002-03 but shot up to Rs.3573 crore in 2003-04 reflecting the continued dependence on high cost borrowings for current consumption.

The revenue receipts of the State increased from Rs.5885 crore in 1999-2000 to Rs.9440 crore in 2003-04. The rate of growth during 2003-04, however, declined from 20 *per cent* in 2002-03 to 12 *per cent* mainly due to less receipts of grants-in-aid from Central Government.

Revenue expenditure accounted for 82 *per cent* of the total expenditure during 2003-04. It grew by 8.45 *per cent* during the year against the growth of 1.35 *per cent* during the preceding year. The high growth of revenue expenditure in the current year was mainly due to transfers to sinking fund, increase in maintenance under public works and increase in pension payment and transfer to the Calamity Relief Fund.

The interest payments during 2003-04 of Rs.2860 crore more or less remained at par with of 2002-03 mainly due to lower rate of interest on GPF and Government of India loans.

Capital expenditure declined from 8.62 *per cent* of the total expenditure in 1999-2000 to 7.28 *per cent* in 2003-04. Similarly, there was a decline in the share of developmental expenditure from 68.42 *per cent* of the total expenditure in 1999-2000 to 53.75 *per cent* in 2003-04.

At the end of 2003-04, the total investment in statutory corporations, Government companies etc. stood at Rs.1556.63 crore. Use of high cost borrowing for investment which yielded very little, indicated an implicit subsidy.

(Paragraph 1.1 to 1.13)

2. Allocative Priorities and Appropriation

Against the total budget provision of Rs.28848 crore including supplementary provision, expenditure of Rs.23396 crore was incurred during 2003-04. The savings of Rs.5452 crore occurred in all the grants during the year except in two appropriations where the excess of Rs.24998 required regularisation under Article 205 of the Constitution of India.

Expenditure was inflated to the extent of Rs.323.43 crore, as monies were drawn and deposited into Civil Deposits without any expenditure. The amount of funds parked in Civil Deposits during 1999-2004 increased from Rs.461.16 crore to Rs.762.72 crore indicating that the funds meant for various development schemes remained unutilised.

The excess of expenditure amounting to Rs.8819.14 crore incurred over budget provision during 1996-97 to 2002-03 was yet to be regularised under Article 205 of the Constitution of India.

Advance from the Contingency Fund aggregating to Rs.101.73 crore remained un-recouped as of March 2004.

(Paragraphs 2.2 to 2.9)

3. Implementation of Child Labour (Prohibition and Regulation) Act, 1986

The Child Labour (Prohibition and Regulation) Act, 1986 (the Act) seeks to prohibit employment of children below the age of 14 years in various hazardous occupations. It also lays down the manner in which working conditions of child labour employed in non-hazardous occupations are to be regulated. A review of the implementation of the Act during the period 1999-2004 revealed serious deficiencies in the enforcement of the Act in both its prohibitory and regulatory aspects.

No systematic and authentic survey of child labour was conducted in the State after the 1997 survey conducted on the directions of the Supreme Court. Subsequent surveys conducted by Non-Government Organisations (NGOs), field officers of NCLP Societies, instructors of the special schools etc. were neither comprehensive nor quite accurate.

The Department did not maintain proper statistics regarding the number of show-cause notices issued, number of cases finally sent for prosecution and the results there of. However, the submission made by the State Government before the National Human Rights Commission in January 2002 indicated that 63 *per cent* of show-cause notices issued were not even replied to by the employers and prosecutions were filed in the Court in only three *per cent* of the cases. In the seven districts test checked, there was no conviction and no collection of fine except in a lone case in Rayagada.

There was a shortfall of 95 *per cent* in the number of inspections to be carried out by District Labour Officers (DLOs)/Assistant Labour Officers (ALOs)/Rural Labour Inspectors (RLIs) during 2003 in the selected districts.

No inspections had been carried out in seven out of the 30 districts in the State during the period of review.

Demand for funds by the NCLP Societies from GOI was largely inflated resulting in huge unspent balances at the end of every year.

There was no relation between the number of child labour in hazardous occupations as identified during survey and sanction of the projects by the GOI. The project in Kalahandi district with no child labour in hazardous occupation as per 1997 survey was given undue priority over other districts.

Large numbers of children from non-hazardous employments were admitted in the special schools in departure from the guidelines of GOI in all the test checked districts. The entire expenditure of Rs.9.43 crore in Ganjam, Rayagada and Kalahandi districts where no child labour in hazardous occupation was admitted was therefore misdirected.

Misappropriation of funds, doubtful payments, excess expenditure, cash shortages etc. to the tune of Rupees one crore were noticed in NCLP, Malkangiri. Inadmissible, unfruitful and wasteful expenditure amounting to Rs.24.70 lakh was noticed in the remaining NCLPs test checked.

There was also no record of tracking of the activities of the mainstreamed child labour though required under the scheme.

(Paragraph 3.1)

4. Prime Minister's Gram Sadak Yoyana (PMGSY)

PMGSY was launched in December 2000 with the objective of providing all weather road connectivity to all unconnected habitations with population of 1000 persons and above by the year 2003 and for 500 persons and above by the Tenth Plan period (2007). Government of India (GOI) had provided Rs.708.34 crore for implementation of the programme against which the Government of Orissa (GOO) had spent Rs.451.43 crore as of March 2004.

Out of 1573 roads approved for completion in three phases, 867 roads (55 per cent) were completed which provided connectivity to 965 out of 3850 habitations with population of 1000 persons and above. Of the completed roads, 195 roads covering 451.67 km constructed at a cost of Rs.85.38 crore did not provide connectivity to 2885 targeted habitations for want of 536.13 km of missing links and culverts etc. Further, out of 212 roads test checked in 11 districts, 132 roads constructed at a cost of Rs.47.16 crore did not fulfill the norms of the programme by providing multiconnectivity, by connecting habitations with lower populations, by not having the most economic and efficient alignment or even by not connecting to any habitation or all weather road. Besides, there was wasteful expenditure of Rs.1.49 crore on 12 abandoned roads. Serious failure of control over expenditure led to significant excess and undue payments to contractors.

Roads were constructed with extra carriage-width and sand core in deviation

from the norms of Rural Roads Manual (RRM) of Indian Road Congress (IRC) resulting in excess expenditure of Rs.56.18 crore.

Excess payment of Rs.14.78 crore was made to contractors by not deducting voids from the quantity of metal and contractors were allowed undue benefits of Rs.1.54 crore due to provision of excess lead for transportation of materials.

Programme funds amounting to Rs.179.70 crore were kept in PL Account of DRDAs during 2000-2003 instead of in bank account thereby losing Rs.8.25 crore which would have accrued to programme funds by way of interest from bank account. Besides, EEs did not maintain the accounts as prescribed by the MORD and Orissa State Rural Roads Agency (OSRRA) set up for operational and management support to the programme remained non-functional due to lack of budget provision and staff.

(Paragraph 3.2)

5. Implementation of welfare schemes in Ganjam district

Ganjam district comprises three sub-divisions, 22 blocks and 3171 villages covering an area of 8200 square kilometer with 32 lakh population. Chatrapur is its headquarters and Berhampur the main commercial centre. The population with a male female ratio 1:1 has 63 *per cent* literacy rate and 55 *per cent* of its population (3.02 lakh families) lives below the poverty line (BPL) according to a survey in 1997. Review of implementation of various welfare programmes relating to poverty alleviation, primary education, drinking water supply and primary health care in the district for the period 1999-2004 revealed the following:

Under Swarnajayanti Gram Swarojgar Yojana (SGSY), only 10 *per cent* of BPL families were covered against the target of 30 *per cent*. The total employment generated in the district through the Swarnajayanti Gram Swarojgar Yojana /Sampoorna Grameen Rojgar Yojana (SGRY)/ Indira Awas Yojana (IAY) schemes covered only 6.7 *per cent* of the BPL families annually on an average. Monitoring of the income generated under SGSY and the employment in mandays generated under SGRY was deficient.

Assets were created under SGSY and SGRY without assessment of their likely utility for income and employment generation. Inventory of assets created was not maintained in the test checked blocks.

Under SGSY, expenditure on training to Self Help Groups (SHGs) was just about 1.6 *per cent* of the expenditure instead of required 10 *per cent*. Only 4927 out of 12546 SHGs were imparted first phase orientation training.

About 17,000 IAY houses were not provided with sanitary latrines and smokeless chullahs. Advances of Rs.38.11 lakh were outstanding in four blocks against IAY beneficiaries.

There was no record of utilisation of Rs.4.17 crore paid to the headmasters of primary schools for repair works and purchase of school equipment under

Sarva Shiksha Abhiyan (SSA). The teacher-pupil ratio stood at 1:56 against the norm of 1:40 in the primary schools of the district affecting the quality of education. There was 36 *per cent* shortfall in inspection of schools by the Sub-Inspectors of schools due to their non-educational work.

There were vacancies of 34 doctors and 430 para medical staff in the PHCs/CHCs/District Headquarters Hospital affecting health care facilities in the district. Besides, 32 doctors required under the Orissa Health Systems Development Project (OHSDP) were not provided.

Under the National AIDS Control Programme, no baseline survey was conducted to identify geographically high risk areas and occupational groups vulnerable to HIV though the district was highly prone to HIV. The Orissa State AIDS Control Society did not have the information on the current health status and follow up treatment of the people living with HIV/AIDS.

Testing of water quality of 12446 tube wells (79 *per cent*) sunk during ten years to March 2004 were not carried out; the water quality of 470 of the 3403 tube wells tested was not safe.

(Paragraph 3.3)

6. Development of village and small industries including handloom sector

The review on "Development of village and small industries including handloom sector" during 1999-2004 revealed that the overall performance in the identified sectors was not as per expectations.

Against the budget provision of Rs.321.45 crore for the two Departments together for the period 1999-2004, the expenditure was only Rs.186.77 crore, indicating a saving of 42 *per cent*. Capital (Rs.0.38 crore) and loan (Rs.0.84 crore) expenditure mainly targeted at the co-operative sector, was negligible.

Under the Prime Minister's Rozgar Yojana (PMRY), 50478 persons were trained during 1999-2004 of which 17032 trained persons (including 4551 granted bank loans) could not set up any industry. Recovery of loans under the PMRY was unsatisfactory. There was inadequate co-ordination among the District Industries Centres (DICs), the banks and the entrepreneurs.

Single window clearance system called SILPASATHI claimed by the Director of Industries to have been implemented was not found to be actually working in any of the five test checked districts.

The IDCO failed to develop three Integrated Infrastructure Development Centres sanctioned in 1993-94 at a cost of Rs.16.45 crore to be shared among GOI (Rs.5.98 crore), State Government (Rs.1.75 crore) and the IDCO (Rs.8.72 crore). Despite funds being available, the total expenditure on the scheme was only Rs.1.19 crore as of March 2004. The work at Paradip could not be taken up because of land dispute.

As of March 1999, there were 706 Primary Co-operative Societies in the Handicraft and Cottage Industry sector of which 349 were not functional (March 2004) and there was no addition to the number of such Societies during 1999-2004.

During 1999-2004, 240 out of 828 working Primary Weavers' Co-operative Societies became defunct and 0.22 lakh weavers lost employment in the co-operative sector.

Marketing development assistance amounting to Rs.0.85 crore and marketing incentive amounting to Rs.2.78 crore were not released by the State Government in favour of the Sambalpur Bastralaya Handloom Co-operative Society. Consequently, the Society was unable to provide full time work to 6000 'A' class members and 9000 other weavers in the affiliated Primary Societies.

(Paragraph 3.4)

7. Implementation of Urban Water Supply Schemes

The rapid growth in urban population during the last decade necessitated augmentation of the existing water supply systems and development of new schemes to ensure supply of minimum quantity of potable water to the urban population. Government of India (GoI) launched (February 1994) Accelerated Urban Water Supply Programme (AUWSP) for providing adequate safe drinking water in towns. Against 51 Urban Local Bodies (ULBs) eligible for coverage under the programme, only 24 ULBs were selected by the State Level Selection Committee and water supply schemes for these towns were approved by the GOI between 1994 and 2004. Water supply schemes for two towns, not declared as ULBs were also approved under the programme. A sum of Rs.76.36 crore was spent on these schemes during the five year period of 1999-04. Audit scrutiny revealed the following:

Eighty-eight Urban Local Bodies (ULBs) out of 103 ULBs were not supplied the minimum quantity of 70 LPCD to 150 LPCD of water as per norms. The water supplied in 30 ULBs ranged between six and 40 LPCD.

Out of 15 (AUWSP) schemes taken up for completion between December 1996 and February 2003, 14 schemes remained incomplete despite expenditure of Rs.20.42 crore (94 *per cent*) against their estimated cost of Rs.21.71 crore depriving the people of these 14 towns of the minimum *per capita* daily requirement of 70 litres of potable water.

Execution of AUWSP Schemes without adequate pre-construction survey resulted in failure of sources in five schemes involving expenditure of Rs.9.50 crore. Another 9 schemes scheduled for completion between 1998 and 2003 remained incomplete due to lack of proper planning, non-acquisition of land and cost overrun. The expenditure incurred on these schemes amounted to Rs.10.40 crore.

Quality of drinking water was not ensured and as a result 5.25 lakh population of the State were the victims of water borne diseases causing 2169 deaths during last three years.

(Paragraph 3.5)

8. Upgradation of standards of administration and modernisation of Police force

In terms of the recommendations of the successive Finance Commissions, the Government of India (GOI) had been releasing grants to the State Government for upgradation of the standards of Police administration. Besides, the scheme of Modernisation of Police Forces was under implementation in the State since 1969-70. Review of the implementation of the above schemes during 1999-2004 revealed several deficiencies as follows:

Utilisation certificates submitted to the GOI included payment of advance to the extent of Rs.38.28 crore to different agencies which were treated as final expenditure without supporting vouchers.

Despite availability of funds, the State Finger Print Bureau could not be modernised for over three years and the Information Technology Plan of the State Police could not take off for want of application software.

Exclusive dependence on the Orissa State Police Housing and Welfare Corporation (OPHWC), Bhubaneswar resulted in tardy progress of civil works of 1146 building projects.

Equipment worth Rs.1.23 crore were purchased before construction of the Regional Forensic Science Laboratory at Balasore and could not be put to the intended use.

(Paragraph 3.6)

9. Fraudulent drawal/misappropriation/embezzlement/losses

Non-maintenance/improper maintenance of advance ledgers/registers at the Block level led to accumulation of unadjusted advances of Rs.6.46 crore as of 31 March 2003.

(Paragraph 4.1.1)

Irregularities in the operation of passenger bus service by the Kendrapara Municipality resulted in loss of about Rs.33 lakh.

(Paragraph 4.1.3)

10. Infertuous/wasteful expenditure

There was unfruitful expenditure of Rs.9.43 crore due to non-completion of work and undue favour to a contractor by way of non-recovery of Government dues of Rs.1.77 crore.

(Paragraph 4.2.1)

The Executive Engineer incurred wasteful expenditure of Rs.2.52 crore on cargo handling operation without any shipment activity in Gopalpur port.

(Paragraph 4.2.2)

Despite approval of Government of India and sanction of requisite funds of Rs.1.78 crore by the State Government, the Revenue Department could not digitize the cadastral maps of two tehsils nor could they finish the construction of a training institute building for over eleven years.

(Paragraph 4.2.3)

Despite expenditure of Rs.23.94 lakh on modernisation and repairs, the defunct cold storage plant at Paralakhemundi could not be operated commercially due to damages to the re-insulated ceiling caused by roof leakage raising doubts about the viability of its future commercial run; there was also expenditure of Rs.62.25 lakh on idle wages.

(Paragraph 4.2.4)

Keeping staff quarters unallotted for over eleven years in Sambalpur Collectorate and non-occupation of residence-cum-office building in Khurda Collectorate led to wasteful expenditure of Rs.58.86 lakh besides loss of revenue of Rs.8.45 lakh. There was also a blockage of capital of Rs.10.69 lakh on an incomplete office building in Bhadrak Collectorate.

(Paragraph 4.2.5)

Commitment of the State Government to stand guarantee to OWSSB for loan from HUDCO without the concurrence of the Finance Department and without ensuring execution of the three concerned water supply schemes resulted in infertuous expenditure of Rs.65.96 lakh towards payment of interest and fees to HUDCO.

(Paragraph 4.2.6)

11. Violation of contractual obligations/undue favour to contractors

Issue of rice to the contractors after completion of works deprived labourers from getting subsidised rice and conferred benefit of subsidy of Rs.8.09 crore on the contractors.

(Paragraph 4.3.1)

Collectors of two districts allowed inflated distances for payment of transportation of foodstuff from Paradip Port to Keonjhar and Baripada which resulted in unjustified payment of Rs.36.34 lakh during 1999-2004.

(Paragraph 4.3.3)

12. Avoidable/Excess/Unfruitful expenditure

Failure of the Executive Engineer /Chief Engineer to seal the leakage in Hirakud dam in time resulted in enlargement of cavity and eventually led to avoidable expenditure of Rs.93 lakh.

(Paragraph 4.4.7)

Deliberate inclusion of item of hard rock in the estimate by the EE despite evidence to the contrary resulted in extra expenditure/liability of Rs.84 lakh and non-recovery of penalty of Rs.33 lakh from a contractor.

(Paragraph 4.4.5)

Failure of EE to investigate site before invitation of tender and to analyse the rate for variation resulted in avoidable expenditure of Rs.1.08 crore.

(Paragraph 4.4.6)

Abandonment of four pier wells already constructed led to loss of Rs.1.18 crore. EE failed to recover penal cost of Rs.5.98 crore from the contractor.

(Paragraph 4.4.2)

Failure of the EEs to release funds, revise drawings and provide land for bridge works resulted in avoidable expenditure of Rs.1.98 crore towards price escalation.

(Paragraph 4.4.4)

Failure to complete water supply schemes resulted in unfruitful expenditure of Rs.8.66 crore.

(Paragraph 4.4.1)

Failure of the Chief Engineer to adhere to the Indian Road Congress code while sanctioning the estimates resulted in unwarranted benefit of Rs.2.30 crore to contractors.

(Paragraph 4.4.3)

13. Idle investment/idle establishment/blockage of funds

Purchase of CI pipes and fittings worth Rs.1.24 crore by the EE without definite requirement resulted in blockage of Government money

(Paragraph 4.5.3)

Continuance of Soil Survey Sub-Division at G. Udayagiri without any work for over 11 years led to expenditure of Rs.1.31 crore on idle establishment besides irregular drawal of salary without allotment of funds.

(Paragraph 4.5.2)

Non-completion of bridge for over nine years resulted in idle expenditure of

Rs.1.64 crore besides undue favour to contractor for non-recovery of Government dues of Rs.54.96 lakh.

(Paragraph 4.5.1)

14. Regularity issues and other points

Integrated Coastal Aquaculture (ICA) scheme funds of Rs.3.43 crore meant for payment of subsidy to farmers for development of shrimp farms was misutilised for maintenance of the State Government's own establishment.

(Paragraph 4.6.1)

An amount of Rs.3.38 crore meant for spending under the District Primary Education Projects and Sarva Siksha Abhiyan was mismanaged by spending on salaries in excess of norm, free distribution of text books to general category male students and computerisation of personal data of teachers.

(Paragraph 4.6.2)

In disregard of the Government's decision of July 1999 imposing restriction on filling up of vacant posts, the Director of Higher Education appointed 113 Junior Clerks, Lascars, Chowkidars etc. in different NCC offices. Expenditure of Rs.2.51 crore was irregularly incurred on their salary till June 2004; the irregular expenditure was continuing.

(Paragraph 4.6.3)

The Balasore Central Cooperative Bank Limited unauthorisedly retained Rs.41.65 lakh meant for debt relief of farmers, artisans etc. for over 12 years while the lending Cooperative Societies that had extended loan to the farmers etc. continued under liquidation proceedings.

(Paragraph 4.6.4)

15. Internal Control System

Internal control mechanism (ICM) in an organisation is meant to ensure that its operations are carried out according to the applicable laws and regulations and in an economical, efficient and effective manner. A built-in Internal Control System and strict adherence to Statutes, Codes and Manuals minimize the risk of errors and irregularities and helps to protect resources against loss due to waste, abuse and mismanagement. Audit review of the functioning of the ICM during 2002-04 in School and Mass Education Department (SMED) and Panchayati Raj Department (PRD) revealed deficient budgetary and expenditure control, poor cash management, inadequate controls in store management and poor operational and supervisory controls in the departments.

Unnecessary supplementary provision of Rs.55.88 crore was obtained by the School and Mass Education Department in December 2002 when there were overall savings of Rs.140.64 crore at the end of March 2003 indicating deficient budgetary control by these departments.

In violation of the Orissa Budget Manual, unnecessary provisions of Rs.7.63 crore made by SMED in 2002-03 and Rs.6.94 crore and Rs.2.21 crore made by SMED and PRD respectively in 2003-04 for vacant posts. The provisions were finally surrendered by the Departments.

Expenditure controls in both the Departments were poor as evident from the rush of expenditure towards the end of the financial year. Three out of four Directorates of the School and Mass Education Department did not reconcile their expenditure figures of 2003-04 as of 30 June 2004.

The financial discipline in cash management were not observed by the Drawing and Disbursing Officers. The heads of the administrative departments and controlling officers had also failed to stem the rot.

Due to non-adherence to rules governing advances, Rs.9.30 lakh under Motor Cycle Advance and Rs.14.44 lakh under House Building Advance in PRD remained unsecured and their proper utilisation was doubtful.

Supervisory controls were inadequate. Officers of various cadres of PRD including its autonomous organisations failed to carry out periodic inspections, which affected the functional efficiencies of various schemes and activities.

Prescribed controls in stores management of both the departments, such as physical verification of stores, proper maintenance of stock registers and obtaining security from the storekeepers, were not adhered to.

Failure of review, monitoring and evaluation mechanism indicated gross deficiencies in review of activities and evaluation of execution of the schemes at the highest level. While the General Body (GB) of Orissa Primary Education Programme Authority did not hold meeting since 1997, the GB of Orissa Rural Development and Marketing Society (ORMAS) had shortfall of four out of six such meetings during 2002.

(Paragraph 5.1)

CHAPTER-I

Finances of the State Government

SUMMARY

The revenue deficit decreased by 10 per cent from Rs.1576 crore in 2002-03 to Rs.1421 crore in the current year, while the fiscal deficit increased substantially by 27 per cent from Rs.2816 crore in 2002-03 to Rs.3573 crore in 2003-04 mainly because of large amount of loans advanced to Power Corporation (GRIDCO) for making payment towards purchase of power from NTPC, necessitating increased borrowings.

During the current year, the growth rate in revenue receipts declined sharply from 20 per cent during 2002-03 to 12 per cent owing to less receipt of grants in aid from Central Government. Arrears of revenue were high at Rs.1986 crore as against Rs.1410 crore during 2002-03 and represented 45 per cent of State's own resources as against 37 per cent in 2002-03.

On an average 44 per cent of revenue had come from State's own resources. The Central tax transfers and grants-in-aids together contributed nearly 56 per cent of the total revenue during 1999-2004.

Overall expenditure of the State increased from Rs.9734 crore in 1999-2000 to Rs.13286 crore in 2003-04 at an average trend rate of nine per cent per annum while the proportion of development expenditure in total expenditure declined from 68 per cent in 1999-2000 to 54 per cent in 2003-04. Revenue expenditure, which constituted 82 per cent of total expenditure, grew at a trend rate of 8.79 per cent per annum over the five-year period with the lowest growth of 1.35 per cent in 2002-03. Interest payment increased steadily by 131 per cent from Rs.1238 crore in 1999-2000 to Rs.2860 crore in 2003-04 primarily due to continued reliance on borrowings for financing fiscal deficit. The interest payment constituted 26 per cent of revenue expenditure during the year and consumed 30 per cent of revenue receipts.

Although it is common for a State to borrow for widening its infrastructure and creating income generating assets, an ever increasing ratio of fiscal liabilities to Gross State Domestic Product (GSDP) together with revenue deficit could lead the State finances into a debt trap. In Orissa, the ratio of fiscal liabilities to GSDP crossed 65 per cent indicating the unsustainability of debt in the long run. Positive steps are needed to contain the ever increasing fiscal liabilities by generating more revenues and curtailing non-development expenditure.

1.1 Introduction

The Finance Accounts of the Government of Orissa are laid out in 19 statements, presenting receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Accounts of the State Government. The layout of the Finance Accounts is depicted in Box 1.

Box 1

Layout of Finance Accounts

Statement No. 1: presents the summary of transactions of the State Government – receipts and expenditure, revenue and capital, public debt receipts and disbursements etc. in the Consolidated Fund, Contingency Fund and Public Account of the State.

Statement No. 2: contains the summarised statement of capital outlay showing progressive expenditure to the end of 2003-04.

Statement No. 3: gives financial results of irrigation works, their revenue receipts, working expenses and maintenance charges, capital outlay, net profit or loss, etc.

Statement No. 4: indicates the summary of debt position of the State which includes borrowings from internal debt, Government of India, other obligations and servicing of debt.

Statement No. 5: gives the summary of loans and advances given by the State Government during the year, repayments made, recoveries in arrears, etc.

Statement No. 6: gives the summary of guarantees given by the State Government for repayment of loans etc. raised by the statutory corporation, local bodies and other institutions.

Statement No. 7: gives the summary of cash balances and investments made of such balances.

Statement No.8: depicts the summary of balances under Consolidated Fund, Contingency Fund and Public Account as on 31 March 2004.

Statement No. 9: shows the revenue receipts and revenue expenditure under different heads for the year 2003-04 as a percentage of total revenue/expenditure.

Statement No. 10: indicates the distribution between the charged and voted expenditure incurred during the year.

Statement No. 11: indicates the detailed account of revenue receipts by minor heads.

Statement No. 12: provides accounts of revenue expenditure by minor heads under Non-Plan, State Plan, Central Plan and Centrally Sponsored Plan schemes separately and capital expenditure by major head-wise.

Statement No. 13: depicts the detailed capital expenditure incurred during and up to the end of 2003-04.

Statement No. 14: shows the details of investment of the State Government in statutory corporations, Government companies, joint stock companies, co-operative banks and societies etc. up to the end of 2003-04.

Statement No. 15: depicts the capital and other expenditure to the end of 2003-04 and the principal sources from which the funds were provided for that expenditure.

Statement No. 16: gives the detailed account of receipts, disbursements and balances under heads of account relating to debt, contingency fund and public account.

Statement No. 17: presents detailed account of debt and other interest bearing obligations of the Government of Orissa.

Statement No.18: provides the detailed account of loans and advances given by the Government of Orissa, the amount of loan repaid during the year, the balance as on 31 March 2004 and the amount of interest received during the year.

Statement No. 19: gives the details of earmarked balances of reserved funds.

1.2 Trend of Finances with reference to previous year at a glance

Finances of State Government during the current year compared to previous year was as under:

(Rupees in crore)

2002-03	Sl. No.	Major Aggregates	2003-04
8439	1.	Revenue Receipts (2+3+4)	9440
2872	2.	Tax Revenue	3302
961	3.	Non-Tax Revenue	1094
4606	4	Other Receipts	5044
177	5.	Non-Debt Capital Receipts	273
177	6.	Of which Recovery of Loans	273
8616	7.	Total Receipts (1+5)	9713
8642	8.	Non-Plan Expenditure (9+11)	10588
8444	9.	On Revenue Account	9218
2886	10.	Of which, Interest Payments	2860
198	11.	On Capital Account	1370
117	12.	Of which, Loans disbursed	1322
2790	13.	Plan Expenditure (14+15)	2698
1571	14.	On Revenue Account	1643
1219	15.	On Capital Account	1055
226	16.	Of which, Loans disbursed	250
11432	17.	Total Expenditure (8+13)	13286
(-) 2816	18.	Fiscal Deficit (17-1-5)	(-) 3573
(-) 1576	19.	Revenue Deficit (9+14-1)	(-) 1421
(+) 70	20.	Primary Deficit (+)/Surplus (-) (18-10)	(-) 713

1.3 Summary of Receipts and Disbursements for the year

Table 1 summarises the finances of the State Government of Orissa for the year 2003-04 covering revenue receipts and expenditure, capital receipts and expenditure, public debt receipts and disbursements and Public Accounts receipts and disbursements made during the year as emerging from Statement-1 of Finance Accounts and other detailed statements.

Table 1: SUMMARY OF RECEIPTS AND DISBURSEMENTS FOR THE YEAR 2003-04

(Rupees in crore)

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
SECTION-A: Revenue					Non-Plan	Plan	Total
8438.77	I. Revenue receipts	9440.24	10014.68	I. Revenue expenditure	9217.59	1643.57	10861.16
2871.84	Tax revenue	3301.73	4805.26	General Services	5148.10	10.57	5158.67
961.17	Non-tax revenue	1094.55	3459.55	Social Services	2808.71	900.90	3709.61
2805.58	Share of Union Taxes/Duties	3327.68	1602.78	Economic Services	1107.31	664.04	1771.35
1800.18	Grants from Government of India	1716.28	147.09	Grants-in-aid / Contributions	153.47	68.06	221.53
SECTION-B: Capital							
-Nil-	II. Misc. Capital Receipts	Nil	1074.08	II Capital Outlay	48.05	804.90	852.95
177.19	III. Recoveries of Loans and Advances	273.07	343.24	III Loans and Advances disbursed	1322.41	249.60	1572.01

2002-03	Receipts	2003-04	2002-03	Disbursements	2003-04		
4819.31	IV. Public debt receipts	5879.14	2688.66	IV Repayment of Public Debt*	2727.27#		2727.27
7149.65	V. Public account receipts	7656.70	6637.80	V Public account disbursements	7082.59#		7082.59
Nil	Receipts to Contingency Fund	0.27	0.34	VI. Expenditure from Contingency Fund	7.33#		7.33
69.63	Opening Balance	(-) 104.25	(-) 104.25	Closing Balance			41.86
20654.55	Total	23145.17	20654.55	Total			23145.17

Note: * Includes net ways and means advances and overdraft also
Bifurcation of plan and non-plan not available

1.4 Audit Methodology

Audit observations on the Finance Accounts bring out the trends in the major fiscal aggregates of receipts and expenditure and Finance Accounts for the year 2003-04 show these in the light of time series data and periodic comparisons based on the statements of the major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and loans and advances etc. have been presented as percentages to the Gross State Domestic Product (GSDP) at current market prices. For tax revenues, non-tax revenues, revenue expenditure etc.; buoyancy projections have also been provided for a further estimation of the range of fluctuations with reference to the base represented by GSDP. The key indicators adopted for the purpose are (i) Resources by volumes and sources, (ii) Application of resources, (iii) Assets and Liabilities and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. Overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates.

In addition, the section also contains a paragraph on indicators of financial performance of the Government. Some of the terms used here are explained in Appendix-I. The other statements of Liabilities and Assets, Receipts and Payments, Sources and Application of funds and Time Series Data are given in Appendix II to V.

1.5 Resources by volumes and sources

Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources viz. market loans, borrowings from financial institutions/commercial banks etc. and loans and advances from Government of India (GOI) as well as accruals from Public Accounts.

Table 2 shows that the total receipts of the State Government for the year 2003-04 was Rs.23249 crore of which, the revenue receipts of the State

Government was Rs.9440 crore only, constituting 41 per cent of the total receipts. The balance of receipts came from borrowings and Public Account receipts.

Table 2 – Resources of Orissa

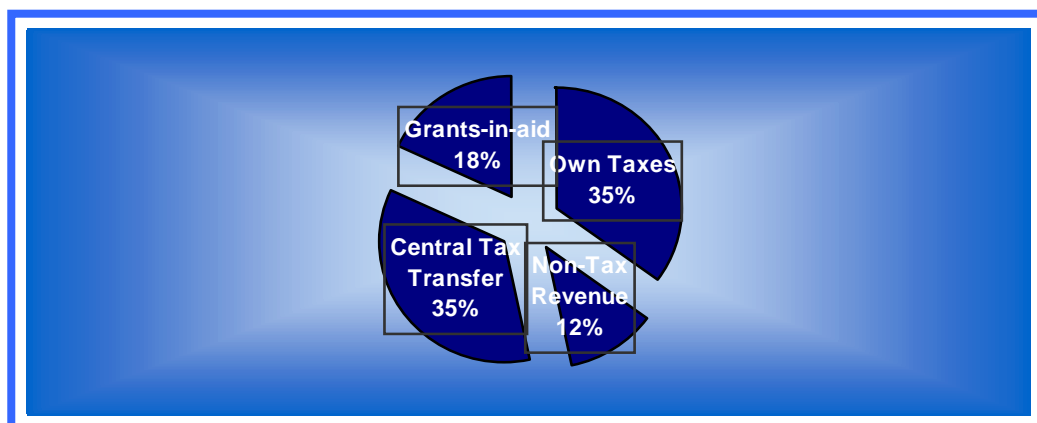
	(Rupees in crore)
I. Revenue Receipts	9440
II. Capital Receipts	6152
a) <i>Miscellaneous Receipts</i>	NIL
b) <i>Recovery of Loans and Advances</i>	273
c) <i>Public Debt Receipts</i>	5879
III. Public Account Receipts	7657
a) <i>Small Savings, Provident Fund, etc.</i>	1675
b) <i>Reserve Fund</i>	530
c) <i>Deposits and Advances</i>	3733
d) <i>Suspense and Miscellaneous</i>	131
e) <i>Remittances</i>	1588
Total Receipts	23249

1.5.1 Revenue receipts

Statement-11 of the Finance Accounts details the Revenue Receipts of the Government. The Revenue Receipts of the State consist mainly of its own tax and non-tax revenues, central tax transfers and grants-in-aid from GOI. Overall revenue receipts, its annual rate of growth, ratio of these receipts to the GSDP and its buoyancy are indicated in Table 3.

Table 3: Revenue Receipts – Basic Parameters (Values: Rupees in crore and others in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04
	(Rupees in crore)				
Revenue Receipts	5885	6902	7048	8439	9440
Own taxes	1704	2184	2467	2872	3302
Non-Tax Revenue	717	685	692	961	1094
Central Tax Transfers	1748	2604	2647	2806	3328
Grants-in-aid	1716	1429	1240	1800	1716
	(in per cent)				
Rate of Growth	29.23	17.28	2.12	19.74	11.86
Revenue Receipts/GSDP	15.23	17.82	16.62	18.89	18.31
GSDP Growth	8.57	0.26	9.49	5.38	15.38
Revenue Buoyancy	3.41	67.43	0.22	3.67	0.77



Revenue receipts of the State increased from Rs.5885 crore in 1999-2000 to Rs.9440 crore in 2003-04 at an average trend rate of 14.53 per cent per annum. There were, however, significant inter-year variations in the growth rates with lowest growth of 2.12 per cent during 2001-02. The increase in the Own Tax revenue during the year over 2002-03 was mainly on Taxes on Sales, Trades etc. (Rs.259 crore), Taxes on goods and passengers (Rs.64 crore), Taxes on Duties and Electricity (Rs.28 crore) and State Excise (Rs.10 crore).

While on an average around 44 per cent of the revenue had come from the State's own resources during 1999-2004, central tax transfers and grants-in-aid together continued to contribute nearly 56 per cent of the total revenue. Sales Tax was the major source of State's own tax revenue having contributed 56 per cent of the tax revenue followed by State Excise (8 per cent), Taxes on Vehicles (9 per cent), Other Taxes (13 per cent) etc. Of non-tax revenue sources, Non-Ferrous Mining and Metallurgical Industries (50 per cent), Dividends and Profits (13 per cent) and Interest Receipts (15 per cent) were principal contributors.

The arrears of revenues increased by 85 per cent from Rs.1074 crore in 1999-2000 to Rs.1986.29 crore at the end of 2003-04. Of these, Rs.362.25 crore (18.24 per cent) were outstanding for a period of more than five years and pertained to Industrial Water Rate (Rs.45.23 crore), State Excise (Rs.9.18 crore), Police (Rs.8.02 crore), Sales Tax (Rs.297.04 crore) and Steel and Mines (Rs.2.78 crore). The position of arrears of revenue showed a deterioration.

The source of receipts under different heads and the GSDP at current prices during 1999-2004 is indicated in Table 4.

Table 4 – Sources of Receipts: Trends

Year	Revenue Receipts	Capital Receipts			Total Receipts	Gross State Domestic Product
		Non-Debt Receipts	Debt Receipts	Accruals in Public Account		
1999-2000	5885	103	2682	6557	15227	38629
2000-01	6902	77	3589	6175	16743	38728
2001-02	7048	132	3273	6813	17266	(P) 42403
2002-03	8439	177	4760	7150	20585	(Q) 44684
2003-04	9440	273	5879	7657	23249	(A) 51557

P=Provisional Estimates

Q=Quick Estimates

A=Advance Estimates

1.6 Application of resources

1.6.1 Trend of Growth

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major head-wise. The total expenditure of the State increased from Rs.9734 crore in 1999-2000 to Rs.13286 crore in 2003-04 at an average trend rate of 9.10 per cent per annum.

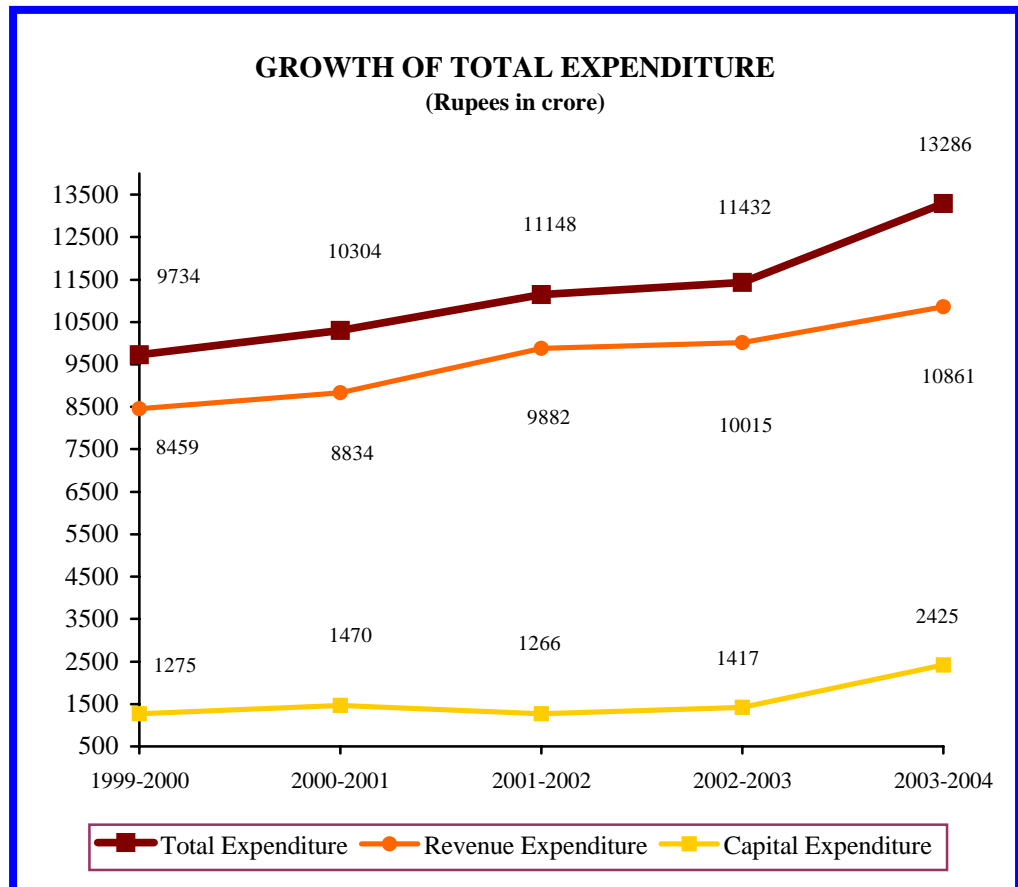
Total expenditure of the State, its trend and annual growth, ratio of expenditure

to the State's GSDP and revenue receipts and its buoyancy with regard to GSDP and revenue receipts are indicated in Table-5.

Table 5: Total Expenditure – Basic Parameters (Value: Rupees in crore and others in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Total Expenditure (TE)	9734	10304	11148	11432	13286
Rate of Growth	20.49	5.86	8.19	2.55	16.22
TE/GSDP	25.20	26.61	26.29	25.58	25.77
Revenue Receipts/TE	60.46	66.98	63.22	73.82	71.05
Buoyancy of Total Expenditure with					
GSDP	2.391	22.84	0.863	0.474	1.054
Revenue Receipts	0.701	0.339	3.872	0.129	1.367

There was upward trend in the ratio of revenue receipts to total expenditure from 60.46 per cent in 1999-2000 to 71.05 per cent in 2003-04, indicating that approximately 71 per cent of the State's total expenditure was met from its current revenue, leaving the balance to be financed from borrowings.



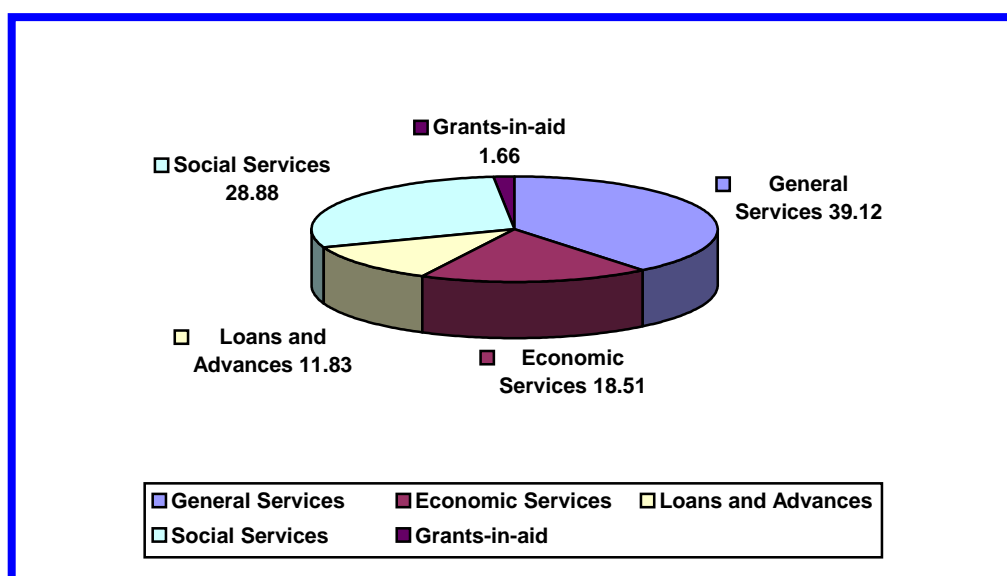
In terms of the activities, total expenditure could be considered as being composed of expenditure on general services including interest payments,

social and economic services and loans and advances. The relative share of these components in total expenditure is indicated in Table 6.

Table 6: Components of expenditure – Relative Share (in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Services	29.82	39.42	44.92	42.21	39.12
Social Services	41.61	31.43	30.56	31.67	28.88
Economic Services	23.46	21.53	19.77	21.83	18.51
Grants-in-aid	0.22	1.45	1.35	1.29	1.66
Loans and advances	4.89	6.17	3.40	3.00	11.83
Total	100	100	100	100	100

The movement of relative share of these components of expenditure indicated that while the share of economic services in total expenditure declined from 23.46 per cent in 1999-2000 to 18.51 per cent in 2003-04, the relative share of general services increased from 29.82 per cent in 1999-2000 to 39.12 per cent in 2003-04. In case of Social Services, the relative share declined from 41.61 per cent in 1999-2000 to 28.88 per cent in 2003-04.



1.6.2 Incidence of Revenue expenditure

Revenue expenditure had the predominant share in total expenditure. Revenue expenditure is usually incurred to maintain the current level of assets and services. Overall revenue expenditure, its rate of growth, ratio of revenue expenditure to State's GSDP and revenue receipts and its buoyancy with both GSDP and revenue receipts is indicated in Table 7 below:

Table 7: Revenue Expenditure – Basic Parameters (Value: Rupees in crore and others in per cent)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue Expenditure (RE)	8459	8834	9882	10015	10861
Rate of Growth	24.09	4.43	11.86	1.35	8.45
RE/GSDP	21.90	22.81	23.30	22.41	21.07
RE as per cent of TE	86.90	85.73	88.64	87.60	81.75
RE as per cent to Revenue Receipts	143.74	127.99	140.21	118.68	115.05
Buoyancy of Revenue Expenditure with					
GSDP	2.812	17.298	1.250	0.250	0.549
Revenue Receipts	0.824	0.257	5.608	0.068	0.712

Revenue expenditure of the State increased from Rs.8459 crore in 1999-2000 to Rs.10861 crore in 2003-04 at an average trend rate of 8.79 *per cent* per annum. Rate of growth of revenue expenditure was in its maximum in 1999-2000 at 24.09 *per cent* and then it had declined sharply to 4.43 *per cent* in 2000-01 and again went up to 11.86 *per cent* in 2001-02 and during 2002-03, the growth rate reached to the lowest of 1.35 *per cent*. The increase in the revenue expenditure during the year was mainly due to more expenditure on Crop Husbandry (Rs.169 crore), Social Security and Welfare (Rs.149 crore), Relief on Account of Natural Calamities (Rs.139 crore) and Pension and other Retirement Benefits (Rs.129 crore) in comparison to the previous year.

Revenue expenditure accounted for 82 *per cent* of total expenditure during 2003-04. Though the ratio of revenue expenditure to revenue receipts declined from 143.74 *per cent* in 1999-2000 to 115.05 *per cent* in 2003-04, yet dependence of the State on borrowings, for meeting its current expenditure continued primarily due to the fact that salaries (Rs.4203 crore), interest payments (Rs.2860 crore) and pensions (Rs.1143 crore) alone consumed 87 *per cent* of total revenue receipts of the State during the year.

High salary expenditure

Salaries alone accounted for nearly 45 *per cent* of the revenue receipts of the State during 2003-04. The expenditure on salaries increased from Rs.3887 crore in 1999-2000 to Rs.4203 crore in 2003-04 as indicated in the Table 8 below:

Table 8

(Rupees in crore)

Heads	1999-2000	2000-01	2001-02	2002-03	2003-04
Salary expenditure	3887	3803	3736	3929	4203
As percentage of GSDP	10	10	9	9	8
As percentage of Revenue Receipts	66	55	53	41	45

Huge expenditure on pension payments

Pension payments increased by 66 *per cent* from Rs.688 crore in 1999-2000 to Rs.1143 crore in 2003-04. Year-wise breakup of expenditure incurred on pension payments during the years 1999-2000 to 2003-04 was as under:

Table 9

Year	Expenditure (Rupees in crore)	Percentage to total revenue
1999-2000	688	12
2000-01	832	12
2001-02	1003	14
2002-03	1030	12
2003-04	1143	12

With the increase in the number of retirees, the pension liabilities are likely to increase further in future. The State Government has not constituted any fund to meet the fast rising liabilities towards pension of the retired State employees. Considering the rate at which pension liabilities are increasing, reforms in the existing pension schemes assume critical importance.

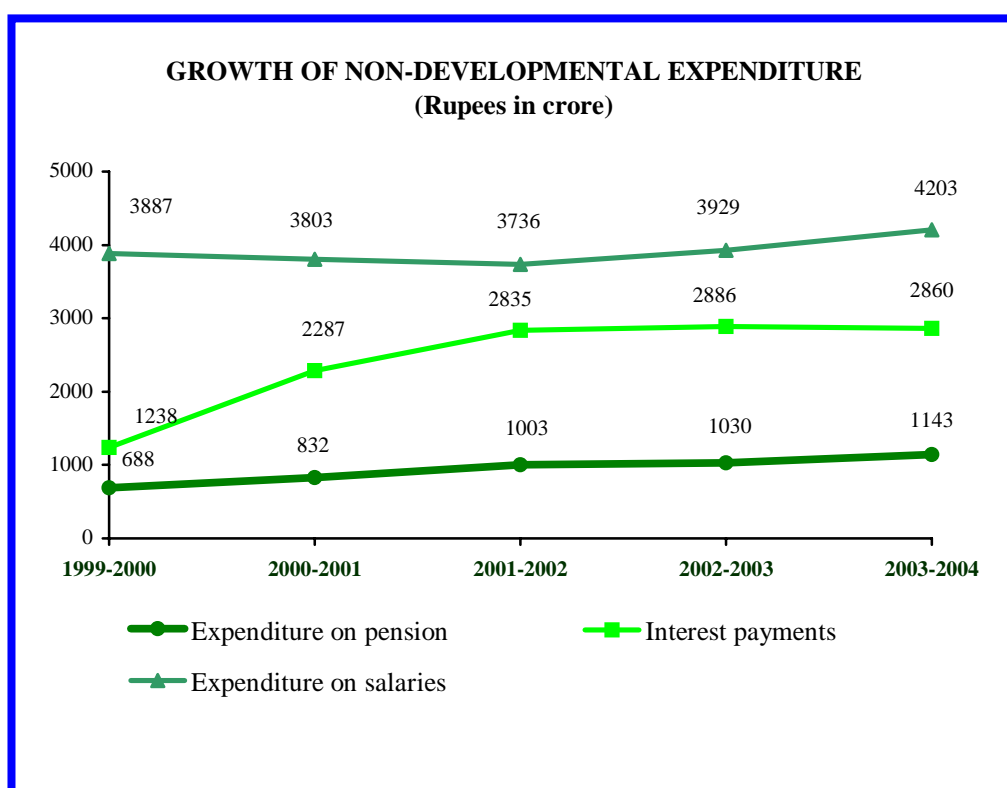
Interest payments

The Eleventh Finance Commission recommended (August 2000) that as a medium term objective, States should endeavour to keep interest payment as a ratio to revenue receipts at 18 *per cent*. It was however observed that Interest payments, as percentage of revenue receipts, ranged between 21 and 40 during the last five years as below.

Table 10

Year	Interest Payment	Percentage of interest payment with reference to	
	(Rupees in crore)	Revenue Receipts	Revenue Expenditure
1999-2000	1238	21	15
2000-01	2287	33	26
2001-02	2835	40	29
2002-03	2886	34	29
2003-04	2860	30	26

In absolute terms, interest payments increased by 131 *per cent* from Rs.1238 crore in 1999-2000 to Rs.2860 crore in 2003-04 primarily due to continued reliance on borrowings for financing the fiscal deficit. The decrease in interest payments during 2003-04 was due to decreased interest rate on Small Savings, Provident Funds, etc. (Rs.314 crore) off set by increased interest on Internal Debt (Rs.210 crore) and interest on GOI loans (Rs.34 crore).



1.7 Expenditure by Allocative Priorities

The actual expenditure of the State in the nature of plan expenditure, capital expenditure and developmental expenditure emerging from Statement 12 of Finance Accounts reflects the allocative priorities of the State. Higher the ratio of these components to total expenditure, better is deemed to be the quality of expenditure. Table 11 below gives the percentage share of these components of expenditure in State's total expenditure*.

Table 11: Quality of expenditure (per cent to total expenditure*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Plan Expenditure	28.12	27.16	24.41	23.12	20.90
Capital Expenditure	8.63	8.63	8.24	9.69	7.28
Developmental Expenditure	68.42	56.44	52.10	55.16	53.75

*Total expenditure excludes expenditure on loans and advances.

All the three components of expenditure show a relative decline during 1999-2004. Plan expenditure declined from 28.12 per cent of total expenditure in 1999-2000 to 20.90 per cent in 2003-04. Similarly, capital expenditure declined from 8.63 per cent in 1999-2000 to 7.28 per cent in 2003-04. There was also a decline in the share of developmental expenditure. The average share of expenditure on these components was significantly below the level achieved in 1999-2000.

Out of the developmental expenditure (Rs.6296 crore), Social Services (Rs.3837 crore) accounted for 61 per cent of the developmental expenditure during the year. General Education, Medical and Public Health and Water Supply and Sanitation consumed 66 per cent of the expenditure on Social Sector.

Table 12: Social Sector Expenditure (Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
General Education	1896	1715	1717	1857	1852
Medical and Public Health	346	383	387	425	429
Water Supply and Sanitation	243	221	251	249	258
Total	2485	2319	2355	2531	2539

Similarly, the expenditure on Economic Services (Rs.2459 crore) accounted for 39 per cent of the developmental expenditure. Of which, Agriculture and Allied activities (Rs.699 crore), Irrigation and Flood Control (Rs.579 crore) and Rural Development (Rs.459 crore) accounted for 71 per cent of the expenditure on Economic Sector.

Table 13: Economic Sector Expenditure (Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Agriculture and Allied activities	597	574	506	559	699
Irrigation and flood control	706	647	645	698	579
Rural Development	511	412	448	469	459
Total	1814	1633	1599	1726	1737

1.8 Financial assistance to local bodies and other institutions

In 2003-04, Government provided financial assistance of Rs.964.82 crore by way of grants and loans to various non-Government bodies/Institutions. Category-wise details are given below:

Sl. No.	Category of bodies/Institutions	Amount of assistance paid (Rupees in crore)
1.	Educational Institutions (aided schools, private colleges, universities)	278.41
2.	District Rural Development Agency	154.16
3.	Municipalities, Corporations, District Council, Development Authorities etc.	65.72
4.	Panchayati Raj Institutions viz. Panchayat Samities, Zilla Parishads and Gram Panchayats	142.95
5.	Co-operative Societies and Institutions	1.47
6.	Integrated Tribal Development Agencies (ITDAs)	62.43
7.	Non-Government Organisations	3.80
8.	Other Institutions	203.15
9.	Western Orissa Development Council (WODC)	50.00
10.	Command Area Development Authority (CADA)	2.73
Total		964.82

The financial assistance of Rs.964.82 crore provided during the year 2003-04 formed 8.88 *per cent* of total revenue expenditure (Rs.10861 crore) of the Government.

1.8.1 Outstanding Utilisation Certificates (UCs)

Audit of 157 institutions/autonomous bodies conducted during the year 2003-04 revealed that Utilisation Certificates (UCs) for an amount of Rs.570.74 crore relating to 138 units (106 Panchayat Samities: Rs.508.57 crore, eight DRDAs: Rs.23.92 crore, seven ITDAs: Rs.14.30 crore and 17 others: Rs.23.95 crore) were outstanding as detailed in the Appendix-VI. This included Rs.367.51 crore for which year-wise details were not available. It was also seen that the pendency of the UCs was mainly due to release of grants as a matter of routine without insisting on furnishing of UCs for the grants given earlier as stipulated in the sanction orders.

1.8.2 Audit of Autonomous Bodies

During the year ended 31 March 2004, Audit of accounts of 157 autonomous bodies (Departments of Panchayati Raj: 123, School and Mass Education:10, Scheduled Tribe and Scheduled Caste Development: 8, Higher Education: 1, Water Resources: 4, Housing and Urban Development: 6, Health and Family Welfare: 1, Information and Technology: 1 and Industries: 3) was conducted under Section-14 of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971. During the period covered by audit, the bodies received financial assistance of Rs.1223.62 crore. Important points noticed during audit are brought out in the following paragraphs.

1.8.3 Unspent balance of grants

The financial rules of Government required that the grants should be utilised within the financial year during which they were sanctioned or within one year from the date of sanction. The unspent balances were to be refunded to Government immediately thereafter unless permitted by Government for utilisation in subsequent years. The bodies or the authorities did not follow these provisions and the unspent balances were being carried over to subsequent years as a matter of routine. There was unspent balance of Rs.376.46 crore at the end of the year in respect of 134 bodies for which audit was conducted as detailed in Appendix-VII. However, the position of unspent balance was not available in respect of 23 bodies for want of analysis in the cash book. It was noticed that the above institutions were not maintaining the prescribed register of Grants-in-aid to record the expenditure incurred sanction-wise and scheme-wise for each year against funds received. As a result, the periods to which the unspent balances related and reasons for non-utilisation were not available.

1.8.4 Outstanding advances

According to Orissa Zilla Parishad and Panchayat Samiti Accounting Procedure Rules, 1961, payment of advances was generally prohibited except in case of works expenditure and amount so advanced were to be regularly and promptly adjusted. However, advances aggregating to Rs.128.25 crore were outstanding in the accounts audited (109 Panchayat Samities: Rs.50.13 crore¹ and 36 other bodies/ authorities: Rs.78.12 crore). The position of outstanding advances in respect of 12 bodies could not be ascertained for want of relevant records. Stringent measures were called for either to adjust or recover these amounts in order to avert possible loss with lapse of time.

1.9 Misappropriations, defalcations etc.

Cases of misappropriation, losses etc. of Government money reported to audit up to the end of March 2004 and on which final action was pending at the end of June 2004 were as follows

(Rupees in lakh)			
		Number of cases	Amount
i)	Cases reported up to the end of March 2003 but outstanding at the end of June 2003	2101	1472.27 [*]
ii)	Cases reported during April 2003 to March 2004	23	7.83
iii)	Cases disposed of till June 2004	31	4.70
iv)	Cases reported up to March 2004 but outstanding as of June 2004	2093	1475.40

* The outstanding balance at the end of June 2003 was Rs.1471.80 lakh. However, this was enhanced to Rs.1472.27 lakh after revaluation.

¹ Up to 1998-99: 1 (Rs.0.22 crore), 1999-2000: 1 (Rs.0.13 crore), 2000-01: 1 (Rs.0.30 crore), 2001-02: 8 (Rs.1.62 crore) and 2002-03: 98 (Rs.47.86 crore).

Department-wise analysis of the outstanding cases is given in the Appendix-VIII. The periods for which these were pending are given below:

		Number of Cases	Amount (Rupees in lakh)
i)	Over five years (1948-49 to 1998-99)	1939	1165.32
ii)	Exceeding three years but within five years (1999-2000 to 2000-01))	88	162.86
iii)	Upto three years (2001-02 to 2003-04)	66	147.22
Total		2093	1475.40

The reasons for which the cases were outstanding are as follows:

		Number of Cases	Amount (Rupees in lakh)
i)	Awaiting departmental and criminal investigation	620	467.95
ii)	Departmental action initiated but not finalised	806	737.86
iii)	Criminal proceedings finalised but execution of certificate cases for the recovery of the amount pending	40	9.65
iv)	Awaiting orders for recovery or write off	491	135.81
v)	Pending in the courts of law	136	124.13
Total		2093	1475.40

1.10 Assets and Liabilities

The Government accounting system does not attempt a comprehensive accounting of fixed assets i.e. land, buildings etc. of the Government. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure. Statement 16 read with details in Statement 17 of Finance Accounts show the year-end balances under the Debt, Deposit and Remittance heads from which the liabilities and assets are worked out. Appendix-II presents an abstract of such liabilities and the assets as on 31 March 2004, compared with the corresponding position on 31 March 2003. While the liabilities in this statement consist mainly of money owed by the State Government such as internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Fund, the assets comprise mainly the capital expenditure and loans and advances given by the State Government. The liabilities of Government of Orissa depicted in the Finance Accounts, however, do not include the pension and other retirement benefits payable to serving/retired State employees, guarantees/ letters of comforts issued by the State Government. Appendix-V depicts the time series data on State Government finances for the period 1999-2004.

1.10.1 Financial results of irrigation works

The financial results of 11 major and 41 medium irrigation projects with a capital expenditure of Rs.2350.64 crore at the end of March 2004 showed that the revenue realised from these projects during 2003-2004 (Rs.12.81 crore) was only 0.54 *per cent* of the capital expenditure and these were not sufficient to cover even the direct working expenses (Rs.47.05 crore). After meeting the

working and maintenance expenditure (Rs.47.24 crore) and interest charges (Rs.159 crore), the schemes suffered a net loss of Rs.193.67 crore. The loss was substantial (Rs.166.33 crore) in all the major irrigation projects.

1.10.2 Incomplete projects

As on 31 March 2004, there were 31 (major 14 and medium 17) incomplete projects in which Rs.4742 crore were blocked. Of these, 29 projects were incomplete for periods ranging from five to 10 years (10: Rs.380.77 crore), 10 to 15 years (five: Rs.541.83 crore), 15 to 20 years (two: Rs.57.86 crore) and more than 20 years (12: Rs.3710.96 crore). This showed that the Government was spreading its resources thinly, which failed to yield any return. Reasons for incomplete projects were paucity of funds, works left incomplete by contractors, change in site/design of the project(s), defective planning etc.

1.10.3 Investments and returns

As on 31 March 2004, Government had invested Rs.1556.63 crore in Statutory Corporations, Government Companies, Joint Stock Companies and Co-operatives. Government's return on this investment was meagre (less than one *per cent*) during 2001-02 as indicated in Table 15 below.

Table 15: Return on Investment

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Weighted rate of interest on Government borrowing (<i>per cent</i>)
1999-2000	1379.19	111.15	8.06	7.01
2000-01	1408.82	37.91	2.69	10.35
2001-02	1473.20	8.77	0.60	10.95
2002-03	1519.39	152.22	10.02	9.85
2003-04	1556.63	138.06	8.86	8.83

1.10.4 Loans and advances by State Government

In addition to its investment, Government had also been providing loans and advances to many of these bodies. Total outstanding balance of the loans advanced was Rs.3831 crore as on 31 March 2004 (Table 16). Overall, interest received against these advances stood at 5.06 *per cent* during 2003-04. The difference between interest paid and interest received is negative during last five years. Further, in most cases, Government orders sanctioning the loans did not specify the terms and conditions for these loans.

An amount of Rs.40.05 crore (Principal: Rs.32.24 crore and interest: Rs.7.81 crore) was due for recovery at the end of 2003-04 in respect of loans and advances to Municipalities, Local Bodies, Corporations and Loans under State Aid to Industries Act for which detailed accounts are maintained in Accounts office.

In case of Loans and Advances, detailed accounts are maintained by Departmental Officers; five out of 25 departments informed (August 2004) that recovery of Rs.42.38 crore was due as on 31 March 2004.

Table 16: Average Interest Received on Loans advanced by the State Government**(Rupees in crore)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Opening Balance	1186	1560	2119	2366	2532
Amount advanced during the year	476	636	379	343	1572
Amount repaid during the year	102	77	132	177	273
Closing Balance	1560	2119	2366	2532	3831
Net Addition (+) / Reduction (-)	374	559	247	166	1299
Interest received (Rupees in crore)	15	10	18	68	161
Interest received as <i>per cent</i> to outstanding loans and advances	1.09	0.54	0.80	2.78	5.06
Average weighted rate of interest paid by the State	7.01	10.35	10.95	9.85	8.83
Difference between interest paid and received	(-) 5.91	(-) 9.80	(-) 10.15	(-) 7.07	(-) 3.77

1.10.5 Management of Cash Balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mis-matches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances (WMA) from Reserve Bank of India has been put in place. Orissa had the WMA limit of Rs.185 crore from 1 April 2002 and Rs.215 crore from 3 March 2003. During the year, the State has used this mechanism for 150 days only as against 169 days last year although it raised borrowings of Rs.2101 crore from the market on six occasions. Resort to overdraft, which is over and above the WMA limits, is all the more undesirable. The State used the overdraft facilities on 171 days during the year as against 188 days last year.

Table 17: Ways and Means and Overdrafts of the State and Interest paid thereon**(Rupees in crore)**

	1999-2000	2000-01	2001-02	2002-03	2003-04
Ways and Means Advance					
Taken in the Year	1867	2137	1355	2000	3204
Outstanding	206	179	179	239	Nil
Interest Paid	6.54	11.71	11.59	10.88	12.19
Overdraft					
Taken in the Year	1868	3828	5393	4723	3809
Outstanding	Nil	833	1064	210	Nil
Interest Paid	3.07	4.13	8.32	8.75	8.42
Number of Days State was in Overdraft	141	203	252	188	171

1.10.6 Undischarged Liabilities

Fiscal liabilities – public debt and guarantees

The Constitution of India provides that State may borrow within the territory of India, upon the security of its Consolidated Fund, within such limits, as may from time to time, be fixed by an act of Legislature. However, no such law was passed in the State to lay down any such limit. Statement 4 read with Statements 16 and 17 of Finance Accounts show the year-end balances under Debt, Deposit and Remittances heads from which the liabilities are worked out.

It would be observed that the overall fiscal liabilities of the State increased from Rs.20289 crore in 1999-2000 to Rs.34014 crore in 2003-04 at an average growth rate of 16.93 *per cent*. These liabilities as ratio to GSDP increased

from 52.52 *per cent* in 1999-2000 to 65.97 *per cent* in 2003-04 and stood at 3.60 times of its revenue receipts and 7.74 times of its own resources comprising its own tax and non-tax revenue. Table 18 below gives the fiscal liabilities of the State, its rate of growth and ratio of these liabilities to GSDP revenue receipts and own resources and buoyancy of these liabilities with respect to these parameters.

Table 18: Fiscal Imbalances–Basic Parameters (Rupees in crore and Ratios in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Fiscal Liabilities	20289	23911	27853	30735	34014
Rate of growth	34.75	17.85	16.49	10.35	10.67
Ratio of fiscal liabilities to					
GSDP	52.52	61.74	65.69	68.78	65.97
Revenue Receipts	344.76	346.44	395.19	364.20	360.32
Own Resources	838.04	833.43	881.70	801.85	773.75
Buoyancy of fiscal liabilities to					
GSDP	4.056	69.657	1.737	1.924	0.694
Revenue Receipts	1.189	1.033	7.794	0.524	0.899
Own Resources	1.884	0.965	1.631	0.485	0.726

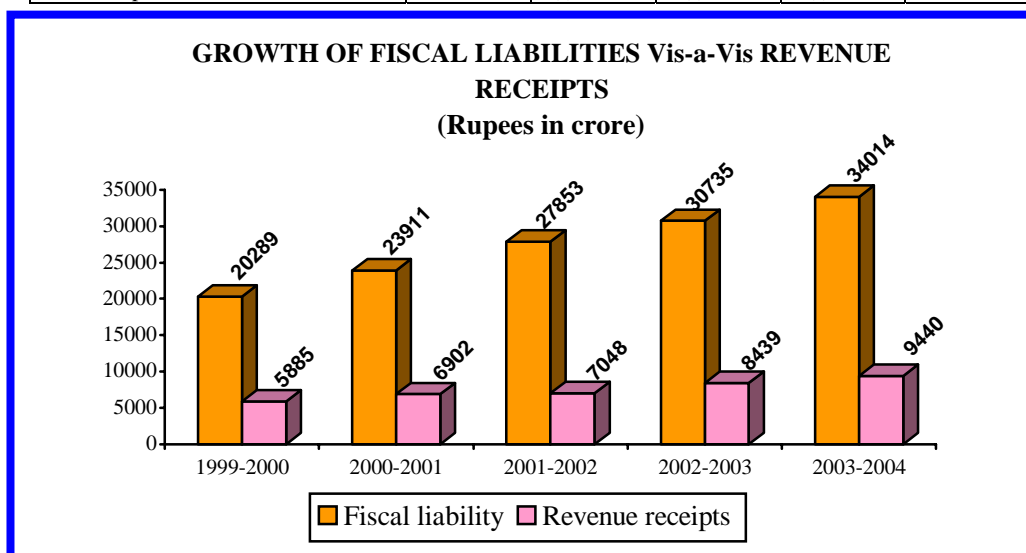
In addition to these liabilities, Government had guaranteed loans of its various Corporations and others, which in 2003-04 stood at Rs.9343 crore. The guarantees are in the nature of contingent liabilities of the State and in the event of non-payment of loans, there may be an obligation on the State to honour these commitments. Currently, the fiscal liabilities including the contingent liabilities exceed four times the revenue receipts of the State. The direct fiscal liabilities of the State have grown much faster as compared to its rate of growth of GSDP.

Increasing liabilities had raised the issue of sustainability of State Government. Fiscal liabilities are considered sustainable if the average interest paid on these liabilities is lower than the rate of growth of GSDP.

Debt sustainability with reference to weighted interest rate, GSDP growth rate and interest spread is indicated in Table 19.

Table 19: Debt Sustainability – Interest Rate and GSDP Growth (in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Weighted interest rate	7.01	10.35	10.95	9.85	8.83
GSDP growth	8.57	0.26	9.49	5.38	15.38
Interest spread	1.56	(-) 10.09	(-) 1.46	(-) 4.47	6.55



Another important indication of debt sustainability is net availability of the funds after repayment of the principal of earlier loans and payment of interest. Table 20 below gives the position of the receipts and repayments of internal debt over the last five years. The net funds available on account of the internal debt and loans and advances from GOI after providing for the interest and repayments varied from 1.54 *per cent* to 48.45 *per cent* during 1999-2004. The net funds available declined to the lowest level of 1.54 *per cent* of total fresh loans during 2001-02.

Table 20: Net Availability of Borrowed Funds (Rupees in crore)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Internal Debt					
Receipts*	1129	1044	1687	2296	4338
Repayments (Principal+ Interest)	675	867	987	1298	1834
Net Funds Available	454	177	700	998	2504
Net Funds Available (<i>per cent</i>)	40.21	16.95	41.49	43.47	57.72
Loans and Advances from Government of India					
Receipts*	1253	1489	973	1769	1141
Repayments (Principal+ Interest)	553	1405	1632	2062	2509
Net Funds Available	700	84	(-) 659	(-) 293	(-) 1368
Net Funds Available (<i>per cent</i>)	55.87	5.64	(-) 67.73	(-) 16.56	(-) 119.89
Total Public Debt					
Receipts*	2382	2533	2660	4065	5479
Repayments (Principal+ Interest)	1228	2272	2619	3360	4343
Net Funds Available	1154	261	41	705	1136
Net Funds Available (<i>per cent</i>)	48.45	10.30	1.54	17.34	20.73

* Internal debt excluding ways and means advances and overdraft

Management of deficits

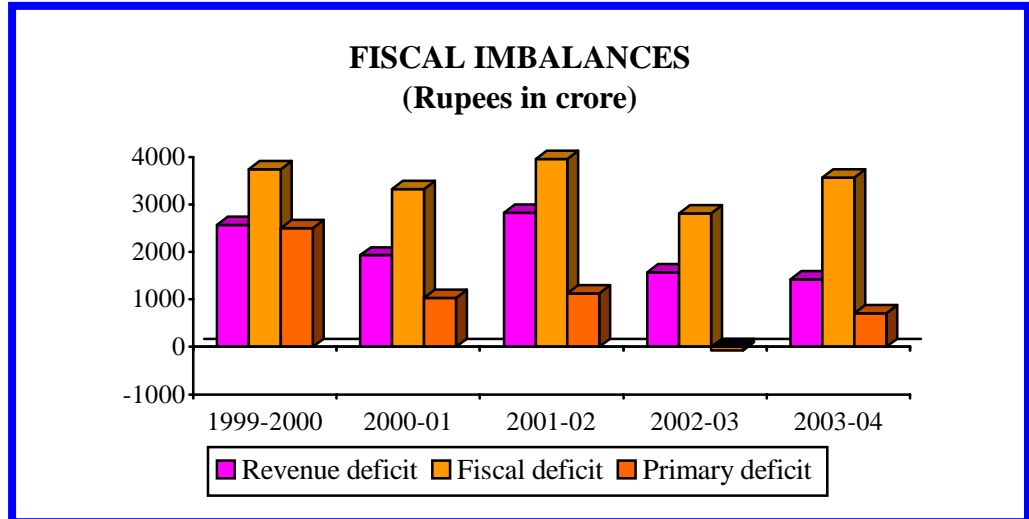
1.11 Fiscal imbalances

The deficits in Government accounts represent the gap between its receipts and expenditure. The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources so raised are applied are important pointers to the fiscal health.

The revenue deficit (Statement 1 of Finance Accounts) of the State, which is the excess of its revenue expenditure over revenue receipts, decreased from Rs.2574 crore in 1999-2000 to Rs.1421 crore in 2003-04. The fiscal deficit, which represents the total borrowing of the Government and its total resource gap, marginally decreased from Rs.3746 crore in 1999-2000 to Rs.3573 in 2003-04. The State also had a primary deficit decreasing from Rs.2508 crore in 1999-2000 to Rs.713 crore in 2003-04 as indicated in Table 21.

Table 21: Fiscal Imbalances – Basic Parameters (Value: Rupees in crore and Ratios in *per cent*)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Revenue deficit	(-) 2574	(-) 1932	(-) 2834	(-) 1576	(-) 1421
Fiscal deficit	(-) 3746	(-) 3325	(-) 3968	(-) 2816	(-) 3573
Primary Deficit (-)/ Surplus (+)	(-) 2508	(-) 1038	(-) 1133	(+) 70	(-) 713
RD/GSDP	7	5	7	4	3
FD/GSDP	10	9	9	6	7
PD/GSDP	6	3	3	0.16	1.38
RD/FD	69	58	71	56	40



Persistent revenue deficit indicated that the revenue receipts of the State were not able to meet its revenue expenditure and Government had to borrow funds to meet its current obligations. The ratio of revenue deficit to fiscal deficit has decreased from 69 per cent in 1999-2000 to 40 per cent in 2003-04. As proportion of GSDP, revenue deficit had decreased to three per cent and fiscal deficit to seven per cent in 2003-04.

1.12 Implementation of Orissa Fiscal Reform Programme to improve the financial position of the State

To improve the financial position of the State, a Memorandum of Understanding (MOU) was signed (October 2001) between the Government of Orissa and the GOI to implement a mutually agreed reform programme as per a fixed time schedule. The programme included measures to raise revenue and to reduce expenditure so as to eliminate the revenue deficit by March 2005. It also aimed to stabilise, through structural adjustments and policy reforms, the State Government's fiscal situation so as to overcome the frequent ways and means difficulties that it has experienced in the recent past and to generate greater investable resources for development and poverty reduction programmes.

Aim of Memorandum of Understanding

The broad aim was to achieve a minimum improvement of five per cent in the revenue deficit (Surplus) as a proportion of revenue receipt each year till 2004-05. The base year was 1999-2000. The achievement against target was as follows.

	Revenue Deficit as per cent of Revenue Receipt (As recommended by Eleventh Finance Commission)				
	1999-2000	2000-01	2001-02	2002-03	2003-04
Target	33.43	28.43	23.43	18.43	13.43
Achievement	43.74	28	40	18.68	15.05

From the above figures it was evident that the State was still behind the committed target.

Resource Mobilisation Measures

It had been agreed that a tax revenue target of six *per cent* of GSDP should be achievable in the medium term by tax and inefficiencies in tax collection. The targets and achievements under Sales Tax being the major tax contributor during the last four years were as below:

(Rupees in crore)

Sl. No.	Category of Revenue		2000-01	2001-02	2002-03	2003-04
1.	Sales Tax	Target	1425	1485	1665	1766.50
		Achievement	1342.12	1402.33	1605	1863.97
2.	State Excise	Target	170	225	300	300.00
		Achievement	135.31	197.46	246	256.37
3.	Major Vehicle Tax	Target	180	220	260	280.61
		Achievement	178.17	216.37	258	280.03
4.	Electricity duty	Target	135	160	160	200.00
		Achievement	146.71	136.96	172	200.43
5.	Stamp and Registration Fees	Target	120	130	140	159.50
		Achievement	108.52	109.76	136	153.07
6.	Land Revenue	Target	56	65	85	80.00
		Achievement	53.26	84.48	82	103.00
7.	Royalty from forest	Target	110	100	97	90.00
		Achievement	84.29	87.95	97	48.64
8.	Mining Royalty (<i>Non-Ferrous Mining and Metallurgical</i>)	Target	350	367.57	385.28	466.51
		Achievement	360.33	378.56	443.58	552.06

Effective measures to achieve the targets in respect of State Excise and Royalty from Forest are necessary.

Expenditure Compression Measures

In the MOU it was agreed to take measures for restructuring/ downsizing the administration and reducing establishment cost. The progress is however not encouraging. Test check revealed as under.

Downsizing the Civil Service and reducing the salary cost

The State has a very high employee population ratio of 1.61 *per cent*. This ratio is targeted to be reduced to one *per cent*. To start with, the staff strength existing as at the beginning of 1999-2000 was targeted to be reduced by 20 *per cent* by 2004-05.

The staff strength and the expenditure on salaries (including the staff paid out of Government grants-in-aid and their salaries) for 2000-01, 2001-02 and 2002-03 are indicated below.

Year	Staff Strength*		Percentage of decrease
	Sanctioned (in numbers)	Men-in-position (in numbers)	
1999-2000	580122	535332	
2000-01	556302	502160	6.20
2001-02	538801	479437	4.53
2002-03	536893	477352	0.43
2003-04	Not Available	Not Available	Not Available

* Ref: Orissa Budget at a Glance 2003-04 and 2004-05

Though Government did achieve some staff reduction, the impact on expenditure was not substantial.

Reduction of Subsidies

Government's objective was to reduce the explicit subsidy. The position at the end of fiscal year 2003-04 in case of major subsidies is analysed below.

(Rupees in crore)		
Year	Food subsidy	Water rate subsidy
1999-2000	100.00	15.00
2000-01	56.00	29.50
2001-02	46.97	--
2002-03	40.95	32.00
2003-04 (RE)	55.22	10.00

From the above data it is evident that the achievement has been far short of the target of elimination of all subsidies by 2004-05.

1.13 Fiscal Ratios

The finances of a State should be sustainable, flexible and non-vulnerable. Table 22 below presents a summarised position of Government Finances over 1999-2004, with reference to certain key indicators that help assess the adequacy and effectiveness of available resources and their applications highlight areas of concern and capture its important facets.

The ratios of revenue receipts and State's own taxes to GSDP indicate the adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources with increase in GSDP. Revenue receipts comprise not only the tax and non-tax resources of the State but also the transfers from Union Government. It indicates sum total of the resources which the State has access to, for which there is no direct services provision obligations recovery of users charges for the social and economic services provided by it and its entitlement from the central pool of resources. These ratios show a continuous improvement during 1999-2004 indicating mobilisation of resources and its sustainability.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resources mobilisation. The ratio of revenue expenditure to total expenditure decreased from 86.90 *per cent* in 1999-2000 to 81.75 *per cent* in 2003-04. But its capital expenditure and developmental expenditure as percentage to total expenditure has declined during 1999-2004. Both its revenue and total expenditure when compared to its revenue receipts and revenue expenditure have shown comparatively higher buoyancy. All these indicate State's increasing dependence on borrowings for meeting its revenue expenditure and inadequate expansion of its developmental activities.

Table 22: Ratios of Fiscal Efficiency (in per cent)

Fiscal Ratios	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Revenue Receipts/GSDP	15.23	17.82	16.62	18.89	18.31	17.46
Revenue Buoyancy	3.41	67.43	0.22	3.67	0.77	2.06
Own Tax/GSDP	4.41	5.64	5.81	6.43	6.41	5.80
Total Expenditure/GSDP	25.20	26.61	26.29	25.58	25.77	25.88
Revenue Receipts/ Total Expenditure	60.46	66.98	63.22	73.82	71.05	67.11
Revenue Expenditure/Total Expenditure	86.90	85.73	88.64	87.60	81.75	85.95
Capital Expenditure/Total expenditure.	8.63	8.63	8.24	9.69	7.28	8.49
Developmental Expenditure/ Total Expenditure (RE+CE)	68.42	56.44	52.10	55.16	53.75	57.17

	1999-2000	2000-01	2001-02	2002-03	2003-04	Average
Fiscal Ratios						
Buoyancy of TE with RR	0.701	0.339	3.872	0.129	1.367	0.626
Buoyancy of RE with RR	0.824	0.257	5.608	0.068	0.712	0.605
Deficits						
Revenue Deficit (<i>Rupees in crore</i>)	(-) 2574	(-) 1932	(-) 2834	(-) 1576	(-) 1421	(-) 2067
Fiscal Deficit (<i>Rupees in crore</i>)	(-) 3746	(-) 3325	(-) 3968	(-) 2816	(-) 3573	(-) 3486
Primary Deficit (<i>Rupees in crore</i>)	(-) 2508	(-) 1038	(-) 1138	70	(-) 713	(-) 1064
Revenue Deficit/Fiscal Deficit	69	58	71	56	40	59
Management of Liabilities						
Fiscal Liabilities (FL)/GSDP	52.52	61.74	65.69	68.78	65.97	63.33
Fiscal Liabilities/Revenue Receipts	344.76	346.44	395.19	364.20	360.32	361.31
Buoyancy of FL with Revenue Receipt	1.189	1.033	7.794	0.524	0.899	1.165
Buoyancy of FL with Own Resources	1.884	0.965	1.631	0.485	0.726	1.602
Interest Spread	1.56	(-)10.09	(-) 1.46	(-) 4.47	6.55	(-) 2.36
Net Fund Available	20.12	48.45	10.30	1.54	17.34	19.55
Other Fiscal Health Indicators						
Return on Investment	8.06	2.69	0.60	10.02	8.87	6.05
BCR (<i>Rupees in crore</i>)	(-) 1581	(-) 1069	(-) 1945	(-) 1410	(-) 1228	(-) 1447
Financial Assets/Liabilities	0.58	0.56	0.52	0.52	0.52	0.54

* With negative growth in Revenue Receipts, buoyancy became negative.

It is common for a State to borrow for increasing its social and economic infrastructure support and creating additional income generating assets. However, during the last five years, the State Finances showed a generally increasing ratio of fiscal liabilities to GSDP and revenue receipts together with a large revenue deficit which indicated that the State was getting into a debt trap. It is to be noted that the fiscal liabilities as a proportion of GSDP and Revenue Receipts showed a marginal improvement in 2003-04 over 2002-03. But the higher buoyancy of the debt both with regard to its revenue receipts and own resource indicate its increasing unsustainability. The average interest paid by the State on its borrowings during 1999-2004 has also exceeded the rate of growth of its GSDP, violating the cardinal rule of debt sustainability. There has also been a decline in net availability of funds from its borrowings due to a larger portion of these funds being used for debt servicing. The State's low return on investment and use of high cost borrowing for investments indicates an implicit subsidy. The ratio of State's financial assets to liabilities remained static at 0.52 during past three years indicating that 48 per cent of the liabilities were without asset back up. This indicates that either the State has to generate more revenue from out of its existing assets or need to provide from its current revenues for servicing its debt obligations. The balance from current revenue of the State has also continued to be negative. The BCR plays a critical role in determining its plan size and a negative BCR adversely affects the same and reduces availability to fund for additional infrastructure support and other revenue generating investment.

CHAPTER-II

ALLOCATIVE PRIORITIES AND APPROPRIATION

2.1 Introduction

The Appropriation Accounts prepared annually indicate capital and revenue expenditure on various specified services vis-à-vis those authorised by the Appropriation Act in respect of both charged and voted items of budget.

Audit of appropriation by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various grants is within the authorisation given under the Appropriation Act by the State Legislature for that year and the expenditure required to be charged under the provisions of the Constitution is so charged. It also ascertains whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

2.2 Summary of Appropriation Accounts

The summarised position of actual expenditure during 2003-04 against grants/appropriations was as follows:

	Nature of expenditure	Original grant/appropriation	Supplementary grant/appropriation	Total	Actual expenditure	Savings(-)/Excess(+)
		(R u p e e s i n c r o r e)				
Voted	I. Revenue	9134.71	1965.44	11100.15	8153.39	(-) 2946.76
	II. Capital	1432.04	317.94	1749.58	862.92	(-) 887.06
	III. Loans and Advances	602.29	1386.53	1988.82	1572.01	(-) 416.81
Total Voted		11169.04	3669.91	14838.95	10588.32	(-) 4250.63
Charged	IV. Revenue	3624.81	35.97	3660.78	3065.70	(-) 595.08
	V. Capital	2.32	1.38	3.70	1.90	(-) 1.80
	VI. Public Debt	2460.21	7884.70	10344.91	9740.17	(-) 604.74
Total Charged		6087.34	7922.05	14009.39	12807.77	(-) 1201.62
Grand Total		17256.38	11591.96	28848.34	23396.09²	(-) 5452.25

² The total expenditure under Consolidated Fund stood inflated to the extent of Rs.323.43 crore drawn under various functional major heads and deposited into 8443-Civil Deposits- without actual expenditure and Rs.38.91 crore drawn on Abstract Contingent Bills during 2003-04 for which the detailed contingent bills were not received as of March 2004.

The expenditure was also understated to the extent of (i) Rs.7.33 crore drawn from the Orissa Contingency Fund during 2003-04 remaining unrecovered at the close of the year; (ii) Rs.34.57 crore (Disbursements Rs.206.42 crore, less Deposits Rs.171.85 crore) was decreased from balance in 8443-Civil Deposits-800-Other Deposits and (iii) Rs.0.52 crore was not accounted for as expenditure for want of voucher from Treasuries.

These were gross figures without taking into account the recoveries adjusted in accounts as reduction of expenditure under Revenue heads (Rs.357.93 crore) and Capital heads (Rs.11.87 crore). However, as many as 38 out of 42 Grants and Appropriation showed saving indicating a certain lack of budgetary discipline and accuracy.

2.3 Fulfilment of Allocative Priorities

2.3.1 Appropriation by Allocative Priorities

(i) Analysis of savings with reference to allocative priorities brought out the following:

Grant No. 3 – Revenue

(Rupees in crore)

	Original	Supple- mentary	Total grant	Actual Expenditure	Saving
Revenue (Voted)	551.17	860.41	1411.58	885.74	525.84

Savings occurred mainly under the major head 2245-Relief on Account of Natural Calamities-80-General lump sum (Rs.566.66 crore) and entire provision was withdrawn through reappropriation. Savings of Rs.145.57 crore also occurred the major head under 2245-Relief on Account of Natural Calamities-05-Calamity Relief Fund-Central Grant from National Calamity Contingency Fund. Reasons for the savings were not intimated (September 2004) to Accountant General (A&E) by Revenue Department.

Grant No. 3 – Revenue

(Rupees in crore)

	Original	Supple- mentary	Total grant	Actual Expenditure	Saving
Revenue (Charged)	126.72	Nil	126.72	Nil	126.72

Savings occurred under the major head 2245-Relief on Account of Natural Calamities-05-Calamity Relief Fund-101-Transfer to Reserve Funds and Deposits Accounts Calamity Relief Fund. Central contribution to Calamity Relief Fund (Rs.95.04 crore). Reasons for final savings were not intimated (September 2004) to Accountant General (A&E) by Revenue Department.

Grant No. 5 – Finance

(Rupees in crore)

	Original	Supple- mentary	Total grant	Actual Expenditure	Saving
Revenue (Voted)	1748.58	Nil ²	1748.58	1219.07	529.51

Savings occurred mainly under the major head 2071-Pension and Other Retirement Benefits-Pension to Government Servants (Rs.131.87 crore), Voluntary retirement/voluntary separation benefits for State Government Employees (Rs.70.98 crore), Voluntary Separation Scheme for NMR, DLR Work Charged etc. (Rs.19.41 crore), commuted value of pension (Rs.77.76

² Rupees 5000 only

crore), Death-Cum-Retirement Gratuity (Rs.81.66 crore), Family Pensions (Rs.11.07 crore), Pension to Teachers of Government Primary Schools and Basic Schools (Rs.11.41 crore) Pension and Gratuity for Non-Government teachers of Secondary Schools and Colleges (Rs.63.09 crore) and leave Encashment Benefits on retirement/death of Government servants (Rs.11.81 crore). Reasons for savings were not intimated to Accountant General (A&E) by Finance Department.

(Rupees in crore)

	Original	Supple- mentary	Total grant	Actual Expenditure	Saving
Capital (Voted)	174.23	225.00	399.23	66.97	332.26

Savings occurred mainly under the major head 7610-Loans to Government Servants etc. Special House Building Advance (Rs.79.50 crore), Advance for purchase of Motor Conveyances (Rs.11.21 crore) and Other Advances-Group Insurance Scheme (Rs.10.00 crore). Reasons for savings were not intimated to Accountant General (A&E) by Finance Department.

Grant No. 7 – Works

(Rupees in crore)

	Original	Supple- mentary	Total grant	Actual Expenditure	Saving
Capital (Voted)	346.21	42.35	388.56	127.84	260.72

Savings occurred mainly under the major head 5054 Capital outlay on Roads and Bridges-State Plan-State Sector-03-State Highways-Major works (Rs.79.74 crore) and Road Works (Rs.68.40 crore). Reasons for the savings were not intimated to Accountant General (A&E) by Works Department.

Grant No. 17 – Panchayati Raj

(Rupees in crore)

	Original	Supple- mentary	Total grant	Actual Expenditure	Saving
Revenue (Voted)	753.17	259.47	1012.64	460.07	552.57

Savings occurred due to surrender of provisions mainly under the major head 2505-Rural Employment-Centrally Sponsored Plan-01-National Programme-701-Jawahar Rojgar Yojana-Sampurna Gramin Rojgar Yojana (Rs.145.63 crore), Indira Awas Yojana (Rs.66.27 crore), 796-Tribal Area Sub-plan-Sampurna Gramin Rojgar Yojana (Rs.89.26 crore), Reproduction and Child Health Project (Rs.40.62 crore). Reasons for the savings were not intimated to Accountant General (A&E) by Panchayati Raj Department (September 2004).

Grant No. 30 – Energy

(Rupees in crore)

	Original	Supple- mentary	Total grant	Actual Expenditure	Saving
Revenue (Voted)	94.85	0.20	95.05	27.29	67.76

Savings occurred due to surrender of provision mainly under the major head 2801-Power-State Plan-State Sector-06-Rural Electrification-Subsidy to SOUTHCO (Rs.34.52 crore), WESCO (Rs.9.96 crore), NESCO (Rs.9.33 crore) and CESCO (Rs.4.80 crore).

Appropriation-2048 Reduction or avoidance of debt

(Rupees in crore)

	Original	Supple- mentary	Total grant	Actual Expenditure	Saving
Revenue (Charged)	190.07	Nil	190.07	150.07	40.00

Entire available savings of Rs.40.00 crore under the major head 2048-Appropriation for reduction or avoidance of debt for creation of a revolving fund for emergent payment for avoiding default in payment to Financial Institutions remained unsurrendered. Reasons for savings were not intimated to Accountant General (A&E) by Finance Department.

Appropriation-6004 Loans and Advances from Central Government

(Rupees in crore)

	Original	Supple- mentary	Total grant	Actual Expenditure	Saving
Capital (Charged)	528.59	1684.70	2213.29	1745.05	468.24

Savings occurred mainly under 06-Ways and Means Advances-Other Ways and Means Advance (Rs.324.68 crore) and 01-Non-Plan Loans-102-Share Small Saving Collection (Rs.140.32 crore). Reasons for the final savings were not intimated to Accountant General (A & E) by Finance Department.

2.3.2 Persistent savings

Savings of more than 10 *per cent* were noticed in 31 out of 42 grants/appropriations. Such savings persisted during the period 2001-04 in 17 out of the above 42 grants/appropriations (Appendix-IX and X).

2.3.3 Excess over provision requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for the State Government to get the excess over a grant/appropriation regularised by the State Legislature. The excess expenditure amounting to Rs.8819.14 crore for the years 1996-97 to 2002-03 was yet to be regularised as detailed below:

Excess over provisions relating to previous years

Year	No. of grants/ appropriations	Grant/Appropriation Number	Amount of excess	Amount for which explanations not furnished to PAC
			<i>(Rupees in crore)</i>	
1996-97	6	3 Revenue, 6 Commerce, 7 Works, 22 Forest and Environment, 28 Rural Development, 29 Parliamentary Affairs	107.40	107.40
1997-98	8	3 Revenue, 5 Finance, 7 Works, 13 Housing and Urban Development, 15 Sports and Youth Services, 22 Forest and Environment, 6003 Internal debt of the State Government and 6004 Loans etc.	989.97	989.97
1998-99	9	5 Finance, 6 Commerce, 7 Works, 8 Legislative Assembly, 12 Health and Family Welfare, 13 Housing and Urban Development, 24 Steel and Mines, 32 Tourism and Culture, 35 Public Enterprises	126.26	126.26

Year	No. of grants/appropriations	Grant/Appropriation Number	Amount of excess	Amount for which explanations not furnished to PAC
			(R u p e e s i n c r o r e)	
1999-2000	12	1 Home, 5 Finance, 6 Commerce, 7 Works, 8 Orissa Legislative Assembly, 10 School and Mass Education, 17 Panchayati Raj, 20 Water Resources, 26 Excise, 28 Rural Development, 29 Parliamentary Affairs and 6003 Internal Debt of the State Government	2658.52	2658.52
2000-01	8	6 Commerce, 7 Works, 8 Orissa Legislative Assembly, 10 School and Mass Education, 20 Water Resources, 22 Forest and Environment, 6003 Internal Debt of the State Government, 6004 Loans and Advances from Central Government	2474.48	2474.48
2001-02	4	15 Sports and Youth services, 20 Water resources, 28 Rural Development and 6004 Loans and Advances from Central Government	393.58	393.58
2002-03	5	8-Orissa Legislative Assembly, 15-Sports and Youth services, 20-Water Resources, 6003-Internal Debt of State Government and 6004-Loans and Advances from Central Government	2068.93	2068.93
Total			8819.14	8819.14

Further, the excess expenditure of Rs.24998 in two appropriations during the year also required regularisation under Article 205 of the Constitution of India.

2.3.4 Supplementary provision

Supplementary provision of Rs.11591.96 crore made during the year constituted 67 per cent of the original provision as against 42 per cent in the previous year.

2.3.5 Unnecessary/Excessive/Inadequate Supplementary Provision

(i) Unnecessary supplementary provision

Supplementary provision of Rs.1245.08 crore in 37 cases under 24 grants was wholly unnecessary as the expenditure in each case was even less than the original provision, the saving being more than Rs.50 lakh in each case (Appendix-XI).

(ii) Excessive supplementary provision

Against the additional requirement of Rs.8901.43 in 19 cases under 15 grants and two Appropriations, supplementary provision of Rs.10292.58 crore was obtained resulting in savings of Rs.25 lakh or more in each case and Rs.1391.15 crore in aggregate out of which in one grant (Grant No.3 Revenue Department) the saving was Rs.525.84 crore which was 38 per cent of the savings of Rs.1391.15 crore during the year (Appendix-XII).

2.3.6 Significant cases of savings in plan expenditure

Significant savings exceeding Rs.1 crore in each case aggregating to Rs.468.09 crore (66 per cent) against the provision of Rs.704.63 crore either

due to non-implementation or slow implementation of Plan schemes were noticed in 40 cases in 13 grants (Appendix-XIII). In six cases (Sl.No.27, 28, 30, 34, 36, and 37 of Appendix-XIII), the entire provision of Rs.74.34 crore remained unutilised due to non-availability of funds.

2.3.7 Significant cases of excess expenditure

Significant excess amounting to Rs.250.94 crore exceeding Rs.1 crore in each case was noticed in 30 cases involving 12 Grants (Appendix-XIV).

2.3.8(i) Delayed surrender of saving

According to rules, all anticipated savings in a grant/appropriation should be surrendered as soon as the possibility of savings is foreseen from the trend of expenditure without waiting till the end of the year when it cannot be purposefully utilised. During 2003-04, although actual savings of Rs.5452.25 crore was available, only Rs.2679.72 crore were surrendered in March 2004.

(ii) Injudicious surrender

In 17 Grants/Appropriations amounts surrendered were less than the savings available by more than Rupees two crore in each case. In respect of the Grants 5-Finance and 3-Revenue, the Departments did not surrender any amount against total savings of Rs.1079.46 crore and Rs.126.72 crore respectively (Appendix-XV).

(iii) Excessive surrender

In five cases, the amount surrendered was in excess of actual savings indicating inadequate budgetary control. Against the actual savings of Rs.199.66 crore, amount surrendered was Rs.242.07 crore resulting in excess surrender of Rs.42.41 crore (Appendix-XVI).

(iv) Surrender of entire provision

In 58 cases relating to 16 Grants, the entire provision of Rs.440.27 crore (exceeding Rs.10 lakh in each case) was re-appropriated/surrendered (Appendix-XVII).

(v) Anticipated savings not surrendered

In 21 cases relating to 11 Grants, the entire available provision of Rs.342.41 crore remained unutilised and was not surrendered (Appendix-XVIII).

2.3.9 Unutilised provision

In 33 cases involving 23 Grants/Appropriations, the expenditure fell short of provision by more than Rs.1 crore and more than 20 per cent of the provision in each case (Appendix-XIX). All this indicated absolute lack of budgetary and expenditure control.

2.3.10 Expenditure on New Service

Under Article 205 of the Constitution, when need arises during a financial year for expenditure upon some new service not contemplated in the Budget

for that year, funds have to be got authorised by the Legislature before incurring that expenditure from the Consolidated Fund. In case of urgency, expenditure on new service can be met by obtaining advances from the Contingency Fund pending authorisation of the expenditure by the Legislature.

During 2003-04, expenditure of Rs.74.81 crore was incurred in 21 cases involving nine departments as detailed in Appendix-XX without following the prescribed procedure for New Service/New Instrument of Service.

2.3.11 Excessive/unnecessary re-appropriation of funds

Re-appropriation is transfer of funds within a grant from one unit of appropriation where savings are anticipated to another unit where additional funds are needed. Cases where the re-appropriation of funds proved injudicious in view of final excess/savings over grant by over rupees one crore are detailed in Appendix XXI and XXII respectively.

2.4 Deficient Budgetary Procedure and Control

Scrutiny of budget proposals and actual expenditure in respect of two Departments viz. (i) Agriculture Department and (ii) Energy Department revealed the following:

2.4.1 Provision for vacant posts

Rule 61(b) of Orissa Budget Manual (OBM) provides that provisions should be made in the budget for men on duty (excluding vacant posts). But the provision of Rs.15.64 crore (Agriculture Department Rs.15.62 crore and Energy Department Rs.0.02 crore) was made for vacant posts and the entire amount was ultimately surrendered.

2.4.2 Belated surrenders

Orissa Budget Manual (OBM) provides that all anticipated savings should be surrendered immediately after these are foreseen and latest by 10th of March of the financial year. It was noticed that the above two departments surrendered Rs.211.97 crore (Agriculture Department: Rs.48.20 crore and Energy Department: Rs.163.77 crore) on the last working day of the financial year (31 March 2004).

2.4.3 Lump sum provision

According to Rule-59 of the Orissa Budget Manual, lump sum provision should not, as a rule, be made in the budget unless a scheme has been elaborated and sanctioned in a previous year or unless sufficient details are available. Contrary to such provision, during 2003-04 lump sum provision was made in the following cases and the amount was ultimately surrendered/re-appropriated.

(Rupees in lakh)

Sl. No.	Grant No.	Original lump sum provision	Supplementary lump sum provision	Total provision
1.	3-2245-Relief on Account of Natural Calamities-80-General-800 other Expenditure-Lump sum provision	95.04	471.62	566.66
2.	7-5054-Capital Outlay on Roads and Bridges-04 District and other Roads-Lump sum provision for other works	10.00	20.00	30.00
3.	20-2702 Minor Irrigation-01 Surface Water-800 other expenditure-Lump sum provision for other works	727.91	--	727.91
4.	20-4711 Capital Outlay on Food Control projects-State Plan-State Sector-01 Flood Control-103 Civil Works-Lump sum provision	200.00	--	200.00
5.	20-4711 Capital Outlay on Flood Control Projects-Centrally Sponsored Plan-State Sector-01-Flood Control-103-Civil Works-Lump sum provision	1400.00	--	1400.00
6.	16-2401 Crop Husbandry-State Plan-State Sector 111-Agricultural Economics and statistics-Lump sum provision for establishment of an Agency for reporting Agriculture statistics in Orissa	41.00	--	41.00

2.4.4 Persistent savings under Grant No. 23 Agriculture

In Agriculture Department, there were persistent savings under Capital Heads (Voted) during the last 10 years with the percentage of savings rising drastically during the last three years as shown in the table below:

Year	Provision	Expenditure	Savings	Percentage of savings
	(R u p e e s i n l a k h)			
1994-1995	1848.85	137.22	1711.63	93
1995-1996	115.55	102.38	13.17	11
1996-1997	112.05	39.43	72.62	65
1997-1998	156.55	129.98	26.57	17
1998-1999	51.42	29.60	21.82	42
1999-2000	67.04	28.97	38.12	57
2000-2001	501.21	120.57	380.64	76
2001-2002	500.58	113.37	387.21	77
2002-2003	101.03	23.68	77.35	77
2003-2004	300.43	86.89	213.54	71

2.4.5 Non-utilisation of central fund in time resulted in loss to the tune of Rs.332.69 lakh to State Government under Centrally Sponsored Plan Scheme “Macro Management of Agriculture”

The Macro Management of Agriculture, a Centrally Sponsored Plan scheme was started in the State from 2001-02, subsuming 27 existing schemes. The expenditure under the scheme was to be shared between Government of India

and the State Government in the ratio of 90:10 treating 80 *per cent* of Central Assistance as grant and 20 *per cent* as loan. As per guidelines, 50 *per cent* of allocated funds were to be released by Government of India as first instalment and on receipt of progress report on utilisation of available funds including unspent funds of previous years as per norm fixed by the Government of India, the second and final instalment was to be released.

During 2003-04, a total outlay of Rs.25.56 crore was entrusted out of which Rs.23.00 crore was Central share and Rs.2.56 crore was State share. There was an unspent balance of Rs.7.93 crore of previous year available for utilisation during 2003-04. Out of the above balance, Government of India allowed Rs.4.60 crore only for utilisation during year in terms of the guidelines of the scheme. Therefore, due to poor utilisation and excess unspent balance of Central fund of earlier years, State Government lost Rs.3.33 crore during 2003-04.

2.5 Advances from the Contingency Fund

The corpus of the State Contingency Fund was enhanced (January 2000) from Rs.60 crore to Rs.150 crore to enable the Government to meet unforeseen and emergency expenditure not provided for in the budget and which could not be postponed till the vote of Legislature was taken. The advance from the fund is to be recouped by obtaining Supplementary Grant at the first session of the Assembly immediately after the advance was sanctioned.

During the year 2003-04, Rs.7.33 crore drawn from the Contingency Fund remained un-recouped at the end of the year. Besides that advances amounting to Rs.94.40 crore remained un-recouped relating to earlier years.

2.6 Rush of expenditure towards the end of the financial year

Controlling Officers are responsible for ensuring effective control over expenditure and guard against rush of expenditure in the month of March as envisaged under rule 147 of OBM. Test check in audit revealed that during 2003-04 under as many as 13 out of 38 Grants, 30 to 81 *per cent* of the total expenditure under these grants was incurred in March 2004 (Appendix-XXIII).

2.7 Unnecessary parking of funds in Civil Deposits

Balance under 8443-Civil Deposit-800-Other Deposits at the end of March 2004 was Rs.762.72 crore. The position during 1999-2000 to 2003-04 is given in Appendix-XXIV. During the five years period, the deposit increased by 65 *per cent* from Rs.461.16 crore in 1999-2000 to Rs.762.72 crore in 2003-04. Such accumulation of funds showed that Government left the funds meant for many schemes parked in the Civil Deposit without actual expenditure and overstating the expenditure at the same time.

2.8 Defective Re-appropriation

During 2003-04, 815 re-appropriation orders for Rs.762.97 crore were issued of which 126 orders aggregating to Rs.584.89 crore were issued on 31 March 2004, the last day of the fiscal year. Seven re-appropriation orders for Rs.70.94 crore were irregular since these were for re-appropriations between Capital Section and Revenue Section and between Plan and Non-Plan which are not permissible.

2.9 Excess Payment of Pension and Gratuity

Test check of records in the Treasuries revealed excess payment to the tune of Rs.11.20 lakh during 2003-04 due to erroneous determination of admissibility and calculation error in respect of pensionary claims of 493 pensioners.

CHAPTER-III PERFORMANCE REVIEWS

LABOUR AND EMPLOYMENT DEPARTMENT

3.1 Implementation of the Child Labour (Prohibition and Regulation) Act, 1986

Highlights

The Child Labour (Prohibition and Regulation) Act, 1986 (the Act) seeks to prohibit employment of children below the age of 14 years in various hazardous occupations and processes. It also lays down the manner in which working conditions of child labour employed in non-hazardous occupations and processes are to be regulated.

A review of the implementation of the Act during the period 1999-2004 revealed serious deficiencies in the enforcement of the Act in both its prohibitory and regulatory aspects. There was no well-focused target-oriented approach. The surveys for identification of child labour were not reliable, inspections ineffective and monitoring deficient and almost non-existent. Prosecution was finally launched in only three *per cent* of the cases show-caused. The rationale behind sanction of National Child Labour Projects (NCLPs) by Government of India (GOI) as a part of rehabilitation programme was not transparent. Children employed in non-hazardous occupations and processes and children below the prescribed age limit were enrolled in overwhelming proportions to justify sanction of the projects and opening of special schools. About 60 *per cent* of the children enrolled in the special schools and due for mainstreaming could not be mainstreamed.

★ **No systematic and authentic survey of child labour was conducted in the State after the 1997 survey conducted on the directions of the Supreme Court. Subsequent surveys conducted by Non-Government Organisations (NGOs) and others were mostly inaccurate and inflated. Inflation of figures up to 80 *per cent* in Balasore district and up to 43 *per cent* in Rayagada district was noticed.**

(Paragraph 3.1.6)

★ **The Department did not maintain proper statistics of show-cause notices issued, cases finally sent for prosecution and the results thereof. The papers submitted to the National Human Rights Commission in January 2002 indicated that 63 *per cent* of show-cause notices issued were not even replied to by the employers and prosecutions were filed in the Court in only three *per cent* of the cases. In the seven districts**

*The abbreviations used in this review have been listed in the glossary in Appendix-XXXVI (page 222)

test checked, there was no conviction and no collection of fine except in a lone case in Rayagada.

(Paragraph 3.1.8)

✦ There was a shortfall of 95 *per cent* in the number of inspections to be carried out by District Labour Officers (DLOs)/Assistant Labour Officers (ALOs)/Rural Labour Inspectors (RLIs) during 2003 in the selected districts. No inspections had been carried out in seven out of the 30 districts in the State during the period of review.

(Paragraph 3.1.10)

✦ Demand for funds by the NCLP Societies from GOI was inflated resulting in huge unspent balances at the end of every year.

(Paragraph 3.1.12)

✦ There was no relation between the number of child labour in hazardous occupations as identified during survey and sanction of the projects by the GOI. The project in Kalahandi district with no child labour in hazardous occupation as per 1997 survey was given undue priority over other districts.

(Paragraph 3.1.13)

✦ Overwhelming numbers of children from non-hazardous employments were admitted in the special schools in departure from the guidelines of GOI in all the test checked districts. The entire expenditure of Rs.9.43 crore in Ganjam, Rayagada and Kalahandi districts was therefore improper.

(Paragraph 3.1.14)

✦ Misappropriation of funds, doubtful payments, excess expenditure, cash shortages etc. to the tune of Rupees one crore was noticed in NCLP, Malkangiri. Inadmissible, unfruitful and wasteful expenditure amounting to Rs.24.70 lakh was also noticed in other NCLPs test checked.

(Paragraph 3.1.20)

✦ About 60 *per cent* of child labours due for mainstreaming were not mainstreamed in the test-checked districts. There was also no record of tracking of the activities of the mainstreamed child labour though required under the scheme.

(Paragraph 3.1.21)

✦ Review and monitoring of the overall implementation of the Act by the State Level Monitoring Committee were ineffective.

(Paragraph 3.1.23)

3.1.1 Background

There are several constitutional³ and other statutory⁴ provisions aimed at

³ Articles 24, 39(e & f) and 45 of the Constitution of India.

⁴ Employment of Children Act, 1938 as amended in 1951 and 1978, Factories Act, 1948, Mines Act 1952, Merchant Shipping Act 1958, Motor Transport Workers Act 1961 and Minimum Wages Act 1948.

tackling the evil of child labour. The Child Labour (Prohibition and Regulation) Act, 1986 (the Act) provides one such legal framework. It seeks to prohibit employment of children below the age of 14 years in various specified occupations and processes listed out in the schedules to the Act and to regulate the working conditions of the children in other employments, not prohibited under the Act. These prohibited occupations and processes constitute “hazardous” employments. Besides laying down penalties for employment of children in hazardous occupations and processes, the Act seeks to obtain uniformity in the definition of the “child labour” in the related parallel laws by comprehensively defining the said term as any child below 14 years of age engaged in hazardous and non-hazardous occupations and processes.

The Supreme Court of India, in its judgement of December 1996, enriched the law by giving directions regarding the manner in which the children working in hazardous occupations were to be withdrawn from work and rehabilitated, as also the manner in which the working conditions of the children employed in non-hazardous occupations were to be regulated and improved upon.

To translate the National Child Labour Policy announced in 1987 into action, the GOI launched the National Child Labour Projects (NCLPs) in 1988 with the components such as awareness generation, survey for identification of child labour, non-formal education in special schools, mainstreaming of the child labour studying in special schools, enforcement of labour laws and income and employment generation.

3.1.2 Implementation Arrangement

This Act is a Central Act; but each State has the responsibility of enforcing the provisions of the Act. In Orissa, the Act is enforced by the Labour and Employment Department headed by the Principal Secretary/Secretary. The Directorate of Labour headed by the Labour Commissioner (LC) at the State level and the District Labour Officers (DLOs), Assistant Labour Officers (ALOs) and the Rural Labour Inspectors (RLIs) at the district level are directly involved in enforcement and administration of the Act. The Labour and Employment Department had also issued (March and April 1997) notifications empowering officials of other departments as Inspectors under Section 17 of the Act. As regards NCLPs, their functioning was also to be reviewed and monitored by the existing machinery of the Government though these Project Societies were funded directly by the Government of India.

3.1.3 Audit objectives

The objectives of audit examination were to see how far:

- ★ The provisions of the Child Labour (Prohibition and Regulation) Act, 1986 were sufficient for enforcement of the objective of the Act;
- ★ State Government succeeded in enforcing the various prohibitory and regulatory provisions of the Act;

- ★ The NCLP-run special schools succeeded in rehabilitating and mainstreaming the child labour; and
- ★ Government implemented the directions of the Supreme Court with regard to prohibition of child labour in the State.

3.1.4 Scope of Audit

Implementation of the Act during the period 1999-2004 was reviewed through test check of records in the Labour and Employment Department, the Directorate of Labour and seven⁵ district offices of the DLOs between March and June 2004. Records of seven NCLPs (out of 18 NCLPs functioning in the State) and 59 schools (out of 325 schools administered by the NCLPs located in these districts) were also test checked. These units accounted for about 43 *per cent* of the total expenditure incurred under the NCLP scheme in the State during this period.

3.1.5 Infirmities in the Act

Scrutiny of records in the test checked districts and discussions with various field functionaries as well as the officials of the Directorate of Labour threw up the following infirmities in the Act hindering achievements of the objectives of the Act.

- To evade prosecution under the Act, child labour were shown belonging to the “family” of the owner since occupations and processes in the aid of his “family” were not prohibited, though they might be listed as hazardous in the schedule.
- The word “hazardous” was not defined anywhere in the Act.
- The offences under the Act were not included in the Indian Penal Code.
- The Act did not recognise balloon making, working in circuses and several agricultural processes viz. spraying of pesticides, chemical manure etc. as hazardous occupations and processes though it is common knowledge that children are forced to work in these hazardous occupations and processes. The State Government had also not taken up with the GOI the matter of inclusion of these activities as hazardous in the Act.

Prohibitory functions under the Act

Though the Act was promulgated in 1986, the first regular and systematic survey to identify children engaged in various hazardous occupations and processes was conducted only in 1997 pursuant to the directions of the Supreme Court in December 1996. Several deficiencies such as inaccuracy in survey, delayed formulation of Action Plan, inadequate pursuance of show cause notices issued to the offenders were noticed.

⁵ Cuttack, Ganjam, Rayagada, Gajapati, Malkangiri, Balasore and Sambalpur.

3.1.6 *Inaccurate and inadequate surveys*

In Balasore and Rayagada districts the survey figures of child labour were found inflated

The children engaged in hazardous occupations were to be identified through periodical surveys and inspections thereafter. However, no such surveys were conducted except the district-specific surveys conducted by NGOs, field officers of Project Societies, instructors of special schools etc. The figures reported in such surveys were not cross-checked by any other authority in any of the test checked districts except in Balasore and Rayagada districts where these figures were found inflated up to 80 *per cent* and 43 *per cent* respectively. Commissioner-cum-Secretary of the Department stated (November 2004), “the Department was never in favour of such survey to be conducted by NGOs as this may be lopsided with projection of false figure with the evil intention of getting money”.

Surveys conducted by NGOs were more for the limited purpose of projecting their demands for money from GOI

Even the survey figures of 1997 appeared unreliable and unrealistic. For example, in Rayagada district where the maximum number of cotton ginning factories (a hazardous occupation) of the State is located, only two child labourers were identified. Similarly, comparison with the figures of the 1991 census revealed gross mismatch. While there were 3.25 lakh child labourers in the State as per the 1991 census, the 1997 survey identified only 2.15 lakh children engaged in hazardous (0.24 lakh) and non-hazardous (1.91 lakh) occupations and processes. While admitting the survey of 1997 to be inaccurate, Commissioner-cum-Secretary of the Department felt (November 2004) that it might not be desirable to conduct any further surveys, as it would not help in eradication/regulation of child labour without active support of family members. But assessment of the impact of the Act and the outcome of the implementation of NCLP scheme in the State was impossible in the absence of reasonably reliable figures of a survey.

3.1.7 *Delayed formulation of Action Plan*

No action plan for eradication of child labour was formulated

Though the State Government adopted the Orissa Child Labour (Prohibition and Regulation) Rules in 1994, the action plan for eradication of child labour was formulated only in September 2003. However, in the absence of reliable survey figures, such action plan would prove to be meaningless.

3.1.8 *Non-pursuance of show cause notices issued to offenders*

Under the provisions of the Act, children below 14 years were prohibited from being employed in any hazardous occupations/processes (section 3 of the Act). To ensure compliance with the above, the Act prescribed penalty of imprisonment (three months to two years) or fines (Rs.10000 to Rs.20000) or both for the defaulting employers under section 14 of the Act.

Statistics relating to the number of show-cause notices issued under section 3 of the Act, the number of cases finally sent for prosecution to the Court and their outcome could not be furnished by either the Directorate of Labour or the Department as of July 2004. Neither the Directorate nor the Department made any monthly or half-yearly or even yearly compilation of these data.

Records submitted to NHRC indicated that 6622 occupiers (63 per cent) did not reply to the show-cause notices and 87 per cent of the cases were dropped after receipt of replies

From the figures submitted by the Labour and Employment Department before the National Human Rights Commission (NHRC) in January 2002, it was seen that out of 10511 show cause notices issued during 1997-98 to 2001-02 for recovery of Rs.20000 per child labour against the offending employers covering 18716 child labour in hazardous occupations, replies to as many as 6622 notices (63 per cent) were not received. Out of the remaining cases where replies were received, 87 per cent of cases were dropped by the DLOs themselves basing on such replies and only in case of 316 (three per cent) cases, prosecution was initiated in the Court. The balance 200 cases were under examination as of June 2004. Information on the fate of these 316 cases sent to the Court could not also be furnished either by the Directorate or the Department.

In the seven districts test checked, there was no case of conviction except one in Rayagada district though 106 cases were filed in these districts during the period of review. Audit scrutiny revealed that thorough inspections backed by adequate and credible evidence with regard to the age of the child labour were not presented in the Courts resulting in large number of dismissal of cases. No fines could be collected except Rs.20000 in the sole case in Rayagada district. No employer could be sent to jail for violation of the Act.

The State Government attributed (November 2004) the high rate of dropping of cases to incorrect inclusion of “past but not physically available” cases and “home-based beedi workers” in the survey of 1997 due to lack of knowledge on the part of officers of other line departments engaged for conducting the 1997 survey. The Commissioner-cum-Secretary of the Department contended that there were no child labour engaged in hazardous occupations in the State even in 1997 when the survey was conducted and therefore, any kind of enforcement measure was not warranted.

The Commissioner-cum-Secretary further stated (November 2004), “When hardly there is engagement of child labour in hazardous occupations in Orissa as is revealed during periodic inspections of the labour machinery and the schools run under the education department are sufficient to cater to needs of the child labour engaged in non-hazardous occupations, continuance of NCLP schools may not seem to be relevant.” It was, however, not explained why this fact was not taken into account while recommending the proposals of different District Collectors to GOI for sanction of funds. Already Rs.48.43 crore had been released by GOI as grants-in-aid to various NCLPs during 1999-2004 though there was no justification for the same as would appear from above.

Regulatory functions under the Act

The Act permitted employment of children below 14 years in certain occupations and processes, which were not considered hazardous. The working hours of such child labour were to be regulated as per section 7 of the Act to ensure that such children also got education. The Supreme Court in its directions in December 1996 capped the working hours of such child labour engaged in non-hazardous occupations to 4-6 hours per day with minimum two hours of education every day at the cost of the employer. Scrutiny,

however, revealed that the provisions of the Act as well as the directives of the Supreme Court in regard to regulatory measures were not followed and there was large shortfall in inspection as discussed in the succeeding paragraphs.

3.1.9 Supreme Court's directives not enforced

There was no evidence on record in the offices of the DLOs of the test checked districts regarding implementation of these directives of the Supreme Court. The prescribed register of child labour under Section 11 of the Act to monitor the working hours was also not found maintained in any of the selected districts.

Though section 9 of the Act required an occupier to send a written notice to the Inspector within a period of 30 days from the date of employment of a child in permitted occupations/processes, no such information had ever been received by the DLOs of the test checked districts during the period under review. The Act as well the Orissa Child Labour Rules, 1994 are silent on the action to be taken against the occupiers in case of such default.

Section 10 of the Act specified that in case of any dispute between the Inspector and the occupier as regards the age of a child, the case was to be referred to the prescribed Medical Authority for decision. However, no such case of dispute was on record in any of the selected districts though the Labour Commissioner had listed (March 2004) this as one of the problem areas in effective implementation of the Act.

Section 12 of the Act required every occupier to display a notice in the local language and in English regarding prohibition of child labour, penalties etc. Scrutiny in audit revealed that except in Cuttack district, the enforcement of this provision was not even attempted in any of the remaining test checked districts, as the DLOs were not aware of such a provision in the Act.

Regarding imposition of penalties for violation of provisions of other⁶ statutes relating to child labour, it was observed that the booking of such violations under section 15 of the Child Labour (Prohibition and Regulation) Act, 1986 was not taken into account by the DLOs of the seven test checked districts.

3.1.10 Inadequate inspections

The number and periodicity of inspections by Labour Department officials were not prescribed till November 2002. However, in December 2002, the monthly quota of inspections was fixed by the Labour Commissioner as minimum five inspections in a month for DLOs/ALOs and two for RLIs. Audit scrutiny revealed that as against prescribed 1124 inspections in the seven selected districts, only 56 inspections were carried out by DLOs/ALOs/RLIs during 2003 indicating a shortfall of 95 *per cent*. While DLOs of five (Ganjam, Cuttack, Rayagada, Sambalpur and Gajapati) districts did not furnish any reply to explain the reasons for shortfall, DLO, Balasore was not even aware of the norm. DLO, Malkangiri replied that only routine

There was shortfall of 95 per cent of inspections to be carried out by departmental officers in the selected districts

⁶ Section 67 of the Factories Act 1948, section 40 of the Mines Act 1952, section 109 of the Merchant Shipping Act 1958 and section 21 of the Motor Transport Workers Act 1961.

inspections were done which was, however, not established on record.

Even the large number of empowered Inspectors notified by the Department in March and April 1997 had not carried out any inspections as of August 2004.

The State-wide statistics relating to number of inspections carried out, the number of cases of violation detected and the follow-up action thereon could not be furnished by the Department as of September 2004. However, according to information submitted by the Department before the NHRC in January 2002, only 1314 inspections were carried out in non-hazardous establishments during 1997-98 to 2001-02 in which 739 (56 per cent) cases of violation were detected (up to January 2002). No inspections had been carried out in seven out of the 30 districts in the State during 1997-2002.

Due to an unresponsive regulatory framework, the implementation of regulatory functions rendered ineffective and directionless

Thus, an unresponsive regulatory framework coupled with inadequate number of inspections, lack of knowledge of the provisions of the Act and the other allied Acts, rendered the implementation of even the regulatory functions under the Act ineffective.

Government stated (November 2004) that to enforce working hours and to force the employer to allow admissible education for the child labour might entail his disengagement to the detriment of the family.

Special Schools under National Child Labour Projects

The implementation of the rehabilitation package through the NCLPs in the State deviated significantly from the guidelines of the Government of India. Children employed in non-hazardous occupations and processes, ineligible children, children not qualifying to be called child labour were all enrolled in overwhelming proportion in the special schools run by the NCLPs. Mainstreaming of the children withdrawn also largely failed.

3.1.11 Opening of Special Schools under the National Child Labour Projects (NCLPs)

The main objective of the NCLPs was to withdraw children working in hazardous occupations and rehabilitate them through education in special schools where they were to be provided with non-formal education and vocational training and given the benefit of stipend, nutrition etc. While the NCLPs were funded directly by the Government of India, they were to be implemented by the Collectors-cum-Chairmen of the NCLP societies (referred as Project Societies hereafter) and their activities reviewed and monitored by the State Government through the regular organisational hierarchy of the State Labour and Employment Department.

There were 18 NCLPs functioning in 18 out of the 30 districts in the State as of June 2004. Of these, two projects started functioning from 1994-95, 13 from 1995-96 and one each from 1996-97, 1999-2000 and 2000-01.

Under this scheme, 710 special schools were sanctioned for operation in Orissa of which 681 had been opened as of June 2004. Of these, 287 (42 per cent) schools were managed by the Project Societies directly, 389 (57 per cent) by NGOs and five (one per cent) by NACs etc. All the schools in Bargarh, Malkangiri and Deogarh districts were run by the Project Societies themselves directly, though the scheme preferred running of these schools by NGOs.

3.1.12 Financial outlay and expenditure

The receipt and expenditure figures of the State relating to NCLPs were not available either with the Department or with the Labour Commissioner

The receipt and expenditure figures of the State relating to NCLPs for the period 1999-2004 were neither available with the Department nor in the Labour Commissioner's office as of June 2004. Government stated (November 2004) that they did not maintain the figures as the grants-in-aid were not received by them.

However, according to the information collected from the Project Directors (PDs), the receipt and expenditure of all the 18 NCLPs were as under:

(Rupees in crore)

Year	Opening balance	Grant-in-aid received	Interest/ Other receipts	Total funds	Expenditure	Closing balance	Percentage of balance to total
1999-2000	3.41	7.92	0.18	11.51	6.98	4.53	39
2000-01	4.53	7.00	0.28	11.81	6.96	4.85	41
2001-02	4.85	13.67	0.30	18.82	11.01	7.81	41
2002-03	7.81	8.98	0.43	17.22	11.28	5.94	34
2003-04	5.94	10.86	0.24	17.04	10.56	6.48	38
Total	3.41	48.43	1.43		46.79	6.48	

Demands for funds from GOI were inflated resulting in high unspent balances every year

From the table, it would be seen that during the period 1999-2004, the unspent balances at the end of every year ranged between 34 and 41 per cent of the funds available. This was largely due to inflated projection of demand for funds by the Project Societies from the GOI without realistic estimation of their actual needs and also sanction of funds by GOI without reference to the actual expenditure incurred by the Project Societies in the previous years. For example, the release of Rs.24.46 lakh to NCLP, Sambalpur by GOI during 2002-03 was wholly unnecessary when the entire expenditure of Rs.1.16 crore incurred during that year could have been met out of the available funds. Government's contention (November 2004) that some funds in hand were always required to resolve the various problem in the field was not acceptable as funds remained idle for long periods and stipends were released very late as discussed in paragraph 3.1.18.

3.1.13 Arbitrary sanction of projects

Selection of districts for implementation of NCLPs was not always made on the basis of concentration of child labour employed in hazardous occupations though required under the scheme. For example, though Cuttack district had more child labour (1531) in hazardous category than five⁷ other districts as per the 1997 survey, the NCLP at Cuttack was operationalised during 1999-2000 while the NCLPs in other five districts started functioning from 1995-97.

⁷ Nawarangpur: 1074, Sonepur: 1015, Nuapada: 997, Ganjam: 860 and Deogarh: 428.

Similarly, Kalahandi district with no child labour in hazardous category as per the 1997 survey was sanctioned the third largest funds in the State by the GOI from 1995-1996 onwards amounting to Rs.6.25 crore up to March 2004 and that too, earlier than 11⁸ other districts which had more child labour in hazardous category than Kalahandi as per the 1997 survey. Projects had not yet been sanctioned in districts like Keonjhar, Khurda, Jajpur, Sundargarh etc. with proven record of the presence of a large number of industrial concerns compared to Kalahandi and other districts which had already been sanctioned the projects by GOI. Six⁹ out of the seven¹⁰ districts where no inspections had been carried out during 1997-2002 for identification of child labour were also sanctioned NCLPs by the GOI. In fact, GOI sanctions followed the recommendations of the State Government. There was no indication of any scrutiny of the proposals by the State Government before recommending the same to the GOI for sanction. Thus, there was no relation between the number of child labour in hazardous occupations as identified during surveys and inspections (including the 1997 survey and subsequent surveys conducted by the NGOs and others) and the sanction of the projects.

There was no correlation between the number of child labour in hazardous occupation identified during survey and sanction of NCLP projects

Further, scrutiny of the Project Reports prepared by Collectors of Cuttack and Balasore and recommended (August 1999) by the State Government revealed that there was no relation between the occupation and processes from where the child labour were to be withdrawn as indicated in the Project Reports and the occupations and processes from where they were actually withdrawn and enrolled in the special schools after the projects were sanctioned by the GOI.

3.1.14 Unjustified and irregular enrolment of child labour engaged in non-hazardous employments in special schools

In Ganjam and Rayagada districts, children from non-hazardous employment were admitted in special schools and the expenditure of Rs.5.08 crore incurred on them was therefore improper

The scheme envisaged enrolment of child labour withdrawn from hazardous occupations and processes in the special schools. Child labours engaged in non-hazardous establishments were to be imparted education at the cost of the employer. However, it was seen that children from both hazardous and non-hazardous employments were admitted in the special schools; overwhelming numbers were from non-hazardous category. As regards the seven test checked districts, all the children, admitted to special schools in Ganjam (8252) and Rayagada (4251) NCLPs, were from non-hazardous occupations. Thus, the entire expenditure of Rs.5.08 crore incurred during 1999-2004 in these two districts was misdirected. In respect of the remaining test checked districts, separate figures of child labour withdrawn from hazardous and non-hazardous occupations were not available. Similarly, the entire expenditure of Rs.4.35 crore (between 1999-2000 and 2003-04) was misdirected in Kalahandi district where no child labour engaged in hazardous employment was identified in the 1997 survey. Records of the review meetings of the State Level Monitoring Committee held on different occasions indicated that this aspect was never discussed. The GOI also did not take note of the same, as the prescribed format for the quarterly/half-yearly progress reports submitted to them by the Project Societies did not have separate columns for identifying

⁸ Kendrapara:177, Nayagarh:137, Keonjhar: 113, Khurda: 69, Sundargarh: 63, Jajpur: 37, Dhenkanal: 33, Boudh: 29, Puri: 25, Bhadrak: 10 and Jagatsinghpur: 8.

⁹ Deogarh, Gajapati, Kalahandi, Malkangiri, Nuapada and Sonepur.

¹⁰ Deogarh, Gajapati, Kalahandi, Malkangiri, Nuapada, Sonepur and Boudh.

children enrolled from non-hazardous occupations. Thus, funds continued to be released to the NCLPs by the GOI despite the obvious misinterpretation of the guidelines of the scheme and manipulation of figures by the Project Societies. The Commissioner-cum-Secretary of the Department stated (November 2004) that the GOI also admitted such position *ipso facto* by approving the NCLP at Balasore where there were hardly any child labour working in hazardous occupations.

Instead of enrolling children in non-hazardous occupations in the special schools and paying stipend to them, such children should have been enrolled in schools under the Sarva Siksha Abhiyan (SSA)¹¹ as the special schools were meant for mainstreaming the children withdrawn from hazardous employments. By not doing so, the focus of the scheme got diffused. The Commissioner-cum-Secretary of the Department stated (November 2004) that the Project Directors of the NCLPs were being instructed not to admit ineligible children in the special schools.

3.1.15 Enrolment of ineligible children in special schools

Scrutiny of records of the special schools in the test checked districts revealed that though the scheme envisaged enrolment of students in the age group of eight to 14 years, students below eight years were enrolled in four NCLPs as detailed below.

Name of the district (NCLP)	Number of schools whose records were test checked	Total number of students enrolled	Number of Students enrolled below 8 years	Percentage
Sambalpur	9	403	125	31
Gajapati	10	565	263	46
Balasore	5	250	92	36
Malkangiri	8	400	135	34

(Source : Figures furnished by the PDs of the Project Societies)

Students of ineligible category were enrolled in five districts

As can be seen, the proportion of such ineligible children to total enrolment ranged between 31 *per cent* (Sambalpur district) to as high as 46 *per cent* (Gajapati district). Besides, in one of the NCLP schools (Kumbhikota) in Rayagada district, 17 students who were originally on the roll of a nearby formal school were found not to have worked as child labour.

Thus, the NGOs and Project Societies in order to maintain the minimum number of child required for receipts of grants-in-aid from GOI enrolled the students without any reference to the actual target group.

While admitting (November 2004) the above, Government did not however state the action it proposed to take against such Project Societies and NGOs.

¹¹ Under SSA, children in the age group of six to 14 years are admitted to formal schools for purely educational training.

3.1.16 Fictitious enrolment of child labour in special schools

Government of India sanctioned funds for each special school at fixed rates of stipend, mid-day-meal etc. per child labour assuming that each such special school was having the full strength of 50/100 children.

In the test checked districts, the per child labour expenditure varied from a low of Rs.187 per month per child in Rayagada to Rs.307 in Malkangiri as against the norm of Rs.327 fixed by GOI. The number of child labour shown enrolled was fictitious

The per child labour expenditure in the seven test checked districts was seen to vary widely between a low of Rs.187 per month in Rayagada district to Rs.307 per month in Malkangiri district as against the State average of Rs.222 per month and Rs.327 per month as per the norms fixed by Government of India. Scrutiny revealed that except in Malkangiri district, only 63 (Sambalpur district) to 85 *per cent* (Balasore district) of funds under stipend and 32 (Sambalpur) to 75 (Balasore) *per cent* of funds for nutrition (mid-day meal) had been spent in the test checked districts during the period under review. Only these two components of expenditure were directly linked to the actual number of child labour in the special schools. Apparently, a higher number of child labour required for sanction of special schools, was being claimed as enrolled by the NGOs/Project Societies in order to justify running of the special schools and obtain funds from GOI. The inspection note of the field officers of Cuttack society also confirmed the above.

Thus, the number of child labour shown enrolled in the special schools was fictitious in all the test-checked districts.

3.1.17 Deficiencies in selection of/management by NGOs

There was no uniform principle in selection of NGOs in different districts; in two districts there was no selection procedure at all

As laid down in the NCLP guidelines, running of special schools and their management were to be preferably entrusted to good, reliable and reputed Non-Government Organisations (NGOs), Panchayati Raj institutions, Trade Unions etc.

Test check of records in the selected districts revealed that there was no uniform principle in selection of NGOs in different districts. Neither the GOI nor the State Government prescribed any clear cut and specific principle for selection of NGOs. In Rayagada district where NGOs were involved in the implementation of the scheme, there was no selection procedure since inception. Selection of unsuitable NGOs led to four of them leaving midway in Ganjam district and seven NGOs mismanaging affairs in Rayagada district. Closure of schools midway in Ganjam district resulted in unfruitful expenditure of Rs.10.74 lakh. When pointed out (April 2004), the Commissioner-cum-Secretary stated (November 2004) that there should not be any question on the selection and discretion of the Collectors in this regard. The reply was unacceptable as improper selection resulted in unfruitful expenditure in Ganjam district as stated above.

The guidelines of Government of India stipulated that each special school was to function for a three year cycle after which it was to be relocated in other areas of child labour concentration. However, in Gajapati district, 37 special schools opened during 1996 continued to run for more than 10 months to three and a half years beyond the prescribed three years. This resulted in non-induction of fresh children.

3.1.18 Deficiencies in administration of stipend, mid-day meal and health check up

Persistent delay in release of stipend

According to the scheme, stipend at the rate of Rs.100 per month per child labour was to be deposited every month in the post office or in any nationalised bank in joint account of the child labour and his mother (father, if mother not alive).

Scrutiny of records in the test checked districts revealed instances of delay up to six years in release of stipend from Project Societies to schools in Sambalpur district and from one to three years in Malkangiri and Rayagada districts. Besides, there was delay of four years in payment of stipend to students after closure of a school in Rayagada district and non-release of stipend by PD to 27 NGOs in Ganjam district after September 2003.

Irregularities in supply and administration of mid-day meal

Irregularities like non-supply of cooked food (Cuttack and Gajapati districts), non-supply of non-vegetarian food once in a week (Cuttack district) and non-supply of mid-day meal for a few days (Cuttack and Gajapati districts) were noticed. During joint inspection of one school at Gatiguda (Rayagada district) by audit along with field officer of the NCLP, at about 10.20 AM (26 June 2004) it was found that the school functioned from 7 AM to 10 AM only on that day and no mid-day meal was served.

Health check-up not conducted

Health check up of the children enrolled in the special schools was an important component of the scheme. A health card was required to be maintained for each child.

Test check of schools in the selected districts revealed that no health card was maintained in Sambalpur, Cuttack and Rayagada districts. In Sambalpur, health check up was not done at all in four out of nine schools visited by Audit. In Rayagada, health check-up was not done at all. In Ganjam and Malkangiri districts, health camps were not organised regularly.

All the above deficiencies exemplified the lack of adequate supervision and inspection by both the project authorities as well as the DLOs.

3.1.19 Inadequate and ineffective vocational training

Under the scheme, need based vocational training was to be imparted to the child labour keeping in view the nature of trades and skills from where they were withdrawn and the potential of future employment in such trade or skill. As per guidelines of the scheme, one vocational teacher was to be there in each special school.

However, vocational training was not even being imparted in seven out of the

No health card was maintained in three districts, while in Rayagada, health check up was not done at all, in Sambalpur health check up was not done at all in four out of nine schools visited by audit

18 NCLPs functioning in the State as of April 2003, thus rendering a crucial component of the scheme inoperative. Further, in Malkangiri, there were only two vocational teachers for 40 schools and in Balasore district, there were only 26 such teachers for 40 schools functioning. The Government stated (November 2004) that the District Magistrates would be suitably impressed upon in this direction.

Vocational training was not based on a scientific and need based assessment of the labour demand

All the 26 teachers in position in Balasore district and 11 out of 40 teachers in Cuttack district were without requisite qualification. Vocational training in most of the special schools test checked was not based on a scientific and need-based assessment of the labour demand in different sectors and sub-sectors in the local areas. Most of the NCLP schools had adopted tailoring as a trade even when there were no sewing machines or the machines were out of order or the vocational teacher himself/herself was untrained. Adequate vocational materials were also not supplied to the special schools although there was a budgetary provision of Rs.8000 per school per annum for both educational and vocational training.

Thus, the vocational training imparted was by and large inadequate, ineffective and unproductive.

3.1.20 Malfeasance in project societies and special schools

Misappropriation of funds and other irregularities in NCLP, Malkangiri

The NCLP, Malkangiri started functioning from 1995-96. It was found that the Collector-cum-Chairman of the Project Society had conducted a preliminary enquiry in April 2004 on receipt of a public complaint and detected certain irregularities. Subsequent audit scrutiny revealed large-scale misappropriation of funds and other gross irregularities in the maintenance of the cash book and the bank accounts.

The Project Society maintained two bank accounts each in the State Bank of India (SBI) and the Union Bank of India in the joint name of the Collector-cum-Chairman and the Project Director (PD) of the Project Society. These accounts were also to be jointly operated by them. During 1999-2004, a sum of Rs.1.06 crore was transferred from these two accounts (SBI: Rs.54.45 lakh and Union Bank: Rs.51.94 lakh) to the personal accounts of the PD in the Koraput Central Co-operative Bank (KCCB) and the Union Bank in blatant violation of Government rules and procedures. Out of this money the PD drew Rs.39.55 lakh through self cheques, which was not taken into cash book indicating a strong possibility of misappropriation of this amount.

It was also detected in audit that out of nine cheques worth Rs.19.33 lakh, issued against the Project Society's accounts but not reflected in the Society's cash book, Rs.3.90 lakh (four cheques) from the SBI and Rs.3.99 lakh (one cheque) from the Union Bank totalling Rs.7.89 lakh had actually been encashed and misappropriated by the PD.

In the Malkangiri NCLP, there were misappropriation, doubtful expenditure, excess payment and cash shortage to the tune of Rs.74.59 lakh

Other than the transfers to the personal accounts of the PD, expenditure of Rupees two crore was reflected in the Project Society's cash book. Out of this,

Rs.52.78 lakh appeared to have been misappropriated under various components of the Project since the payments shown to have been made were not supported by vouchers, receipts and acknowledgements. These included fictitious payment of honorarium to non-existent clerk-cum-accountants (Rs.10.30 lakh), fictitious payment towards nutrition (Rs.36.25 lakh) etc. Genuineness of expenditure of another Rs.18.40 lakh towards payment of rent of school buildings (Rs.13.80 lakh), purchase of vocational materials (Rs.4.60 lakh) etc. also appeared doubtful. Similarly, there was an excess payment of honorarium of Rs.3.09 lakh and a cash shortage of Rs.0.32 lakh when finally verified during audit. The details of the above are shown in Appendix-XXV.

The misappropriation and mismanagement of the project funds was facilitated by improper maintenance of the cash book coupled with non-prescription of accounting procedure for the Project Society either by the GOI or the State Government. The situation was further aggravated by the fact that there was absence of any inspection of the Project Society by successive Collectors-cum-Chairmen. Even the successive statutory auditors (chartered accountants) failed to point out any of these grave irregularities in their reports.

There were unfruitful and wasteful expenditure of Rs.13.96 lakh in other NCLPs

The Collector, Malkangiri stated (September 2004) that the account of the Project Society opened with the Union Bank was not a joint account. The Branch Manager of the bank also corroborated the same. But statements furnished by the Collector, Malkangiri revealed that out of a total amount of Rs.1.93 crore drawn from the Union Bank between April 1999 and March 2004, Rs.0.83 crore were withdrawn in 20 cheques under the sole signature of the PD while the balance was drawn in 28 cheques jointly signed by the PD and the Collector-cum-Chairman of the Project Society. It was, therefore, not clear how the Collector signed some cheques while leaving out some others and how the Bank allowed such duality while honouring the cheques for payment. The photocopies of the ledgers of this account maintained at the Bank level collected during audit, however, indicated the account to be jointly operable. A detailed investigation by an independent investigating agency is required to be conducted. The State Vigilance initiated a case as reported by the Government in November 2004. Several other instances of unfruitful and wasteful expenditure amounting to Rs.13.96 lakh were noticed in the NCLPs other than Malkangiri as summarised in Appendix-XXVI.

3.1.21 Failure to mainstream child labour withdrawn from hazardous occupations

After completion of three years at NCLP schools, each child was expected to be mainstreamed through admission to formal schools. In case of any difficulty to cope with the standards in the formal schools, necessary assistance was required to be given by the Project Society.

In their submissions before the NHRC in January 2002, the State Government mentioned that out of 37217 child labour (hazardous-16312; non-hazardous-20905) admitted in NCLP schools in 18 districts during 1997-2002, only 19514 (52 *per cent*) (hazardous-11979; non-hazardous- 7535) children were mainstreamed up to January 2002. The latest figures could not, however, be furnished by either the Department or the Labour Commissioner.

In case of the selected districts, the position as of June 2004 as per the records of the Project Directors was as under:

Name of the district	Year	Number of special schools	Number of children enrolled	Number of children due for mainstreaming	Number of children mainstreamed	Percentage
Rayagada	1996-2004	40	6245	4245	3165	75
Gajapati	1996-2004	60	6455	5021	3446	69
Balasore	2001-2004	40	2366	2366	2345	99
Malkangiri	1996-2004	40	6000	4000	1321	33
Cuttack	2000-2004	40	3250	2000	1770	89
Ganjam	1995-2004	35	5550	3432	2091	61
Sambalpur	1994-2004	70	12860	8460	5050	59
Total		325	42726	29524	19188	65

Though the above table showed that on an average 35 *per cent* of the children due for mainstreaming could not be mainstreamed, further scrutiny in audit indicated that the actual percentage was much higher.

While the records of the Project Directors of the test checked districts showed that one out of every three students enrolled were not mainstreamed, actual test verification in audit revealed that nearly 60 *per cent* of the enrolled students were not mainstreamed

Out of 1074 child labour shown mainstreamed in the records of 28 special schools in five test checked districts, names of 160 (15 *per cent*) children did not appear at all in the Admission Registers of the formal schools while another 105 (10 *per cent*) children, though admitted, dropped out within a week of joining the formal schools indicating that about 25 *per cent* of the children were not effectively mainstreamed. The details are given in the Appendix-XXVII. Thus, it was apparent that 60 *per cent* (35+25 *per cent*) of the total children due for mainstreaming were not effectively mainstreamed. The scheme had failed to deliver the desired results and to this extent, the expenditure incurred on their education was wasted. No track of the mainstreamed children was kept by the societies as required under the scheme.

On this being pointed out, Secretary of the Department stated (November 2004) that it was not possible to keep a track of such children who were very high in number since these children had already crossed the age limit. Such a stand was not acceptable as tracking exercise was mandatory under the guidelines.

3.1.22 Below optimal convergence of services

The scheme envisaged convergence of the efforts of the Government in the areas of poverty alleviation, employment assurance, health care etc. with the efforts being attempted through this Act, so that the parents of child labour withdrawn from employment get compensated and refrain from sending their child to such hazardous employment.

Information furnished (January 2002) by the State Government to the NHRC indicated that out of 23765 child labour detected up to 2001-02 in both hazardous and non-hazardous category, parents of only 9957 child labour (hazardous: 4036 and non-hazardous: 5921) were covered in different poverty alleviation schemes. Thus, the coverage was only 42 *per cent*. However, in respect of the selected districts, the coverage ranged between 10 *per cent* (Balasore) and 55 *per cent* (Malkangiri) as of June 2004. The parents of the child labour who could not be provided employment were also not paid Rs.5000 per child by the State Government in any case, though required as per the directions (December 1996) of the Supreme Court. In view of the above

possibility of the children going back to the same hazardous occupation after completion of their education could not be ruled out.

3.1.23 *Monitoring and evaluation of the functioning of the NCLP scheme*

According to the guidelines of the scheme, Executive Councils of the project societies headed by the Collector as the Chairman was required to review the functioning of the project at least once in a quarter. However, test check revealed that there were shortfalls in such meetings varying between 55 *per cent* (Rayagada) and 100 *per cent* (Malkangiri) during the period 1999-2004. Even the inspections of the special schools by the field officers and PDs of the Project Societies were extremely inadequate.

The State Level Monitoring Committee on child labour constituted in September 1999 met only thrice as against stipulated 10 meetings

Although a State Level Monitoring Committee, headed by the State Labour Secretary, was constituted (September 1999), the Committee met only thrice as against at least 10 such meetings during the period of review (1999-2004) as stipulated (May 1999) by the GOI. But even in these meetings, the enforcement of the general prohibitory and regulatory aspects of the Act were not found to have been discussed.

Although a Labour Cell was constituted by the Department in March 1997 in pursuance to directions (December 1996) of the Supreme Court, no activity had been taken up by the Cell as of June 2004.

Thus, lack of effective monitoring and absence of periodic evaluation at all levels resulted in the scheme being implemented in a lackadaisical manner. Government noted (November 2004) the above shortcomings and assured that regular review meetings at the State level and at the level of Collectors would be conducted.

3.1.24 *Deficiencies in Manpower management*

Vacancies in the cadre of ALOs and RLIs in seven test checked districts increased from three in 1999-2000 to 14 by 2003-04. There was no ALO in Malkangiri district during the entire period of review. Also, full time Project Directors were not there in 16 out of the 18 NCLPs in the State during the period of review, though preferred under the scheme. This affected both the regular enforcement of the general provisions of the Act as well as the regular mandatory inspection of the Project Societies and the special schools hampering effective monitoring of the projects.

3.1.25 *Conclusions*

The enforcement of the Act was deficient in both its prohibitory and regulatory aspects. While this could be partly because of certain infirmities in the Act, the absence of a well-focused and target-oriented approach was obvious during audit. The surveys conducted and statistics generated by the NGOs proved to be unreliable. The number of inspections carried out by various field functionaries was grossly inadequate.

As regards implementation of the rehabilitation package through NCLPs, the

entire effort in the State significantly deviated from the guidelines of the GOI. Ineligible child labours were enrolled in the special schools. The mainstreamed children's progress in the formal schools was not tracked either by the NGOs or by the Project Societies. The result was that no one really had any idea about the success or failure of the entire effort that had gone into the NCLP scheme in the State. The vocational training imparted in these special schools was inadequate and routine, having no relation with the demand in the market outside.

Recommendations

- The State Government should commission systematic and scientific surveys at periodic intervals to correctly assess the impact of the Act and the implementation of the scheme in the State.
- Only children withdrawn from hazardous occupations are to be enrolled in the NCLP-run schools under the guidelines of the scheme. In case, there are no child labour in hazardous occupations in the State as mentioned by the Commissioner-cum-Secretary of the Department in November 2004, then the entire expenditure on NCLP has to be considered irregular and uncalled for. In that case, the coverage under Sarva Siksha Abhijan and other similar schemes may be extended to cover the children employed in non-hazardous occupations to give them the benefit of education as well as necessary vocational training.
- Vocational education in special schools should be given a market orientation. Post mainstreaming monitoring of the special school children should be made mandatory for NGOs as well as Project Societies.
- Review and monitoring of the activities of the NCLP schools by different functionaries of the Project Society as well as the Directorate and the Department must be made regular and effective.

RURAL DEVELOPMENT DEPARTMENT

3.2 Pradhan Mantri Gram Sadak Yojana

Highlights

Audit review of Pradhan Mantri Gram Sadak Yojana (PMGSY) revealed that the programme launched in December 2000 for providing all weather road connectivity to all unconnected habitations with 1000 persons and above by 2003 failed to achieve the objective. The Government of India (GoI) provided Rs.708.34 crore for implementation of the programme against which the Government of Orissa (GoO) spent Rs.451.43 crore as of March 2004. Out of 1573¹² roads approved for completion in three phases, 867 roads (55 per cent) were completed providing connectivity to 965 out of 3850 habitations with population of 1000 and above as of March 2004. Of the completed roads, 195 roads of 451.67 kms constructed at a cost of Rs.85.38 crore did not provide connectivity to habitations for want of 536.13 kms of missing links and culverts etc.

Further, out of 212 roads test checked in 11 districts, there was fictitious execution of 17.99 km in 14 roads for Rs.2.75 crore and 118 roads constructed at a cost of Rs.44.41 crore did not satisfy the norms of the programme. Besides, there was wasteful expenditure of Rs.1.49 crore on 12 abandoned roads. Serious failure of control over expenditure also led to significant excess and undue payments to contractors.

✦ **Construction of 451.67 kms of roads shown as completed at a cost of Rs.85.38 crore remained unfruitful due to missing links of 536.13 kms.**
(Paragraph 3.2.9)

✦ **Roads constructed at a cost of Rs.44.41 crore did not satisfy the norms of the PMGSY as these roads provided multi connectivity to habitations having lower population, not aligned the roads on most economic and efficient route, excess execution in length and not connecting to any habitation/all weather road.**
(Paragraph 3.2.8)

✦ **Roads were constructed with extra carriage-width and sand core in deviation from norms of Rural Roads Manual (RRM) of Indian Road Congress (IRC) resulting in an additional burden of Rs.56.18 crore.**
(Paragraph 3.2.11)

*The abbreviations used in this review have been listed in the Glossary in Appendix-XXXVI (page 222)

¹² As per norms of the programme, single all weather road connectivity was to be provided to habitations with a population of 1000 persons and above by March 2003, roads were to be aligned in most economic and efficient route to achieve maximum connectivity, roads already in all weather condition and habitations located within 500 metres of the all weather road were not to be included.

✦ **Undue benefit of Rs.3.97 crore was extended to the contractors due to adoption of higher cost of bitumen in bituminous item.**

(Paragraph 3.2.14)

✦ **Excess payment of Rs.14.78 crore was made to contractors by not deducting voids from the quantity of metal and contractors were allowed undue benefits of Rs.1.54 crore by providing of excess lead for transportation of metals.**

(Paragraphs 3.2.13 and 3.2.17)

✦ **Programme funds amounting to Rs.179.70 crore were kept in PL Account of District Rural Development Agency (DRDA) during 2000-2003 instead of in bank account thereby losing Rs.8.25 crore which would have accrued to programme funds by way of interest from Bank account. Besides, the EEs did not maintain the accounts as prescribed by the MORD.**

(Paragraph 3.2.5)

✦ **Orissa State Rural Roads Agency (OSRRA) set up for operational and management supports to the programme remained non-functional due to lack of budget provision and staff.**

(Paragraph 3.2.26)

3.2.1 Introduction

GoI launched the PMGSY in December 2000 with the primary objective of providing all weather road connectivity to all unconnected habitations with a population of 1000 persons and more by the year 2003 and for 500 and above by the Tenth Plan period (2007). Upgradation of existing roads is also permissible in only those districts where all the habitations of designated population size have been provided with all weather connectivity.

3.2.2 Audit objective/criteria

Audit objective was to assess:

- the financial management of the programme;
- programme management and execution of works;
- delivery of the desired output of the programme by providing all weather road connectivity to targeted habitations within a specified time frame; and
- quality control issues and monitoring of the programme

3.2.3 Audit coverage

The review was conducted (January-June 2004) by the test check of records of Administrative Department, Chief Engineer (CE), Rural Works (RW) and 12 Executive Engineers (EE) for the period 2000-01 to 2003-04 covering implementation of Phase I, II and III of the programme. All the project proposals for the three phases were also examined in the CE's office.

3.2.4 Audit methodology

Technical specifications and provisions of Rural Roads Manual (RRM) of Indian Road Congress (IRC), quality control reports, inspection reports of higher authorities, complaints, evaluation reports and database were reviewed and discussions were made with the CE, RW and the Administrative Department in arriving at the conclusions and assessing the impact of the programme.

Financial management

The GoI provided Rs.708.34 crore during 2000-04 for implementation of phase I, II and III of the programme. The financial status of the programme was as follows:

(Rupees in crore)			
Year	Amount provided by GOI	Expenditure (March 2004)	Percentage of financial progress
2000-01 Phase-I	179.70	157.96	88
2001-02 Phase-II	345.09	286.12	83
2003-04 Phase-III	183.55	7.35	04
Total	708.34	451.43	64

Financial management was found to be deficient due to unauthorised diversion of funds, improper accounting procedure and non-submission utilisation certificates as discussed below:

3.2.5 Loss of interest of Rs.8.25 crore and unauthorised diversion of funds

Loss of interest of Rs.8.25 crore due to delay in transfer of funds by DRDA

As per the stipulations of the GoI, funds released for implementation of the programme being non-lapsable were to be operated through Savings Bank Account. During 2000-01, programme funds amounting to Rs. 179.70 crore was transferred to the Personal Ledger (PL) Account of District Rural Development Agency (DRDA) by operating MWA suspense head in the Divisional Accounts in March 2001. DRDA delayed the release of funds from the PL Account to the divisions for periods ranging between five months and 32 months which entailed loss of interest of Rs.8.25 crore which could have accrued to the programme funds by timely transfer of the amount by DRDA. The funds debited to the suspense account (MWA) for Phase-I remained uncleared (March 2004) for lack of budget provisions. For Phase-II of the programme, the GoI directly transferred the funds to the Bank Accounts of the EEs. From the year 2003-04, Orissa State Rural Roads Agency (OSRRA) was constituted (May 2003) under the Society Act and was authorised to receive and release funds. The funds were not routed through the State Budget and transactions were not incorporated in the general accounts. The Ministry of Rural Development (MORD) prescribed revised accounting procedure and formats from 2003-04. The EEs had not followed the revised procedure even as of March 2004.

Accounting procedure not followed

Besides, Rs.43.04 lakh out of the accrued interest receipts and sale proceeds of

tender documents was diverted by the EEs of Angul and Bhubaneswar divisions during 2001-02 for purchase of Printer, Fax and payment to OCC for Divisional Automation System, other contingent expenditure and hire charges of vehicle though not permitted under norms. The above was indicative of poor control over financial management under the programme. The Government confirming the factual position stated (September 2004) that the new accounting procedure would be adopted soon.

3.2.6 Non-submission of utilisation certificate (UC)

Although UC for Rs.162.64 crore was not submitted, further instalments were released violating the norms

The funds were to be made available in four instalments subject to submission of UC for the earlier instalment and completion certificate of works sanctioned two years before. Against UC for Rs.524.79 crore due as of March 2004, the CE submitted (March 2004) UC for Rs.362.15 crore. Neither UC for Rs.162.64 crore nor completion certificate of works sanctioned during 2000-01 (before two years), were submitted (March 2004).

Programme management

The status of habitation connectivity as of March 2004 was as below:

(In number)

Sl. No	Population	Total habitations	Habitations connected prior to launching of the programme	unconnected habitations	Habitations connected under PMGSY			Balance of unconnected habitations
					Phase-I 2000-01	Phase-II (2001-02)	Total	
i)	1000 persons and above	9488	5638	3850	397	568	965	2885
ii)	500-999	12606	5868	6738	243	157	400	6338
iii)	250-499	12301	4677	7624	110	86	196	7428
iv)	Less than 250	14623	4536	10087	89	60	149	9938
	Total	49018	20719	28299	839	871	1710	26589

Scrutiny revealed serious violation of the norms of the Programme, wide spread mismanagement in planning and decision making resulting in huge wasteful expenditure, unwarranted excess expenditure as discussed below:

3.2.7 Commencement of works without site survey, etc.

Of the 3850 habitations with 1000 persons and above targeted for connectivity by March 2003, 2885 such habitations remained unconnected (March 2004)

Construction of 1573 roads (3586 km) was taken up under the programme in three phases (Phase I: 574 roads, Phase II: 652 roads and Phase III:347 roads) with stipulation for completion of the roads in nine months from the date of clearance. The primary focus of the programme was to establish all weather road connectivity to all unconnected habitations with 1000 persons and above by March 2003. However, 2885 (75 per cent) such habitations remained unconnected as of March 2004 defeating the objectives of the programme. The Government accepted the factual position in September 2004.

Only 20 roads of Phase I and two roads of Phase II were completed by the stipulated dates and the remaining roads did not progress as per schedule due to default in execution by the agencies. Phase III was scheduled for

completion by May 2004. As of March 2004, 471 roads of Phase I (82 *per cent*), 396 roads of Phase II (61 *per cent*) and none of the roads of Phase III were completed.

As per the conditions of the contracts, the time allowed for carrying out the work was to be strictly observed failing which liquidated compensation (10 *per cent* of the estimated cost) was to be realised. Although the roads were not completed within the stipulated period, liquidated compensations recoverable as per the terms of the contracts were not realised from the defaulting contractors as of March 2004.

Under the programme, there was no provision for land cost. GoO, therefore, ordered construction of the roads on Government land and in case of involvement of private land, the Collectors and Sub-collectors of the districts were to persuade the land owners and acquire the land through registered gift deeds failing which the road was to be dropped. No gift deed was executed in case of private land (March 2004). Works were commenced without survey and investigation of the condition of roads and location of habitations and also without forest clearance approval. Consequently, of the 1226 roads approved under Phase I and II, 134 roads were dropped during execution due to targeted habitations having been already connected through other routes and land and forest problems. In eight of the 134 dropped roads, as of the dates of abandonment, Rs.38.17 lakh were spent and four other roads in two districts were stopped after execution of works worth Rs.1.11 crore. Thus, commencement of works, without site survey, non- assessment of condition of roads/location of habitations and non- fulfillment of pre-requisites, led to dropping of 134 roads during execution reducing the scope of the programme by Rs.47.28 crore and wasteful expenditure of Rs.1.49 crore on 12 of these roads.

The EEs executed additional work for Rs.33.02 crore during post tender stage

The department was required to observe economy in construction and cost overrun was not permissible. In such an eventuality, the State Government was to bear the additional expenditure. Out of 177 packages involving 12 divisions, the EEs executed additional works in 119 packages under Phase I and II for Rs.33.02 crore. Since cost overrun was not permissible, they met the expenditure diverting the amount saved from dropped roads and reducing cross drainage (CD) structures and the length/width of roads.

Against the requirement of Rs.15 lakh per km for construction of the roads as per provisions of RRM of IRC at average Schedule of Rates (SoR) including lead distance for transportation of materials, the per km cost ranged upto Rs.21.56 lakh (Deogarh) under Phase-I and Rs.28.80 lakh (Bhadrak) under Phase-II which merits investigation.

The Government while accepting the factual position stated (September 2004) that liquidated compensation would be recovered from the agencies liable for delays. They also mentioned that variations in cost of construction were due to location of the site, lead, quality of soil and traffic data etc. The reply confirmed that the high cost of construction was due to inadequate survey and investigations. Even the National Rural Roads Development Agency (NRRDA) inspecting the roads observed that the high cost of construction was

due to inadequate survey and investigations and overdesign of pavements.

3.2.8 Flawed selection of roads led to non-achievement of objectives

Poor selection of roads, fictitious and uncalled for execution led to unfruitful expenditure of Rs.47.16 crore

For appropriate selection of roads, GoI prescribed in 2001 preparation of District Rural Roads Plan (DRRP) using the Geographic Information System (GIS) for each district/block indicating the habitations, Gram Panchayat headquarters, Public Health Centres, Hat, etc. The roads prioritised from this list, based on the recommendations of the local representatives and approval by Zilla Parishad and State Level Standing Committee were to be taken up. In none of the test checked districts other than Boudh and Khurda, DRRP was prepared based on GIS data of Orissa Remote Sensing Application Centre (ORSAC) of GoO. Scrutiny of the DRRP for Boudh¹³ and for Khurda¹⁴ districts disclosed significant mis-match between the connectivity reported to have been created and those reflected in the Core Net Maps (CNMs). Similar mis-matches were noticed even in the departmental CNMs¹⁵ for Dhenkanal, Angul, Keonjhar, Sundargarh, Gajapati, Kendrapara, Bolangir, Cuttack, Bhadrak and Jagatsinghpur districts. Out of 212 roads test checked in these districts, 132 roads constructed at a cost of Rs.47.16 crore did not satisfy the norms and failed to meet the objective as discussed below. Government confirmed the mis-match in September 2004.

- Habitations with lower population were provided with new connectivity by construction of 23 roads for 54.22 km at a cost of Rs.9.02 crore. The Government stated (September 2004) that roads leading to cluster of habitations having total population more than 1000 persons were included. But as per the guidelines, cluster of populations (not habitations) living in an area was to be included.
- Nine roads for 15.23 km constructed at a cost of Rs.2.97 crore under the programme provided multi connectivity to habitations. This expenditure of Rs.2.97 crore was irregular and in violation of the norms of the programme. The Government stated that the roads were taken up for providing better connectivity. This was, however, not permissible under the programme.
- Thirteen all weather roads with BT, WBM and moorum surfaces covering 37.66 km were shown as executed under the programme at a cost of Rs.6.60 crore. The Government stated that the roads were in bad shape which was not acceptable since the CNMs disclosed the roads in all weather condition.
- Fourteen roads were reportedly constructed for more than the requirement by 17.99 km. Expenditure of Rs.2.75 crore on fictitious execution merits investigation. The Government stated that the excess length was required

¹³ Prepared by ORSAC

¹⁴ Prepared by Geo- Infotech

¹⁵ The CNM used by the Rural Development Department were based on dated data from Survey of India

to establish connectivity. This was not correct since as per the CNMs the habitations were connectible even without execution of 17.99 km of roads.

- Fifteen roads constructed for 34.57 km at a cost of Rs.5.19 crore did not connect the habitation. The expenditure of Rs.5.19 crore was unfruitful. The Government stated that the missing links would be completed in subsequent phases.
- Fourteen roads for 17.64 kms constructed at a cost of Rs.3.22 crore provided connectivity to habitations located within 500 metres of all weather road though not permitted under the norms. Similarly, Tubey and Maratira habitations in Angul district though located on NH and independently connected, were provided another connection by construction of 1.87 km of road on different alignment at a cost of Rs.45.17 lakh. The total wasteful expenditure was Rs.3.67 crore. The Government stated (September 2004) that the above concept of not providing connectivity to habitation located within 500 metres of the all weather road came in September 2002. This was not correct since the norms were prescribed in June 2001.
- Failure to align 19 roads in most economic and efficient route to connect the habitations led to unnecessary execution of 21.02 km at a cost of Rs.4.42 crore. The Government stated (September 2004) that the roads were planned taking into account market, educational and health institutions. This was not acceptable in the absence of utility value assessed for all possible routes as required under the norms.
- Twelve roads for 23.75 km were constructed at a cost of Rs.4.21 crore to provide connectivity to habitations, which were already connected prior to launching of the programme. The Government stated (September 2004) that the habitations were shown connected wrongly.
- Twelve roads constructed for 47.90 km at a cost of Rs.8.33 crore did not connect any all weather road on either side rendering the expenditure unfruitful. The Government confirming the factual position stated (September 2004) that the missing links would be completed in subsequent phases.

3.2.9 Connectivity not achieved due to missing links

The primary objective of the programme was to provide connectivity to unconnected habitations by all weather roads. The rural roads were taken up under Phase I and II without study of their surface status and assessment of actual length and number of culverts required to establish connectivity. In 184 roads, against 946 km required for establishing the connectivity, the roads were shown as completed with execution of 423 km at a cost of Rs.79.32 crore despite missing links of 523 km requiring further Rs.110.08 crore to establish full connectivity rendering the expenditure of Rs.79.32 crore unfruitful. The Government stated (September 2004) that the missing links would be taken up in subsequent phases.

Similarly, of the 41.80 km of earthen track in 11 roads in Bhadrak, Kendrapara, Kalahandi and Bargarh districts, the EEs took up only 28.67 km for improvement upto BT surface at a cost of Rs.6.06 crore and excluded 13.13 km of earthen track. Due to the faulty plan, the objective of providing continuous BT surface to the habitations was not achieved resulting unfruitful expenditure of Rs.6.06 crore. While accepting the factual position the Government stated (September 2004) that the remaining portion would be included in subsequent phases to establish the connectivity.

3.2.10 Upgradation of roads in deviation from the norms

Up-gradation of existing BT/Metal/Moorum surfaces at a cost of Rs.39.87 crore in deviation of norms

Up-gradation of existing roads was permissible only in those districts where all weather connectivity have been provided to all the habitations of the designated population size. Despite 2885 such habitations remaining unconnected (March 2004), the EEs upgraded 287 km of existing BT/Metal/Moorum surfaces with Rs.39.87 crore under phase-I (Rs.39.31 crore) and phase-II (Rs.56 lakh). This led to expenditure of Rs.39.87 crore in deviation from the norms. The Government stated (September 2004) that up-gradation of roads had been excluded from subsequent phase.

3.2.11 Additional burden due to construction of roads with unwarranted higher width and sand core

Construction of roads with unwarranted higher width and sand core led to additional burden of Rs.56.18 crore

The EEs designed construction of 1226 rural roads under Phase I and II providing 7.5 metres formation width and 3.75 metres carriage width. These were technically sanctioned by the CE and accordingly cleared by the GoI in March 2001/December 2001. The GoI brought out a comprehensive Rural Roads Manual (RRM) of Indian Road Congress (IRC) in November 2001 prescribing uniform standard of design and specification for rural roads across the States. By June 2002, only 20 roads of Phase I and no road of Phase II were completed. As per the manual, the rural roads where traffic intensity was less than 100 motorised vehicles per day was to be constructed with six metres formation width and three metres carriage width. Although the traffic intensity on the approved rural roads was less than 100 motorised vehicles per day, the EEs, however, did not reduce the width of incomplete 1206 roads and completed the same with unwarranted higher width resulting in excess expenditure of Rs.48.34 crore. The Government also ordered (January 2003) to restrict the carriage way width to three metres in all cases to ensure economy in construction. By this time, 882 roads still remained incomplete but the EEs did not reduce their width and completed the same with unwarranted higher width. Only under Phase III were the norms adopted for 347 roads approved in August 2003. However, the unwarranted higher width already constructed under phases I and II for 882 roads led to additional burden of Rs.33.06 crore.

Similarly, as per technical specifications and RRM of IRC, the pavement and sub grade of road embankment in clayey or black cotton soil were to be built up with sand sub-base in 100 to 150 mm compacted thickness for effective drainage. Without ascertaining the nature of the embankment soil, all the roads under Phase-I and Phase-II were constructed providing sand sub base in 200mm /150 mm compacted thickness. The CE during execution instructed

(June 2002) not to provide the sand base in sand and moorum zones. However, the EEs did not follow the instruction and constructed the embankments providing sand sub base. This led to additional burden of Rs.23.12 crore. The total additional burden on unwarranted higher carriage width and sand core amounted to Rs.56.18 crore. The Government stated (September 2004) that prior to receipt of the RRM of IRC, the roads of phase I and II were designed with higher width and thus there was no scope of revision. Further, the instructions of the CE for not providing the sand core was not a general order and the roads were constructed with sand core as per actual soil condition. These were not acceptable since the RRM was available during execution of phase I and II and the ongoing/incomplete roads should have been modified to three metres width as per the provisions of RRM and orders of the Government to observe economy in construction. The instructions of the CE not to provide sand core was a general order which were not followed and sand core was provided in all roads of phase I and II without assessment of the soil conditions.

Execution of works

The review disclosed significant cases of faulty estimates, wrong designs, non-observance of prescribed measurement procedure resulting in excess and undue payments to the contractors at the cost of efficiency, economy and effectiveness of the programme as discussed below:

3.2.12 Unnecessary provision of extra WBM layer in the estimates

The specifications stipulated provision of two layers of WBM in 75 mm thickness to function as base course. Without ascertaining the soil bearing capacity, 17¹⁶ EEs provided another extra layer of WBM Grade-II in 75 mm thickness in 265 roads under Phase I and II with expenditure of Rs.18.33 crore. Such proposal included by them in Phase-III was disallowed by State Technical Agency (STA)/ GoI as not necessary. The unwarranted provision in Phase I and II led to excess expenditure of Rs.18.33 crore. The Government stated (September 2004) that the field engineers assessed the soil bearing capacity by eye estimation and accordingly one extra layer of WBM was provided. This was not acceptable since such assessment was to be made by laboratory tests and in fact the tests conducted for phase III did not require any extra layer of WBM.

3.2.13 Prescribed procedure of measurement not followed

Agreements of Phase I and II provided that stone aggregates were to be collected, transported and stacked on even grounds by the contractors for measurement and assessment of the volume before spreading in road. The net volume for payment to the contractors was to be computed after deducting voids ranging between 12.5 and 5 per cent from the quantity arrived at by

Providing of uncalled for layer of WBM led to excess expenditure of Rs.18.33 crore

Prescribed procedure of measurement was not adopted and non-deduction of voids led to excess payment of Rs.14.78 crore

¹⁶ Angul, Kendrapara, Bhadrak, Sundargarh, Ganjam No. I and II, Phulbani, Keonjhar, Balangir, Bhawanipatna, Jagatsinghpur, Deogarh, Cuttack, Balasore, Bargarh, Puri, Nawarangpur.

stack measurement. Stack measurements were not recorded in any of the measurement books and payments were made to the contractors for the gross quantities of stone/aggregates without deduction of voids. This led to excess payment of Rs.14.13 crore. Further, since the stack measurement was not recorded, the EEs should have deducted charges in built in the item rates for stacking operation, resulting in further excess payment of Rs.64.86 lakh. The Government stated (September 2004) that stack measurement was not recorded and voids not deducted as measurement was taken on finished sections. This was not acceptable since as per conditions of the contracts, stack measurements were to be recorded and voids deducted for assessment of the volume of the metal.

3.2.14 Adoption of higher cost of bitumen in the estimates

Undue benefit of Rs.3.97 crore to contractors due to adoption of higher cost of bitumen in estimates

The guidelines stipulated for using modified bitumen in the surface course for durability. Bitumen was to be procured from the Refineries in bulk and used in the work after rigorous testing. This was not followed and the works were executed with ordinary bitumen. The price of bulk bitumen being cheaper and also because of its massive consumption, financial prudence demanded that the controlling officer adopt the price of bulk bitumen while framing the project proposals. Against the cost of bulk bitumen being Rs.8330 per MT, the EEs prepared the estimates for Phase-I and Phase-II adopting the basic cost of bitumen (packed) at Rs.10040 per MT and the CE technically sanctioned the same. This led to undue benefit of Rs.3.97 crore to contractors. The Government stated (September 2004) that the cost of bulk bitumen was more taking into account cost of vats, land, barbed wire fencing, watch and ward and wastage. This was not acceptable since the basic cost of bulk bitumen was less and the expenditure on the above accounts was the responsibility of the contractors.

3.2.15 Damages to roads due to wrong design

As per the guidelines, it was essential to study the topography of the land and estimate the discharge at the site by direct measurement depending upon the annual rainfall and nature of terrain. This was not done and the EEs designed the roads under Phase I and II providing Cross Drainage (CD) structures on adhoc basis. Consequently, 105 roads built at a cost of Rs.3.90 crore could not discharge the accumulated rain water in different locations and the roads were damaged in October/November 2003. Out of 33 other roads, 21 roads were repaired by the contractors and remaining 12 roads still remained in damaged condition and the desired connectivity was not established (March 2004). The Government stated (September 2004) that the CDs were designed for normal discharge whereas damages occurred due to unprecedented flood. This was not acceptable since the CDs should have been designed after assessing the discharge at site.



Jampodar to Balsinga road (OR-15-11)

ROAD DAMAGED DUE TO INADEQUATE DRAINAGE



RD Road to Bangura (OR-09-10)

ROAD DAMAGED AND WORK SUSPENDED

3.2.16 Unwarranted allowance for mechanical carriage of soil

Providing mechanical carriage for soil in deviation from the norms led to excess expenditure of Rs.3.69 crore

As per the guidelines, road embankment was to be constructed obtaining soil by manual means and mechanical transportation was not permissible except in case of black cotton soil. In deviation from the above, 12¹⁷ EEs executed 8.16 lakh cum of earth work in the road embankments in 60 packages providing for mechanical transportation for burrowing earth although the areas were not identified as black cotton soil. This led to excess expenditure of Rs.3.69 crore. The Government stated (September 2004) that mechanical carriage wherever found inevitable was provided. This was not acceptable in the absence of any test result for the quality of soil requiring mechanical transportation.

3.2.17 Incorrect lead in the estimates

Adoption of incorrect lead in the estimates led to excess payment of Rs.1.54 crore to contractors

The estimates for execution of works were to be prepared most economically adopting basic cost of materials as per Schedule of Rates (SoR) and minimum lead as per shortest route for transportation of the materials to the work site. Six EEs¹⁸ provided lead charges for 25 works executed during 2000-2002 ranging upto 95 km for obtaining metal, chips and moorum though they were available between five and 53 km as per approved quarry chart. In 28 roads it was as high as 50 kms, while in 26 roads it was abnormally high between 50 km and 95 km. The adoption of excess lead in the estimates led to excess payment of Rs.1.54 crore to the contractors. The Government stated (September 2004) that the estimates were prepared as per available quarry chart while the agencies obtained the materials as per availability and the rates offered were inclusive of all leads. Hence no excess payment. This was not acceptable since the estimates were to be prepared as per the actual lead and adoption of higher lead inflated the cost estimates.

3.2.18 Damages due to substandard execution and defective design

Construction works valued Rs.1.94 crore got damaged due to defective execution and inadequate design

Improvement to RD road to Bangura (OR-09-10) in Dhenkanal district was awarded (April 2002) to a contractor at a cost of Rs.84.02 lakh for completion by March 2003. The work comprised new road construction for 4.99 km with 10 Cross Drainages (CDs). The CDs were provided without ascertaining the actual discharge of water at the site. During execution, the CD at Kalabila nullah could not discharge the water and consequently the road was damaged in 2003 by which time works worth Rs.68.98 lakh were executed. The Public demanded two new CDs on both sides of Kalabila nullah and as a result the work was suspended rendering the expenditure of Rs.68.98 lakh incurred on the road unfruitful (March 2004). The Government accepting the factual position stated (September 2004) that the defective works would be got rectified by the agencies and as regards RD roads to Bangura, a box cell bridge would be provided in place of the existing hume pipe culvert for extra ventage.

¹⁷ Cuttack, Deogarh, Balasore, Rayagada, Bargarh, Puri, Jajpur, Bhubaneswar, Bolangir, Baripada, Kendrapara and Jagatsinghpur.

¹⁸ Nawarangpur, Mayurbhanj, Dhenkanal, Gajapati, Angul and Koraput

The contractors executing works under Packages No. OR-21-07 and OR-15-04 abandoned them from May 2003/January 2004. Thereafter, defects were noticed in sub-base of package No.21-07 attributed to use of inadequate bitumen in bituminous works and use of oversized metal in WBM works of OR-15-04. This led to wasteful expenditure of Rs.1.25 crore already executed on the roads. No action was taken for the lapses on execution in either of the packages (March 2004).

3.2.19 Improper evaluation of tenders

Improper evaluation of tenders led to non-completion of works

Notice inviting tenders (NIT) for Phase-I, II and III, stipulated that the bids were to be finalised considering the past performance of the bidder and possession of machinery for the work. If one bidder was found lowest in more than one package, composite evaluation of all the bids was to be made. However, 57 packages were awarded to 11 contractors at Rs.79.37 crore without considering the past performance and possession of machinery for the multiple packages. These agencies significantly defaulted in execution having completed works valuing Rs.50.60 crore (63.75 per cent of contract values) even after lapse of completion period.

Works for packages OR-18-02, OR-23-04 and OR-23-06 were awarded for Rs.3.56 crore to a contractor who had defaulted in construction of a high level bridge over river Brutang under the RD department that was abandoned after execution of works for Rs.1.00 crore due to substandard work. The contractor also defaulted in these PMGSY works after executing work for Rs.2.86 crore against contract value of Rs.3.56 crore. The works stood incomplete as of March 2004. The Government stated (September 2004) that the tenders were evaluated based on the documents attached to respective tenders and that the fault of the contractor executing HL bridge over Brutang was not established. However, as per the conditions of NIT, if one bidder was found lowest in more than one package, composite evaluation of all the bids was to be made increasing the criteria proportionately. Further, the fault of the contractor in executing the bridge over river Brutang was established before finalisation of bids for PMGSY works.

3.2.20 Works allotted to PSU's led to an additional burden to State

Additional burden of Rs.3.86 crore due to allotment of works to OCC and NPCC.

Under the programme, ten packages in Mayurbhanj, Balasore and Bhadrak districts and six packages in Cuttack, Deogarh, Gajapati and Mayurbhanj districts were allotted to M/s Orissa Construction Corporation Ltd. (OCC) at a cost of Rs.15.30 crore and M/s National Projects Construction Corporation (NPCC) at a cost of Rs.9.80 crore respectively for completion by December 2002/December 2003. The OCC was allowed 20 per cent excess (five per cent over the estimated cost and 15 per cent towards overhead) and the NPCC eight per cent. The OCC got works executed valuing Rs.4.78 crore (31 per cent) and the NPCC Rs.3.58 crore (37 per cent) through sub-contracting and none of the works was completed (March 2004). Penalty of Rs.2.44 crore recoverable for slow and disproportionate progress was not realised from them (March 2004). As per the guidelines, no fund beyond the approved project cost was payable by the GoI. Therefore, the Government should not have allotted the works to the corporations beyond the estimated costs. Allotment of works to the

Corporations with 20 per cent/eight per cent excess over project cost led to extra financial burden of Rs.3.86 crore on the State. The Government confirming (September 2004) the factual position stated that liquidated damage would be realised for default in execution.

3.2.21 Delayed finalisation of tender and non-imposition of penalty

Excess expenditure of Rs.1.13 crore due to non-finalisation of tenders within the validity period and retender in three other cases

The GoO did not finalise bids of four packages (OR-17-01, OR-04-11, OR-26-02 and OR-04-01) within the prescribed period of 120 days from the date of clearance of the project proposal by the GoI and 90 days from the date of receipt of bids. As a result, the lowest bidders refused to extend the validity of their bids. Consequently, the department had to accept tenders other than the lowest, resulting in excess expenditure of Rs.66 lakh.

The lowest bidders for two packages (OR-12-06, OR-12-07) did not turn up to execute the works. No penalty was recovered for the failure to execute the works. The retender of the above two packages led to excess expenditure of Rs.47 lakh. The total cost overrun aggregated Rs.1.13 crore. The Government confirmed the factual position in September 2004 and stated that action would be taken to recover the penalty.

3.2.22 Faulty provision of maintenance and repairs in the agreements

Faulty provisions in the contracts for maintenance led to unwarranted liability of Rs.11.29 crore

The guidelines (December 2000/January 2003) and the technical specifications stipulated that the roads being of very high standard did not require any major repair for at least five years after completion. The State Government was to frame the contract documents accordingly for maintenance of the roads at the cost of agencies at least for five years. In 140 agreements executed during 2000-01 under Phase-I, the EE/CE provided for maintenance of the roads at the cost and risk of the agencies for three years. Only in the agreements for Phase-II, the norms were adopted for maintenance of roads for five years after completion at the cost of the contractor. But the wrong provision in the agreements for Phase-I led to an additional burden of Rs.4.30 crore for the department towards maintenance of the roads during fourth and fifth years of their completion. Under Phase-III of the programme in 113 packages approved at Rs.190.55 crore, the EEs/CE included Rs.6.99 crore for maintenance of roads to be met from State funds. The currency period of these contracts was 11 months each but provision was made for maintenance for five years without specifying how to enforce the condition of maintenance after lapse of currency of agreements. Besides, while the contracts for Phase-I and II provided for maintenance at the cost of the contractors, separate provision of Rs.6.99 crore in Phase-III for maintenance was unnecessary.

3.2.23 Non-plantation of trees on both sides of roads and non-use of power plant ashes in road construction

Non-plantation of trees on both sides of roads led to non-compliance with the requirements of the programme

To increase vegetative cover and preserve soil and water, the guidelines provided planting of fruit bearing and other suitable medicinal trees on both sides of the roads. Under Phase I, II and III as of March 2004, 867 roads covering 2114 km were completed at a cost of Rs.451.43 crore. To comply with the requirement, the Government instructed (November 2002) the CE to

identify NGOs, Self Help Group for plantation of fruit, medicinal and nutritional trees and their maintenance. The CE did not take any action in the matter. The Government stated (September 2004) that the collectors and the EEs planted trees on some roads and plantation on other roads could not be made for lack of funds.

Power plant wastes were not utilised in construction of rural roads

Further, although the Government made it (September 1999) mandatory to use of waste materials of power plants in roads to be constructed within 100 km of the plant areas to gainfully utilise the waste materials and thereby control environment pollution. The EEs did not utilise the fly ash wastes available from power plants in the rural roads constructed within 100 km of the plant areas. The roads were constructed with conventional soil, the cost of which ranged between Rs.15.88 lakh and Rs.21.30 lakh per km against requirement of Rs.15.63 lakh of plant wastes per km as per norms of RRM of IRC with transportation cost of materials. The Government stated (September 2004) that after completion of Pilot Project (under planning) the same would be extended to other roads.

3.2.24 Unwarranted liabilities under the programme

The GoI provided Rs.708.34 crore between 2000 and 2004 for construction of 1573 roads under three phases. Against the above, 867 roads were completed with expenditure Rs. 451.43 crore as of March 2004. Audit review of the agreements for the remaining ongoing/incomplete 706 roads revealed that liabilities for Rs.82.38 crore were inbuilt in the agreements for payment to the contractors on account of construction of roads with unwarranted higher width and sand core, wrong computation in item rates of GSB, WBM and Bituminous work and non implementation of the conditions of agreements for stack measurement and deduction of voids from metal quantity. The Government was required to review the agreements to avoid the liability and ensure economy in construction of the roads.

Quality Control and Monitoring of the Programme

3.2.25 Quality control issues

Supervision, inspection and quality measures were poor disclosing substandard execution for Rs.5.54 crore

The State Government was responsible for the first two stages of quality control i.e. through PIU and State Quality Monitor (SQM) to ensure that materials utilised and workmanship conformed to the prescribed specifications and that all prescribed tests were carried out at specified time and place. As a third tier of the quality control structure, the NRRDA engaged National Quality Monitors (NQM) for inspection, at random, of the roads with particular reference to quality. In case, the works graded poor or average, the State Government was to ensure replacement of materials or rectification of workmanship. The roads on completion were to be rated as very good.

No dedicated PIUs were functioning for adequate supervision, inspection and ensuring of quality measures. The SQMs and NQMs were retired Engineers with no accountability for the reports submitted by them. There was no evidence of establishment of field laboratories to ensure tests for the materials and specifications. Thus, quality assurances were not ensured.

Roads from Krushnanagar to Gamu in Jajpur district constructed during 2002-04 at a cost of Rs.44.99 lakh was graded poor by NQM due to cracks in concrete and Granular Sub Base (GSB). The EE did not get the defects rectified by the contractor rendering the expenditure of Rs.44.99 lakh wasteful. Besides, 10 roads in Balasore, Gajapati, Jagatsinghpur, Jajpur, Koraput, Kandhamal and Sundargarh districts constructed at Rs.2.90 crore were graded average by NQM due to defective works in shoulder, poor compaction in carriage-way, poor grading, non-testing of materials and non-fixation of logo and km stone.

There was also mismatch between the reports of NQM and the actual status of the work. The Agriculture Production Commissioner and Commissioner-cum-Secretary inspecting (February 2002/July 2003) the roads in Bolangir district observed that the works executed in Sirbahal to Undar (OR-05-03), Karamatal-Trastipali (OR-05-06), PWD road to Kendumundi (OR-05-02) and Kanut-Bharupali (OR-05-11) constructed at a cost of Rs.1.94 crore disclosed damaged surface condition, existence of large number of pot holes/undulations, narrow width and damaged edges. Although no evidence was on record as regards rectification of the defects, NQMs certified these roads as very good disclosing significant mismatch between the reports.

Longitudinal cracks developed in the carriage way of Jharsuguda PWD road to Katikela completed under package No.14-01 at a cost of Rs. 25.43 lakh. The CE directed undertaking repairs by the contractor and also action against the defaulting officers for negligence in supervision. Neither the defects were rectified nor any action was taken against the officers (March 2004). Other 41 roads constructed during 2001-04 in Sambalpur district with expenditure of Rs.43.74 crore were also damaged. The EE attributed (August 2003) the damage to plying of tractors on the roads with iron cage wheels. No report of rectification was available (March 2004). The Government stated (September 2004) that the defects would be got rectified by the contractors.

3.2.26 Poor Monitoring of the programme

Non-functioning of OSRRA as per mandate resulted in lack of operational and management supports to the programme.

The GoI prescribed (December 2000) functioning a Programme Implementation Unit (PIU) manned by competent technical persons entirely directed for co-ordination and implementation of the programme in each district. Further, as per direction (January 2003) of the GOI, Orissa State Rural Roads Agency (OSRRA) was constituted (May 2003) to co-ordinate with National Rural Roads Development Agency (NRRDA) and provide operational and management support to the programme.

No dedicated PIU had, however, functioned in any district. The programme was implemented and overseen by normal working arrangements of RDD. The OSRRA did not function as per mandate due to lack of budget provision and staff. Except for conducting one governing body meeting in July 2003, the OSRRA had not monitored the programme. The poor monitoring and lack of operational and management supports to the programme led to non-completion of the works and non-achievement of defined goals within the specified time frame. The Government stated (September 2004) that the programme was monitored by the SE, CE and State Level Standing

Committee (SLSC). This was not acceptable since the SE, CE and SLSC were to monitor the programme as part of their normal function. However, no dedicated PIU was posted and OSRRA did not function as per mandate to provide operation and management supports.

3.2.27 Conclusions

The PMGSY, a major rural roads programme launched in December 2000 focusing directly on provision of sustainable all weather connectivity to all unconnected habitations with 1000 persons and above by March 2003 did not achieve the objective due to the failure of completion of the roads, existence of missing links on the newly constructed roads, flawed selection and implementation of roads, dropping of roads during construction, poor control over accounts and expenditure, lack of monitoring of the programme and huge over payment and undue payment to contractors. As of March 2004, only 55 *per cent* of the roads taken up were completed and 75 *per cent* of the targeted habitations remained unconnected. Further, 22 *per cent* of the completed roads did not provide connectivity to habitations due to missing links.

Recommendations

- The procedure of prioritisation and selection of roads should be strengthened utilising the updated database available with the Orissa Remote Sensing Application Centre and others.
- The revised accounting procedure prescribed by GoI should be followed.
- Evaluation method of tenders should be improved for selection of suitable agency for completion of work in a time bound manner.
- Quality assurance should also be improved with fixing of responsibility for lapses of quality control.
- The Orissa State Rural Roads Agency (OSRRA) should be made functional to provide required operational and management support to the programme.

The matter was referred to Government (July 2004). Government reply received (September 2004) has been suitably incorporated in the review.

**PLANNING AND CO-ORDINATION, PANCHAYATI RAJ,
SCHOOL AND MASS EDUCATION, HEALTH AND
FAMILY WELFARE AND RURAL DEVELOPMENT
DEPARTMENTS**

3.3 Implementation of welfare schemes in Ganjam district

Highlights

Ganjam district comprises three sub-divisions, 22 blocks and 3171 villages covering an area of 8200 square kilometer with 32 lakh population. Chatrapur is its headquarters and Berhampur, the main commercial centre. The population with a male female ratio 1:1 has 63 *per cent* literacy rate and 55 *per cent* of its population (3.02 lakh families) live below the poverty line (BPL) according to a survey in 1997.

Review of implementation of various welfare programmes relating to poverty alleviation, launch of primary education, drinking water facility and primary health care in the district for the period 1999-2004 revealed the following:

- Employment generated in a year under the poverty alleviation schemes was adequate to cover only a meagre 6.7 *per cent* of the total number of BPL families.
- The literacy rate though had gone up from 47 *per cent* in 1991 to 63 *per cent* in 2001, the teacher-pupil ratio of 1:56 as against the norm of 1:40 affected the quality of education.
- The shortage of doctors and para medical staff affected the delivery of services.
- Drinking water supply remained a problem in the district as urban areas received less water than required. Nearly 15 *per cent* rural habitations were without any water supply system.

✦ Under SGSY, only 10 *per cent* (two *per cent* per annum) of BPL families were covered against the target of 30 *per cent*. The total employment generated in the district through the SGSY/SGRY/IAY schemes covered only 6.7 *per cent* of the BPL families annually on an average.

✦ Under SGSY, expenditure under training to SHGs was just about 1.6 *per cent* of the expenditure instead of required 10 *per cent*. Only 4927 out of 12546 SHGs were imparted first phase orientation training.

* The abbreviations used in this review have been listed in the glossary in Appendix-XXXVI (page 222).

✦ 17145 IAY houses were not provided with sanitary latrines and smokeless chullahs.

(Paragraphs 3.3.3, 3.3.7 and 3.3.8)

✦ There was no record of utilisation of Rs.4.17 crore paid to the headmasters of primary schools for repair works and purchase of school equipment under Sarva Shiksha Abhiyan (SSA).

(Paragraph 3.3.9)

✦ The teacher-pupil ratio stood at 1:56 against the norm of 1:40 in the primary schools of the district. There was 36 *per cent* shortfall in inspection of schools by the Sub-Inspectors of schools due to their non-educational work.

(Paragraph 3.3.10)

✦ Vacancies of 34 doctors and 430 para medical staff in the PHCs/CHCs/District Headquarters Hospital affected health care facilities in the district. Besides, 32 doctors required under the Orissa Health Systems Development Project (OHSDP) were not provided.

(Paragraph 3.3.11)

✦ Under the National AIDS Control Programme, no baseline survey was conducted to identify geographically high risk areas and occupational groups vulnerable to HIV though the district was highly prone to HIV.

(Paragraph 3.3.13)

✦ As many as 934 out of 6329 rural habitations were without any source of drinking water. Testing of water quality of 12446 tube wells (79 *per cent*) sunk during ten years to March 2004 were not carried out; the water quality of 470 of the 3403 tested tube wells was not safe.

(Paragraphs 3.3.15 and 3.3.16)

3.3.1 Audit objective

Audit objective was to assess improvement and impact of Government's initiatives in Ganjam district in the following welfare-related areas which have a direct bearing on the quality of life of the people:

- Poverty Alleviation Programmes viz. Swarnajayanti Gram Swarojgar Yojana, Sampurna Gramin Rojgar Yojana and Indira Awas Yojana;
- Reach of primary education;
- Primary health facilities; and
- Availability of safe drinking water.

3.3.2 Scope of audit and audit criteria

The audit conducted between January and June 2004, included examination of the implementation of the main schemes and activities of the Government in Ganjam district under each of the four selected areas. The audit was based on

a test check of records at the Secretariat and the various implementing agencies in the district and covered a period of five years from 1999-2000 to 2003-04. Information was also collected from third party sources and some beneficiaries were interviewed for generating audit evidence.

Targets set by the Government were taken as audit criteria for judging the achievements under different schemes and activities.

Poverty alleviation programmes

Efficacious implementation of poverty alleviation programmes in the district was the prime responsibility of the district administration through the District Rural Development Agency (DRDAs), the Block Development Officers (BDOs) and the Panchayat Samitis (PSs) and Gram Panchayats (GPs). Of the several poverty alleviation programmes launched in the State, the Swarnjayanti Gram Swarozgar Yojana (SGSY), Sampoorna Grameen Rozgar Yojana (SGRY) and the Indira Awas Yojana (IAY) were the more important ones in the district in terms of coverage and fund flow. The Panchayati Raj Department was in charge of implementation of all the three schemes in the State during the period 1999-2004. The working of the three programmes was evaluated in audit through test check of records of DRDA, Ganjam and six¹⁹ blocks.

The expenditure incurred on the three schemes in the district during the period 1999-2004 vis-a-vis the State as a whole as per the records of the Panchayati Raj Department and the DRDA, Ganjam was as under:

Particulars	SGSY		IAY		SGRY	
	Entire State	Ganjam district	Entire State	Ganjam district	Entire State	Ganjam district
Expenditure (Rupees in crore)	355.75	30.22 ¹⁸ (8%)	441.18	35.20 ¹⁹ (7%)	1613.69	73.78 ²⁰ (4%)
Target Number of beneficiaries (SGSY & IAY)/Mandays in lakh (SGRY)	352073	32728 (9%)	245598	21700 (8%)	2309.27 (lakh mandays)	110.66 (5%) (lakh mandays)
Achievement Number of beneficiaries actually financed under SGSY & IAY/ Mandays under SGRY(in lakh)	328251	28911 (8%)	231476	17145 (7%)	2569.20 (lakh mandays)	116.15 (4%) (lakh mandays)

¹⁹ Aska, Bhanjanagar, Chatrapur, Hinjilikatu, Kukudakhandi and Seragada

¹⁸ SGSY-1999-2000:Rs.2.93 crore, 2000-01:Rs.11.63 crore, 2001-02:Rs.6.08 crore, 2002-03:Rs.4.50 crore and 2003-04:Rs.5.08 crore.

¹⁹ IAY-1999-2000:Rs.6.76 crore, 2000-01:Rs.3.88 crore, 2001-02:Rs.3.25 crore, 2002-03: Rs.10.41 crore and 2003-04: Rs.10.90 crore.

²⁰ SGRY-1999-2000:Rs.16.51 crore, 2000-01:Rs.12.06 crore, 2001-02:Rs.14.88 crore, 2002-03: Rs.15.83 crore and 2003-04: Rs.14.50 crore.

Achievement against target (percentage)	93.23	88.34	94.25	79	111.26	104.96
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Percentages in brackets are with reference to the figures of the entire State

All the three schemes were centrally sponsored schemes. While in both SGSY and SGRY the fund sharing pattern was 75:25 between the Centre and the State, it was 80:20 under the IAY. While SGSY had the objective of promoting self-employment, SGRY was to generate wage employment. The IAY was geared towards providing dwelling houses to the BPL families in the rural areas. In the latter case, there was also a wage component as the dwelling houses had to be constructed by the beneficiaries themselves.

The SGSY aimed at bringing BPL families above the poverty line by ensuring sustainable level of income of at least Rs.2000 per month by organising the rural poor into Self Help Groups (SHGs) and linking them to bank credit as well as Government subsidy for acquiring income generating assets and starting income earning occupation. In SGRY, some durable community assets were to be created and infrastructure developed in the rural areas. The thrust of all the three schemes was to reduce the incidence of poverty by providing wage employment and sustained income to the BPL families so that they could come above the poverty line. The emphasis was on benefitting the SC/ST community and women.

Audit review revealed that the implementation of these programmes had hardly any impact on the targeted population due to their low coverage, deficient employment generation, diversion of training components and negligence towards women as discussed in the succeeding paragraphs.

3.3.3 Low coverage and deficient employment generation

Under SGSY, only 10 per cent of BPL families were covered against the target of 30 per cent

The total employment generated in the district through the SGSY/SGRY/IAY schemes covered only 6.7 per cent of the BPL families annually on an average

The foregoing table showed the achievement under SGRY as 104.96 per cent and that under SGSY as 88.34 per cent. In fact, the percentages were misleading because in the case of SGSY the target itself was a mere 10 per cent of the BPL families (two per cent per annum) against 30 per cent prescribed by the Government of India. Thus, the initial target itself was depressed and the percentage of achievement was highly inflated. Similarly was the case under SGRY because the number of mandays was not calculated on the basis of actual records but derived from the expenditure figures with an assumption that all moneys spent were exclusively for generation of employment. Under SGRY, on an average only 22.14 lakh mandays were created per annum which was sufficient to provide employment to about 8900 persons (at the rate of 250 days) covering barely three per cent of the BPL families per annum. In fact, the total employment generated on an average in a year through the three schemes in Ganjam district was just adequate to cover a meagre 6.7 per cent (SGSY: two per cent, SGRY: three per cent and IAY: 1.7 per cent²¹) of the total number of BPL families in the district. There was, however, no significant reduction in the absolute number of BPL families, which decreased only marginally from 3.02 lakh in 1997 (State

²¹ Considering an average, labour component of 30 per cent of an IAY house and wage of Rs.50 for a worker, IAY houses constructed during five years also possibly provided employment of about 5000 man-years per annum (on a scale of 250 days of employment per annum).

While 42 per cent of SC/ST beneficiaries were covered against the target of 50 per cent under SGSY, the required coverage of 22.5 per cent under SGRY was not ascertainable in absence of records

survey) to 2.93 lakh (NABARD estimate) in 2003-04.

All the schemes were targeted mostly at the weaker sections of the society like the SC/ST communities as well as womenfolk. Only in case of IAY, 60 per cent of the beneficiaries were SC/ST, as stipulated in the scheme. In the case of SGSY, only 42 per cent SC/ST people were covered against the minimum of 50 per cent stipulated in the scheme. In the case of SGRY, the percentage of SC/ST among beneficiaries was not ascertainable in the absence of appropriate records being maintained by the Panchayat Samities.

3.3.4 Income generated under SGSY not monitored

Monitoring of the income generated under SGSY and the employment in mandays generated under SGRY was deficient

Monitoring of the implementation of both SGSY and SGRY was deficient in several respects. For SGSY, even the selection of key activities for the SHGs to be financed by banks was generally made without any detailed techno-economic feasibility studies making them susceptible to unviability and closure. There was no assessment as to whether members of the SHGs actually earned the minimum of Rs.2000 per month after repayment of loan as stipulated under the SGSY. In the case of SGRY, there were no proper records evidencing actual generation of mandays. BDO, Chatrapur stated (September 2004) that the mandays generated were worked out as per the Schedule of Rates for different items of work. BDO, Bhanjanagar stated (September 2004) that the wage component was taken as 60 per cent of the total expenditure and mandays generated reported accordingly to DRDA.

3.3.5 Improper selection of income generating assets

Assets under SGSY/SGRY were created without assessment of their likely utility

In so far as creation of durable assets under both SGSY and SGRY was concerned, the selection of the asset to be created had seldom any link with the wage or income sought to be generated by such investment. In most cases, no details like use of the infrastructure by the beneficiaries, inventory of assets created, benefits derived, maintenance of assets etc. were maintained in the test checked blocks. Thus, any reliable assessment of the benefits accruing to the beneficiaries was not possible.

3.3.6 Lower daily wages to women

Similarly in respect of benefits for women, the daily wage under SGRY was shown as having been paid at the uniform rate of Rs.50 per day for both males and females but interview (September 2004) with labourers at Harijan Sahi in Sundarpur under Chatrapur block revealed that male labourers were generally paid Rs.60 per day while the female workers got only Rs.30. Under IAY, while the houses were to be allotted in the name of the female members of the family or jointly in the names of a male and a female, in Chatrapur and Bhanjanagar blocks as many as 3389 out of 4794 IAY houses were allotted in the name of only male beneficiaries.

3.3.7 Diversion of training components

Under SGSY, expenditure on training to SHGs was just 1.6 per cent of the expenditure

Diversion of the training component of the funds under SGSY for meeting DRDAs administrative costs of the DRDA like salary, travelling allowances etc. seriously jeopardised training of SHGs in skill upgradation. Expenditure on training (Rs.41 lakh) under SGSY was just about 1.6 per cent against 10 per cent of the total expenditure, as stipulated in the guideline. An amount of Rs.44.14 lakh diverted during 1999-2000 in case of IAY could not be checked due to improper and incomplete maintenance of the records.

Only 4927 out of 12546 SHGs were imparted first phase orientation training

The number of SHGs in the district increased from 2770 in 1999-2000 to 12546 in 2003-04. However, first phase orientation training was imparted to only 4927 SHGs of which only 1937 SHGs could be given skill upgradation training.

3.3.8 IAY houses had no basic amenities

17145 IAY houses were not provided with sanitary latrines and smokeless chullahs

Contrary to the guidelines, 17145 new houses allotted under normal IAY during 1999-2004 did not have sanitary latrine and smokeless chullahs though these were essential components of the scheme. As per the scheme, amount of Rs.4.30 crore was to be spent for these items. Their absence deprived the beneficiaries of the basic amenities for maintenance of hygiene.

Advances of Rs.38.11 lakh were outstanding in four blocks against IAY beneficiaries without adjustment

Under IAY, Rs. 38.11 lakh advanced to beneficiaries for construction of houses were outstanding since periods from 1999-2000 to 2002-03 in four blocks as of March 2004. The possibility of misuse or loss of these funds could not be ruled out.

Reach of primary education

11 per cent children in 6 to 14 age group were not attending schools

Laying emphasis on literacy and universalisation of primary education, the State Government aimed for all children to be in schools by 2003. In Ganjam, the number of primary and upper primary schools (upto standard VII) increased from 3118 in 1997-98 to 3343 in 2003-04. The enrolment of children (age group 6-14) in these schools also increased from 3.44 lakh in 1997-98 to 4.99 lakh in 2003-04. An amount of Rs.120.55 crore²² was spent in providing elementary education in the district during 1999-2004. According to Village Education Registers prepared on the basis of household survey in 2002-04, about 0.60 lakh (11 per cent) children were not attending schools.

After the introduction of Sarva Shiksha Abhiyan (SSA), the District Inspector of School (DIS) was made in charge of an education district overseeing the functioning of the schools. There were four such education districts in Ganjam. In addition, there was the District Project Co-ordinator (DPC) looking after the implementation of the SSA and accountable to the State Project Director of the Orissa Primary Education Programme Authority (OPEPA). The SSA, a centrally sponsored scheme, envisaged providing useful

²² 1999-2000 : Rs. 27.50 crore, 2000-01 : Rs.21.98 crore, 2001-02 : Rs.21.11 crore, 2002-03 : Rs.23.92 crore and 2003-04 : Rs. 26.04 crore (DIS, Berhampur : Rs. 34.37 crore, DIS, Bhanjanagar : Rs. 32.82 crore, DIS, Aska : Rs. 31.69 crore and DIS, Chatrapur : Rs.21.67 crore)

and relevant elementary education to all children in the age group of 6 to 14 years by 2010.

Review of the working of SSA and four DIS situated at Berhampur, Chatrapur, Aska and Bhanjanagar revealed several infrastructure related deficiencies, low teacher pupil ratio affecting quality of education as discussed below:

3.3.9 Educational infrastructure

During the last five years, 976 new buildings were constructed under Operation Blackboard raising the total number of schools in the district to 3343 as of March 2004. Of these, 62 schools did not have a building, 76 possessed kutcha buildings and 1846 had partially pucca buildings. In Chikiti, Patrapur and Kukudakhandi blocks, 149 school buildings damaged in the flood of 2003 were in need of repair and two school buildings at Berhampur Municipal area and Brajanagar block were unsafe (September 2004). Though OPEPA provided (December 2002) Rs.20 lakh to the DRDA for repair of 10 damaged school buildings in Berhampur Municipal Area, repairs for five buildings were completed and there was no progress of the work in respect of remaining five buildings as of September 2004.

62 schools were without buildings

Out of total 2827 school premises, 807 (29 per cent) did not have drinking water facility. The goal of providing drinking water facility to all schools under the Rajiv Gandhi Drinking Water Mission remained unfulfilled.

807 school premises do not have drinking water facility

Serving of free mid-day meal in schools was an attraction for children to come to schools. Instead of serving mid-day meals, the children were provided with dry ration of three kilograms every month.

There were many schools in the district without electricity (2563), toilets (1950), girls' toilets (2572), playground (2045) and medical check up (2109) as of March 2004.

There were schools without teaching equipment (937), play materials (1613), Science kits (937) and library facilities (1126).

No follow up action after the payment of Rs.4.17 crore to the schools for repair and replacement of school equipment

At a rate of Rs.5000 per school per annum, the District Project Co-ordinator (DPC), Sarva Siksha Abhiyan (SSA) paid Rs.2.98 crore to 2990 schools for repair work and Rs.1.19 crore to 2980 schools for replacement of school equipment totalling to Rs.4.17 crore during 2002-04. There was no follow up by the DPC regarding the actual utilisation of money. While involvement of village communities was a welcome step, absence of monitoring might lead to misuse of funds going undetected.

Thus, substantial improvement in institutional infrastructure in schools was required.

3.3.10 Quality of education

Teacher pupil ratio

Teacher pupil ratio in the district was 1:56 against the norm of 1:40 and 16 schools did not have teachers at all

Though the enrolment of students in primary/upper primary schools increased from 3.44 lakh in 1997-98 to 5.05 lakh in 2003-04, there was no corresponding increase in the strength of teachers. Against the sanctioned strength of 10157, there were 9091 teachers in position as of March 2004. The teacher pupil ratio worked out to 1:56 as against the norm of 1:40 thereby affecting the quality of education. There were 486 single teacher schools and in one school at Mardamekha (Beguniapada block), a single teacher was teaching 495 students and 16 schools in nine blocks did not have any teacher at all as of March 2004.

Inspection of schools

There was shortfall of 36 per cent in inspection by the Sub-Inspectors of schools

Primary schools were to be inspected annually by sub-inspectors of schools. There was a shortfall of 36 per cent in school inspections during 1999-04. The shortfall was attributed (March-July 2004) by the DIS to engagement of sub-inspectors in non-educational work such as election, enumeration, distribution of old age pension, ration etc. As school inspection was a mechanism to ensure proper functioning of schools, allocation of non-educational work to sub-inspectors at the cost of their regular work was unwarranted.

Low coverage under Education Guarantee Scheme (EGS)

Of the 0.60 lakh out of school children, 0.38 lakh (64 per cent) remained to be brought under EGS

As a part of SSA, the EGS was to provide primary school facility to the children in a habitation where there was no schooling facility within one kilometer. Out of 773 EGS centres approved by the District EGS Committee, only 640 centres were operational in 2003-04 in the district. Out of these, 65 centres were converted into primary and upper primary schools. The remaining 133 centres were yet to be operated and this was attributed (September 2004) by the DPC to intervention of the General Elections (April 2004). Expenditure of Rs.46 lakh was incurred on EGS during 2002-04. Out of 0.60 lakh children out of school, the scheme brought only 0.22 lakh (36 per cent) to EGS centres.

Primary health facilities

The Chief District Medical Officer (CDMO), Ganjam under the State Health and Family Welfare Department was responsible for providing health care services to the district through a network of Government hospitals and community/primary health centres.

Inventory of assets not maintained in the test checked blocks

Audit reviewed the working of the CDMO, Berhampur, one sub-divisional hospital at Chatrapur, one area hospital at Aska and five community/primary health centres at Polasara, Shergada, Kukudakhandi, Balisira and Belgaon with a view to ascertaining the position of delivery of primary healthcare services and implementation of National AIDS Control Programme and National Leprosy Eradication Programme.

3.3.11 Inadequacy in delivery of health care services

One medical college, four district/area/sub-divisional hospitals, five community health centres, five upgraded primary health centres, 100 primary health centres and 444 health sub-centres constituted the network of public health institutions (PHIs) in the district. The expenditure incurred on primary health care during 1999-2004 was Rs.11.50 crore. Besides, upgradation of 16 PHIs was undertaken in Ganjam at a cost of Rs.11.70 crore under the Orissa Health System Development Project (OHSDP) of which upgradation of 12 PHIs was completed up to March 2004.

Vacancy in the posts of 34 doctors and 430 para-medical staff affected the delivery of health services

To run the PHIs (other than the medical college), there were 219 doctors (87 *per cent* of sanctioned strength of 253) in position as of March 2004 along with 1274 para medical staff (75 *per cent* of sanctioned strength of 1704). Another 32 doctors (five specialists Grade-I, 20 specialists Grade-II and seven assistant surgeons) were required for the infrastructure upgraded under OHSDP. No steps had been taken to provide the required manpower to the upgraded PHIs. The shortages were affecting the delivery of health care services.

The work relating to registration of birth and death was not being done satisfactorily by the block medical officers due to large vacancies (255) of paramedical staff. As a result, the CDMO's records showed only 30 infant deaths per 1000 births in 2001 as against the national average of 68 and the State average of 96. On being pointed out that the figure appeared to be unrealistic, the CDMO stated (February 2004) that necessary instructions had been issued to all the institutions for ensuring registration of infant deaths.

3.3.12 Gastroenteritis Epidemics

133 Gastroenteritis deaths due to consumption of contaminated water in ponds and rivers

Almost all blocks of the district were affected by gastroenteritis during the five years under review. On an average, 59 villages were affected every year and 133 deaths were registered during five years. Gastroenteritis attack and consequent deaths were showing an increasing trend²³ during 1999-2004. The CDMO attributed (February 2004) the high number of 45 deaths in 2003 to consumption of contaminated pond and river water during acute summer season and the post flood period. He further stated (September 2004) that emergency health needs were attended to and people were made aware of basics of hygiene as and when epidemics occurred. Despite this, the incidence of death due to epidemics showed an increasing trend indicating that the measures taken were inadequate.

3.3.13 National AIDS Control Programme

Ganjam had high prevalence of HIV positive cases but complete data not available

The National AIDS Control Programme-II (NACP) was being implemented in the State by the Orissa State AIDS Control Society (OSACS) with 100 *per cent* funding from the National AIDS Control Organisation (NACO). An amount of Rs.35.51 lakh was spent in Ganjam district during the five year period of review on various components of the NACP which included holding

²³ 1999: 10, 2000: 28, 2001: 16, 2002: 34 and 2003: 45.

of family health awareness campaigns, training of medical and para medical staff, voluntary counselling and testing and sentinel surveillance. According to the Computer Management Information System (CMIS) data prepared (May 2004) by the OSACS, the prevalence of HIV/AIDS cases in the State and the district was as below:

Particulars	Orissa State		Ganjam District	
	2002	2003	2002	2003
Year	2002	2003	2002	2003
Tests Conducted	2932	4376	388	738
HIV Positive Cases	312	674	122	267
AIDS cases	154*	59	66*	4
AIDS Deaths	20	36	5	4

* Up to 2002

As would be seen from the above table, Ganjam district accounted for about 40 *per cent* of the HIV positive cases in the State. However, the above data did not give a complete picture since the samples tested in the MKCG Medical College and the DHH, Berhampur under sentinel surveillance was not included. Under sentinel surveillance, 52 cases out of 1082 blood samples tested during 1999-2003 in the MKCG Medical College and two cases out of 1200 blood samples screened in the DHH during 2001-03 were found HIV positive.

In 2002, 20 Voluntary Counselling and Testing Centres (VCTCs) were introduced in the State for early detection and treatment of HIV positive cases which included two VCTCs in the district at the Headquarters Hospital (DHH), Berhampur and Microbiology department of MKCG Medical College, Berhampur. However, the accessibility of these centres to the people residing at far off places was difficult. Besides, as per records, the two VCTCs counselled only three persons a day on an average in 2003. Though the DHH collected 400 blood samples every year under the Sentinel Surveillance conducted during 2001-03 from pregnant women who had visited the ante-natal centre of the DHH, the coverage was evidently inadequate as no arrangements were found to have been made for collection of samples from PHCs/CHCs, sub-divisional hospitals and private hospitals located at far off places in the district, nor from the private hospitals situated at Berhampur. Besides, the VCTCs also could not conduct the test in respect of 402 blood samples during 2003-04 due to non-availability of Rapid Kits, which were essential for early detection of HIV positive cases.

Though the sentinel surveillance among the high risk groups in the State showed increase in the prevalence of HIV positive cases in the State from 2.02 *per cent* in 1999 to 2.51 *per cent* in 2003, the district recorded an increase of two *per cent* from 4.80 to 6.80 *per cent* during the same period indicating high proneness of the district to HIV.

Considering the potential danger of spread of AIDS, a “situation mapping” of core groups and bridge groups was essential. An effort to conduct a base line survey for this purpose was made in 11 districts in September 2002 by the

**Appointment of NGO
without any standing
or credibility**

OSACS through a private agency namely AIMS Research. The data and findings submitted by the private agency were, however, not accepted by OSACS since the agency had only given data collected from other Non-Government Organisations (NGOs) without any field survey. An amount of Rs.10.28 lakh being 40 *per cent* of the contract price of Rs.25.71 lakh was however paid to the agency. In fact in December 2002, OSACS indicated that even the whereabouts of the agency were not known at that stage. Subsequently, the same work was entrusted (November 2003) to ORG-MARG. However, till date the size of the core group comprising commercial sex workers (CSW), injected drug users etc. were not properly ascertained.

Another key initiative was to conduct family health awareness camps where people were treated for simple ailments including Sexually Transmitted Diseases etc. and potential cases were referred to VCTCs. It was observed till December 2003 that as many as 3.12 lakh persons (22 *per cent*) out of the estimated 14 lakh population in the vulnerable age group of 15 to 49 years attended such camps.

Treatment not provided

The OSACS could neither furnish information regarding the current health status of the people in the district infected with HIV/AIDS nor any information on the follow up action taken in terms of administration of drugs for opportunistic infections²⁴ and anti-retroviral treatment. In fact, it was learnt during audit that neither anti-retroviral treatment nor any drugs for opportunistic infections was supplied to the infected persons.

Lack of survey regarding awareness

The NACP has been going on for more than five years but apart from the initial base line survey regarding awareness level about HIV/AIDs and its prevention among the rural population, which had been conducted by NACO in 2001-02 for the state, there was no other survey during the subsequent years to ascertain the effectiveness of the programme. According to NACO, awareness among 90 *per cent* of the target group was to be achieved by October 2004 under phase-II of NACP. However, the awareness figures at district level were not available with the OSACS.

3.3.14 National Leprosy Eradication Programme

The National Leprosy Eradication Programme (NLEP) was introduced to eliminate leprosy by the end of the twentieth century. Leprosy elimination was defined as the caseload of one or less per 10000 population. In Orissa, the objective was to achieve elimination by 2004. The NLEP was implemented by the CDMO with the help of the Zilla Swasthya Samiti (ZSS).

In order to detect new cases, an active search was conducted in Ganjam district by health workers with the help of village volunteers in three rounds from 1999 to 2001. This helped in detection of over 4000 new cases. During the five years from 1999-2000 to 2003-04, 20200 new cases were detected and 20785 cases were treated and discharged. Expenditure of Rs.62 lakh was

²⁴ A host of other infections such as Tuberculosis, candidiasis and the diarrhoea which label an HIV infected person as a case of full-blown AIDS. These infections are curable if effective therapy is initiated promptly.

incurred during this period for conducting leprosy elimination campaigns, prevention of disability and distribution of Multi Drug Therapy (MDT). The number of new cases detected annually decreased from 5806 in 1999-2000 to 2115 in 2003-04. The prevalence rate too declined from 10.2 in 1999-2000 to 4.17 in 2003-04. The goal of leprosy elimination, targeted to be achieved by 2003, might be achieved though belatedly through persistent efforts and door-to-door active search.

Safe drinking water supply

Since the progress made by the States in supply of safe drinking water was not satisfactory, Government of India (GOI) re-introduced in 1997-98 the Accelerated Rural Water Supply (ARWS) Programme to provide access to safe drinking water within 1.6 km of all rural habitations. The habitations were planned to be covered under tube wells (TW) / Sanitary wells (SW). This could be augmented by introduction of piped water supply (PWS) schemes in the areas affected by water quality problems or having inadequate quantity of water from TW. The GOI provides hundred *per cent* assistance in the form of grants.

Two Rural Water Supply and Sanitation (RWSS) divisions at Berhampur and Bhanjanagar under the Chief Engineer, RWSS were responsible for rural water supply in Ganjam district. Besides, the District Water and Sanitation Mission (DWSM) set up in October 2000 under the Sector Reform Programme (SRP) also undertook the rural water supply. The responsibility for urban water supply rested with two Public Health Divisions at Berhampur and Chatrapur under the control of the Chief Engineer, Public Health. The working of all these units was reviewed in audit to ascertain the availability of drinking water supply in the district.

The review revealed that the pace of coverage was slow, quality of water was not ensured and quantity of water supply was inadequate as discussed below:

3.3.15 Insufficient coverage of habitations

The amount spent on the rural water supply schemes during 1999-2004 was Rs.25.80 crore against the allotment of Rs.28.59 crore excluding the expenditure incurred under the SRP. Of the above allocations, Rs.28.41 lakh remained parked (since 1999-2000) in Civil Deposit as of March 2004.

The ARWS programme envisaged supply of one spot source for every 250 people by sinking TW/SW while PWS was to be the additional source. The table below provides the details of coverage of habitations in Ganjam district.

Fully covered habitations

Period	Total number of habitations	Covered by TW/SW	Covered by PWS	Covered by both TW and PWS	Total covered	Balance
1 April 1999	5354*	5255	88	88	5255	99
31 March 2004	6329*	5395	337	337	5395	934

Note: A habitation can have more than one TW. The number of TW is given in the succeeding paragraph

* Survey conducted in 1993-94 and 2001-02 by the Chief Engineer, RWSS.

934 habitations remained without drinking water supply

Thus, 934 (15 *per cent*) of the 6329 rural habitations were without any source of drinking water. It could also be seen from the above that only 140 habitations were covered during 1999-2004 averaging 28 habitations per year. Even at double the above rate of coverage, 934 habitations would take more than 16 years to cover. A time bound action plan to provide drinking water to these habitations at the earliest was required.

When a spot source was found defunct in a fully covered habitation, the habitation was classified as Turned NIL (TN) or Turned Partial (TP). Of the 5395 fully covered habitations, 314 (5.82 *per cent*) turned nil and 742 (13.75 *per cent*) were partial. Out of these, 250 TN and 333 TP were repaired/replaced with new ones, leaving 64 TN and 409 TP unattended as of March 2004. No specific time bound plan had been prepared to undertake repairs to these 473 defunct sources.

3.3.16 Quality of water not ensured

470 tube wells constructed at Rs.1.86 crore could not provide safe drinking water

Water quality of 12446 tube wells (79 *per cent*) sunk in 10 years remained untested

The ARWS programme envisaged a system of quality monitoring and surveillance to ensure the potability of water. It was noticed that of the 15849 tube wells sunk in the district during 1993-2004, analytical test of water samples of only 3403 tube wells (21 *per cent*) could be carried out during the said period. The test results indicated that the water discharged from 470 tube wells, intended for 1.18 lakh population, was not safe for drinking due to either excessive iron content (in 435 TWs) or chloride content (in 35 TWs). Thus, 470 TWs constructed at Rs.1.86 crore (at the rate of Rs.39500 per TW) could not provide safe drinking water. Though the affected people were to be provided with safe drinking water under the "Sub-mission project²⁵", only seven PWS were taken up covering 0.38 lakh population of which three were completed as of March 2004 covering 0.18 lakh population. Thus, quality of water in respect of 12446 TWs meant for the rest of the population remained untested as of March 2004. As is evident from above, the water testing was grossly inadequate as it was done on the samples from only 21 *per cent* of tube wells in a decade. The safety of water from 79 *per cent* of the tube wells was yet to be confirmed although the water from these TWs were being consumed by the people.

3.3.17 Inadequate supply of drinking water

The requirement of water was 40 litres per day per individual. With normal output of 12 litres per minute, one hand pump was to cater to 250 persons. Accordingly, habitations were identified for supply of drinking water. The table below provides details of total TW/SW available in the district.

Period	Tube Wells (TWs)	Sanitary Wells (SWs)	Total
As on 1 April 1999	12621	115	12736
As on 31 March 2004	15849	251	16100

²⁵ Projects intended to supply safe drinking water to the habitations affected by quality of water like fluoris, arsenic, brackishness, excess iron etc.

During the five years, 3364 new TW/SW were sunk but 1147 TW/SW meant for 2.87 lakh population became defunct. Thus, there was a net addition of 2217 TW/SW. As pointed out in the foregoing paragraphs, the TW/SW sunk so far did not cover 934 habitations. Besides, water shortages were experienced due to depletion in water levels in summer leading to consumption of contaminated water from ponds. Neither any statistics relating to habitation-wise actual water shortage nor any plan for its elimination was available.

The table below provides the details of Piped Water Supply (PWS) projects in the district.

Period as on	Number of completed projects	Number of habitations covered	Population covered
1 April 1999	36 PWS	88	1.60 lakh
31 March 2004	275 PWS	337	6.34 lakh

Note: Includes PWS projects undertaken under Sector Reform Programme.

During the five year period, the coverage of population through PWS increased substantially from 1.60 lakh to 6.34 lakh people (nearly 25 per cent of rural population²⁶). An amount of Rs.31.16 crore (SRP: Rs.17.22 crore and RWSS Divisions: Rs.13.93 crore) was spent on 239 newly completed PWS. Another 33 PWS projects intended to benefit 1.32 lakh people were at various stages of completion as of March 2004.

It was further observed that nine fully completed PWS projects (Rs.1.20 crore) covering 0.31 lakh population were not commissioned for a period ranging from two to 14 months as of March 2004 due to non-energisation of pump houses though the amounts were deposited with the electricity distribution company.

3.3.18 Sector Reform Programme (SRP)

The District Water and Sanitation Mission (DWSM), Ganjam was registered as an NGO under the Societies Act in October 2000 to implement the SRP. The reforms under the SRP were moving towards a decentralised, demand-responsive²⁷, cost-sharing and community-friendly system.

Implementation of the project under SRP required the beneficiaries to share a part (at least 10 per cent in case of general and five per cent in case of SC/ST habitation) of the capital cost. A sum of Rs.25.44 crore (GOI grant: Rs.22.44 crore, beneficiaries' share: Rs.2.40 crore and interest: Rs.0.60 crore) was received by the DWSM between year 2001 and 2003 against which Rs.24.91 crore were spent on start up, IEC²⁸, human resources development, hardware (PWS/TW/SW) and administration. As of April 2004, all the 184 piped Water Supply schemes taken up by DWSM were completed covering a population of 2.52 lakh.

²⁶ Out of 32 lakh total population of the district, 6.10 lakh were coming under urban population and the rest 25.90 lakh belonged to rural population.

²⁷ On demand by public

²⁸ (IEC) : Information, Education and Communication

Audit team visited two villages where PWS schemes were implemented by the DWSM. The PWS scheme at Balibagada was completed at a cost of Rs.7.94 lakh (community contribution: Rs.0.80 lakh) and another at Turum at a cost of Rs 15.07 lakh (community contribution: Rs.1.56 lakh). The villagers were found satisfied with the drinking water facility made available to them under the SRP. The SRP, being demand driven and based on community participation, ought to be a promising solution to the water supply problem.

3.3.19 Urban water supply

Urban area in Ganjam district comprised one municipality and 17 notified area councils with approximate population of 6.10 lakh as of March 2004. The responsibility for water supply to urban areas rested with the two Public Health Engineering Divisions at Berhampur and Chatrapur. The divisions incurred an expenditure of Rs 42.14 crore on urban water supply during 1999-2004. The drinking water in 18 ULB areas was supplied through PWS schemes (household water connections and public stand-posts) and TW. The number of stand-posts had gone up from 2817 in April 1999 to 3062 in March 2004. The corresponding figures for TW stood at 1424 and 2088 respectively.

It was observed that out of 18 ULBs in Ganjam district, 14 ULBs with a total population of 5.8 lakh were not supplied with minimum water as per the norms of GoI. Against the minimum requirement of 742 lakh litres of water per day, these 14 ULBs²⁹ were provided with 466 lakh litres (nearly 63 per cent of the requirement) of water. The divisions attributed (June 2004) the shortfall to inadequate water source and infrastructure. The Chatrapur division had taken up (2001-02) augmentation work of water supply in three out of 14 ULBs (Hinjalicut, Khallikote and Rambha) at a cost of Rs.2.94 crore. However, no such steps were taken under the Berhampur division. Adequate action had not been initiated to recover arrears of water tax of Rs.94 lakh from water connection holders in the urban areas.

Augmentation of water supply works taken up only in three out of 14 ULBs

3.3.20 Conclusions

Problem of poverty was mainly tackled through SGSY and SGRY schemes, supplemented by provision of durable shelter through IAY scheme. While the IAY has been successful in providing houses to over 59000 BPL families out of a total of about three lakh such families, the total average employment generated in a year through these three schemes was just adequate to cover a very meagre 6.8 per cent (SGSY: two per cent, SGRY: three per cent and IAY: 1.8 per cent) of the total number of BPL families. Of this, two per cent employment under SGSY was such that once a family crossed the poverty line it could be self-sufficient. There was no significant reduction in the absolute number of BPL families. In addition to this, the implementation and follow-up of these schemes had several deficiencies and needed substantial improvement.

²⁹ (i) Berhampur municipality, (ii) NACs : Aska, Belguntha, Buguda, Chikiti, Digapahandi, Gopalpur, Hinjalicut, Khallikote, Kodala, Kabisurya Nagar, Polosora, Purusottampur and Rambha

The literacy rate in Ganjam had gone up from 47 *per cent* in 1991 to 63 *per cent* in 2001. With 89 *per cent* children attending the regular schools, the literacy rate was bound to rise. However, the available infrastructure needed substantial improvement and the teacher-pupil ratio needed improvement.

The shortage of doctors and para medical staff affected the delivery of health services. While the basic health care activities such as attending to patients, immunisation etc. were taken care of, the implementation of certain health programmes i.e., creating more awareness among the population to get tested for AIDS, conducting more sputum examinations for detection of undetected TB cases, preparation of basic data by actual survey on prevalence of blindness etc. needed substantial improvement.

The supply of drinking water still remained a problem area in the district. Urban areas received less water than required. Nearly 15 *per cent* rural habitations did not have water supply system. Only 25 *per cent* population of the habitations covered under water supply system had PWS, the remaining 75 *per cent* depended on TW/SW where the safety aspect of the water was not ensured.

Recommendations

- Under Swarnajayanti Gram Swarojgar Yojana, the Self Help Groups are to be imparted training within a time frame and infrastructure should be created with assessment of utility.
- In the primary schools, the teacher pupil ratio needs to be improved from the present 1:56 to 1:40. Educational infrastructure needs to be strengthened by providing pucca buildings to the schools.
- Health workers are to take steps to motivate the vulnerable age group to attend camps for detection of AIDS. Survey should be conducted to ascertain data on the prevalence of blindness.
- Drinking water supply to the new habitations needs to be speeded up. Testing of water quality of the tube wells needed to be ensured before water consumption started.

The matter was demi-officially referred (July 2004) to the Principal Secretaries/Secretaries of the concerned departments. Reply had not been received (November 2004) except from the Planning and Co-ordination Department.

Industries and Textile and Handloom Departments

3.4 Development of village and small industries including handloom sector

Highlights

The audit review on “Development of Village and Small Industries including Handloom Sector” for the period 1999-2004 revealed that the overall performance in the identified sectors was not as per expectations. There were considerable savings compared to the budgetary provisions (42 per cent). A notable feature was that capital investment and loans to the two sectors from the State Government was practically absent. Out of the 50478 trained persons under the Prime Minister's Rozgar Yojana (PMRY), 17032 could not set up any industrial units. There was marked lack of coordination among the District Industries Centres (DIC), the commercial banks and the entrepreneurs in implementation of the PMRY. 262 registered Small Scale Industries (SSI) units were closed during the period. Besides, there was loss of employment for about 3.32 lakh persons due to closure of primary co-operative societies under the cottage industries sector and primary weavers' co-operative societies under the handloom sector.

- ◆ **Against the budget provision of Rs.321.45 crore for the two Departments together for the period 1999-2004, the expenditure was only Rs.186.77 crore, indicating a saving of 42 per cent. Expenditure under capital (Rs.0.38 crore) and loan (Rs.0.84 crore) sections mainly targeted at the cooperative sector, was negligible.**

(Paragraph 3.4.6)

- ◆ **Under the Prime Minister's Rozgar Yojana (PMRY), 50478 persons were trained during 1999-2004 of which 17032 trained persons including 4551 granted with bank loans could not set up any industry. Recovery of loans under the PMRY was unsatisfactory. There was very inadequate coordination among the DICs, the banks and the entrepreneurs.**

(Paragraphs 3.4.8)

- ◆ **Single window clearance system called SILPASATHI claimed by the Director of Industries to have been implemented was not found to be actually working in any of the five test checked districts.**

(Paragraph 3.4.9)

- ◆ **The IDCO failed to develop three Integrated Infrastructure Development Centres sanctioned in 1993-94 at a cost of Rs.16.45 crore to be shared among GOI (Rs.5.98 crore), State Government (Rs.1.75**

*The abbreviations used in this review have been listed in the Glossary in Appendix-XXXVI (page 222)

crore) and the IDCO(Rs.8.72 crore). Despite funds being available, the total expenditure on the scheme was only Rs.1.19 crore as of March 2004. The work at Paradip could not be taken up because of land dispute.

(Paragraph 3.4.13)

◆ As of March 1999, there were 706 Primary Co-operative Societies in the Handicraft and Cottage Industry sector of which 349 were not functional (March 2004) and there was no addition to the number of such Societies during 1999-2004.

(Paragraph 3.4.14)

◆ Under Gramodyog Rojgar Yojana expenditure of Rs.3.29 crore given to 845 units as margin money assistance was infructuous as these units were non-functional.

(Paragraph 3.4.16)

◆ During 1999-2004, 240 out of 828 working Primary Weavers' Co-operative Societies became defunct and 0.22 lakh weavers lost employment in the co-operative sector. The budget provision of Rs.15 crore in 2003-04 for reviving the State level Apex Co-operative Weavers Society was not spent at all which affected the clearance of dues of the Primary Weaver's Co-operative Societies leading to the former going out of business in many areas.

(Paragraph 3.4.19)

◆ Marketing development assistance amounting to Rs.0.85 crore and marketing incentive amounting to Rs.2.78 crore were not released by the State Government in favour of the Sambalpuri Bastralaya Handloom Co-operative Society. Consequently, the Society was unable to provide full time work to 6000 'A' class members and 9000 other weavers in the affiliated Primary Societies.

(Paragraph 3.4.20)

3.4.1 Introduction

The village and small industries sector in Orissa has the potential for employing a large number of people with small capital investment. The emphasis in the State during the Ninth Plan was on promotion and development of ancillary and downstream industrial complexes and generation of employment. The main programmes were the Prime Minister's Rozgar Yojana, facilitating single window clearance of proposals for starting SSI units, creation of infrastructure and various schemes of subsidy and assistance for promotion of village and small industry. While the development of the village and small industries sector was administered by the Industries Department, the administration of the textile and handloom sector was under the Textile and Handloom Department.

3.4.2 Objectives of the Department

The development of village and small industries sector in Orissa was guided

by the Industrial Policy Resolutions (IPR) adopted by the State Government from time to time. The policy, among other things, aimed at promotion of Village and Small Scale Industries by creating infrastructure for Small Industries and other incentives such as margin money assistance, subsidies, marketing assistance, etc.

3.4.3 Organisational set-up

For development of village and small industries, the Industries Department was supported by three Heads of Department namely, the Director of Industries, the Director of Export Promotion and Marketing and the Director of Handicraft and Cottage Industries. The Director of Industries, Orissa was responsible for implementing the Industrial Policy through the District Industries Centres (DICs). The Director of Export Promotion and Marketing was the nodal agency to render necessary assistance for increasing exports and for providing marketing assistance to the SSI units of the State. Marketing assistance was rendered by way of registration of the industrial units, conclusion of rate contracts for Government supplies, assuring the quality of the products manufactured by the industrial units through periodical inspection and testing of samples.

In the Textile and Handloom Department, the Director of Textiles and Handloom was in charge of implementing the Industrial Policy of the Government assisted by the Deputy Directors and Assistant Directors of Textiles and Sericulture at the field levels.

3.4.4 Audit objectives

Audit was conducted to ascertain:

- Whether the programmes undertaken for each of Small Scale Industries, Handicraft and Cottage Industries and Handloom sectors by the Government were executed efficiently and economically; and
- Whether they were effective in actually promoting entrepreneurship and generating employment through creation of more SSI and handloom units.

3.4.5 Audit coverage

The review was conducted (September 2003 to June 2004) through test check of records of the Industries as well as the Textiles and Handloom Department, the Directorate of Industries, the Directorate of Handicraft and Cottage Industries, the Directorate of Export Promotion and Marketing, Orissa, Khadi and Village Industries Board and the Directorate of Textiles and Handloom for the period 1999-2004.

The test checked units comprised five District Industries Centres (DICs) at Bolangir, Kalahandi, Balasore, Cuttack and Rourkela, three District Cottage Industries Offices (DCIO) at Bolangir, Cuttack, Puri, three Assistant Directors of Textiles (ADT) at Cuttack, Kalahandi and Koraput, five Development Officers of Khadi and Village Industries attached to the DICs, the Orissa State Financial Corporation (OSFC), Cuttack, the Orissa Small Industries

Corporation (OSIC), Cuttack, two Assistant Directors of Sericulture at Kalahandi and Koraput, the Deputy Director of Textiles (KBK), Koraput and the Joint Director, Sericulture, Koraput.

3.4.6 Budget and expenditure

Over the five year period 1999-2004, the budget provision made and expenditure incurred by the State Government for development of the village and small industry and the handloom sectors were as shown below:

Year	Budget Provision			Expenditure			Savings			Percentage of saving
	Industries	Textile and Handloom	Total	Industries	Textile and Handloom	Total	Industries	Textile and Handloom	Total	
1999-2000	22.23	28.32	50.55	20.11	26.53	46.64	2.12	1.79	3.91	7.73
2000-01	29.34	33.96	63.30	22.42	11.58	34.00	6.92	22.38	29.30	46.29
2001-02	22.47	44.02	66.49	20.51	11.54	32.05	1.96	32.48	34.44	51.80
2002-03	28.15	29.53	57.68	19.88	10.78	30.66	8.27	18.75	27.02	46.84
2003-04	26.29	57.14	83.43	23.11	20.31	43.42	3.18	36.83	40.01	47.96
Total	128.48	192.97	321.45	106.03	80.74	186.77	22.45	112.23	134.68	41.90

(Rupees in crore)

There was lack of capital support for the SSI and Handloom sectors

There were huge savings in the budgets of the two Departments ranging from 46 to 52 per cent since 2000-01. The other notable feature was that the provision of capital expenditure in the two Departments during 1999-2004, which was mostly for investment in the co-operative sector, was only Rs.0.72 crore and the expenditure incurred was Rs.0.38 crore. Provision for loans was Rs.2.51 crore of which only Rs.0.84 crore was actually spent signifying the lack of capital support for the SSI and the Handloom sectors from the State Government during the period.

UCs for Rs.9.62 crore in respect of grants-in-aid not received from grantees

The actual utilisation of funds disbursed from the budget for the benefit of the industries was even less than what is reflected in the foregoing table since utilisation certificates (UCs) of grants released earlier have been pending for a long time from the grantees as of March 2004; the details were as given below.

Name of the Directorate	Pending UCs as on 1 April 1999	Grants paid during 1999-2004	UCs due from the grantees	UCs received up to March 2004	Pending UCs as on 31 March 2004
(R u p e e s i n c r o r e)					
Industries	2.99	2.57	5.56	1.98	3.58
Handloom	2.91	16.20	19.11	13.36	5.75
Handicraft and Cottage Industries	1.43	0.73	2.16	1.87	0.29
Total	7.33	19.50	26.83	17.21	9.62

Analysis of pending position of UC revealed that out of Rs.9.62 crore, Rs.3.36 crore related to the period prior to April 1999.

3.4.7 Programme Management --- Small Scale Industries Sector

Despite various intensive schemes provided under the IPRs, 9964 (45 per cent) out of 22336 SSI units were closed

The current initiatives of the State Government in development of small scale industries consisted mainly in implementing the PMRY, providing assistance to SSI units through the OSIC, rehabilitation of sick units, providing

In the test checked districts, 3439 (47 per cent) out of 7253 SSI units were closed as of March 2001

infrastructural facilities and facilitating single window clearance of proposals to start SSI units. Despite the incentive schemes and other programmes and the tax exemption given under the earlier IPRs, the overall picture of the SSI sector did not improve. As of March 2001, out of 22336 permanently registered SSI units in the State, 9702 (43 per cent) were closed. Another 262 units closed between April 2001 and September 2003, as intimated (June 2004) by the Director of Industries. In the five selected DICs, it was checked during audit that out of 7253 SSI units in these districts, 3439 (47 per cent) were closed as of March 2001. The reasons cited (November 2003-June 2004) by the Directorate and the DICs for closure of the SSI units were:

Lack of raw materials and adequate marketing facilities, lack of managerial ability, setting up industries in unsuitable areas and without proper planning and failure to change product line as per market requirement.

The reasons given above indicated the failure of the Department to provide the necessary direction, guidance and assistance to the SSI units. The specific audit findings on these schemes are given in the following paragraphs.

3.4.8 Prime Minister's Rozgar Yojana

The Prime Minister's Rozgar Yojana (PMRY), a Central Plan Scheme was introduced in the State during 1993-94 for providing opportunities to educated unemployed youth to set up their own enterprises.

As per PMRY guidelines, immediately on receipt of targets from the Central Government, the State Government would convey district-wise targets to each District Industries Centre (DIC). Task Forces were constituted in the DICs to invite applications from eligible persons through advertisement in local newspapers, approve and recommend the applications to the Banks for sanction and disbursement of loans. The nodal banks after sanction of projects in respect of beneficiaries intimated the DICs for imparting training to the beneficiaries. For training activity Rs.750 per beneficiary was earmarked.

Project cost up to Rupees one lakh was covered under the scheme in case of individual beneficiaries. The assistance from the Government of India (GOI) was up to 15 per cent of the project cost subject to ceiling of Rs.7500 per beneficiary. The scheme was monitored by the district PMRY Committee at the district level. At the State level, the scheme was monitored by the State level PMRY Committee.

Under PMRY scheme, of the 50478 persons trained, 17032 including 4551 persons who had been granted bank loans could not set up any industry

During the period 1999-2004, 68850 entrepreneurs were targeted for self employment. Against this target 50478 (73 per cent) were trained upto August 2004 at the cost of Rs.3.09 crore of which only 33446 were actually self employed leaving 17032 trained personnel (trained at a cost of Rs.1.28 crore) unemployed.

Lack of co-ordination among implementing agencies

Out of 50478 PMRY trained entrepreneurs, 37997 were disbursed loan of Rs.234.88 crore of which only 33446 entrepreneurs could set up their units.

The amount of loan disbursed to the remaining 4551 persons who could not set up any unit was not available with the Director of Industries. No step was taken by the Director to ascertain the particulars of the units actually set up. In five districts (Balasore, Bolangir, Bhawanipatna, Cuttack and Rourkela) whose records were test checked, it was observed that during the period 1999-2004, 15743 entrepreneurs were targeted for self-employment against which 11571 were trained (74 per cent) at a cost of Rs.86.78 lakh of which only 6973 were actually self employed. The remaining 4598 trained personnel (trained at a cost of Rs.34.48 lakh) could not set up their industries. The gap between the number of persons trained and the units set up was attributed by the DICs to non co-operation of the Banks.

In Bolangir and Bhawanipatna, against 120 district level PMRY Committee meetings, only 20 were actually convened

Non-availability of information with the Government and lack of co-operation between banks and DICs indicated that despite Government directive, the State level and District level PMRY Committees were unable to secure satisfactory co-ordination among the implementing agencies. As was seen in the DICs of Bolangir and Kalahandi, the District level Committees did not meet regularly. Against 120 District Level PMRY Committee meetings due to be convened during 1999-2004, only 20 (Bolangir: 5 and Kalahandi: 15) were held.

Misutilisation of funds and loss of Government subsidy

The State Government (Home Department) desired (February 2000) the banks to register FIRs with police against the borrowers who misutilised the PMRY loan.

Infructuous expenditure of Rs.1.93 crore on training of 17032 persons and misutilisation of subsidy

The Director of Industries stated (June 2004) that during 1999-2004, 865 FIRs were lodged with police for misutilisation of PMRY loans. The amount of loan and Government subsidy involved in misutilised PMRY loan cases were not available with the Directorate. At the maximum rate of Rs.7500 per unit, the amount of GOI subsidy involved in 865 cases would be Rs.65 lakh. In the five test checked DICs, the actual loss of GOI subsidy in 53³⁰ cases was found to be Rs.3.98 lakh. The fact of misutilisation of funds was never reported to the GOI.

The expenditure of Rs.1.93 crore on training of 17032 persons who did not set up any enterprise (Rs.1.28 crore) and subsidy on the misutilised loans (Rs.0.65 crore) turned out to be infructuous.

Tardy recovery of PMRY loans

During the period 1999-2004, the total amount of loan disbursed under the scheme was Rs.234.88 crore. The recovery from the borrowers was, however, not satisfactory. In fact, in June 2001, the Government of India expressed concern over the tardy recovery of PMRY overdue loans. Accordingly, the State Government desired (June 2001) the Collectors to undertake joint drive with the General Managers of DICs, the Branch Managers of the commercial

³⁰ Bolangir : Nil, Balasore : 12 (Rs.0.90 lakh), Bhawanipatna : 13 (Rs.0.98 lakh), Cuttack : 27 (Rs.2.03 lakh) and Rourkela : 1 (Rs.0.07 lakh).

banks and the concerned Tahsildars to improve the recovery position. The position of overdue loans as of March 2004 was not available in the Directorate due to non-submission of information by the bank authorities. Information about the number of assets created out of PMRY loans and their hypothecation to the banks during the period 1999-2004 was also not available with the Directorate.

In reply to the audit query regarding tardy recovery of bank loans and non-availability of information regarding assets created, the Director replied (September 2003) that the shortfall in setting up the targeted number of enterprises and failure to train the targeted number of potential entrepreneurs were due to following reasons:

- Non-extension of cut off date by the Government of India for disbursement of PMRY loan; and
- Non-co-operation of the banks in sanction and payment of loans to beneficiaries and non-furnishing of information regarding the status of the loanes.

The reply underscored the failure of the programme management to effectively co-ordinate between the banks and the entrepreneurs for the successful implementation of the programme.

3.4.9 Non-functioning of SILPASATHI at the district level

In order to create and foster entrepreneurship, it is essential to ensure expeditious clearance of proposals submitted by the promoters of Industries. Therefore implementation of the single window concept is a must since this makes for faster project clearance and single point dissemination of project related information to help prospective entrepreneurs take expeditious investment decisions.

Under “single window clearance”, a contact point “SILPASATHI” was to be created in the Directorate of Industries and in each District Industries Centre by March 2002, according to the IPR 2001. It was also to provide escort services, if needed, for interaction with various agencies and authorities.

Test check of records revealed that while the SILPASATHI was functioning in the Directorate, the same was not created in the four³¹ test checked DICs (March 2004). In the remaining test checked DIC (Balasore), although SILPASATHI was created, it was not functioning. This indicated the absence of single window clearance at the field level. The Director of Industries stated (September 2003) that “SILPASATHI” was functioning in all the DICs as well as at the Directorate level. But the reply of the Directorate was not correct in view of the above position confirmed by the test checked DICs in March-June 2004.

3.4.10 Negligible disbursement of Capital Investment Subsidy

The single window clearance system for SSIs “Silpasathi” was not functioning in any of the five test checked districts

³¹ Bolangir, Bhawanipatna, Cuttack and Rourkela

Capital Investment Subsidy (CIS) was provided to the SSI units out of State funds at rates varying between 10 and 30 *per cent* in case the project cost did not exceed Rs.5 crore. It was gathered from the Orissa State Financial Corporation (OSFC) that 306 SSI units were sanctioned CIS of Rs.9.47 crore during 1999-2004. But the Government made budget provision for only Rs.1.68 crore for the purpose and actually paid only Rs.0.37 crore to OSFC for disbursement. The OSFC stated (December 2003) that non-payment of CIS adversely affected the viability of SSI units.

3.4.11 Marketing Assistance

Under the marketing assistance scheme, the Orissa Small Industries Corporation (OSIC) provided marketing assistance to small scale industries by procuring bulk order from different Government departments and others and getting these executed through the SSI units. The OSIC was also required to procure and supply scarce raw materials to the SSI units.

The State Government sanctioned and paid (March 2001) to OSIC assistance of Rs.10 lakh (marketing assistance: Rs.5 lakh and raw material bank: Rs.5 lakh). It was however observed that not a single SSI unit was supplied with scarce raw material during 1999-2004 in spite of availability of funds.

Not a single SSI unit was supplied with scarce raw material by the OSIC during 1999-2004

As per information made available to audit by the Director of Industries, there were 12634 registered SSI units working in the State as of 31 March 2001, out of which 44 (0.35 *per cent*) units were given purchase orders of the State Government through OSIC during the year 2000-01. The number of SSI units with whom the orders were placed during the subsequent years were also meagre (56, 94 and 93 in the years 2001-2004 respectively) in comparison with the total number of working registered SSI units.

3.4.12 Assistance to viable sick SSI units

According to the IPRs 1996 and 2001, the viable sick SSI units were to be provided with incentives and other facilities by the Government on the recommendation of the State Level Inter Institutional Committee (SLIIC) or the State Level Empowered Committee (SLEC). Accordingly, during 1999-2004, 34 SSI units were identified as sick, of which 10 viable sick SSI units were sanctioned rehabilitation package on the basis of the recommendations of SLIIC/ SLEC. But only three units were disbursed rehabilitation package in the shape of margin money assistance of Rs.1.41 lakh and soft loan assistance of Rs.12.62 lakh.

Of the 34 SSI units identified as sick, 10 viable sick units were sanctioned rehabilitation package and only three units actually received assistance

The OSFC stated that the reasons for non-disbursement of rehabilitation package was non-complying with the conditions of the SLIIC sanction orders. The Public Accounts Committee (2000-2001) in their tenth report directed the Industries Department to extend all co-operation to SSI units in solving their basic problems but the Department failed to assist SSI units in complying with the conditions of the SLIIC sanction orders.

3.4.13 Delay in establishment of Integrated Infrastructure Development Centres

The GOI approved (1993-94) the establishment of three Integrated Infrastructure Development Centres (IIDC) at a cost of Rs.16.45 crore at Khurda, Paradip and Rayagada to be executed by the Industrial Infrastructure Development Corporation (IDCO) for completion by November 2000. The objective was to promote clusters of small scale and tiny units with a view to providing technological back up service and creation/upgradation of infrastructural facilities like power, water, communication etc. Under the funding arrangement, while the GOI was to finance Rs.5.98 crore, the State Government and the IDCO were to finance Rs.1.75 crore and Rs.8.72 crore respectively.

Test check of the records of the Director of Industries revealed that the GOI released (1997-99) Rs.2.99 crore to the IDCO for the purpose. The IDCO incurred a total expenditure of only Rs.1.19 crore (Khurda: Rs.0.83 crore and Rayagada: Rs.0.36 crore) as of March 2004; the centre at Paradip was not taken up due to land dispute. The remaining GOI grant of Rs.1.80 crore was kept unutilised and the projects remained incomplete (March 2004).

There had been negligible progress in establishment of three IIDCs for over a decade

As stated by the IDCO and endorsed by the Government (May 2004) the delay was due to general industrial slump and slow pace of industrialisation. The reply was not acceptable since the infrastructure development was undertaken to accelerate the pace of industrialisation and funds were never a constraint; besides, the acquisition of land at Paradip was still in process. Due to delay in implementation of the project in time, the balance of GOI funds was yet to be received (May 2004).

3.4.14 Programme Management-Handicraft and Cottage Industries Sector

The Industrial Policy of the State Government laid emphasis on strengthening of the rural economy through Village and Cottage Industries, Handloom and Handicraft. As per IPR 2001, incentives such as cluster approach for artisans, craft village and marketing support were required to be provided by the Director, Handcraft and Cottage Industries to the Handicraft, Coir and Salt Co-operative Societies.

It was observed in audit that during 1999-2004, only a small part of the budgetary provisions for the schemes to benefit this sector was spent as indicated below.

(Rupees in lakh)

Scheme	Budget provision	Expenditure
Construction of showroom-cum-Godown	17.25	5.00
Grants to coir co-operatives	12.20	0.58
Rebate on sale of handloom products	26.65	4.08

Of the 706 primary co-operative societies, 349 were defunct

As of March 1999, there were 706 primary co-operative societies in this sector and by March 2004, 349 were defunct due to inadequate sanction of funds despite budget provision. This affected an estimated number of 0.26 lakh

artisans. There was no addition to the number of primary co-operative societies during 1999-2004.

3.4.15 Loss of grant by the Orissa Khadi and Village Industries Board under Gramodyog Rozgar Yojana

Keeping in mind the expectations of various sections of rural population, the scheme of margin money assistance to village industry projects, named Gramodyog Rozgar Yojana (GRY) was introduced by the Khadi and Village Industries Commission (KVIC) in 1996-97.

Due to failure in utilisation by OKVIB, Grants-in-aid of Rupees one crore was refunded to KVIC

For implementation of the scheme in the State of Orissa, KVIC paid (December 1996) Rs.3.85 crore to the Orissa Khadi and Village Industries Board (OKVIB) as grant for utilisation by 31 March 1999. But due to non-finalisation of the modus operandi, the scheme was not implemented in the State till March 1999. As per the utilisation certificate, OKVIB spent Rs.2.76 crore as of March 2003. As OKVIB failed to utilise the entire grant within the stipulated time, KVIC wanted (February 2001) refund of the unutilised amount. Accordingly, Rupees one crore being the unutilised grant was refunded by OKVIB to KVIC (December 2002). Thus, due to tardy execution of the scheme, there was a loss of Rupees one crore of Central grant.

One reason for the tardy execution of the scheme was deficiency in the follow up on the applications for loans sponsored to various banks by OKVIB. The number of applications for margin money assistance pending sanction as of March 2004 could not be made available to audit. However, from the papers relating to the activities of OKVIB by the Chief Minister in October 2003, it was seen that 2260 loan applications were pending with different banks for sanction as of March 2003. The Board attributed non-sanction of loans to the rigid attitude of the bankers.

3.4.16 Infertuous expenditure on margin money assistance

Infertuous expenditure of Rs.3.29 crore on margin money assistance to 845 non-working units

For implementation of GRY in the State, OKVIB received Rs 6.01 crore from KVIC up to March 2004. Rupees one crore out of this was refunded, as mentioned in paragraph 3.4.15 above. The balance of Rs.5.01 crore was reported to have been spent by OKVIB towards margin money assistance for 1285 beneficiaries as of 31 March 2004. As reported (2002-04) by OKVIB to KVIC, all the 1285 beneficiaries had set up their units. The Annual Report for 2002-03 of the OKVIB however revealed that 845 units were not functioning as of March 2003. Considering that a sum of Rs.5.01 crore was spent as margin money assistance for 1285 units, the amount of such assistance in respect of the non-working 845 units worked out to Rs.3.29 crore on pro rata basis and this amount of expenditure turned out to be infertuous.

In Cuttack and Kalahandi district, 17 units which received margin money of Rs.3.46 lakh were actually non-existent

Test check of the records of the Development Officer, Khadi and Village Industries, Cuttack (December 2003) and Kalahandi (April 2004) revealed that 17 units (Cuttack: 14 and Kalahandi: 3) that received margin money assistance of Rs.3.46 lakh through the banks during 2002-04 were actually non-existent. Steps taken by OKVIB to get back the margin money were not on record.

3.4.17 Programme Management --- Handloom Sector

Handloom products of Orissa have earned a distinct position in the market both within and outside the State and provide employment to a large number of rural artisans. The focus of the State Government in the case of the handloom sector was on ensuring improved earning for the weavers in the organised sector particularly in the co-operative sector. The audit findings in this respect are discussed in the succeeding paragraphs.

3.4.18 Unemployment of handloom weavers

Test check of records in the Directorate of Textiles and Handloom revealed that during the period 1999-2004, out of a total of 0.81 lakh looms under the co-operative sector, as many as 0.67 lakh (83 per cent) were idle on an average resulting in loss of employment for an estimated number of 2.69 lakh weavers. Findings in the test check of records of the Assistant Directors of Textiles (ADTs) at Cuttack, Kalahandi and Koraput also reflected a similar picture and showed that 5630 looms (67 per cent) out of a total of 8456 looms were idle on an average during 1999-2004. During the same period, there was marked underspending by the Government, compared to the budget provisions, on the schemes meant for the handloom sector, as shown below:

(Rupees in crore)

Sl. No.	Name of the scheme	Total budget provision	Expenditure	Savings
1	Project package scheme	5.12	2.13	2.99
2	Sericulture Development in KBK Districts	2.25	0.75	1.50
3	Integrated Handloom Village Development	2.70	0.43	2.27
4	Work shed-cum-housing for handloom weavers	10.67	2.25	8.42
5	Market Development Assistance	19.78	3.35	16.43
6	Rebate on sale of Handloom cloths in national Expo	2.64	0.25	2.39
7	Assistance to setting up Handloom Development centre	1.33	Nil	1.33
8	Health package scheme for Handloom weavers	2.77	Nil	2.77
9	Deendayal Hatkhargha Protsahan Yojna	26.48	Nil	26.48
10	Handloom Development in KBK ³² district	2.25	Nil	2.25
	Total	75.99	9.16	66.83

Such poor expenditure, particularly the total absence of Government spending on schemes like the Deendayal Hatkhargha Protsahan Yojana that included Rs.15 crore for the revival of Boyanika, the State level apex handloom society, had an adverse effect on the primary societies and the weavers as mentioned below.

As for the reasons for underspending, the Director of Textiles and Handloom cited (June 2004) absence of Government sanctions. However, for idling of looms the Deputy Director (KBK), Koraput and the ADT, Cuttack cited (June 2004) the following reasons:

³² KBK: Koraput, Bolangir and Kalahandi

- lack of marketing support and discontinuance of rebate system
- non-availability of credit facilities from the concerned district central cooperative banks
- long outstanding dues of the Primary Weavers Co-operative Societies from the Apex Handloom Society (BOYANIKA)
- competition of power loom and mill made imitation printed fabric of the dye design
- the super cyclone of 1999 that had caused severe damage to the primary weavers co-operative societies

The Director of Textiles stated (October 2004) that the number of idle looms had come down from the earlier level in view of the all round efforts of the Department to improve the health of the co-operative societies and to promote handloom industries through formation of Self Help Groups (SHGs) of weavers. Adoption of the handloom industry cluster approach also helped reduce the number of idle looms.

3.4.19 Non-functioning of Primary Weavers' Co-operative Societies

Out of 828 working Primary Weavers' Co-operative Societies, 240 became non-working and 0.22 lakh weavers lost employment

Cloth woven by the primary weavers' co-operative societies was being marketed by the apex co-operative society (Boyanika). It was noticed during the test check of the Director of Textiles and Handloom that cloth dues amounting to Rs.8.32 crore of these Primary weavers' co-operative societies for periods prior to 1998-99 were lying outstanding with the Boyanika as of March 2004. The apex society, due to its sickness could not clear the outstanding dues and Government also did not take adequate steps to revive Boyanika. As a result, during 1999-2004, out of 828 working primary weavers co-operative societies, 240 (29 *per cent*) stopped functioning and an estimated number of 0.22 lakh weavers lost employment in the co-operative sector. The position was confirmed by the audit findings in the three test checked ADTs (Cuttack, Kalahandi and Koraput) where 48 (30 *per cent*) out of 162 primary weavers' co-operative societies stopped functioning during 1999-2004 and an estimated number of 0.06 lakh weavers lost employment.

Delay in revival of "Boyanika" had the effect of non-clearance of dues of the Primary Weavers' Co-operative Societies leading to the many of the latter going out of business

As mentioned in the preceding paragraph, the budget provision of Rs.15 crore for 2003-04 for reviving Boyanika was not sanctioned by the Government for drawal and that ultimately had the effect of Boyanika being unable to clear the long outstanding dues of the primary weavers co-operative societies. In fact, in the absence of budgetary support from the Government, Boyanika, by withholding payments to the Primary Societies to the tune of Rs.8.32 crore for over five years actually starved the Primary Societies of their working capital leading to the societies going out of business.

3.4.20 Losses incurred by Sambalpuri Bastralaya Handloom Co-operative Society Ltd., Bargarh

Declining trend in production and sale of the Sambalpuri Bastralaya due to non-release of marketing development assistance and incentive of Rs.3.63 crore by the State Government

The Sambalpuri Bastralaya, a leading handloom co-operative society was running with financial loss of Rs.18.72 crore and not getting financial assistance towards the working capital from any of the financial institutions. The society was not able to provide full time work to 6000 'A' class members and 9000 weavers from different individual affiliated primary weavers co-operative societies. Further, it was seen that sale proceeds of cloth of Rs.96.09 lakh were not received by the society from different Government agencies and the Marketing Development Assistance to the tune of Rs.85.48 lakh and Marketing Incentive Assistance of Rs.2.78 crore were not released by the State Government leading to declining trend in production and sale adding to the society's losses and under-employment of 15000 weavers. The Director of Textile and Handloom stated (November 2003) that the Development Assistance and the incentive claims of the society for the period 1998-2000 and 2000-02 respectively were pending with the Government and the defaulters of cloth dues had been requested to pay the same. No progress in this regard had been made as of March 2004.

3.4.21 Conclusions

The savings in budget provisions had been very large, averaging 42 per cent over five years. While a large number of trained unemployed youth could not set up any industry under the Prime Minister's Rojgar Yojana, the establishment of the three IID centres made only a negligible progress for over a decade although funds were not a constraint. Large number of SSI units were closed due to lack of proper planning and the single window clearance system was not functional in the districts. Non-clearance of the dues by the apex cooperative society was one of the factors for closure of a good number of primary weavers co-operative societies.

Recommendations

- Several problems like setting up of industries without proper planning or inability of the small scale industries to change the product line as per market requirements should be addressed.
- SILPASATHI, the mechanism for implementing the single window clearance facility in the districts should be made functional without delay.
- The problem of idle looms and defunct primary weavers' co-operative societies should be accorded priority to arrest increasing unemployment.
- Co-ordination and co-operation among Government officials, banks and other institutions involved in implementing various schemes of loan and subsidy for promotion of SSIs and the handloom sector has to be considerably strengthened.

The matter was demi-officially referred (August 2004) to the Principal Secretary to the Government; reply had not been received (November 2004).

HOUSING AND URBAN DEVELOPMENT DEPARTMENT

3.5 Implementation of Urban Water Supply Schemes

3.5.1 Introduction

The rapid growth in urban population during the last decade necessitated augmentation of the existing water supply systems and development of new schemes to ensure supply of minimum quantity of potable water to the urban population. Government of India (GoI) launched (February 1994) Accelerated Urban Water Supply Programme (AUWSP) for providing adequate safe drinking water in towns. Against 51 Urban Local Bodies (ULBs) eligible for coverage under the programme, only 24 ULBs were selected by the State Level Selection Committee and water supply schemes for these towns were approved by the GOI between 1994 and 2004. Besides, water supply schemes for two towns, not declared as ULB were also approved under the programme. A sum of Rs.76.36 crore was spent on these schemes during the five year period of 1999-2000 to 2003-04.

Test-check of records of Chief Engineer, Public Health and 11 Executive Engineers³³ of Public Health Divisions for the period 1999-2004 was conducted between October 2003 and April 2004. Out of 30 districts with 103 ULBs in the State, 27 districts with 81 ULBs including 18 ULBs approved under AUWSP were covered in audit.

GOI approved 26 water supply schemes for Rs.45.37 crore under AUWSP in Orissa between December 1994 and March 2003. Against Central share of Rs.19.64 crore received between 1995-96 and 2003-04 for 23 schemes, only three schemes were completed as of August 2004. The remaining 20 schemes taken up between December 1994 and January 2003 for benefiting 3.84 lakh urban population were languishing owing to improper planning, finalisation of source without adequate pre-construction survey, delay in acquisition of land and fund constraints arising from diversion of funds and purchase of materials in excess of requirement as evidenced below:

3.5.2 Execution of schemes without pre-construction survey

While according technical approval to the schemes, GOI stipulated that 95 *per cent* dependability and reliability of the selected source should be ensured by the State Government before taking up the scheme. In violation of these stipulations, the following five schemes were taken up without pre-construction survey and consequently during execution the water sources were found to be not feasible. The schemes remained incomplete rendering the

Execution of AUWSP schemes without ensuring viable water source resulted in unfruitful expenditure of Rs.9.50 crore

* The abbreviations used in this review have been listed in the Glossary in Appendix-XXXVI (page 222)

³³ Bhubaneswar –I, II, III, Cuttack-I, II, Rourkela, Sambalpur, Bolangir, Puri, Baripada and Koraput.

expenditure of Rs.9.50 crore incurred on these schemes unfruitful. No responsibility was fixed for execution of the schemes without ensuring the dependability of the sources.

Location of the Water Supply Scheme	Audit finding
Umerkote Expenditure: Rs.2.33 crore	The river Vaskel identified (1999) as the source of the scheme was subsequently found (June 2001) not feasible. No alternative source was finalised so far. Materials worth Rs.1.71 crore procured for the scheme remained unutilised.
Malkangiri Expenditure: Rs.2.69 crore	The scheme provided for supply of water from Satiguda reservoir through an intake well. In June 2001 the intake well at the selected site was found not feasible. No further work was executed after March 2001 and completion of the scheme was uncertain.
Kamakshyanagar Expenditure: Rs.2.37 crore	Laying of infiltration gallery at the selected site was not feasible, the source was relocated requiring laying of additional 2700 metres of rising main. Major items like construction of the infiltration gallery, overhead tank and a treatment plant were not taken up.
Junagarh Expenditure: Rs.1.27 crore	The scheme envisaged abandonment of the existing intake structure and construction of a new intake well. CE observed (June 2001) that laying of another infiltration gallery was not feasible as the river was full due to discharge of water from the Upper Indravati Project. No alternative arrangement was made and supply of turbid water was being made without filtration.
Balimela Expenditure: Rs.0.84 crore	The sanctioned DPR provided tail race power channel of Balimela Hydro-electric project as the source. Later it was found that water contained excess oil and grease and was not suitable for human consumption. CE stated in April 2004 that the modality of specialised treatment was not yet finalized. Completion of the scheme was thus uncertain

3.5.3 Execution of schemes without proper planning

The following water supply schemes scheduled for completion between 1998 and 2003 remained incomplete due to lack of proper planning such as timely acquisition of land and non-sanction of revised estimates.

Location of the Water Supply Scheme	Audit finding
Panposh (Sundargarh) Expenditure: Rs.1.01 crore	The scheme remained incomplete due to delay in acquisition of land, which resulted in cost-overrun. Revised estimate for Rs.1.23 crore was sanctioned in May 2003.
Nayagarh Expenditure: Rs.1.68 crore	Construction of treatment/disinfection unit and installation of large dia tube well was not done, laying of distribution system and raw water conveying main was not completed.

Location of the Water Supply Scheme	Audit finding
Boudh Expenditure: Rs. 0.77 crore	No tangible work had been executed so far on the scheme which was taken up in 1999 except purchase of pumps and fitting materials.
Deogarh Expenditure: Rs.1.59 crore	Remained incomplete as the laying of distribution pipeline, production well, reservoirs, one settling tank were not taken up.
Barpalli Expenditure: Rs.1.73 crore	Only 5891 metres of distribution pipe lines were laid against provision of 16058 metres after spending the full cost. Laying of rising main was not taken up and even land required for the purpose remained to be acquired.
Chandbali Expenditure:Rs.85.98 lakh	The scheme was languishing since 1997 after spending on it. Some major components of the scheme like 2.25 lakh litre capacity R.C.C. overhead reservoir, two on-line chlorine dosing pump sets and laying of distribution line were not completed.
Baligaon, Puri Expenditure: Rs.1.93 crore	The scheme remained incomplete owing to non-completion of Raw water pumping system, laying of rising main, treatment plant, clear water reservoir and laying of distribution system. Even the required land was not acquired.
Khandapada, Nayagarh Expenditure: Rs.40.59 lakh	The scheme scheduled for completion in 2003 remained incomplete due to non-procurement of pump sets, non-construction of treatment/disinfection unit and non-completion of laying of rising main from production well. Construction of Pump house was also not taken up as the required land was not acquired.
Kantabanji Expenditure: Rs.41.82 lakh	The scheme scheduled to be commissioned in 2003 remained incomplete due to non-construction of 3.25 lakh capacity reservoir, and laying of rising main/distribution line.

Government confirmed (September 2004) the factual position and assured that the projects would be completed soon.

3.5.4 Unauthorised diversion of funds

Rs.2.08 crore received for AUWSP works diverted unauthorisedly for other purposes

Out of allotment of Rs.6.75 crore (including Rs.3.32 crore of GoI share) received for five³⁴ schemes between March 1994 and March 2003, Rs.2.08 crore was unauthorisedly diverted by three EEs for other purposes which led to non-completion of the schemes due to paucity of funds.

3.5.5 Non-contribution of share by the Urban Local Bodies

Urban Local Bodies did not contribute their share of Rs.2.27 crore

The schemes sanctioned under AUWSP stipulated that five *per cent* of the cost of each scheme would be contributed by the concerned ULB. It was, however, noticed that no contribution was realised from any ULB for the 26 projects taken up at an estimated cost of Rs.45.37 crore which resulted in an estimated

³⁴ Junagarh (Rs.47.90 lakh), Boudh (Rs.52 lakh), Chandbali (Rs.17 lakh), Deogarh (Rs. 44.73 lakh) and Barpalli (Rs.45.74 lakh).

extra burden of Rs. 2.27 crore on the State Government. Government assured (September 2004) that the amounts due from the local bodies would be adjusted from their future grants-in-aid.

3.5.6 *Non-supply of minimum quantity of water*

Government failed to supply minimum quantity of water in 88 out of 103 ULBs of the State

The primary objective of the urban water supply schemes was to ensure supply of minimum 70 LPCD of potable water in towns with population below twenty thousand, 100 LPCD in towns with population between 20,000 and one lakh and 150 LPCD in towns with above one lakh population as per norms fixed by the GOI. The review disclosed that minimum quantity of water as per norms was not supplied in 88 out of 103 ULBs of the State (85 per cent) as of March 2004. The water supply in 65 ULBs ranged between nine and 73 per cent of the minimum requirement (upto 25 per cent in seven towns, 26-50 per cent in 28 and 51 to 73 in 30). The town-wise supply of water is given in Appendix-XXVIII. Government accepted (September 2004) the factual position.

3.5.7 *Supply of substandard water*

Substandard water was supplied in 13 towns by six Divisions

As per extant rules and provisions of manual of water supply and treatment, the quality of the water supplied both at source and distribution point was required to be analysed before supply. None of the test checked divisions maintained records indicating regular analysis of the quality of water supplied. The CE during discussion stated (April 2004) that due to non-availability of adequate facility, regular testing and analysis of water was not possible. The reports produced in respect of a few tests/analysis revealed that substandard water was being distributed in 13³⁵ towns by six divisions.

Further, analysis of water from different sources in Puri conducted by the State Pollution Control Board in July 2001 revealed that the concentration of nitrate was above the permissible limit prescribed for drinking water. CE observed (July 2002) that some tube wells showed bacteriological contamination apart from having high Ph value indicating pollution due to leakage of sewage from the adjoining septic tanks/leach pits/open sewage over-flows in unprotected drains. The Chief District Medical Officer (CDMO), Puri after chemical analysis of water collected from 10 different stand posts observed (July 2002) that the water supplied was not potable due to presence of coliform in it which confirmed supply of substandard water defeating the very purpose of water supply schemes. Government accepted the factual position and assured (September 2004) that suitable instructions would be issued to the Departmental authorities to take corrective measures.

Failure of the Government to provide safe potable water led to epidemic which caused 2169 deaths

The unsuitability of drinking water in the State was further substantiated by the fact that 5.25 lakh population were victims of water borne diseases like severe diarrhoea (4.96 lakh) and acute jaundice (0.29 lakh) during the last three years. The number of deaths caused by these diseases was as high as 2169. The outbreak of jaundice in Baripada town during June-July 2001 was an example of supply of contaminated water affecting 138 persons. Although

³⁵ P.H. Bolangir (Sonepur, Khariar), P.H.-III, Bhubaneswar (Bhubaneswar), P.H.-II, Cuttack (Angul), P.H. Rourkela (Rourkela, Biramitrapur, Sundargarh, Rajgangpur, Anandpur, Joda, Keonjhar), P.H Puri, (Puri) and P.H Baripada (Baripada).

the EE reported (June 2001) to have taken necessary precautions such as disinfection of pipe line, enhancement of chlorine dosages and round the clock observation of pipe lines to avoid contamination in the distribution system, there was outbreak of jaundice again in Baripada during January/February 2004 affecting 524 people with 25 casualties. Random bacteriological analysis of 102 samples conducted (February 2004) by the State Public Health Laboratory revealed that the water supplied through 39 sources in Baripada was contaminated. The CDMO also observed (February 2004) that leakages in the distribution pipe lines and non-clearance of sewage and drain dirt from the drinking water outlets led to contamination of water. Government stated (September 2004) that suitable arrangements would be made in future for regular testing of water and wide publicity of the test results.

3.5.8 Unauthorised leasing of reserved land

185.43 acres of land reserved for water supply project was unauthorisedly leased out/allotted by Puri Municipality

Water supply to the Puri town was made from water drawn from two well-fields at Chakratirtha and Baliapanda. To preserve the two well-fields and protect the aquifer from contamination by urban wastes, Government reserved the land around these well-fields. The Puri Municipality in violation of Government orders, leased out/allotted 178.43 acres in Chakratirtha and seven acres of land in Baliapanda unauthorisedly to different institutions/private parties. Apart from that, huge unauthorised constructions and encroachments were made in the reserved area posing serious threat to the only source of drinking water for the town. Realising the gravity of the situation, Government decided (July 2003) to demarcate the land by August 2003 and provide protective boundary. No follow up action was, however, taken as of March 2004. Government did not remove the unauthorised construction and initiate action against the officers responsible for the leasing/allotment of the reserved land. Government accepted (September 2004) the factual position.

3.5.9 Unnecessary accumulation of stores

Procurement of materials without definite requirement resulted in accumulation of materials worth Rs.7.49 crore

Due to large scale accumulation of stores and theft and pilferage of stores resulting in huge loss, Government ordered discontinuance of procurement of stores from April 1996 and directed that the works be executed by the contractors on finished item rate contract basis including cost of materials. Government also ordered immediate stock taking of the existing materials and exploring the possibility of their utilisation/disposal. Despite lapse of eight years, such stock taking was not completed (March 2004). Test check in audit revealed that eight EEs still retained materials worth Rs.2.75 crore which were purchased prior to March 1996 in stock account. Apart from that, 10 EEs retained materials worth Rs.4.74 crore, purchased between 1999 and 2002, in the site accounts of different works (including Rs.3.02 crore for AUWSP works) as of March 2004. Thus, procurement of materials without definite requirement for works, in violation of Government orders, resulted in blockage of materials worth Rs.7.49 crore (Appendix-XXIX) besides creating resource crunch for ongoing works. No action was taken against the officers responsible for the purchases without definite requirement. CE stated (April 2004) that since the materials were lying in stock for a long period and their usability had not been ascertained, no survey reporting had been done.

Government accepted (September 2004) the factual position and assured that the materials would be utilised/disposed of soon.

3.5.10 Unauthorised expenditure on engagement of labour in violation of Government orders

Eleven EEs incurred expenditure of Rs.11.18 crore on unauthorised engagement of labour

The Finance Department imposed (April-1993) a ban on further engagement of persons on daily wages for office and field work. In exceptional cases where such engagements were unavoidable, prior sanction was to be obtained from the Finance Department before engaging fresh persons. Responsibility was to be fixed on the authorities violating these orders. 11 EEs, however, incurred expenditure of Rs.11.18 crore between 1999 and 2004 on unauthorised engagement of labour without seeking sanction of the Finance Department (Appendix-XXX). Such unauthorised expenditure increased from year to year (from Rs.1.98 crore in 1999-2000 to Rs.2.79 crore in 2002-03). Government accepted (September 2004) the factual position.

3.5.11 Loss due to non-revision of water tariff

There was loss of revenue of Rs.2.88 crore due to non-revision of water tariff by four EEs

While revising the tariff for supply of water in urban areas, Government ordered (August 1996) that the tariff so fixed would be increased automatically at the rate of 10 *per cent* every year and the structure of tariff and annual rate of increase would be reviewed after five years. The structure of tariff and the rate of increase were not reviewed as of March 2004. However, while five of the EEs effected the annual increase, four others³⁶ discontinued the increase since August 2002. This resulted in loss of revenue of Rs.2.88 crore. Government stated (September 2004) that efforts were underway to revise the water tariff taking into account the level of consumers' satisfaction.

3.5.12 Outstanding Water tax

Rules required that water tax due from consumers should be realised promptly within the year. Against the total demand of Rs.25.89 crore in 10 divisions upto 2003-04, only Rs.17.84 crore (69 *per cent*) was realised and the balance Rs.8.05 crore was outstanding. Year-wise break-up of the arrears was not worked out by the EEs. Government assured (September 2004) to improve the collection of water tax.


3.5.13 Conclusions

Audit scrutiny disclosed improper planning, commencement of works without adequate preconstruction survey and lack of monitoring. Despite repeated earlier comments by audit through 45 paras in 15 Inspection Reports between 1999 and 2004, water supply schemes continued to languish for years together and huge inventory of materials remained unutilised/undisposed of. Government and CE, PH failed to take corrective measures to ensure supply of minimum quantity of potable water to the urban areas. Government assured

³⁶ P.H.-Division, No.II, Bhubaneswar (Rs.2.05 crore), P.H.-Division, Rourkela (Rs.0.44 crore), P.H.-Division, Puri (Rs.0.17 crore) and P.H.-Division, Baripada (Rs.0.22 crore).

(September 2004) that instructions would be issued to the departmental authorities to take corrective measures.

Recommendations

- Government should take immediate steps to complete the incomplete Urban Water Supply Schemes, so as to achieve the primary objective of supplying the daily minimum quantity of potable water per capita and to stem the cost over-run.
 - Action against officers responsible for improper planning, sub-standard execution and procurement of materials in excess of requirement should be initiated.
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HOME DEPARTMENT

3.6 Upgradation of standards of administration and modernisation of Police Forces

3.6.1 Introduction

In terms of the recommendations of successive Finance Commissions, Government of India (GOI) had been releasing grants to the State Government for upgradation of the standards of Police administration. Besides, the Central Government allocated funds for implementation of the non-plan scheme of Modernisation of Police Forces to enable the State Police forces to effectively face the emerging challenges to internal security. The modernisation scheme was under implementation in the State since 1969-70 and was extended up to 2004-05. The scheme included four major components viz. acquisition of arms, computerisation of police stations, upgradation of Finger Print Bureau and Traffic Control equipment. Records of 13 unit³⁷ offices out of 42, besides the Home and the Finance Departments were test checked during November 2003 to April 2004 covering the period from April 1999 to March 2004.

3.6.2 Financial management

The funding under the Modernisation scheme was to be shared equally by the Central and the State Governments up to 2002-03. The Central share comprised 50 per cent as grant and 50 per cent as loan. Since 2003-04, the funding pattern was revised to 60:40; out of the Central share, 60 per cent was given as grant. For the upgradation scheme, the funding was made by Central grants as recommended by the Tenth and the Eleventh Finance Commissions (TFC/EFC).

During 1999-2004, the State Government provided for Rs.190.27 crore (Modernisation: Rs.171.91 crore and Upgradation: Rs.18.36 crore) in the budget against which Rs.148.01 crore (Modernisation:Rs.132.72 crore and Upgradation: Rs.15.29 crore) were spent. While according sanction, the State Government mentioned that the amounts should be drawn and deposited into Civil Deposits. However, the amounts transferred to the Civil Deposit were classified under functional heads and that resulted in overstatement of expenditure in the Appropriation Accounts of the Government. The unutilised balance in the Civil Deposits as of March 2004 amounted to Rs.42.26 crore (Modernisation: Rs.39.19 crore and Upgradation: Rs.3.07 crore) and had accumulated mainly due to delay in completion of civil works and delay in procurement of arms, equipment, vehicle etc. Delay in getting Government approval to the action plans was also a contributing factor.

Utilisation certificate submitted to GOI included payment of advance to the extent of Rs.38.28 crore

* The abbreviations used in this review have been listed in the Glossary in Appendix-XXXVI (page 222)

³⁷ (1) Director General and Inspector General of Police, Cuttack; (2) Additional DGP, Training, Cuttack; (3) Principal, PTC, Angul; (4) DIG, PMT, Cuttack, (5) DIG, CID, Cuttack, (6) SP, Signal, Cuttack; (7) SP, Rayagada; (8) SP, Special Branch, Cuttack; (9) SP, Koraput; (10) SP Balasore; (11) SP, Keonjhar; (12) SP, Rourkela; (13) Director, State Forensic Science Laboratory, BBSR.

Further, it was seen that the utilisation certificates submitted to Government of India included Rs.38.28 crore advanced to the Orissa State Police Housing Welfare Corporation, Bhubaneswar (Rs.30.17 crore) and to the Ministry of Home Affairs (Rs.8.11 crore) treating the same as final expenditure. Thus, the utilisation certificates furnished to GOI was not based on actual expenditure incurred.

3.6.3 Programme implementation

The implementation of the scheme of Modernisation of Police Force found to be deficient during 2000-04 as the spending vis-a-vis the budget provision ranged from nil to 30 per cent on four major components of the programme as detailed below:

(Rupees in crore)

Sl. No.	Component	Budget Provision	Actual Expenditure	Percentage of shortfall
1.	Arms	27.11	8.12	70
2.	Computer (Information Technology)	4.03	Nil	100
3.	Traffic control equipment	0.55	0.08	85
4.	Upgradation of FPB	2.91	Nil	100

The Government attributed the poor utilisation of funds to difficulties in the Police headquarters in handling increased volume of procurement as also the delay in getting GOI's approval to the annual action plans due to which the scheme funds were kept under Civil Deposit. However, the State Police Headquarters stated (September 2003) that they depended on the Government for taking decisions on various aspects of the implementation of the scheme including the procedure for purchase of arms and other equipment which was time consuming. There was also delay in getting approval of the State Level Purchase Committee (SLPC) as well as delay in release of funds by the Government. It was, however, noticed that the annual action plans were sent to GOI very late by the State Government; the action plan for 2000-01 was sent to GOI in April 2001 and that for 2003-04 in October 2003 (Part) and January 2004 (Final).

Although funds were not a constraint, due to lack of co-ordination between State police headquarters and the department, there was delay in upgradation of the State Finger Print Bureau (SFPB) and implementation of the Information Technology (IT) Plan of the State Police. Besides, overdependence on the Orissa State Police Housing and Welfare Corporation (OPHWC) for construction of building contributed to the delay in the implementation of the projects.

3.6.4 Upgradation of State Finger Print Bureau

Provision of funds of Rs.2.90 crore was made for the upgradation of the State Finger Print Bureau under modernisation scheme. Projections were made for replacement of manual system of matching and identification of finger prints by Automated Finger Print Identification System (AFIS) employing computerised method in 2001-02 and procurement of inkless finger print device with other items for the system in the subsequent years. During

Despite availability of funds, the State Finger Print Bureau could not be modernised for over three years

2001-02, Rs.1.56 crore were drawn for procurement of AFIS and Rs.0.63 crore was drawn in March 2003 for procurement of inkless finger print devices. During the process of finalising the tender by the Director, SFPB, the National Crime Records Bureau (NCRB) instructed not to procure the existing benchmarked system since they had decided to benchmark a system with advanced technology. The benchmark report of AFIS with advanced technology was received from NCRB in April 2003. A modified Project Report was sent to NCRB for approval in August 2003 the approval to which was received in September 2003. However, the tender papers could only be finalised in March 2004 and quotations for supply of the items were called for from the benchmarked firms in April 2004 stipulating the response time up to 30 June 2004. Thus, despite availability of funds, due to procedural delays in benchmarking of the system and finalisation of tender formalities, the State Police failed to derive the benefits of AFIS for over three years.

3.6.5 Police Stations not computerised

The Information Technology (IT) Plan of the State Police envisaged providing a computer to each of the 449 police stations in the State and establishing on line connectivity with the State Police Headquarters and other allied offices. In the first phase, 129 police stations were to be computerised followed by other police stations in the subsequent years. The plan, which was intended for implementation through the National Informatics Centre also envisaged the provision for video conferencing facilities, direct voice communication, exchange of data etc. However, for establishing connectivity, the State Police depended on the National Crime Records Bureau (NCRB) for supply of the required application software.

Keeping the above in view, the State Government sent the action plan for the years 2000-01 and 2001-02 to the Government of India (GOI) between April and May 2001, the approval of which was received in May 2001 and February 2002 respectively. Thereupon, the State Government sanctioned (March 2002) Rs.2.72 crore for the purpose which was drawn and kept in the Civil Deposit as the application software system was yet to be received from the NCRB. However, in February 2003, the NCRB intimated that the required software was still under consideration due to technological changes. No further progress on the issue could be made thereafter and the IT plan remained unimplemented (June 2004).

The IT plan could not take off for want of application software

The Director, State Crime Records Bureau stated (June 2004) that the IT plan would be implemented as per the Action Plan 2004-05 which had been sent to GOI for approval.

3.6.6 Construction of buildings

During 2000-04, the Government sanctioned construction of 1923 building projects comprising police stations and staff quarters funded from the Modernisation scheme (1683) and the EFC grants (240) the execution of which were entrusted to OPHWC, Bhubaneswar. Of the 1923 projects, only 678 were completed while 1146 projects were incomplete and 99 projects had not even started as of May 2004. The OPHWC attributed (July 2004) the slow progress to late receipt of funds, delay in according administrative approval.

There was also delay owing to change of proposals and sites. Further, 128 building projects, although completed, were not taken over by the State Police. However, the Government in an agenda note cited (May 2003) the limited capacity of OPHWC for construction of civil works as a reason for delay in execution of the building projects. Despite this, the policy of exclusive dependence on OPHWC for execution of building projects continued and an amount of Rs.36.35 crore remained unspent with the OPHWC as of May 2004 which ultimately affected the completion of 1146 building projects.

Thus, due to delay in completion of 1146 projects and not taking possession of 128 completed projects, the police stations and outposts continued to function in old, unsafe and rented buildings and the police personnel were deprived of residential accommodations (August 2004).

3.6.7 Wasteful expenditure due to idle infrastructure/equipment

Due to lack of co-ordination between different wings of the State Police Headquarters and the Department and general deficiencies in implementation of different programmes, equipments procured were lying idle and infrastructure created remained unutilised and there were avoidable extra expenditure on purchase of equipment the details of which are discussed in succeeding paragraphs.

3.6.8 Non-functioning of the Regional Forensic Science Laboratory

The Upgradation Scheme, as recommended by EFC, provided for construction of one Regional Forensic Science Laboratory (RFSL) at Balasore at a cost of Rs.1.80 crore (Building: Rs.20 lakh and equipment: Rs.1.60 crore). The State Level Empowered Committee (SLEC) meeting held on 8 June 2001 decided on the construction of the building first and purchase of equipment thereafter. Contrary to the above decision, before construction of the building, equipment worth Rs.1.23 crore were procured between August 2001 and April 2004 as envisaged in the Action Plan. While equipment worth Rs.52.06 lakh were kept in stock, the others were installed in the State Forensic Science Laboratory at Bhubaneswar and other Regional Laboratories to avoid damage. The warranty period for most of the equipment (normally one year from the date of purchase) was over. The construction of the RFSL building at Balasore scheduled to be completed during 2001-02 was not started as of June 2004 due to land dispute. Thus, due to lack of co-ordination among the State Police headquarters, the Director, State Forensic Science Laboratory and other executing agencies of the department, the equipment worth Rs.1.23 crore remained unutilised/underutilised and the establishment of a Regional Forensic Science Laboratory could not materialise for over three years.

3.6.9 Mobile Forensic Science Laboratory units not established

The EFC recommended establishment of 19 Mobile Forensic Science Units (MFSUs) in the State at a cost of Rs.12 lakh each (Rs.6 lakh for purchase of mobile vans; Rs.6 lakh for equipment). The SLEC meeting held in June 2001 decided to purchase vehicles and equipment for the MFSUs at one go. Purchases of equipment were done by the State Forensic Science Laboratory (SFSL), Bhubaneswar while the purchase of mobile vans was done by the DIG, Police Motor Transport, Cuttack. Scrutiny of records of SFSL revealed

Idle investment of Rs.1.23 crore on equipment due to lack of synchronisation of purchase with construction of building

Equipment worth Rs.89.13 lakh lying idle as the targeted 19 MFSUs not established

(June 2004) that equipment worth Rs.89.13 lakh were purchased by Director, SFSL during August 2001 to January 2004. However, provision for procurement of 11 vehicles was made in 2003-04 of which supply order for only four vehicles was placed on 15 March 2004 as Rs.42.68 lakh was surrendered due to imposition of restriction on plan expenditure. Thus, due to non-procurement of vehicles, the MFSUs in the newly created districts could not be made functional. As a result, the equipment procured for MFSUs were issued to the existing district forensic science units as the mobile units in the newly created districts were not functional.

Despite availability of funds, due to lack of co-ordination between the two wings of the State Police, the MFSUs could not come up and the objective of providing forensic test services on the spot remained unachieved.

3.6.10 Non-utilisation of training infrastructure created

With a view to upgrading the training facilities for police personnel, construction of Auditorium-cum-Library at the Police Training College, Angul at a cost of Rs.27 lakh was approved as per TFC recommendation. The work was executed by the PWD and an amount of Rs.29.85 lakh was spent. The building was handed over to the Police Training College in September 2000. The building remained unutilised due to defective echo proof system, inadequate fan fittings, defective motor for water supply, insufficient accommodation for library and want of approach road. In the meantime, a hailstorm in April 2002 and a cyclone in May 2003 caused extensive damage to the structure. Non-provision of echo proof system etc. during construction of the building rendered the expenditure of Rs.29.85 lakh unfruitful and defeated the aim of upgrading the training facilities of the State Police .

The IGP, PTC, Angul stated (February 2004) that the Executive Engineer, Angul R&B Division was requested (December 2003) to take up the repair work of the building. Neither the inherent defects of the building were rectified nor the damage caused by the hailstorm and cyclonic wind were repaired as of February 2004.

3.6.11 Avoidable delay in purchases of vehicles/equipment

Under the modernisation scheme, the SLPC finalised the rate, the quantity and the firm for procurement of different vehicles during February 2001 and December 2001 for the years 2000-01 and 2001-02 respectively. The DGSD rates basing on which the approval of the SLPC was obtained were valid up to 2 February and 21 February 2002 for purchase of vehicles of M/s Mahindra and M/s Tata respectively. Although sufficient time was available and funds were not a constraint, the DIG, PMT placed orders on 28 February 2002 with both the above firms by which time the firms had increased their prices. This resulted in extra expenditure of Rs.19.16 lakh on procurement of 181 vehicles.

DIG (Admn) Orissa, Cuttack, obtained rates from Ordnance Factory, Dehradun in April 2002 for 30 Passive Night Vision binoculars and 28 Night Vision goggles. Basing on the rates in the proforma invoice, the DIG paid Rs.84.33 lakh to the Ordnance Factory in September 2003 after one year and four months from the date of obtaining the rates, by which time the validity period of the rates had expired and prices had increased with effect from

Auditorium at the Police Training College, Angul constructed at a cost of Rs.29.85 lakh could not be made functional due to defects in construction

Extra expenditure of Rs.28.22 lakh due to delay in placing supply orders

1 April 2003. Thereupon, the purchase order was revised for reduced supply of 30 binoculars and 21 goggles at the revised cost of Rs.83.28 lakh. This resulted in extra expenditure of Rs.9.06 lakh. However, it was noticed that the Ordnance Factory had neither supplied the items nor refunded the balance of Rs.1.05 lakh as of July 2004. The DIG stated (July 2004) that the delay in placement of the purchase order was due to late release of funds by the Government (June 2003).

Blockage of Rs.16.19 lakh due to purchase of defective equipment without accessories for use in SFSL, Bhubaneswar

The SFSL, Bhubaneswar purchased an equipment "Fourior Transmission Infrared Photometer" at a cost of Rs.9.05 lakh in 1998 out of the Modernisation funds, from a company in Kolkata. Due to defects and want of accessories, the machine remained unutilised since the date of its purchase and its warranty period expired on 19 November 2003. An amount of Rs.7.14 lakh drawn in August 2002 for payment of the cost of accessories to the firm as the firm failed to supply these accessories.

The purchase of the defective equipment without accessories led to blocking of funds to the extent of Rs.16.19 lakh besides not getting any service from the equipment.

3.6.12 Mobility support under Modernisation scheme

Acquisition and deployment of vehicles

The utilisation of newly purchased vehicles was doubtful as 155 drivers were in position against the deployment of 263 vehicles

As per norms of the Bureau of Police Research and Development, Government of India, Police Motor Transport, Orissa made an assessment in 2000-01 that 1495 vehicles should be purchased for the State Police. As against that, only 1067 vehicles were procured during 2000-04. Since 425 vehicles were also condemned during the same period, the net addition to the police fleet during the period was only 642 vehicles. However, as against the sanctioned posts of 1315 drivers against which 1241 men were in position in the State, there were 2212 operational vehicles as of March 2004. Thus, there was a shortfall of 971 drivers which indicated that the utilisation of new vehicles was doubtful. Test check of the position in the four districts³⁸ showed that against 263 vehicles available in these districts both at the district headquarters and at the police stations as of March 2004, the number of sanctioned posts of drivers was 170 and the number of drivers actually available was only 155.

Bulletproof jeeps worth Rs.36.30 lakh lying idle

Bulletproof jeeps purchased at a cost of Rs.36.30 lakh remained idle due to non-provision of bulletproof tyres and air-conditioning

During the year 2000-01, the SLPC in its meeting held in February 2001 approved purchase of two Mahindra "Rakshak" bulletproof jeeps at the DGS&D rate at a cost of Rs.29.81 lakh under the Modernisation scheme. While approving the purchase, the SLPC did not specify bulletproof tyres and air conditioning for the bulletproof jeeps. The purchase order was placed with M/s Mahindra and Mahindra Ltd., Bhubaneswar in February 2002 and the jeeps were supplied during June 2003 at a cost of Rs.36.30 lakh. However,

³⁸ District	<u>No. of operational vehicles</u>	<u>Drivers in position</u>
Rourkela	57	48
Rayagada	73	18
Balasore	71	42
Koraput	62	47

due to non-provision of bulletproof tyres and air conditioning, the bulletproof jeeps were not considered roadworthy. Such contingencies were not visualised either by the technical committee or the SLPC while approving the purchase of bulletproof jeeps during 2000-01.

The DIG (PMT) stated (February 2004) that the vehicles would be used after purchase of necessary bulletproof tyres, AC machines etc. Failure to provide for the necessary accessories for the bulletproof jeeps *ab initio* defeated the very objective of providing mobility support to the police force in tackling the law and order situation in the naxalite affected areas.

3.6.13 Monitoring and evaluation

The Modernisation scheme, which has been under implementation since 1969-70 was extended up to 2004-05. The revised guidelines (2000-01) of the scheme envisaged review of the scheme after two years of its implementation and the State Government was required to constitute a State Level Empowered Committee (SLEC) to meet as frequently as possible but not less than once in three months to review the implementation of the scheme for ensuring inter-departmental co-ordination and removing constraints, if any. The SLEC, which was constituted in May 2001 under the Chairmanship of the Chief Secretary met only twice in August 2001 and February 2004. Lack of monitoring by the SLEC led to tardy implementation of the modernisation programme as interdepartmental co-ordination could not be ensured to remove constraints arising out of procedural delays.

Similarly, the guidelines issued by the Government of India on implementation of the Eleventh Finance Commission recommendations envisaged evaluation of the scheme through professional agencies so as to bring out the strength and weaknesses of the programme. Such evaluation has not so far been made.

3.6.14 Conclusion

Funds remained unspent and targets were not achieved on account of delay in finalisation of tenders and other procedural formalities in respect of major components like arms, computer, traffic control and Finger Print Bureau. Despite its limited capacity, exclusive dependence on OPHWC for construction of buildings had the effect of large number of projects remaining incomplete. Undue delay in placement of purchase orders with supplier firms resulted in extra expenditure owing to price enhancement after the expiry of the validity period of offers. The implementation of the programmes was not effectively monitored by the SLEC. Thus, even though funds were not a limiting constraint, the State Police failed to derive the intended benefits and the main objectives of the grants viz. upgrading the standards of administration and modernizing the police forces were not adequately met.

Recommendations

- Close monitoring of the State Level Empowered Committee by frequent meetings for timely implementation of the scheme should be ensured.
- The policy of exclusive dependence on Orissa State Police Housing and Welfare Corporation, Bhubaneswar which was adopted for the Eleventh

Finance Commission grant and the Modernisation scheme for Civil Construction Projects should be reviewed.

- Purchase procedure should be streamlined to avoid extra expenditure on account of delay in placement of orders.
- Inter-departmental co-ordination should be ensured for optimum utilisation of equipment procured and infrastructure created.
- Utilisation certificates of scheme funds should be based on actual expenditure and parking of funds under Civil Deposit beyond the financial year in which the same was credited should be avoided.
- The Principal Secretary to the Government stated (September 2004) that the observation pointed in the paragraph are under examination and reply would be furnished in due course.

CHAPTER-IV

AUDIT OF TRANSACTIONS

Audit of transactions of the Departments of Government, their field formations as well as that of the autonomous bodies brought out several instances of lapses in management of resources and failures in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs under broad objective heads.

4.1 Fraudulent drawal/misappropriation/embezzlement/losses

PANCHAYATI RAJ DEPARTMENT

4.1.1 Advances given by Panchayat Samities lying unrecovered

Non-maintenance/improper maintenance of advance ledgers/registers at the Block level led to unadjustment of advances of Rs.6.46 crore as of 31 March 2003.

The Orissa Zilla Parishad and Panchayat Samiti Accounting Procedure Rules provide for maintenance of an advance ledger at the Block level to keep account of money advanced to contractors and other individuals. Such accounts were to be balanced quarterly and signed by the Block Development Officer (BDO). At the close of every quarter, a list of outstanding advances was to be prepared in Form No.XIII (advance register). The BDO was responsible for prompt and regular recovery of unadjusted advances.

Test check of records (between March 2003 and February 2004) of 17 Panchayat Samities revealed that an amount of Rs.6.46²⁰ crore was outstanding as advance as of 31 March 2003. The details such as the persons to whom the advances were paid, the purpose and dates of payment etc. could not be verified due to non-maintenance and improper maintenance of the advance ledger. It was, however, gathered from one Samiti that advances had been outstanding ever since 1961-62. Though the Government issued instruction in May 1998 for updating of advance ledgers and their verification by the concerned BDOs, that was not carried out.

In the absence of relevant details, the prospect of recovery or adjustment of these advances would be remote and non-maintenance of these records and details could lead to misappropriation. In fact, it was observed in audit that even the Local Fund Audit wing of the State Government commented on the non-maintenance/improper maintenance of the Advance Ledgers in various

20 1. BDO, Jagatsinghpur	Rs.24.40 lakh	7. Muribahal	Rs.63.88 lakh	13. Dunguripali	Rs.130.65 lakh
2. R. Udaygiri	Rs.14.70 lakh	8. Nandahandi	Rs.41.70 lakh	14. Sanakhemundi	Rs.9.22 lakh
3. Pottangi	Rs.8.65 lakh	9. Tangarpalli	Rs.60.68 lakh	15. Baliapal	Rs.5.22 lakh
4. Gurundia	Rs.37.18 lakh	10. Lephripada	Rs.38.14 lakh	16. Khunta	Rs.8.41 lakh
5. Bheden	Rs.47.60 lakh	11. Sahapara	Rs.56.75 lakh	17. Koksara	Rs.52.85 lakh
6. Lathikata	Rs.32.55 lakh	12. Naktideul	Rs.13.68 lakh		

Panchayat Samities. The BDOs, however, did not adhere to the Accounting Rules and the procedures in the management of cash and maintenance of advance ledgers. It was also a failure on the part of the Inspecting Officers (Sub-Collectors) since such irregularities were not brought out in their Inspection notes. This resulted in the accumulation of outstanding advances amounting to Rs.6.46 crore. At this stage, correct adjustment can hardly be made, leaving wide scope for misappropriation of Government money.

Government stated (September 2004) that the concerned BDOs would be directed to take immediate steps to adjust/recover the outstanding advance.

AGRICULTURE DEPARTMENT

4.1.2 Unauthorised and doubtful transactions without drawing and disbursing power

The Junior Engineer of the Soil Conservation Sub-division, G. Udayagiri while unauthorisedly adjusted outstanding works advances of Rs.23.90 lakh covering 1050 sub-vouchers relating to 1989-2003 in the cash book without proper check measurement; amounts of Rs.9.25 lakh and Rs.0.16 lakh were also drawn by the JE without authority from the bank and the treasury.

As per Codal provisions, the Director, Soil Conservation, Orissa is the competent authority to declare an Assistant Soil Conservation Officer (ASCO) of a Soil Conservation Sub-division as the Head of Office with drawing and disbursing (DDO) power. The DDO is to check the accounts rendered in respect of advances paid to officials for different works before accepting the amount accounted for as final expenditure. In respect of adjustment of works advances, the ASCO being the sub-divisional officer is to check measure 50 *per cent* of the measurements made by the Junior Engineer (JE) and satisfy himself that the work has actually been executed as per specifications and design.

Scrutiny of records (June 2003) of the ASCO, G. Udayagiri and information collected in May 2004 revealed that consequent upon the death of the then ASCO who was the DDO on 26 December 2002, the Soil Conservation Officer (SCO), Phulbani authorised (14 January 2003) the JE of the sub-division to effect payment of wages to labourers for ongoing works under various schemes. As per the SCO's order, the JE was to obtain prior "permission and approval" of the SCO before payment of wages or entering into any other financial transaction. The JE acted as the ASCO from 14 January 2003 to 18 February 2003 the date from which the Director, Soil Conservation posted a regular ASCO as the Head of Office with drawing and disbursing powers.

During the period of holding the above charge, the JE unauthorisedly adjusted outstanding advances of Rs.23.90 lakh by showing the same as final expenditure on the payment side in the cash book covering 1050 sub-vouchers relating to the period 1989-2003. These sub-vouchers pertained to water harvesting structures, diversion weir, check dam, renovation of tank etc. All

these works were executed departmentally under different schemes²¹. Out of the above, the JE adjusted sub-vouchers worth Rs.12.63 lakh after passing orders for payment without check measurement of the competent authority. The adjusted amount included sub-vouchers for Rs.9.67 lakh against the advances taken by the JE himself. Besides, on the strength of the SCO's authorisation he drew Rs.9.25 lakh from the bank account and also paid Rs.9.32 lakh as advances including Rs.5.25 lakh to himself during the above period. All these transactions were carried out by the JE without the prior permission and approval of the SCO, as enjoined by the latter.

Thus, in disregard of the codal provisions and the specific orders of his superior officer, the JE unauthorisedly effected financial transactions of Rs.33.38 lakh (Rs.23.90 lakh + Rs.9.32 lakh + Rs.0.16 lakh). This became possible as the subordinate staff were paid advances indiscriminately from time to time without watching their adjustment for over 13 years which indicated total failure of the internal control mechanism; in particular the adjustment of the advance of Rs.9.67 lakh taken by the JE himself was against all norms of financial propriety. Besides, the correctness of the accounting entries in adjustments of vouchers without check measurement by competent authority was doubtful and merited investigation.

The ASCO admitted (June 2003) the facts pointed out in audit

The Principal Secretary to the Government, during discussion (September 2004) admitted the fact and stated that the Government had initiated action to conduct a special audit of the transactions made by the JE and suitable action would be taken to recover the amount involved in irregular transactions after receipt of the Audit Report.

HOUSING AND URBAN DEVELOPMENT DEPARTMENT

4.1.3 Irregularities in bus service

<p>Irregularities in the operation of passenger bus service by the Kendrapara Municipality resulted in loss of about Rs.33 lakh.</p>

Between August 1991 and August 1993, the Kendrapara Municipality purchased four passenger buses and converted one existing mini truck purchased in February 1991 at a cost of Rs.2.94 lakh into a mini bus by incurring an expenditure of Rs.1.37 lakh. The buses were purchased with a loan of Rs.22.36 lakh from the Kendrapara Urban Co-operative Bank (Rs.8.11 lakh) and Syndicate Bank (Rs.14.25 lakh). As required under the loan agreement, the Municipality was to open two current accounts with the Banks and deposit the daily collection for periodical transfer to the loan accounts.

²¹ (i) Calamity Relief Fund : Rs.2.07 lakh, (ii) Lift Irrigation : Rs.4.11 lakh, (iii) DPAP : Rs.0.29 lakh, (iv) Orissa State Forest Development Corporation : Rs.0.90 lakh, (v) SGRY : Rs.3.51 lakh, (vi) EAS : Rs.1.70 lakh, (vii) DPAP (FIA) : Rs.6.08 lakh, (viii) NWDPR : Rs.4.89 lakh and (ix) others : Rs.0.35 lakh.

The Kendrapara Municipality was taken up for audit for the first time in October 2003 and the following were observed regarding the operation of the Municipal bus service.

Two current accounts opened in the banks for deposit of daily collection were not maintained regularly and finally stopped operation between January 1994 and May 1998. The Municipality spent Rs.23.95 lakh from its own sources towards repayment of loan and interest as well as repair and maintenance of the buses. It also had an undischarged liability of Rs.9.11 lakh on account of loan and interest to the Kendrapara Urban Co-operative Bank as of September 2003.

Since April 1992, the maintenance of the cash book and other accounts relating to the bus service was taken away from the cashier of the Municipality and entrusted to another official. Thereafter, the income and expenditure relating to the bus service were not reflected in the accounts of the Municipality. Supervision over maintenance of the cash book was also lax in as much as it was not seen or countersigned by the Executive Officer between 1994 and 1996 nor was any physical verification of cash conducted.

Against the normal life of about 15 years for a bus, the five buses acquired by the Kendrapara Municipality were utilised for periods between two and half years and five years. Thereafter, two buses were left in the premises of the Municipality “in skeleton shape” as mentioned by the Executive Officer in his report to the Government and one bus was sold to a school (April 1998). The whereabouts of the remaining two buses were not on record as of September 2003.

Though the Executive Officer reported (June 2002) the matter to the Government and requested for investigation and action against the officials involved in bus business, the Government did not take any action till May 2004 when the matter was raised in audit. Even then, the Government only called for information from the Municipality during May/June 2004 relating to the irregularities in the bus business.

Lack of proper maintenance of accounts and lack of accountability on the part of the Municipal Authority led to the failure of the fledgling Municipal bus service and Government’s failure to take action, even when alerted, resulted in loss of Rs.33.06 lakh to the Municipality. The reason for lack of investigative or punitive action, in the context of total mismanagement and failure of the bus service was not clear.

Government stated (October 2004) that the Executive Officer, Kendrapara Municipality had recommended (September 2004) that the matter be referred to Crime Branch for investigation.

4.2 Infructuous/wasteful expenditure and overpayment

WATER RESOURCES DEPARTMENT

4.2.1 Unfruitful expenditure and undue favour to contractor

Unfruitful expenditure of Rs.9.43 crore due to non-completion of work and undue favour to a contractor towards non-recovery of Government dues of Rs.1.77 crore.

Kendrapara canal was proposed (November 1996) to be remodelled to carry additional discharge of 27 cumecs of water for providing irrigation to 15342 ha in Mahanadi Chitrotpala Island. The Executive Engineer (EE), Mahanadi Chitrotpala Island Irrigation Division No.I, Kendupatna, awarded (December 1998) the work “Remodelling of Kendrapara canal from RD 1650 metre to RD 11,887 metre” to a contractor at a cost of Rs.21.51 crore being 54 *per cent* excess over the estimated cost of Rs.13.93 crore for completion by November 2001 under the Orissa Water Resources Consolidation Project (OWRCP). The contractor failed to complete the work within the extended period (August 2003) and requested further extension of time upto June 2005 with a request for full closure of the canal for 6 ½ months at a stretch. Despite issue of notices, he did not resume the work and finally abandoned (August 2003) it after executing work worth Rs.9.43 crore (including escalation of Rs.1.17 crore). The Government did not sanction further extension of time involving second time closure of the canal for 6 ½ months since the contractor had failed to complete the work even after allowing such closure between December 2000 and July 2001. The contract was closed (February 2004) with penalty.

Check of records revealed (March 2004) that the contractor had executed 32 *per cent* work during the stipulated period and only five *per cent* during the extended period. As of the date of abandonment (August 2003), against the requirement of 4.70 lakh cum of earth work, 0.41 lakh cum of cement concrete lining, 9.85 km of roads and 25 structures, the contractor executed earth work for 4.57 lakh cum (without compaction), cement concrete (CC) lining for 0.10 lakh cum all in patches, road work only upto the sub base level and four structures. As a result of non-completion of cement concrete lining, the works executed in patches were damaged and the designed discharge could not be allowed in the canal. Thus, despite expenditure of Rs.9.43 crore, the remodelling of the canal remained incomplete due to contractor’s failure to complete the work rendering the expenditure unfruitful.

Out of Rs.1.70 crore paid to the contractor towards mobilisation, secured and equipment advances, Rs.1.10 crore was pending recovery with interest as of April 2004. Further, penalty of Rs.2.65 crore imposed for non-completion of work was also to be recovered. Against the total recoverable dues of Rs.3.75 crore, contractor’s Bank guarantee of Rs.1.40 crore valid upto July/August 2004 and the security deposit of Rs.0.58 crore were available with the department. No action had, however, been initiated to recover the balance of outstanding dues amounting to Rs.1.77 crore (June 2004).

Government confirmed the factual position and stated (September 2004) that action would be taken to protect the work done in patches, complete the balance of the works and recover the cost with penalty from the defaulting contractor.

COMMERCE AND TRANSPORT (COMMERCE) DEPARTMENT

4.2.2 Wasteful expenditure on cargo handling operation without any shipment activity

EE incurred wasteful expenditure of Rs.2.52 crore on cargo handling operation without any shipment activity in Gopalpur port.

Mention was made in para 4.2 of the Report of the Comptroller and Auditor General of India (Civil) for the year ended 31 March 2002 regarding undue favour shown to a stevedore without any shipment activity in Gopalpur port.

Further check of records of the Executive Engineer (EE), Gopalpur port (Civil) Division in June 2003 revealed that the Government decided (September 2002) not to have any cargo handling operation at the Gopalpur port for the shipment season 2002-03 (October 2002 to March 2003) due to non-availability of traffic. Subsequently in October 2002, the Government decided to operate the port from January to March 2003 without firm assurance on availability of traffic and determining time schedule for export from M/s Indian Rare Earths Limited (IREL), who were the captive users of the port. Accordingly, the work of operation, manning and maintenance of the port crafts of Gopalpur port for the year 2002-03 was awarded (January 2003) to a stevedore at a cost of Rs.1.12 crore for completion by March 2003. The EE paid Rs.66 lakh to the stevedore as of March 2003. His final bill for Rs.46.57 lakh was pending as of August 2004. Besides, EEs (Civil and Mechanical) spent Rs.86.72 lakh during 2002-03 and Rs.53.05 lakh during 2003-04 on nominal muster rolls (NMR) and casual labour without any shipment activity.

On pursuance by Government (October 2002), M/s IREL had only indicated that they would make their efforts to garner maximum possible cargo for shipment from the port for the shipment season 2002-03 through normal port operation through the "channel". The Government, however, allowed the port operation work for two and half months in deepwater jetty deviating from normal port operation through channel. Consequently, IREL did not nominate any shipment and expressed (February 2003) unwillingness to use the port for the 2002-03 season though in fact they had transported 27,746 MT of material by rail/road to other ports for shipment during the above contract period. Despite this, the contract with the stevedore for operation and manning was not closed which ultimately led to wasteful expenditure of Rs.2.52 crore including unpaid liability of Rs.46.57 lakh.

The Government stated (March 2004) that they decided to operate the port from January to March 2003 on receipt of indication from IREL to export minimum 10,000 MT of cargo and did not close the operation and manning contract on the ground of maintaining law and order. The normal port

operation through navigation channel was shifted to deepwater berth considering shortage of time and anticipating low volume of cargo of only 10,000 MT from IREL. The reply was not acceptable since no firm assurance was obtained from IREL to use the port in deepwater berth and only four days' time was required for handling of 10,000 MT of cargo.

REVENUE DEPARTMENT

4.2.3 *Infructuous expenditure on computerisation of land records and construction of training institute*

Despite approval of Government of India and sanction of requisite funds by the State Government, the Department could not digitize the cadastral maps of two tehsils nor could they finish the construction of a training institute building for over 11 years.

Government of India (GOI) released Rs.90 lakh in March 1993 towards 50 per cent share under the Centrally Sponsored Scheme of "Strengthening of Revenue Administration and updating of land records". Scrutiny of records (September 2003) of Deputy Director (DD), Survey and Map Publication, Orissa, Cuttack and information collected subsequently from the Government revealed that the State Government sanctioned Rs.1.78 crore including the GOI share in favour of the DD during various periods between March 1994 and March 2004. The position of expenditure on different components as of June 2004 was as below.

Name of work	Amount earmarked in the "Scheme"	Amount sanctioned by the State Government	Actual expenditure	Observations
Digitisation of cadastral maps of two tehsils by the Orissa Computer Application Centre (OCAC)	37.20	35.60	25.00	The OCAC was paid Rs.25 lakh in March 1999 for digitisation of 838 cadastral maps by September 1999. However, OCAC delivered only 198 maps upto June 2004. Rupees 3.60 lakh was lying in Civil Deposit since March 2003. Government admitted the fact and stated (September 2004) that the delay was due to non-availability of clear and up-to-date maps at tehsil level.
Establishment of State Level Survey and Revenue Law Training Institute	91.00	91.00 (March 1999)	53.48	Rupees 15 lakh was paid to Collectors for purchase of steel almirahs. Rupees 19.70 lakh was paid (June-December 2000) to Public Works divisions for construction of building of which Rs.9.17 lakh only was spent. Rs.18.58 lakh was spent (March-June 2000) on furniture and equipment for use by the training institute and tehsil offices. Furniture and equipment worth Rs.13.09 lakh meant for the institute remained unutilised, as the building was not complete. Thus, the expenditure of Rs.22.26 lakh on

Name of work	Amount earmarked in the "Scheme"	Amount sanctioned by the State Government	Actual expenditure	Observations
	Rupees in lakh			
				building and furniture remained unfruitful and the remaining Rs.37.52 lakh including Rs.3.20 lakh sanctioned for purchase of vehicle for the training institute was retained in Civil Deposit as of June 2004. Government stated (September 2004) that as the new building was still under construction, the furniture etc. were being used in the existing training institute.
Purchase of photo copiers for tehsil offices	85.80	51.80 (March 2000)	Nil	The entire amount of Rs.51.80 lakh kept in Civil Deposit (March 2000) continued to be there (June 2004). Government admitted the fact and stated (September 2004) that the purchase of photo copiers would be completed shortly.

Thus, the Centrally Sponsored Scheme of strengthening revenue administration and updating of land records sanctioned a decade ago remained incomplete although funds were not a constraint. The amount of Rs.22.26 lakh spent on building, furniture and equipment remained unfruitful and Rs.92.92 lakh was retained in Civil Deposit only to boost the ways and means position of the State.

The matter was referred (June 2004) to the Principal Secretary to the Government and was also discussed (September 2004) with the Additional Secretary of the Department who assured the completion of the project within a short period.

AGRICULTURE DEPARTMENT

4.2.4 Infertuous expenditure on cold storage

Despite expenditure of Rs.23.94 lakh on modernisation and repairs, the defunct cold storage plant at Paralakhemundi could not be operated commercially due to damages to the re-insulated ceiling caused by roof leakage raising doubts about the viability of its future commercial run; besides there was expenditure of Rs.62.25 lakh on idle wages.

Mention was made in paragraph 3.4 of the Comptroller and Auditor General's Audit Report (Civil) for the year ended 31 March 1996 on Government of Orissa regarding unfruitful expenditure due to idling of a cold storage plant at Paralakhemundi and its staff since March 1990. The Public Accounts Committee while commenting on the nugatory expenditure on running of an idle establishment (though not in the Agriculture Department) observed²² that it was undesirable to run an establishment without specific work. They also

²² 25th Report (Para 19) 12th Assembly – presented to the Orissa Legislative Assembly on 24 December 2002 on paragraph 4.1.7 of C&AG's Audit Report (Civil) for the year ended 31 March 1994 on Government of Orissa.

expressed the view that responsibility should be fixed on concerned officers for overlooking such expenditure at Government expense.

Scrutiny of records of the Horticulturist, Paralakhemundi in November 2003 and information collected subsequently (January to June 2004) revealed that to make the defunct cold storage operational, some modernisation and modification works were taken up between October 1997 and June 2001 by engaging three private firms. The work included replacement of its freon based refrigeration plant with an ammonia based plant, modification of the existing storage rack system and re-insulation of the damaged ceiling and insulation in storage chambers. The modification to the existing rack system and the re-insulation of the damaged ceiling etc. were completed by July 1999. The replacement, installation and trial run of the plant were completed in June 2001 but by that time the thermocol re-insulated ceiling got damaged due to leakage of rain water through the roof. All the above works including some repairs to the building were undertaken departmentally up to May 2002 at a cost of Rs.23.94 lakh. However, the commercial run of the renovated cold storage could not be started (May 2004) as the leakage in the roof persisted. As a result, the plant, although mechanically functional, was kept idle and expenditure of Rs. 62.25 lakh was incurred on idle wages for the period from April 1990 to May 2004. The entire expenditure of Rs.86.19 lakh on renovation and repair as well as wages thus turned out to be infructuous.

The Director stated (May-June 2004) that the cold storage being very old, various defects persisted despite repeated repairs. He also stated that the Government constituted a steering committee in November 2003 for examining the viability of all the cold storages before which the issue of this cold storage would be placed for recommendations. The reply was not convincing, as the viability of the cold storage should have been decided before incurring the above expenditure on renovation and repairs. Moreover, by keeping the plant idle, Government continued to incur infructuous expenditure towards idle wages.

The Principal Secretary to Government during discussion (September 2004) admitted the fact and stated that the final view on the possible divestment of the cold storage and its privatisation would be taken after receipt of the recommendation from the Steering Committee.

REVENUE DEPARTMENT

4.2.5 Wasteful investment due to non-utilisation of buildings after construction

Keeping staff quarters unallotted for over 11 years in Sambalpur Collectorate and non-occupation of residence-cum-office building in Khurda Collectorate led to wasteful expenditure of Rs.58.86 lakh besides loss of revenue of Rs.8.45 lakh. There was blocking of capital of Rs.10.69 lakh on an incomplete office building in Bhadrak Collectorate.

During the course of audit of Collectorates at Sambalpur, Khurda and Bhadrak between November 2002 and March 2004, the following cases of non-

occupation of residential and office buildings as well as blocking of funds on incomplete works were noticed.

In Sambalpur Collectorate, 40 residential (24 'E' type, 16 'F' type) quarters were completed in December 1989. The Collector, Sambalpur took possession of the quarters from the PWD in January 1993. Only eight of these (seven 'E' type and one 'F' type) were allotted by the Collector in June 1998. The remaining 32 quarters were left unallotted as of March 2004 and were under unauthorised occupation of outsiders. The cost of construction of the unallotted quarters amounted to Rs.36.41 lakh and keeping the quarters unallotted made this expenditure infructuous besides resulting in loss of licence fee of about Rs.8.45 lakh between February 1993 and March 2004. The Collector, Sambalpur stated (March 2004) that the quarters were not allotted in the absence of facilities for drinking water, roads, drainage, sanitation etc. The reply did not clarify the reasons for not providing the required facilities during the 11 years till March 2004.

In Khurda Collectorate, construction of a residence-cum-office building for the Collector commenced in December 1996 and was completed in March 1998 at a cost of Rs.22.45 lakh. Despite requests from the Executive Engineer, the Collector, Khurda who had been allotted a Government accommodation at Bhubaneswar did not take possession of the building as of March 2004 on the ground of unsuitability of the location. In fact the site had not been approved by the Revenue Divisional Commissioner. Meanwhile, damages had been caused to the doors, windows etc. of the building owing to non-occupation and restoration and repair would involve an estimated expenditure of Rs.5.50 lakh. Thus, the amount of Rs.22.45 lakh spent in construction of the building turned out to be wasteful so far. The Collector, Khurda stated (December 2003) that the unsuitability of the location of the building had been intimated (June 2001/April 2002) to the Government with the request to transfer the building to some other needy Department.

In Bhadrak Collectorate, the construction of an office building for the Collector commenced in May 2001 to be completed within six months. The estimated cost was Rs.65.50 lakh but the allotment of funds for the building was only to the extent of Rs.9.50 lakh. For want of further allotment of funds, the work was stopped in 2001-02 after incurring an expenditure of Rs.10.69 lakh on construction upto the plinth level. Non-allotment of further funds resulted in blocking of the amount already spent on the incomplete building.

To sum up, non-occupation and non-allotment of houses as well as non-provision of requisite funds led to wasteful investment of Rs.69.55 lakh besides loss of revenue of Rs.8.45 lakh.

The matter was demi-officially referred (June 2004) to the Commissioner-cum-Secretary to the Government and was also discussed with the Additional Secretary (September 2004) who admitted the facts and stated that funds would be provided to complete the incomplete works at Sambalpur and Bhadrak Collectorates and the Government was actively considering to convert the Collector's residence at Khurda to a circuit house.

HOUSING AND URBAN DEVELOPMENT DEPARTMENT

4.2.6 Infructuous expenditure on payment of interest and fees to HUDCO

Commitment of the State Government to stand guarantee to OWSSB for loan from HUDCO without the concurrence of the Finance Department and without ensuring execution of the three concerned water supply schemes resulted in infructuous expenditure of Rs.65.96 lakh towards payment of interest and fees to HUDCO.

The Orissa Water Supply and Sewerage Board (OWSSB) Act, 1991 provides that the Board may borrow money, with the previous sanction of the State Government, from Banks or other bodies or institutions of the State Government to discharge its functions. When the State Government guarantees the repayment of any such loan with interest, such guarantee is to be given by the concerned Administrative Department with the concurrence of the Finance Department.

Test check of the records (October 2003) of the OWSSB revealed that in March 1998, the Board received the first instalment amounting to Rs.69.41 lakh of a loan from the Housing and Urban Development Corporation (HUDCO) for execution of water supply schemes at Dhenkanal, Barbil and Bargarh. The Board had executed the loan agreement with the Corporation on the strength of a commitment of the State Government (March 1998) to stand guarantee for the repayment of the loan and interest. The commitment was given by the Housing and Urban Development Department without the concurrence of the Finance Department as required under the rules. Subsequently, in a meeting taken by the Chief Secretary on 15 April 1998, it was decided not to take up the above schemes immediately due to lack of budgetary provision and infrastructure facility. However, in anticipation of availability of funds towards margin money to be provided by the State Government in subsequent years, processing of the proposal for obtaining concurrence of the Finance Department for Government guarantee on HUDCO loan was continued from April 1998 to March 2003.

Out of the first instalment of Rs.69.41 lakh, HUDCO actually paid Rs.56.12 lakh only after deducting Rs.13.29 lakh towards non-refundable front-end fee and Research and Development fee. The Board spent Rs.7.89 lakh on survey, investigation and cost of land for the scheme. The Housing and Urban Development Department of the State Government instructed the Board in February 2002 to refund the loan with interest to HUDCO. The Board paid (July 2002) Rs.53.11 lakh as principal and Rs.44.78 lakh as interest as the guarantee proposal was not finally concurred in by the Finance Department.

Thus, the expenditure of Rs.65.96 lakh incurred by the Board towards payment of interest (Rs.44.78 lakh), survey and investigation (Rs.7.89 lakh) and on account of front-end fee and Research and Development fee (Rs.13.29 lakh) in respect of the three water supply schemes proved to be infructuous.

On this being pointed out, the OWSSB stated (December 2003) that the expenditure of Rs.65.96 lakh would be recouped from the Government.

However, the Government had already rejected (March 2003) the proposal of the Board to do so due to the decision taken in the meeting of the Chief Secretary in April 1998. The Government stated (April 2004) that it was not possible to take up the schemes due to the stringent financial position. Clearly, the infructuous expenditure which was a loss to the Board arose because the Housing and Urban Development Department committed, without authority, to guarantee the repayment of the loan with interest. The State Government in its reply (July 2004) also cited the stringency of its financial position in the post cyclone period as a reason for not taking up the schemes. However, the commitment by the Housing and Urban Development Department was issued in March 1998, long before the occurrence of the super cyclone in late October 1999.

Responsibility may be fixed on concerned officer(s) of the Housing and Urban Development Department for giving the guarantee to the HUDCO without obtaining approval of the Finance Department

FISHERIES AND ANIMAL RESOURCES DEVELOPMENT DEPARTMENT

4.2.7 Infructuous expenditure on idle staff and machinery of the defunct feed mixing centres

Failure to redeploy the idle staff, machinery and vehicles of defunct Feed Mixing Centres for over three years led to infructuous expenditure of Rs.61.58 lakh; expenditure on monthly idle wages of Rs.1.47 lakh was continuing.

Five²³ departmental Feed Mixing Centres (FMCs) established between February 1964 and March 1994 were functioning in the State for manufacturing nutritionally pre-mixed feed for supply to various departmental Livestock Breeding and Dairy (LBD) farms and poultry farms and for sale to the public. Government decided (March 2001) to discontinue the functioning of the FMCs by redeployment of staff elsewhere except for a limited watch and ward staff as the FMCs could not maintain the desired level of nutrition in the feed and failed to supply feed regularly to the farms. It was also decided (March 2001) that the LBD and other farms would procure feed from Orissa Milk Producers Federation (OMFED) from 2001-02 onwards.

Scrutiny of the records of the FMCs at Koraput, Remuna and Sundargarh during November/December 2003 and information collected subsequently from the Director of Animal Husbandry and Veterinary Services, Cuttack revealed that the above three FMCs stopped functioning from April 2001 followed by the FMC at Chiplima from June 2001. Due to closure of the FMCs, 37²⁴ employees became idle, of which 15 were redeployed and two took voluntary retirement after remaining idle for 16 to 19 months. The remaining 20 staff²⁵ were continuing on the rolls of these FMCs without any

²³ At (1) Bhanjanagar, (2) Chiplima, (3) Koraput, (4) Remuna and (5) Sundargarh.

²⁴ (1) Koraput : 12, (2) Remuna : 14, and (3) Sundargarh : 11

²⁵ Senior clerks : 2, Junior clerk : 1, Field Multi Purpose Demonstrators : 3, Mechanic : 2, Livestock Inspector: 1 and Class - IV staff : 11.

work. It entailed infructuous expenditure of Rs.54.16 lakh on pay and allowances of the idle staff between April 2001 and November 2003. However, the FMC at Bhanjanagar continued to function during 2001-03 incurring total expenditure of Rs.16.25 lakh for the supply of feed worth Rs.6.99 lakh. Machinery (Grinders: 6, Mixers: 8) and vehicles (Trucks: 4, Jeep: 1) of the closed units continued to remain idle and Rs.2.49 lakh were spent towards road tax, repairs and maintenance of the idle vehicles and energy charges of the buildings during the above period.

Further, at the time of closure, the FMCs²⁶ were left with 1820 quintals of feed ingredients worth Rs.9.88 lakh. Out of the above quantity, 583 quintals worth Rs.3.38 lakh were disposed of subsequently by transfer to departmental farms (68.49 quintals: Rs.0.42 lakh) and on auction sale (514.51 quintals worth Rs.2.96 lakh was sold for Rs.1.02 lakh at a loss of Rs.1.94 lakh). Besides, long storage of the feed ingredients led to loss of Rs.2.99 lakh that comprised wastage of 233 quintals costing Rs.1.20 lakh and loss of Rs.1.79 lakh as 292 quintals became unfit for animal consumption at Remuna. This left a balance of 712 quintals worth Rs.3.51 lakh undisposed with the FMCs as of November 2003.

Thus, due to lack of effective follow up action for redeployment of idle staff, distribution of feed ingredients, maintenance of idle vehicles etc. the Government incurred infructuous expenditure of Rs.61.58 lakh (Rs.54.16 lakh + Rs.2.49 lakh + Rs.1.94 lakh + Rs.2.99 lakh). Besides, expenditure on monthly idle wages of Rs.1.47 lakh was continuing.

During discussion (September 2004), the Additional Secretary to Government stated that Government had already taken steps to fix the upset value of the machinery for auction and the idle assets would be disposed of soon.

The matter needs prompt action as any further delay in the matter would lead to further loss due to deterioration of the quality of feed ingredients and maintenance of idle establishment and the vehicles.

AGRICULTURE DEPARTMENT

4.2.8 Deterioration of land and infrastructure of Deras agricultural seed farm due to lack of attention

Hasty action to stop farming pending setting up of 'Integrated Agro Park' which did not come up and Government's subsequent lack of attention to the deteriorating condition of the farm resulted in things going from bad to worse as the land became uncultivable; expenditure of Rs.25.88 lakh was incurred for payment of idle wages which is continuing.

The Agricultural seed farm 'Deras' at Mendhasal, spread over an area of 350 acres, was functioning to produce quality seeds for supply to the local farmers.

²⁶ (1) Koraput : 835.40 quintals (Rs.5.92 lakh), (2) Remuna : 328.64 quintals (Rs.1.97 lakh) and (3) Sundargarh : 656.84 quintals (Rs.1.99 lakh).

The farming activities of the farm were stopped in January 1996 in view of setting up of an 'Integrated Agro Park' on the same site as a joint venture of the Agricultural Promotion and Investment Corporation of Orissa Limited (APICOL) and a private company for which a Memorandum of Understanding (MOU) was signed between them. The delay in implementation of the Agro Park and the consequential wastage of Government money due to idle wages after stoppage of the farming activities was commented upon in paragraph 3.1.12 of the Comptroller and Auditor General's Report (Civil) on Government of Orissa for the year ended 31 March 1998.

Scrutiny of the records of the Deputy Director of Agriculture (DDA), Puri in July 2002 and information collected from that office subsequently and from the Government in May 2004 revealed that the proposed Agro Park did not come up as the private company backed (July 1998) out of the MOU. The Government in July 2000 decided to restart the farming work departmentally. However, as reported (March 2001) to the Government by the Director of Agriculture and Food Production, Orissa the land had become unfit for further cultivation because of long discontinued farming and required proper reclamation. Besides, the existing infrastructure such as office building, godowns, staff quarters, irrigation channels, field bunds, fencing etc. had been damaged due to lack of maintenance. The DDA's report (February 2003) on restoration of the infrastructure to original condition including procurement of farm machinery submitted to the Director estimated the requirement of funds at Rs.1.06 crore which was not provided by the Government so far (May 2004).

Thus, hasty action to stop farming in January 1996 without going through the decision to set up the 'Integrated Agro Park' and the Government's subsequent lack of attention to the deteriorating condition of the farm despite the recurring loss being pointed out in the Audit Report earlier, resulted in damage of existing infrastructure besides idling of the staff. The wages paid to such staff amounted to Rs.25.88 lakh by April 2004; payment of idle wages was continuing (June 2004). This apart, there was reported loss of employment of a large number of villagers who were dependent on the farm for their livelihood.

The Principal Secretary while admitting the facts stated (October 2004) that three out of the seven idle staff were since transferred to other establishments and the services of remaining staff were necessary for maintenance of the farm records and watch and ward of the farm. He also stated that different means to restore the farm to workable condition are under the active consideration of Government.

4.3 Violation of contractual obligations/undue favour to contractors

WATER RESOURCES DEPARTMENT

4.3.1 Irregular issue of subsidised rice to contractors after completion of works

Issue of rice to the contractors after completion of works deprived labourers of subsidised rice and conferred benefit of subsidy of Rs.8.09 crore to the contractors.

With a view to augmenting food security through wage employment in the areas affected by natural calamities like drought, flood, cyclone and earthquake, Government of India (GOI) launched the Food for Work Programme and Sampurna Grameen Rozgar Yojana during 2001 and 2002 respectively. The scheme provided for supply of 5 kg rice per day at subsidised rate of Rs.5.65 per kg to a labourer engaged in the work and payment of balance of wages in cash. To ensure that the benefit of subsidy reached the labourer and as a safeguard against the sale of rice at higher rate in the market, the scheme stipulated that rice should be supplied to the labourers at the work site along with cash component on muster rolls. Panchayati Raj Department allotted rice to Water Resources Department during 2001 in May and September, during 2002 in April, June and December and during 2003 in April, June and October. Soon after allotment of food grains, the Water Resources Department issued release orders to CE who in turn allotted the rice to respective Divisions with instructions that the tenders should be decided only after receipt of food grains. EEs however, executed the works before receipt of rice from F.C.I godowns.

Test check of records of seven²⁷ irrigation divisions revealed (January 2004) that Executive Engineers (EEs) issued 13150 MT of rice (between June 2001 and January 2004) to contractors long after completion of works executed through 2183 F₂ agreements between May 2001 and December 2003. The delay in issue of rice ranged between 12 and 20 months in case of 395 agreements involving 2048 MT of rice between seven and eleven months in case of 150 agreements (1023 MT of rice) and between one and six months in case of 1638 agreements (10079 MT of rice). Since distribution of rice to daily wage workers long after completion of the works was not practicable, particularly in the absence of muster rolls indicating receipt of rice by workers, the subsidy of Rs.8.09 crore provided by GOI was not passed on to the labourers and instead, led to undue benefit to the contractors.

Thus, the primary objective of the GOI scheme of providing food security by generating wage employment was defeated and the subsidy of Rs.8.09 crore

²⁷ Saline Embankment Division, Cuttack, Jagatsinghpur Irrigation Division, Prachi Irrigation Division, Drainage Division, Cuttack, Drainage Division, Bhadrak, Jajpur Irrigation Division, Balasore Irrigation Division.

was rendered wasteful.

While confirming the factual position, the Government stated (September 2004) that field units executed some works before receipt of rice due to delay in its receipt from F.C.I. The reply was not acceptable since the instructions of the CE “not to finalise the tenders before receipt of rice”, were violated by the EEs. The Government, however, assured (September 2004) that the programme guidelines would be followed strictly in future.

4.3.2 Non-recovery of dues from a contractor

Overpayment and non-recovery of Government dues of Rs.47 lakh from a contractor.

The Executive Engineer (EE) MI division, Keonjhar awarded (May 1998) head works of Kakudiamba Minor Irrigation Project such as dam, chute spillway and head regulator to a contractor for Rs.4.88 crore for completion by May 2000. The contractor left the work in January 2001 after executing work worth Rs.3.57 crore leaving remaining work of earth dam and spillway worth Rs.1.31 crore. Considering the delay in execution and bad workmanship of the contractor, the Chief Engineer closed (June 2002) the contract with the penalty of recovery of the extra cost involved in completion of the remaining work. EE awarded (April 2003) the remaining work with some extra quantities to M/s Orissa Construction Corporation for Rs.2.25 crore for completion by March 2004 and the work was in progress as of September 2004.

Check of records of the Superintending Engineer, Northern MI circle, Sambalpur revealed (September 2003) that the extra cost of Rs.22.54 lakh was not recovered from the contractor. Out of the equipment advance of Rs.24.38 lakh paid (June 1998), only Rs.5.42 lakh was recovered from contractor's bills and balance of the advance with interest thereon amounting to Rs.42.51 lakh was outstanding. Further, against the value of work of Rs.3.57 crore executed, the EE paid (August 2000) Rs.3.63 crore to the contractor on running bills resulting in overpayment of Rs.6.39 lakh. The EE did not take steps to prevent the contractor from taking away the hypothecated machinery from the site in March 2001.

Against the dues of Rs.71.44 lakh recoverable from the contractor, an amount of Rs.24.80 lakh was available with the department. The EE had not initiated any action for recovery of the remaining dues of Rs.46.64 lakh as of September 2004.

The Government stated (September 2004) that action would be taken to recover the dues from the defaulting contractor by filing a money suit.

WOMEN AND CHILD DEVELOPMENT DEPARTMENT

4.3.3 Excess payment to transporters

Collectors of two districts reckoned inflated distances for payment of transportation of foodstuff from Paradip Port to Keonjhar and Baripada which resulted in unjustified payment of Rs.36.34 lakh during 1999-2004.

Foodstuff received at Paradip Port under the CARE feeding programme is distributed in the State by the Government through projects under the Integrated Child Development Scheme (ICDS). For this purpose, the foodstuff is first transported from Paradip port to the godowns in various District Headquarters. Storage and Transport (S&T) agents for this purpose are appointed by the Government and the concerned District Collectors execute necessary agreements with them. Since July 2001, the power to appoint S&T agents was delegated to the Collectors.

Scrutiny of records (November 2003) in the Keonjhar District Collectorate revealed that payment was being made on the basis of a distance of 235 kilometres as per the agreements for transport of CARE foodstuff from Paradip port to the District Headquarter upto 30 September 1999. The Collector, Keonjhar, at the instance of the Women and Child Development Department entrusted the transport of CARE foodstuff to another S&T agent namely M/s Kalinga Commercial Corporation from 1 October 1999 adopting the distance of 299 kilometres between Paradip port and Keonjhar. The basis for adoption of the higher distance was a letter dated 2 January 1998 of the Orissa State Road Transport Corporation addressed to the Women and Child Development Department. The Chief Engineer, National Highways, Orissa, Bhubaneswar clarified (August 2004) that Paradip port and Keonjhar have been connected through National Highways with the distance of 231 km and that there should normally not be any major change in the distance from time to time. Besides, according to the clarification furnished (February 2004) to Audit by the OSRTC the distance indicated in the OSRTC's circular of January 1998 was via Cuttack city whereas the lower truckable distance would be 247 kilometres via Chandikhole, bypassing Cuttack city. However, considering that S&T agent of Keonjhar had been paid earlier on the basis of 235 km, there was no apparent reason for allowing payment on the basis of the inflated distance of 299 Km. The extra payment made to the S&T agent owing to inflation of the distance amounted to Rs.11.70 lakh during the period 2000-2004. The beneficiary throughout the period was M/s Kalinga Commercial Corporation.

Transport of CARE foodstuff from Paradip port to Baripada involved exactly similar inflation of the distance, as was observed during scrutiny of records (June 2004) in the Mayurbhanj District Collectorate. Upto 1998-99 the distance allowed from Paradip port to Baripada was 265 kilometres whereas during 1999-2000 to 2001-02 the S&T agent was allowed a longer distance of 355 kilometres based on the OSRTC letter of January 1998 quoted above. In this case also, the Chief Engineer, National Highways, Orissa clarified that the distance was 262 Km. Interestingly, the distance indicated in the agreement

was again brought down to the earlier figure of 265 km since 2002-03, the rationale for which was not on record. The undue benefit arising out of inflation of the Paradip-Baripada distance also accrued to the same S&T agent and the excess payment during 1999-2002 amounted to Rs.24.64 lakh.

To sum up, allowing longer distances by the Collectors for transportation of foodstuff from Paradip port to Keonjhar and Baripada resulted in unjustified payment of Rs.36.34 lakh to the S&T agent during 1999-2004.

The matter was demi-officially referred (July 2004) to the Commissioner-cum-Secretary to the Government; reply was awaited (November 2004).

HEALTH AND FAMILY WELFARE DEPARTMENT

4.3.4 Extra liability due to delay in finalisation of tender and non-inclusion of penalty clause in the agreement

Delay in finalisation of tender and failure to include penal clause in design consultancy contract by OHSDP resulted in extra liability of Rs.30 lakh.

For providing quality health care in the State, construction of new hospital buildings as well as extension, renovation and repair of old hospital buildings is undertaken under the Orissa Health System Development Project (OHSDP).

Excess expenditure due to delay in finalisation of tender

Scrutiny of the records of the OHSDP in November 2002 and information collected subsequently revealed that the work of new construction as well as repair and renovation of the District Headquarters Hospital, Sonapur estimated to cost Rs.1.74 crore (based on Orissa Schedule of Rates 1998) was put to tender in November 2000. As the lowest offer of Rs.2.29 crore exceeded the estimated cost by more than 10 *per cent*, the OHSDP sought (January 2001) the approval of the State Government as required under Finance Department instructions of October 1998. The clearance from the Government was received in May 2001 after expiry of the validity of the bid in April 2001 and the lowest bidder did not extend his offer. Thereafter the estimate was updated to Rs.2.13 crore as per the Schedule of Rates 2000 and after obtaining approval of the World Bank in July 2001, the work was put to rebid (October 2001) and ultimately awarded (June 2002) to another contractor for a contract price of Rs.2.43 crore with stipulation to complete the same by September 2003. As of March 2004, only a portion of the work worth Rs.1.03 crore had been executed. The failure of the Government to accord approval within the validity period of the bids resulted in excess expenditure of Rs.14 lakh besides time overrun of more than 21 months; the work is continuing.

The Project Director, OHSDP admitted the fact (December 2002).

Non-performance of design consultant owing to absence of penal clause

The OHSDP appointed (May 2000) M/s Dalal Mott McDonald as a design consultant for 15 hospitals at a contract price of Rs.24.88 lakh with six months

time for completing the designs. After completing designs and documentation of eight projects and covering some preliminary designs for four projects against the total payment of Rs.13.39 lakh, the consultant stopped the work in March 2002. Due to non-performance in respect of the remaining seven incomplete works, the OHSDP terminated the contract in September 2002. In the absence of a penal clause in the contract, no punitive action could be taken against the contractor. The design of the seven incomplete works was entrusted (November 2002) to the other construction management consultants viz., Orissa Construction Corporation Limited (four works) and M/s Mecon (three works) at negotiated contract prices of Rs.19.50 lakh and Rs.8 lakh respectively. These two consultants had already been engaged on construction work. As of March 2004 the design work had been completed and the civil works were in progress. Unlike the previous contract with M/s Mcdonald, the new contracts with both the above firms had penal clauses. Non-inclusion of the relevant clause in the contract with M/s Dalal Mott Mcdonald left no scope for OHSDP to claim liquidated damages or to enforce the performance of the contract in time on pain of monetary penalty.

The Project Director, OHSDP stated (June 2004) that the contract format prescribed by the World Bank did not contain any penalty condition on the consultant. The reply was not tenable because the OHSDP awarded the left over work to the other two firms with penalty clause as usual in the contract which could have been done earlier. The consultant could easily stop the work owing to non-existence of any penalty clause.

To sum up, the delay in finalisation of tender and failure to include penal clause in design consultancy contract resulted in extra liability of Rs.30 lakh and time overrun ranging from 21 to 40 months in the execution of projects.

The matter was demi-officially referred (July 2004) to the Commissioner-cum-Secretary to the Government for reply within six weeks. Reply had not been received (November 2004).

4.4 Avoidable/excess/unfruitful expenditure

RURAL DEVELOPMENT DEPARTMENT

4.4.1 Unfruitful expenditure on water supply schemes

Failure to complete water supply schemes resulted in unfruitful expenditure of Rs.8.66 crore.

Test check of four Rural Water Supply and Sanitation (RWSS) divisions revealed that eight rural piped water supply schemes were taken up between 1991 and 2002 for completion between 1995 and 2003 to provide safe drinking water to 80 villages. The Executive Engineers (EEs) incurred expenditure of Rs.8.66 crore on the schemes as of January 2004. Though a huge expenditure was incurred on the schemes, water supply could not be provided to villagers due to non-completion/non-commissioning as of April 2004. The schemes remained incomplete due to failure of the EEs to finalise

the source of water and obtain power supply to pump houses.

Thus, the expenditure of Rs.8.66 crore proved unfruitful as detailed below:

Sl. No.	Name of the Rural Piped Water Supply Scheme/project cost/name of the RWSS Division	Year of commencement/Target Year of Completion	Expenditure (Rupees in lakh)	Remarks
1	2	3	4	5
1.	Singheswar and its adjoining 33 Villages/ Scheme cost- Rs.327.41 lakh/ RWSS Division, Bhubaneswar.	<u>1997-98</u> 1999-2000	327.41	The source of water for the scheme was a Minor Irrigation Project. Though agreement was executed with the Water Resources Department it did not allow pipe line up to the source even as of March 2004. Further, laying of pipe line across National Highways was not taken up. Thus, the scheme taken up six years back remained incomplete with expenditure of Rs.327.41 lakh as of January 2004. The EE stated that scheme would be commissioned after completion of the remaining works.
2.	Bhusundpur and its adjoining 14 villages/ Scheme cost- Rs.377.91 lakh/ RWSS Division, Bhubaneswar	<u>1998-99</u> 2000-01	377.91	Though the scheme was scheduled to be completed in 2001, head works, distribution line, construction of leading channel, settling tank, clear water pump chambers, chemical house, pump house, stand posts, internal and external electrification were not completed even after incurring expenditure of Rs.377.91 lakh (November 2003). Moreover, the site selected for the head works was found to be under saline zone and water logged during rain. Fresh investigation for structural components of head works was under progress. The EE stated that scheme would be commissioned after completion of the remaining works.
3.	Pailo and five adjoining villages/ Scheme cost- Rs.44.86 lakh/ RWSS Division No.I, Cuttack	<u>1997-98</u> Six months	10.00	Though the Scheme was neither technically sanctioned nor administratively approved, expenditure of Rs.10 lakh was incurred as of November 2003. One production well had been completed. No other works were taken up as of January 2004. As a result, the expenditure Rs.10 lakh became unfruitful.
4.	Bindhanima and adjoining 13 villages/ Scheme cost - Rs.126.24 lakh/ RWSS Division No-I, Cuttack	<u>1991-92</u> 1994-95	44.09	The scheme was targeted to be completed in 1995. Though more than 12 years elapsed, source of water for the scheme was not identified as of April 2004. The EE utilised allotment of Rs.44.09 lakh received for the scheme between 1991 and 2003 on procurement of cast iron pipes in excess of requirement and the pipes were either transferred to other works or lying idle as of April 2004.

Sl. No.	Name of the Rural Piped Water Supply Scheme/project cost/name of the RWSS Division	Year of commencement/ Target Year of Completion	Expenditure (Rupees in lakh)	Remarks
1	2	3	4	5
5.	Kandhanayagarh Village/ Scheme cost- Rs.20.76 lakh/ RWSS Division, Bhubaneswar	1998-99 1999-2000	20.76	All these Schemes were completed between April 1997 and March 2003 but were not commissioned for want of power supply as of April 2004. No steps were taken by the EEs to get electricity with the result that expenditure of Rs.106.87 lakh incurred on these projects remained unfruitful.
6.	Arkhapali Village/ Scheme cost- Rs.25.32 lakh/ RWSS Division, Bhubaneswar	1998-99 1999-2000	25.32	
7.	Garadpur Village/ Scheme cost- Rs.34.32 lakh/ RWSS Division No.II, Cuttack	2002 2003	31.63	
8.	Village Gopalpur/ Scheme cost- Rs.29.16 lakh / RWSS Division, Bhubaneswar	1994-95 1995-96	29.16	
	Total		866.28	

While confirming the factual position, Government assured (September 2004) that in future, schemes would be taken up after finalisation of source of water.

WORKS DEPARTMENT

4.4.2 Non-recovery of additional cost on retendering of work and loss owing to abandonment of pier wells

Abandonment of four pier wells already constructed led to loss of Rs.1.18 crore. EE failed to recover penal cost of Rs.5.98 crore from the contractor.

Mention was made in para 4.18 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2000 regarding idle expenditure of Rs.1.94 crore due to non-completion of high level bridge over river Devi at Sikharghat.

The Executive Engineer (EE) R&B Division Jagatsinghpur awarded (December 1994) the work of construction of the bridge to a contractor for Rs.7.98 crore for completion by December 1997. After executing the work worth Rs.1.94 crore, the contractor left the work in July 1997. The Government rescinded (July 1998) the contract at the risk and cost of the

contractor with instructions to execute the remaining work through fresh tender. Further check of records revealed (May 2004) that after approval (January 2004) of the Government, the EE awarded (February 2004) the remaining work to another contractor at a cost of Rs.12.02 crore for completion by February 2007 involving extra cost of Rs.5.98 crore. The EE did not take any action to recover the additional cost of Rs.5.98 crore from the defaulting contractor.

In the meanwhile, the Technical Committee inspected (January 2004) the site and observed that four pier wells (P₄ to P₇) left incomplete by the former contractor had developed excessive tilt and shift, beyond the permissible limit²⁸ for which Rs.1.18 crore were paid. The committee rejected these pier wells and suggested that five new wells be constructed in their place. Accordingly, the CE approved the revised GAD in February 2004 providing for five new wells and two additional spans.

The CE intimated (February 2004) the Government that reasons for excessive tilt and shift of pier wells were being examined. The EE attributed (August 2004) the aberration to the contractor who left the incomplete wells before plugging. No action was taken either against the defaulting contractor or the officers in charge for the loss of Rs.1.18 crore.

The Government accepted (September 2004) the factual position and stated that Rs.7.05 lakh were already recovered from the contractor and for the balance of the amount, filing of money suit against him was under process.

RURAL DEVELOPMENT DEPARTMENT

4.4.3 Unwarranted benefit to contractors

Failure to adhere to the Indian Road Congress code while sanctioning the estimates resulted in unwarranted benefit of Rs.2.30 crore to contractors.
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The Executive Engineer (EE), Rural Works (RW) division, Kendrapara awarded the works of construction of six²⁹ high level bridges to four contractors between January 2000 and May 2003 at a cost of Rs.28.99 crore (estimated cost Rs.26.30 crore) for completion between December 2002 and May 2005. The contracts, *inter-alia*, provided for execution of cement concrete (CC) items of strength M200, M250 and M350 using minimum quantity of cement as prescribed in Indian Road Congress (IRC) code subject to mix-design proportion in conformity with the gradation and proportion of all materials. The works were executed and Rs.31.73 crore were paid to contractors as of March 2004 at their quoted rates.

Test check of records revealed (December 2003) that according to the IRC code 310 kg, 360 kg and 400 kg of cement per cum were required for

²⁸ Tilt not to exceed 1 (horizontal) in 80 (vertical), shift not to exceed more than 150 mm in any resultant direction.

²⁹ 1. HL bridge over Chitrotpala near Patkura, 2. HL bridge over Chitrotpala near Sasanipada, 3. HL bridge over Luna at Kalapada, 4. HL bridge over Kani on Aul Bhuinpur road, 5. HL bridge over dead Luna on Alilo Mahakalapada road and 6. HL bridge over Gobari on Anguli Orata road.

execution of CC items of strength of M200, M250 and M350 respectively. However, the Chief Engineer (CE), RW sanctioned the estimates for these works providing for 411 kg, 571 kg and 745 kg per cum respectively based on the State Analysis of Rates. Although the mix design tests conducted during execution confirmed substantial reduction in the requirement of cement of M200 (362 kg), M250 (413.5 to 444 kg) and M350 (480 to 529 kg), the item rates (which included the excess provision of cement) were not correspondingly scaled down based on the actual cement utilised in the work. This led to unwarranted benefit of Rs.2.30 crore to the contractors of which Rs.1.75 crore were already paid upto March 2004.

The Government stated (September 2004) that lowering of rate based on variation of actual consumption of cement was beyond the scope of the contract and assured that a specific clause in the contracts for adjustment of item rate based on actual consumption of cement would be incorporated henceforth.

WORKS DEPARTMENT

4.4.4 Avoidable escalation charges on bridge works

Failure of the EEs to release funds, revise drawings and provide land for bridge works resulted in avoidable expenditure of Rs.1.98 crore towards price escalation.

Codal Rules provided that no work should be commenced without provision of funds, finalisation of drawing and acquisition of land.

Test check of records of three³⁰ Roads and Buildings Divisions revealed (May to November 2003) that the Government sanctioned extension of time to the contractors on the ground of delayed finalisation of drawing, non-acquisition of land and inadequate flow of funds. The Executive Engineers (EE) paid (between January 2003 and March 2003) price escalation of Rs.1.98 crore for the extended periods to the contractors resulting in avoidable expenditure as discussed in the succeeding paragraphs.

➤ Construction of bridge over Mahanadi

The EE, R&B division, Sambalpur awarded (February 1999) the work "construction of high level bridge over Mahanadi near Sonepur Birmaharajpur Subalya Road (Balance work)" to a contractor for Rs.25 crore for completion by February 2002. The contractor did not complete the work within the stipulated date. The Chief Engineer sanctioned extension of time upto June 2003 on the ground of inadequate flow of funds. Test check revealed (April 2003) that against allotment of Rs.25.43 crore during the contractual period, letter of credit (LoC) of only Rs.20.45 crore was issued. The EE, however, paid price escalation of Rs.0.41 crore to the contractor for the extended period which could have been avoided had the LoC been issued in accordance with the allotment.

³⁰ Roads & Building Divisions, Panikoili, Sambalpur and Kendrapara.

➤ *Construction of bridge over Kharasuan*

The EE R&B division, Panikoili awarded (December 1999) the work "construction of high level bridge over Kharasuan on Jajpur Baruan Road (Balance work)" to a contractor for Rs.8.64 crore for completion by December 2001. The contractor could not complete the work within the stipulated date. The CE sanctioned extension of time upto August 2003 on the ground of change of design which became necessary owing to increase in the high flood level (HFL). Check of records, however, revealed (August 2003) that the increase in HFL was observed as back as in August 1997 and there was sufficient scope to revise the design according to the increased HFL before award of work in December 1999. Failure to do so resulted in payment of price escalation of Rs.0.57 crore for the work executed during the extended period.

➤ *Construction of bridge over Kharasrota*

The EE, R&B division Kendrapara awarded (November 1993) the work "construction of high level bridge over river Kharasrota at 89th km on Cuttack Chandabali Road (Balance work)" to a contractor for Rs.10.90 crore for completion by May 1996. The contractor could not complete the work within the stipulated date. The Government sanctioned extension of time upto December 2001 on the ground of non-acquisition of land and non-finalisation of design which were the pre requisites for commencement of work. The EE paid one crore rupees towards price escalation for the extended period.

Government while confirming the factual position assured (September 2004) that the LoC for the approved works would be provided in future on priority basis. As regards the bridge over river Kharasuan, the Government stated that due to increase in quantity of work the escalation had to be paid. The reply was not correct since the extra quantities which were necessitated following the increased high flood level were foreseeable.

WATER RESOURCES DEPARTMENT

4.4.5 Extra expenditure due to faulty estimation

<p>Deliberate inclusion of item of hard rock in the estimate by the EE despite evidence to the contrary resulted in extra expenditure/liability of Rs.84 lakh and non-recovery of penalty of Rs.33 lakh from a contractor.</p>

The Executive Engineer (EE) Parajang canal division awarded (December 1997) the incomplete part of the work of excavation of left bank canal from RD 23 km to 26 km of Rengali Irrigation Project that was left over from an earlier contract to a contractor for Rs.3.27 crore for completion by December 1999. The contractor failed to complete the work even within the extended period i.e. June 2003 and applied (August 2003) for further extension of time upto June 2004 which was not sanctioned. The EE paid Rs.2.18 crore for the value of work executed by the contractor and price escalation of Rs.49.28 lakh as of June 2003.

Check of records of Superintending Engineer (SE), Head Works Circle, Samal revealed (January 2004) that the estimate of the work *inter alia* provided for excavation in all kinds of soil (1.92 lakh cum) and hard rock (1.40 lakh cum). Earlier, this reach was being executed by Orissa Construction Corporation and according to the provision in the original estimate, they were paid for excavation of medium hard rock (MHR). While framing the estimate for the incomplete part of the work, the EE substituted MHR with hard rock without any valid reasons. In fact during excavation, only MHR was encountered as was experienced by OCC and no hard rock was encountered. The Chief Engineer approved (January 2000) provisional rate of Rs.86 per cum for the extra item of MHR pending approval of the Government. After a series of discussions between January 2000 and January 2003, the Government approved (January 2003) the rate of Rs.84.50 per cum for excavation of MHR with benefit of price escalation but stipulated that if the contractor failed to complete the work by June 2003, penalty according to the contract provision would be imposed. The contractor executed (March 2003) supplementary agreement accepting the conditions but failed to complete the work within June 2003.

It was observed in audit (January 2004) that had the tender been floated with MHR in place of HR, the relative position of the tenderers would have changed. The first lowest tenderer, who was awarded the work, would become the fourth lowest while the second lowest would be the first lowest. Thus, the deliberate inclusion of the item of HR in the estimate in the initial phase and subsequent change of MHR led to extra cost of Rs.84 lakh of which Rs.57 lakh were already paid to the contractor.

Further, though penalty of Rs.33 lakh (being 10 *per cent* of contract value) for non-completion of the work within June 2003 was to be recovered as per the Government order, no penalty was imposed on the contractor. On the other hand, the EE paid (June 2003) price escalation of Rs.31.55 lakh for the work executed during the extended period between January 2000 and June 2003 thereby extending undue favour to the contractor.

The Government accepted the factual position and assured (September 2004) that future work estimates would be prepared after proper survey and investigation of site. As regards non-imposition of penalty, Government stated that the contractor executed 97 *per cent* of work by June 2003. But as per measurement recorded in the latest bill submitted by the contractor in June 2003, the work done up to that month was only 67 *per cent*.

WORKS DEPARTMENT

4.4.6 Avoidable expenditure on a bridge work

Failure of EE to investigate site before invitation of tender and to analyse the rate for variation resulted in avoidable expenditure of Rs.1.08 crore

Based on the hydraulic particulars collected during June 1999, the Chief Engineer (CE), Roads & Buildings (R&B) approved the General Arrangement

Drawing (GAD-70/2000) for construction of High Level Bridge over river Devi on Bagalpur Sailo Jharpada Road at Alipada with seven spans of 41.54 metres each for a total length of 290.78 metres. During the 2001 high flood, the deep channel of the river widened due to scouring causing change in site condition. The Executive Engineer (EE), Jagatsinghpur (R&B) Division invited tenders for the work in March 2002 on the basis of the earlier approved GAD without investigating the existing site conditions after the flood and entrusted (September 2002) the work to a contractor for Rs.7.70 crore on lump sum contract for completion by September 2005. Immediately thereafter, the CE, Design, Planning and Investigation and Roads (DPI&R) visited (October 2002) the site and instructed increase of the bridge length by five more spans to allow adequate ventage as well as to prevent scouring, following change in the site condition after flood of 2001. Accordingly, revised drawing was approved (December 2002) providing for five more spans of 41.54 metres each increasing the bridge length by 207.70 metres. The Government entrusted (December 2002) the additional works to the same contractor for Rs.6.65 crore as per variation clause of his contract. The work was under progress as of November 2003.

Check of records of the EE, revealed (July 2003) that while the contractor had quoted a lump sum rate of Rs.7.70 crore for seven spans, he quoted a rate of Rs.1.30 crore for each additional span under variation clause, which was disproportionate to the average cost (Rs.1.10 crore) of each of the seven spans. Even after including cost variation due to increased depth of piers, the cost of additional work of 207.70 metres would work out to Rs.5.57 crore only. With proper inspection/investigation being carried out to assess the site condition following the 2001 flood before inviting tenders in March 2002 and the implication of rate for additional spans properly evaluated at the tender stage, the cost would have been reduced by Rs.1.08 crore (Rs.6.65 crore - Rs.5.57 crore). No action was, however, taken against the errant officers for failure to investigate the site properly.

The EE while admitting (November 2003) that proper investigation of site had not been done before invitation of tender, stated that increase in length of the bridge was inevitable and added that financial implication for variation of rates at the time of tender had also not been assessed. Thus, failure of the EE to take stock of the changed site condition before inviting tenders and to analyse the implication of rate variation for additional spans at the time of finalisation of tender led to avoidable expenditure of Rs.1.08 crore.

While confirming the factual position, the Government assured (September 2004) that for projects costing Rupees five crore or more, henceforth the CE would visit the project site before floating of tenders to avoid such expenditure. The Government further added that explanation would be called for from the concerned EE.

WATER RESOURCES DEPARTMENT**4.4.7 Avoidable expenditure on repairs to right spillway**

Failure of EE/CE to seal the leakage in Hirakud dam in time resulted in enlargement of cavity and subsequent execution led to avoidable expenditure of Rs.93 lakh.

The Executive Engineer (EE), Hirakud Dam Rehabilitation Division, Burla awarded (February 2002) the work "Underwater treatment of cavities in front of sluice barrels of Hirakud dam" to a firm for Rs.1.15 crore for completion by May 2002. The firm completed the work with extra quantities in March 2003 at a cost of Rs.1.38 crore.

Check of records of the EE revealed (September 2003/August 2004) that although cavity of six cum volume had been detected as early as August 1992 in front of sluice barrel 49-50 in block No 39-40 of the dam, the EE had not included the treatment of the cavity while entrusting (May 1995) the work of underwater treatment of all the cracks and other defects in blocks No.35-46 to a firm for Rs.3.60 crore for completion by May 1998. The underwater mapping conducted in June 1996 indicated enlargement of the cavity to 40 cum volume. At the instance of the Chief Engineer and Basin Manager, Upper Mahanadi Basin, the firm agreed (November 1996) to execute the work of cavity treatment also as extra item under the existing contract at Rs.0.45 crore. The CE accordingly submitted (December 1996) a deviation statement to the Government for approval, which was not approved as of May 1999. In the meanwhile, the CE further reported (May 1999) that subsequent underwater survey indicated creation of three more cavities in blocks No.38, 41 and 45 and the total volume of cavities increased to 85.84 cum and therefore, proposed to float fresh tenders for the work. The Government approved (May 1999) the CE's proposal and the work was entrusted (February 2002) to the same firm³¹ for Rs.1.15 crore for completion by May 2002 with stipulation that the work would be considered perfect if leakage was reduced to 50 litre per minute. Despite reduction of leakage to only 114 litre per minute, the EE considered (March 2003) the work completed and paid (June 2003) Rs.1.24 crore by withholding Rs.13.82 lakh from the contractor's final bill of Rs.1.38 crore.

Thus, due to failure of the EE/CE to undertake timely treatment of the existing cavity alongwith the work of treatment of cracks in May 1995 itself or even as extra item to the existing contract at the agreed rate of the firm, avoidable expenditure of Rs.93 lakh (Rs.1.38 crore – Rs.0.45 crore), was incurred. Further, the expenditure of Rs.1.24 crore failed to achieve the intended limit of reduction of leakage.

The Government stated (August 2004) that the work being of specialised nature required thorough investigation and execution by an experienced agency. The reply was not acceptable since the primary objective of reducing the leakage to 50 litre per minute was not achieved.

³¹ M/s Kvaerner Cementation India.

4.5 Idle investment/idle establishment/blockage of funds

WORKS DEPARTMENT

4.5.1 Idle expenditure and undue favour to contractor

Non-completion of bridge for over nine years resulted in idle expenditure of Rs.1.64 crore besides undue favour to contractor for non-recovery of Government dues of Rs.54.96 lakh.

The Government awarded (December 1994) the work "construction of high level bridge over river Panchupada on Haldipada-Solapata road" to a contractor at his lump sum (LS) offer for Rs.2.22 crore for completion by December 1996. The contractor failed to complete the work even within the extended period of completion (December 2000) due to non-finalisation of design and non-acquisition of land and stopped (January 2001) further execution after receiving payment of Rs.1.38 crore including price escalation. The Government rescinded (February 2003) the contract with penalty to recover five *per cent* of the value of the remaining work and ordered (February 2003) allotment of the work to M/s Orissa Bridge and Construction Corporation Ltd. The work was, however, withdrawn and fresh tenders were invited in July 2004.

Check of records (May 2003) of the Executive Engineer (EE), R&B Division, Balasore revealed that as per condition of LS contract, the contractor was to submit the design for approval of Chief Engineer (CE) before commencement of work (December 1994). The contractor, however, submitted design of different components of work between August 1995 and May 1996, which the CE approved between November 1995 and March 2000. Though the work was awarded for completion by December 1996, the EE initiated the land acquisition proposal only in September 1998.

Further, the EE paid (January 2001) Rs.61.24 lakh to the contractor for some variation items of work without approval of CE/Government. Of the above overpayment, the EE recovered (March 2001) Rs.14.23 lakh from contractor's bill leaving an amount of Rs.47.01 lakh un-recovered. Besides, the EE had also not taken steps for recovery of penalty of Rs.7.95 lakh imposed by the Government for delay in completion of the work. The bridge work remained unfinished with overall expenditure of Rs.1.64 crore and the land acquisition proposal not being finalised as of November 2003.

Thus, failure of the EE to initiate the land acquisition proposal well in advance coupled with delay in submission/approval of design led to non-completion of the bridge for over nine years resulting in idle expenditure of Rs.1.64 crore and non-recovery of Government dues of Rs.54.96 lakh. No responsibility was, however, fixed for the departmental lapse.

The Government accepted (September 2004) the factual position and stated that the tender for the remaining work would be finalised to complete the work.

AGRICULTURE DEPARTMENT**4.5.2 Expenditure on idle establishment**

Continuance of Soil Survey Sub-Division at G. Udayagiri without any work for over 11 years led to expenditure of Rs.1.31 crore on idle establishment besides irregular drawal of salary without allotment of funds.

The Soil Conservation (Survey) Sub-Division, G. Udayagiri was created in October 1977 for conducting soil and land capability survey in the undivided Phulbani district under the Drought Prone Area Programme (DPAP).

Scrutiny of the records of the Assistant Soil Conservation Officer (Survey), G. Udayagiri (ASCO) during November 2002 and information collected in March 2004 revealed that of the 915 mini identified watersheds in the sub-division, survey of 310 was completed by 1991-92. During 1992-2000, the sub-division completed survey of only 25 mini water-sheds³² after which no work was undertaken as of March 2004. The low achievement of work since 1992-93 was attributed by the ASCO to non-receipt of funds for conducting the survey.

The lack of workload in the Sub-Division was brought to the notice of the Director, Soil Conservation by the Collector, Phulbani (April 1994) who pleaded for shifting of the Sub-Division to another Block within the district. The Soil Conservation Officer (Survey), Bhubaneswar also pointed out (July 1994) to the Director, Soil Conservation that the Sub-Division at G. Udayagiri had been functioning without any funds except pay and allowances since 1991-92. No action was taken to shift the Sub-Division. Since 1995-96, the Sub-Division did not receive any allotment of funds under the DPAP towards even pay and allowances of staff though salary continued to be drawn till December 2001 as the concerned sub-treasury did not keep a watch over the allotment of funds towards pay and allowances. Thereafter although the staff under the DPAP scheme were transferred, some other staff borne on the pay rolls of other establishments of the Department were deployed in the Sub-Division despite there being no work. The idling of staff due to lack of funds under works contingencies and drawal of their salary without allotment of funds was also commented upon in the Inspection Report in July 1996. Despite the above, the sub-division with its idle staff continued at the same station without work till July 2004 resulting in nugatory expenditure of Rs.1.31 crore during April 1991 to July 2004 towards pay and allowances of staff. The ASCO stated (November 2002 and March 2004) that the Director had been requested to take a decision in this regard.

The Principal Secretary during discussion (September 2004) while admitting the facts stated that due to closure of the DPAP scheme since 1994-95 all the staff except one were redeployed elsewhere by 1999-2000. However, his reply was silent about the three staff borne on the pay rolls of other establishments and continuing in the sub-division.

³² 1992-1993: 1, 1996-1997: 2, 1998-1999: 10 and 1999-2000: 12

RURAL DEVELOPMENT DEPARTMENT

4.5.3 Blockage of funds due to procurement of CI pipes without requirement

Purchase of CI pipes and fittings worth Rs.1.24 crore by the EE without definite requirement resulted in blockage of Government money.

The Chief Engineer, Rural Water Supply Sanitation (RWSS), Orissa placed (January 1999 to March 2001) purchase orders for supply of 10,435 metres of Cast Iron (CI) pipes with a firm for the work "providing safe drinking water to fourteen villages of Satyabadi and Puri Sadar Block". The Executive Engineer (EE) RWSS division, Puri received 6,715 metres of CI pipes between March 1999 and October 2001 and paid Rs.1.22 crore to the firm. The EE also purchased CI fittings worth Rs.4.87 lakh between December 1999 and March 2002. Out of the above, materials worth Rs.1.24 crore could not be utilised in the work as of January 2004.

Check of records (June 2003) revealed that the estimate of the work provided for laying 10,810 metres of CI pipes which involved pipe laying along eight km of National Highway (NH), with road crossings at seven places and rail crossings at four places. While the NH authority did not permit (July 2001) using NH for pipe laying, the railways demanded (August 2001) Rs.33 lakh for crossing the railway track. Considering the refusal of NH authority and the high cost involvement in payment to railways, the Government decided (August 2001) to change the direction of the distribution line avoiding such road/rail crossings and to use PVC pipes in place of CI pipes. The estimate was accordingly revised with the changed specification in pipe laying and restricting water supply to nine villages. The EE incurred expenditure of Rs.2.99 crore (December 2003) on the work, which was in progress.

Codal rules provided that when divisional officer was to plan an estimate for a work which was likely to affect or interfere with works of other departments/railways, the latter should be consulted well in advance before proceeding with execution of work. This was, however, not followed by the EE before preparing the estimate or incurring expenditure on the work.

Thus, procurement of CI pipes of such huge quantity by the CE/EE without assessing definite requirement for the work in absence of necessary permission of the railways and NH authorities resulted in blockage of Rs.1.24 crore.

While confirming the factual position, the Government stated (September 2004) that action had been taken to use the unutilised materials in other divisions and that materials worth Rs.46.57 lakh were transferred to other works. The fact was, however, that the materials were transferred to works where there was no provision for such requirement and also not taken to site account of concerned works.

HEALTH AND FAMILY WELFARE DEPARTMENT

**4.5.4 Blockage of funds due to delay in completion of buildings for
Community Health Centre**

Community Health Centre building and staff quarters at Muniguda stalled for more than four years due to dispute between the OHSDP and IDCO; equipment worth Rs.7.41 lakh could not be installed for want of space.

According to an agreement signed (March 1999) between the Orissa Health Systems Development Project (OHSDP) and the Orissa Industrial Infrastructure Development Corporation (IDCO), the latter was to act as the construction management consultant and get the civil works relating to World Bank Assisted Projects executed through contractors on placement of advance by the former.

Scrutiny of records of OHSDP revealed (April 2004) that based on the above agreement, the execution of the work of extension to the existing Community Health Centre (CHC) building and staff quarters at Muniguda (Rayagada district) estimated to cost of Rs.42.76 lakh was entrusted to the IDCO in 1998. The IDCO in turn awarded the work to a contractor in December 1999 for Rs.43.72 lakh with the stipulation to complete the same by June 2001. The contractor stopped the work in April 2001 after executing a part of the work for which Rs.1.25 lakh was paid (March 2001) to him. The IDCO rescinded the contract in August 2001 on ground of non-performance without realising liquidated damages from the defaulting contractor. Subsequently, the estimate was revised to Rs.58.01 lakh as per the Schedule of Rates 2000. The remaining work was put to rebid in July 2002 and was ultimately awarded (November 2002) to another contractor at a contract price of Rs.53.62 lakh with stipulation to complete the work by August 2003. However, this contractor also stopped (March 2003) the work due to non-payment of his claims of Rs.15 lakh by IDCO in respect of the fifth to the seventh running bills. The IDCO had already paid Rs.25 lakh to the contractor for the work up to fourth running bill but did not make payment thereafter on the plea of inadequate flow of funds from the OHSDP as advance for the work. OHSDP, instead of settling the accounts with IDCO as per the agreement, insisted (November 2003) on the latter's forwarding the contractor's passed bills for direct payment by OHSDP. The IDCO did not agree to this as that would infringe upon the agreement made with the contractor.

Thus, due to the dispute between OHSDP and IDCO, as to who would make payment to the contractor, arising out of the unilateral decision of the OHSDP not to place fund with IDCO, the work remained incomplete even after four years of commencement. This resulted in not only the blockage of Rs.40 lakh but also delaying access to quality health care by the tribal population of the area. Besides, equipment worth Rs.7.41 lakh procured and supplied by OHSDP during 1999-2001 remained idle for want of space.

The Project Director, OHSDP stated (May 2004) that compliance to the audit observations would be furnished after collection of information from IDCO.

The matter was demi-officially referred to the Commissioner-cum-Secretary to the Government in July 2004. Reply had not been received (November 2004).

4.6 Regularity issues and other points

FISHERIES AND ANIMAL RESOURCES DEVELOPMENT DEPARTMENT

4.6.1 Misutilisation of ICA funds

ICA scheme funds of Rs.3.43 crore meant for payment of subsidy to farmers for development of shrimp farms was misutilised for maintenance of the State Government's own establishment.

The Integrated Coastal Aquaculture (ICA) (a centrally sponsored scheme) provided subsidy to fish farmers through Brackish Water Fish Farmer's Development Agencies (BFDAs) up to a maximum of Rs.30000 per ha. to be borne by Government of India (GOI) and the State Government in equal shares. For developing a 50 hectare farm, the GOI's contribution to the concerned BFDA was to be limited to Rs.7.63 lakh per annum, comprising Rs. 7.50 lakh being the maximum permissible subsidy from the GOI and Rs.0.13 lakh being the permissible administrative cost to be borne by the GOI. The administrative cost was also to be shared between GOI and the State Government on 50:50 basis. Thus, the total permissible subsidy for developing a 50 ha. farm was Rs.15 lakh and the permissible administrative expenditure was Rs.0.26 lakh.

Test check of records (between July and November 2003) of six offices³³ revealed that the State Government sanctioned and paid grants-in-aid of Rs.3.18 crore (Central share-Rs.1.74 crore and State share-Rs.1.44 crore) during the period 1997-2003 to seven³⁴ BFDAs for development of 1041.66 ha. of shrimp farms. Taking into account of opening balance of Rs.0.54 crore with the BFDAs, as on 1 April 1997, the funds available with the BFDAs aggregated Rs.3.72 crore during the period.

The BFDAs developed only 636.62 ha. for shrimp culture during the above period and spent only Rs.0.26 crore on payment of subsidy to the farmers. The balance of Rs.3.46 crore was spent to meet the salaries of the District Fishery Officers and their establishments as well as certain contingent expenditure of those offices. These expenses were actually due to be met entirely by the State Government from its own funds and not from ICA funds. In terms of the ICA scheme, only Rs.3.31 lakh were admissible as administrative expenditure on development of 636.62 ha. at the rate of Rs.0.26 lakh per 50 ha. Thus, the ICA funds of Rs.3.43 crore meant for subsidy of fish farmers for development of

³³ (1) District Fishery Officers-cum-Chief Executive Officers (CEOs), BFDAs of (a) Ganjam, (b) Puri, (c) Balasore and (d) Khurda (2) Director of Fisheries, Orissa, Cuttack and (3) Commissioner-cum-Secretary, Fisheries and Animal Resources Development (FARD) Department, Government of Orissa.

³⁴ Balasore, Bhadrak, Kendrapara, Jagatsinghpur, Puri, Khurda and Ganjam

fish farms had been diverted to maintain the State Government's own establishment.

Government stated (July 2004) that Rs 0.26 lakh meant for administrative cost was practically unviable and since the payment of salary to the staff was indispensable, diversion of funds from subsidy amount was considered the only way to solve the problem. It was also stated that the farmer had shown more interest in availing of subsidy under Marine Products Export Development Agency (MPEDA) scheme, which was Rs.40,000/- per ha. i.e. Rs.10,000/- more when compared to ICA scheme where the subsidy was Rs.30,000/- per ha. This led to accumulation of huge funds under BFDA subsidy which were diverted towards salaries of the staff of BFDAs. The reply was not acceptable since the above expenditure of Rs.3.43 crore was exclusively meant for payment of subsidy to the fish farmers under the scheme and the cost of staff salary was not covered under the GOI sanction order.

SCHOOL AND MASS EDUCATION DEPARTMENT

4.6.2 Mismanagement of funds under universal elementary education programmes

An amount of Rs.3.38 crore meant for spending under the District Primary Education Projects and Sarva Siksha Abhiyan was mismanaged by spending on salaries in excess of norm, free distribution of text books to general category students and computerisation of personal data of teachers.

District Primary Education Programme (DPEP) and Sarva Siksha Abhiyan (SSA) are two Centrally Sponsored Schemes of Government of India for universalisation of elementary education; funded by the Government of India and the State Government in the ratio of 85:15. Test check of records in the office of the Project Director, Orissa Primary Education Programme Authority (OPEPA), Bhubaneswar during November 2003 to February 2004 revealed that an amount of Rs.3.38 crore was mismanaged and spent in violation of norms specified in the relevant guidelines. The details are mentioned below:

- According to the programme guidelines of DPEP, 90 *per cent* of the salary of teachers for the first two years and 80 *per cent* for the remaining period of the programmed months were to be met out of DPEP funds. The Project Director, OPEPA, Bhubaneswar, however, paid (between September 2000 and September 2003) Rs.16.77 crore to the State Government towards full salary of the teachers deployed under DPEP during the period from November 1999 to June 2003 (44 months) while the amount payable by OPEPA was Rs.14.34 crore. Thus, there was an inadmissible expenditure of Rs.2.43 crore under the programme.
- In contravention of guidelines of the programmes, text books worth Rs.62.98 lakh were distributed free of cost to all boy students of general category during 2001-02 and 2002-03 in four DPEP districts viz. Keonjhar, Bolangir, Nowrangpur and Gajapati beyond the scope of the two schemes.

- The entire personal data contained in the service books, personal files and other records of all primary and upper primary school teachers of the State Government, numbering 1.15 lakh were computerised at a cost of Rs.32.47 lakh. The expenditure was met out of the programme funds between October 2001 and March 2003 contravening the GOI guidelines.

Government stated (July 2004) that the State share of the scheme fund was utilised for payment of salary of the teachers and that leaving out the general category boy students for distribution of text books when all others were getting free text books was not desirable. The reply was not acceptable as the DPEP funds comprised both Central and State shares and the distribution of text books was to be made in accordance with the GOI guidelines. Further, Government's claim, that the computerisation of teachers' service records was made for proper implementation of the programmes, was not acceptable as this had no relevance to the programme objective of spread of education.

HIGHER EDUCATION DEPARTMENT

4.6.3 Appointment of staff in disregard of Government imposed restriction

In disregard of the Government's decision of July 1999 imposing restriction on filling up of vacant posts, the Director of Higher Education appointed 113 Junior Clerks, Lascars, Chowkidars etc. in different NCC offices. Expenditure of Rs.2.51 crore was irregularly incurred on their salary till June 2004; the irregular expenditure is continuing.

As a part of the medium term fiscal reform measures which included progressive reduction of the Government establishment, the Finance Department in a memorandum conveyed (July 1999) the Government's decision to all the Departments to abolish 50 *per cent* of the base level vacancies existing as on 1 July 1999 in every Government office. It was also decided that the remaining vacancies were not to be filled up without prior concurrence of the Finance Department.

Scrutiny of records of three National Cadet Corps (NCC) offices and information collected between September 2002 and July 2004 revealed that between July 1999 and March 2001, the Director of Higher Education, Orissa (DHE) made appointments to 113 base level posts (Junior clerks: 48, Lascars: 57 and Chowkidars: 8) and posted the officials to various NCC offices detailed in the Appendix-XXXI. The DHE did not obtain concurrence of the Finance Department for making the above appointments. The appointments made in disregard of the Government's decision resulted in irregular expenditure of Rs.2.51 crore towards the pay and allowances of these officials between July 1999 and June 2004 adversely affecting the medium term fiscal reform measures of the Government; the expenditure is continuing.

The matter was taken up (September 2003) with the Director of Higher Education and the Deputy Director stated (December 2003) that the process of appointment having started before July 1999 and accordingly the vacant posts were filled up in different organisations of the State. As the reply did not clarify the circumstances leading to such large number appointments, the

relevant records were sought (August 2004) from the DHE. However, the records were not produced to audit despite repeated requests (August 2004).

The Commissioner-cum-Secretary to Government during discussion stated (September 2004) that the Deputy Director (NCC) was initially permitted (March 1999) to fill up 37 vacant posts of junior clerks. However, he did not take the required prior approval of Government while issuing appointment orders from July 1999 onwards. He further stated that the fact of appointment to the remaining 76 different posts came to his notice only through audit and assured that steps to proceed against the erring officer had already been initiated for a decisive action to provide an ideal deterrent for others.

CO-OPERATION DEPARTMENT

4.6..4 Unauthorised retention of debt relief funds meant for farmers and artisans by a Cooperative bank

The Balasore Central Cooperative Bank Ltd. unauthorisedly retained Rs.41.65 lakh meant for debt relief of farmers, artisans etc. for over 12 years while the Cooperative Societies that had extended loan to the farmers etc. continued under liquidation proceedings.

The Orissa Agricultural and Rural Debt Relief (ARDR) Scheme, 1990 provided debt relief upto Rs.10000 in each case to the artisans, farmers, weavers, fishermen etc. who had taken loan from Cooperative societies and banks for agriculture or allied activities or for artisan activity. The relief was admissible only if the default had occurred due to certain specified reasons. The payment of debt relief was to be made by the Registrar of Cooperative Societies (RCS), Orissa based on the consolidated claim preferred through the Orissa State Cooperative Bank. All borrowers whose loan accounts were closed under the scheme were eligible for fresh loans from the bank/cooperative society etc. Government was to issue suitable administrative guidelines for smooth and expeditious implementation of the scheme.

Check of the records (April 2003) of the Assistant Registrar of Cooperative Societies (ARCS), Bhadrak and information collected subsequently from the Deputy Registrar of Cooperative Societies, Balasore (DRCS) revealed that the Balasore District Cooperative Central Bank Ltd. (BDCCBL) received (March 1992) Rs.49.53 lakh (ARCS, Bhadrak: 33.76 lakh, ARCS, Balasore: Rs.15.77 lakh) under the scheme. The amount was received in respect of 11584 eligible defaulters of loans of 331 Cooperative Societies (Bhadrak: 205 and Balasore: 126) which were under liquidation proceedings with the concerned ARCS. Out of the above, BDCCBL adjusted Rs.7.24 lakh towards dues of these Cooperative Societies and credited Rs.0.64 lakh to the savings bank accounts of 56 Cooperative Societies as of April 2004. The balance of Rs.41.65 lakh remained with the BDCCBL without being credited to the accounts of the liquidated Cooperative Societies despite repeated requests of the concerned ARCS.

The BDCCBL unauthorisedly continued to retain Rs.41.65 lakh for over 12 years. Due to lack of effective follow up action by the RCS with the BDCCBL

for smooth and expeditious implementation of the scheme as envisaged in the ARDR Scheme 1990, the accounts of the liquidated societies could not be settled and the liquidation proceedings of the concerned Cooperative Societies continued with their chances of revival, if any, receding further and further. Besides, this made the borrowers ineligible for applying for fresh loans.

Government stated (15 July 2004) that after intervention of the RCS the bank has already credited the entire balance in the accounts of the concerned liquidated societies but as ascertained from the DRCS, Balasore (29 July 2004) and ARCS, Bhadrak (31 July 2004) the BDCCL was yet to credit the amount to the accounts of the societies.

During discussion (October 2004), the Principal Secretary stated that the process of affording credit to the society account has been started and a complete picture of full adjustment of the amount would emerge very soon. He also assured that measures would be taken to prevent such occurrence in future.

4.7 GENERAL

4.7.1 Follow up action on earlier Audit Reports

Serious irregularities noticed in audit are included in the Reports of the Comptroller & Auditor General (Audit Reports) that are presented to the State Legislature. According to the instructions issued by the Finance Department, Government of Orissa in December 1993, the Administrative Departments are required to furnish explanatory notes on the paragraphs/reviews included in the Audit Reports and Action Taken Notes (ATNs) on the recommendations of Public Accounts Committee (PAC) Reports within three months and six months respectively of their presentation to the Legislature.

It was noticed that in respect of Audit Reports from the years 1991-92 to 2002-03 as indicated below, 23 out of 37 departments which were commented upon, did not submit explanatory notes on 204 paras/reviews as of September, 2004.

Years of Report	Total paras/reviews in Audit Report	No. of individual paras/reviews for which explanatory notes were not submitted
1991-92	99	5
1993-94	87	6
1994-95	85	7
1995-96	89	9
1996-97	103	18
1997-98	97	20
1998-99	92	25
1999-2000	83	28
2000-01	83	34
2001-02	61	18
2002-03	59	34
Total	938	204

The department-wise analysis is given in the Appendix-XXXII which shows that the Departments largely responsible for non-submission of explanatory notes were Revenue, Agriculture, Scheduled Tribes and Schedule Castes Development, Water Resources, Works, School & Mass Education and Finance. Comments on topics such as Super Cyclone, Public Distribution System and Integrated Audit of Primary Education had also failed to elicit any response from the Government.

Response of the departments to the recommendations of the Public Accounts Committee

The Orissa Legislative Assembly (OLA) Secretariat issued (May 1966) instructions to all departments of the State Government to submit Action Taken Notes (ATN) on various suggestions, observations and recommendations made by Public Accounts Committee (PAC) for their consideration within six months after presentation of the PAC Reports to the Legislature. The above instructions were reiterated by Government in Finance Department in December 1993 and by OLA Secretariat in January 1998. The PAC Reports/recommendations are the principal medium by which the Legislature enforces financial accountability of the Executive to the legislature and it is appropriate that they elicit timely response from the departments in the form of Action Taken Notes (ATNs).

However, it was noticed that 2045 recommendations of PAC, relating to 1st Report of 9th Assembly (1985-86) to 45th Report of 12th Assembly (2003-04) were pending settlement as of September 2004. Department-wise details are indicated in Appendix-XXXIII which indicate that Departments largely responsible for non-submission of ATNs are Water Resources, Works, Housing and Urban Development, Industries, Agriculture and School and Mass Education.

Monitoring

The following Committees have been formed at the Government level to monitor the follow up action on Audit Reports and PAC recommendations.

Departmental Monitoring Committee

Departmental Monitoring Committees (DMCs) have been formed (between May 2000 and February 2002) by all departments of the Government except Information and Technology Department (against which no audit para is pending) under the chairmanship of the Departmental Secretary to monitor the follow up action on Audit Reports and PAC recommendations. However, as of September 2004 only three Departments of Government i.e. Commerce (three meetings), Higher Education (one meeting) and Water Resources (one meeting) held DMC meetings.

Apex Committee

An Apex Committee has been formed (December 2000) at the State level under the Chairmanship of the Chief Secretary to review the action taken by

the DMCs till September 2004, Apex Committee met only once in February 2002.

Review Committee

A Review Committee has been formed (December 1992) comprising Principal Secretary, Finance Department, Principal Accountant General (Civil Audit)/ Accountant General (Commercial, Works and Receipt Audit) and Secretary to Government of the concerned Department to review the progress as well as adequacy of action taken on the Audit Reports and PAC recommendations in order to facilitate the examination of such Reports/recommendations by the Public Accounts Committee.

The Review Committee met on six occasions between June 2003 and December 2003. No meeting was held thereafter.

The matter was referred (October 2004) to the Government: their reply had not been received (October 2004).

Chapter-V

Internal Control Mechanism in Government Departments

SCHOOL AND MASS EDUCATION AND PANCHAYATI RAJ DEPARTMENTS

5.1 Internal Control Mechanism in School and Mass Education Department and Panchayati Raj Department

Highlights

Internal Control Mechanism (ICM) in an organisation is meant to ensure that its operations are carried out according to the applicable laws and regulations and in an economical, efficient and effective manner. A built-in Internal Control System and strict adherence to Statutes, Codes and Manuals minimize the risk of errors and irregularities, and helps to protect resources against loss due to waste, abuse and mismanagement. Audit review of the functioning of the ICM during 2002-04 in School and Mass Education Department (SMED) and Panchayati Raj Department (PRD) revealed deficient budgetary and expenditure control, poor cash management, inadequate controls in store management and poor operational and supervisory controls in the departments.

- **Unnecessary supplementary provision of Rs.55.88 crore was obtained by the School and Mass Education Department in December 2002 when there were overall savings of Rs.140.64 crore at the end of March 2003 indicating deficient budgetary control by these departments.**

(Paragraph 5.1.4)

- **In violation of the Orissa Budget Manual, unnecessary provisions of Rs.7.63 crore made by SMED in 2002-03 and Rs.6.94 crore and Rs.2.21 crore made by SMED and PRD respectively in 2003-04 for vacant posts. The provisions were finally surrendered by the Departments.**

(Paragraph 5.1.5)

- **Expenditure controls in both the Departments were poor as evident from the rush of expenditure towards the end of the financial year. Three out of four Directorates of the School and Mass Education Department did not reconcile their expenditure figures of 2003-04 as of 30 June 2004.**

(Paragraphs 5.1.9 and 5.1.10)

- **The financial discipline in cash management were not observed by the Drawing and Disbursing Officers. The heads of the administrative departments and controlling officers had also failed to stem the rot.**

(Paragraph 5.1.12)

- **Due to non-adherence to rules governing advances, Rs.9.30 lakh under Motor Cycle Advance and Rs.14.44 lakh under House Building**

Advance in PRD remained unsecured and their proper utilisation was doubtful.

(Paragraph 5.1.13)

- **Supervisory controls were inadequate. Officers of various cadres of PRD including its autonomous organisations failed to carry out periodic inspections, which affected the functional efficiencies of various schemes and activities.**

(Paragraph 5.1.16)

- **Prescribed controls in stores management of both the departments, such as physical verification of stores, proper maintenance of stock registers and obtaining security from the storekeepers, were not adhered to.**

(Paragraph 5.1.17)

- **Failure of review, monitoring and evaluation mechanism indicated gross deficiencies in review of activities and evaluation of execution of the schemes at the highest level. While the General Body (GB) of Orissa Primary Education Programme Authority did not hold meeting since 1997, the GB of Orissa Rural Development and Marketing Society (ORMAS) had shortfall of four out of six such meetings during 2002.**

(Paragraph 5.1.18)

5.1.1 Introduction

Internal Control Mechanism (ICM) in an organisation is meant to ensure that its operations are carried out according to the applicable laws and regulations and in an economical, efficient and effective manner. The Government has a well-established internal control system where the overall financial control is exercised by the Finance Department and the control over specific functional activities is exercised by the respective departments themselves. A scheme of delegation of powers exists to enable the functionaries at different levels to carry out their assigned tasks and responsibilities while simultaneously ensuring adherence to the prescribed internal controls. While the Internal Control is an integral part of an organisation's operation it is the principal focus of the Internal Audit's attention.

5.1.2 Audit coverage

Audit reviewed the ICM of the School and Mass Education Department (SMED) and Panchayati Raj Department (PRD) covering a period of two years from 2002-03 to 2003-04.

The functioning of ICM was test checked in the offices of the Commissioner-cum-Secretary, four Directorates³⁵ at Bhubaneswar, two Circle Inspector of Schools² (CIS) and one District Inspector of Schools (DIS), Khurda in SMED.

³⁵ (i) DSE, (ii) DEE, (iii) DME, and (iv) DTESCERT.

² CIS, Bhadrak and Khurda

Similarly, six offices of PRD viz. the Commissioner-cum-Secretary, the Director State Institute of Rural Development (SIRD), Bhubaneswar, two District Panchayat Officers³ (DPOs) and two Block Development Officers⁴ (BDOs) out of 24 were test checked in audit.

Besides, six⁵ autonomous bodies/societies under the administrative control of SMED and three⁶ of the PRD were also covered in audit. These bodies/societies were required to follow Government rules and regulations by and large besides resolution passed in their governing body (ORMAS, DRDA and OPEPA) and Executive Committee (SRC).

5.1.3 Audit Objective

The audit objective was to ascertain the adequacy of various Internal Controls, in each of the two departments, such as

- Financial controls
- Administrative controls
- Operational controls
- Supervisory controls

Budgetary Controls

5.1.4 Provisions of budget manual ignored

The Orissa Budget Manual (OBM) envisaged effective adherence to budgetary controls, which among other things required the administrative departments to prepare budget estimates based on inputs from lower formations, spend within the budgeted amounts, avoid rush of expenditure towards the close of the year and surrender the anticipated savings in time. Supplementary provision for funds was to be asked only in case the original allotment would prove insufficient. This required regular monitoring of monthly expenditure incurred by the Drawing and Disbursing Officers (DDOs) of sub-ordinate offices by the Directorate and of the Directorate by the administrative department. The Finance Department also issued explicit orders imposing restrictions on filling up vacant posts and that budget provision for such vacant posts should not be made.

The actual expenditure *vis-a-vis* budget provisions of the two Departments during 2002-04 were as follows:

School and Mass Education Department

(Rupees in crore)

Sl. No.	Particulars	2002-03			2003-04		
		Revenue	Capital	Total	Revenue	Capital	Total
1.	Original Grant/	1662.66	3.00	1665.66	1631.56	52.03	1683.59

³ DPO, Cuttack and Khurda.

⁴ BDO, Khurda and Barang

⁵ Orissa Primary Education Programme Authority (OPEPA), Bhubaneswar, District Project Coordinator (DPC), Puri and Bhadrak, State Resource Centre (SRC), Bhubaneswar, Zilla Sakhyarata Samiti (ZSS), Puri and Bhadrak

⁶ Orissa Rural Development and Marketing Society (ORMAS), Bhubaneswar, District Rural Development Agencies (DRDAs), Khurda and Cuttack.

Sl. No.	Particulars	2002-03			2003-04		
		Revenue	Capital	Total	Revenue	Capital	Total
	Appropriation						
2.	Supplementary Grant/Appropriation	55.88	Nil	55.88	100.13	Nil	100.13
3.	Total Grant	1718.54	3.00	1721.54	1731.69	52.03	1783.72
4.	Actual Expenditure	1577.90	3.00	1580.90	1575.30	2.02	1577.32
5.	Savings (-)	(-) 140.64	-	(-) 140.64	(-)156.39	(-) 50.01	(-) 206.40
6.	Percentage of savings	8.18	-	8.17	9.03	96.12	11.57

Unnecessary supplementary provision of Rs.55.88 crore under Revenue Section

From the table, it was apparent that failure to adhere to the above provisions of the OBM as discussed in succeeding paragraphs resulted in unnecessary supplementary provision of Rs.55.88 crore obtained by the SMED in December 2002 in view of overall savings of Rs.140.64 crore under the revenue head. Similarly, the original grant of Rs.52.03 crore during 2003-04 proved to be far in excess of the requirement in view of the savings of Rs.50.01 crore under capital head. The savings were partly due to making provision for vacant posts in disregard of the orders of the Finance Department. Thus, the department did not follow the control measures prescribed for preparation of budget scrupulously. Similar state of affairs also prevailed in the Panchayati Raj Department.

Panchayati Raj Department

(Rupees in crore)

Sl. No	Particulars	2002-03			2003-04		
		Revenue	Capital	Total	Revenue	Capital	Total
1.	Original Grant/ Appropriation	348.30	14.55	362.85	753.64	16.30	769.94
2.	Supplementary Grant / Appropriation	133.19	-	133.19	259.47	-	259.47
3.	Total Grant	481.49	14.55	496.04	1013.11	16.30	1029.41
4.	Actual Expenditure	463.37	14.55	477.92	460.11	14.55	474.66
5.	Savings (-)	(-) 18.12	-	(-) 18.12	(-) 553.00	(-) 1.75	(-) 554.75
6.	Percentage of savings	3.76	-	3.65	54.58	10.74	53.89

Supplementary provision of Rs.259.47 crore under revenue during 2003-04 was wholly unnecessary

During 2003-04, the expenditure was less than 50 per cent of the provision including supplementary. The supplementary provision of Rs.259.47 crore under revenue head was wholly unnecessary.

5.1.5 Failure in scrutiny of budget proposals with regard to making provision for vacant posts

Controlling officers made provision of Rs.16.78 crore in the Budgets for 2002-03 and 2003-04 for vacant posts

In 2002-03, SMED made a provision of Rs.7.63 crore for vacant posts all of which was surrendered. Similarly, in 2003-04, the provisions of Rs.6.94 crore and Rs.2.21 crore made by SMED and PRD respectively for vacant posts were also surrendered. The fact that such unrealistic provisions were made by these departments and also accepted by the Finance Department (FD) reflected adversely on the quality of scrutiny of the budget proposals by the FD. Thus, the controlling officers of the above two departments as well as the FD failed to exercise the necessary controls as provided in the OBM.

5.1.6 Failure to surrender anticipated savings in time

Controlling Officers of both the departments failed to surrender Rs.120.52 crore in 2002-03 and Rs.668.04 crore in 2003 in time

The OBM provided for surrender of all anticipated savings to the Government latest by 10 March of the financial year. However, the two departments surrendered Rs.120.52 crore (SMED: Rs.108.11 crore and PRD: Rs.12.41 crore) in 2002-03 and Rs.668.04 crore (SMED: Rs.186.82 crore and PRD: Rs.481.22 crore) in 2003-04 on the last day of the respective financial years. Thus, the financial discipline sought to be imposed through the OBM was ignored by the controlling officers of these two administrative departments.

5.1.7 Irregular drawal of money by transfer credit to civil deposit head to avoid lapse of funds

Irregular crediting of Rs.91.42 lakh to PL accounts by the PRD only to avoid budgetary lapse

The Orissa Treasury Code restricted the drawal of monies from the treasury unless it was required for immediate disbursement. It was observed that during 2002-03, the Under Secretary, PRD drew (March 2003) Rs.36.42 lakh from the service major head 2015-Election and credited the amount to the civil deposit head to avoid lapse of the provisions under the service head. Similarly, the PRD sanctioned (15 March 2004) Rs.55 lakh meant for awards to Panchayati Raj institutions on the occasion of 'Panchayati Raj Day' after the scheduled day (5 March 2004) was over. On the basis of this sanction, the Project Director, DRDA, Khurda drew (March 2004) the amount and credited it to his Personal Ledger (PL) account where the amount continued to be parked without utilisation as of May 2004. These unnecessary drawals inflated the expenditure figures of the departments during the years 2002-04.

Rs.99.56 crore lying in Civil Deposit of both the departments without utilisation for a period ranging from one to 13 years

Further, as of March 2004, five⁷ offices of the SMED and two⁸ offices of the PRD had accumulated credits of Rs.82.54 crore and Rs.17.02 crore respectively under civil deposits head by drawing from the budget provisions of the respective service major heads in earlier years (1991-2004) to avoid lapse of funds. All such irregular withdrawals had the approval of the controlling officers of the grants i.e. the Commissioner-cum-Secretary to the Government and in seven cases, had the approval of even the Finance Department. This irregular practice resulted in erosion of legislative control over expenditure, as the drawals from civil deposits in the subsequent years neither required further legislative approval nor were the expenditures incurred subject to legislative authority through the appropriation mechanism. Thus, using the facility of transfer credit from the Consolidated Fund to the civil deposit head violated the basic budgeting discipline.

The irregular practice of transferring money from the Consolidated Fund to the civil deposit and expenditure met there from in the subsequent years eroded the legislative control over expenditure

The absence of specific provision in the Orissa Treasury Code (OTC), for closure of PL Accounts at the end of the year and writing back the unspent amounts to the concerned service major head of account from which the funds were originally deposited into the civil deposits, facilitated continuation of such indiscipline. Such provisions were, however, found in the Treasury Codes / Manuals of several States as well as the Union Government (Civil Accounts Manual).

⁷ DEE, Bhubaneswar (Rs.38.13 crore), DME, (Rs.3.52 crore), DTE (Rs.3.07 crore), SMED (Rs.2.36 crore) and DSE (Rs.35.46 crore).

⁸ PRD (Rs.1.97 crore) and PRD(GP)(Rs.15.05 crore)

5.1.8 Unauthorised appropriation of departmental receipts for expenditure

The cardinal principle of not appropriating the departmental receipts for expenditure was violated

As per the OTC, all Government receipts were required to be credited to Government account within three working days. In disregard of the above, the DPO, Khurda purchased (January 2003) a computer for Rs.0.76 lakh out of interest earned on Government money kept in the bank. Thus, the cardinal principle of not appropriating the departmental receipts for expenditure was violated by the DPO, Khurda.

Expenditure Controls

5.1.9 Non-reconciliation of figures

Three out of four Directorates of SMED did not reconcile their expenditure figures with the books of AG(A&E) for the whole of 2003-04

All controlling officers were required to reconcile their figures of actual expenditure with those in the books of the Accountant General (A&E). Three out of four Directorates of the School and Mass Education Department viz., DSE, DEE and DTE did not reconcile their expenditure figures for the whole of 2003-04 as of 30 June 2004. Such non-reconciliation was fraught with the risk of unauthorised and malafide expenditure by various subordinate spending authorities remaining unnoticed.

5.1.10 Failure in monitoring of progressive expenditure

Control mechanism for preventing rush of expenditure towards the end of the year in both the departments was lacking

Rush of expenditure in the month of March is highly prone to the risk of the Government not getting proper value for money as the expenditure is likely to take place without due diligence. Therefore, Rule 147 of the OBM required the controlling officers to avoid rush of expenditure in the closing months by keeping a close watch on the progressive expenditure of the DDOs and the Department as a whole on a month-to-month basis. However, it was seen that the PRD, had incurred 44 per cent and 34 per cent of its total expenditure in March alone in 2002-03 and 2003-04 respectively. Similarly, the expenditure for the SMED for the corresponding periods stood at 19 per cent and 16 per cent respectively. The FA of the PRD stated (July 2004) that on receipt of proposals from field officers, the administrative department after due scrutiny endorsed the files to FD for release of funds and after obtaining concurrence of the FD the funds were released to concerned DRDAs. Co-ordination of getting proposal from the Sub-ordinate officers and release of money in time was undeniably the responsibility of the controlling officer.

5.1.11 Non-adherence to rules of spending/expenditure control

Huge funds from one scheme to other were diverted in OPEPA during 2002-04

OPEPA resorted to temporary diversion of huge funds from one scheme to other during 2002-04 as indicated below:

Sl. No	Name of the scheme from which diverted	Year	Number of scheme(s) to which diverted	Amount (Rupees in lakh)
1	District Primary Education Programme (DPEP)	2002-03 2003-04	Five Three	1006.84 1100.00
2	Sarva Sikshya Abhiyan (SSA)	2002-03 2003-04	Two Two	1350.00 546.00
3	DPEP-II	2002-03 2003-04	One (DPEP) Three	300.00 1661.00
4	Education Guarantee Scheme and AIE	2002-03 2003-04	One (DPEP) One (SSA)	590.00 520.00

Sl. No	Name of the scheme from which diverted	Year	Number of scheme(s) to which diverted	Amount (Rupees in lakh)
TOTAL		2002-03		3246.84
		2003-04		3827.00

Records were not maintained to watch recoupment of such diversions in the absence of which the possibility of beneficiaries under one scheme getting deprived of the benefits under that scheme due to paucity of funds could not be ruled out.

5.1.12 Failure of Internal Control in cash management

The Orissa Treasury Code (OTC) and the Orissa General Financial Rules (OGFR) provided several internal control measures in cash management which were blatantly ignored by a number of DDOs of the 14 offices of the SMED and PRD test checked during the period of review. The details were as under:

- According to Rules, advances given to Government servants for various purposes should be adjusted within one month of payment. Twelve⁹ out of 14 offices showed total outstanding advances of Rs.4.56 crore as of 31 March 2004. Age analysis of these advances was not available in these offices. Some of the advances were rolling since 1973-74. Similarly, advances of Rs.83.03 lakh paid during 1992-2004 remained unadjusted in ORMAS (under PRD) as of May 2004 against officials of ORMAS, Government Departments, DRDAs, private agencies and individuals. It was seen that the ORMAS had not taken any steps during the period of review to settle these outstanding advances. Lack of proper monitoring and prompt settlement of advances increased the risk of misappropriation and fraud.
- Six¹⁰ out of 14 offices did not maintain the cashbook in the prescribed format during the two years of review. Such a situation was fraught with serious risks of cash misappropriation and fraud.
- Though the Rules prohibited incurring expenditure from available cash, five¹¹ offices incurred such expenditure and depicted the same in the closing balance of the cashbook as 'paid vouchers' for Rs.8.53 lakh. Thus, the disbursing officers unauthorisedly incurred the above expenditure without legislative authority for years together.
- Despite the instructions issued by the FD that Government money should not be kept in the form of Bank Drafts (BD), Deposit at Call Receipts (DCR) or in bank accounts as it affected the ways and means position of the State Government, four¹² offices kept Rs.1.24 crore in the form of

⁹ (i) DEE, Bhubaneswar (Rs.0.29 lakh), (ii) DME (Rs.0.24 lakh), (iii) DSE (Rs.0.24 lakh), (iv) CIS, Bhadrak (Rs.0.30 lakh), (v) DIS, Khurda (Rs.0.06 lakh), (vi) DPO, Cuttack (Rs.0.27 lakh), (vii) PRD(Workshop)-Rs.0.58 lakh, (viii) PRD (GP)-Rs.0.78 lakh, (ix) BDO, Barang (Rs.313.47 lakh), (x) BDO, Khurda (Rs.2.34 lakh), (xi) DPO, Khurda (Rs.0.37 lakh) and (xii) SIRD, Bhubaneswar (Rs.137.00 lakh)

¹⁰ (i) CIS, Khurda, (ii) DPO, Cuttack, (iii) BDO, Barang, (iv) BDO, Khurda, (v) DPO, Khurda and (vi) SIRD, Bhubaneswar.

¹¹ (i) DEE, Bhubaneswar(Rs.2.10 lakh), (ii) DME (Rs.0.07 lakh), (iii) DSE (Rs.2.95 lakh), (iv) CIS, Bhadrak (Rs.3.01 lakh) and (v) DPO, Cuttack (Rs.0.40 lakh)

¹² (i) CIS, Khurda (Rs.0.58 lakh), (ii) DIS, Khurda (Rs.0.75 lakh), (iii) DEE, Bhubaneswar (Rs.50.81 lakh) and (iv) DPO, khurda (Rs.71.45 lakh).

Ineffective functioning of ICM due to failure to observe financial discipline in cash management by the DDOs of both the departments

BD/DCR, two¹³ offices had Rs.18.75 lakh in Savings Bank accounts and five¹⁴ offices deposited Rs.2.74 crore in the current accounts with banks. None of them advanced any reason for doing so.

- In two offices, there was no reconciliation between the cashbooks and the bank accounts leaving a discrepancy of Rs.21.22 lakh. This included large discrepancy of Rs.19.40 lakh that remained un-reconciled in Circle Inspector of Schools, Bhadrak (SMED) as of 31 March 2004.

The other deficiencies relating to cash management were that the cash book were not attested, daily totals in the cash book were not verified, physical verification of cash at the end of each month/monthly surprise verification of cash was not carried out by the heads of the offices.

There was no analysis of monthly closing balances in the cashbook. As a result, age-wise and scheme-wise unspent balances were not ascertainable thereby increasing the scope of misutilisation and diversion of funds for unauthorised purposes.

As is evident from the foregoing paragraphs, the DDOs had failed to observe the basic tenets of financial discipline in cash management and the heads of administrative department or controlling officers had not succeeded in stemming the rot. Ineffective functioning of ICM, apart from leading to poor monitoring of activities, increased the risk of things going wrong and remaining unnoticed for years together.

Administrative Controls

5.1.13 Non-adherence to rules governing advances

In respect of advances given for purchase of motor cycles, the Government servants were required to submit the money receipts for purchases as well as mortgage deeds. In the event of failure to do so, the amount was to be recovered together with penal interest.

The PRD sanctioned motorcycle advances of Rs.9.30 lakh during 2002-04 to 47 employees who, however, did not submit receipts for purchases and mortgage deeds.

Similarly, the PRD sanctioned and paid advance amounting to Rs.14.44 lakh for purchase of land for building houses to 12 employees during 2002-04. Although the purchase deeds were to be submitted within two months from the date of drawal of advances as per rules, none of the loanees submitted any such purchase deed to the Government as of June 2004.

It was only after these were pointed out in audit that notices were issued (May/June 2004) to the defaulting employees. In the absence of the purchase deeds, the proper utilisation of the advances was doubtful and the advances remained unsecured.

Due to non-adherence to rules governing advances of Rs.9.30 lakh under MCA and Rs.14.44 lakh under HBA of PRD remained unsecured and their proper utilisation was doubtful

¹³ (i) BDO, Barang (Rs.3.46 lakh) and (ii) BDO, Khurda (Rs.15.29 lakh)

¹⁴ (i) CIS, Bhadrak (Rs.26.58 lakh), (ii) CIS, Khurda (Rs.124.72 lakh), (iii) DIS, Khurda (Rs.12.14 lakh), (iv) DPO, Cuttack (Rs.109.93 lakh) and (v) PRD(GP)-Rs.1.30 lakh.

Operational Controls

5.1.14 Irregularities in payment of grants-in-aid

Payment of grant-in-aid to non-government schools by SMED without verification of audited accounts and asset records

While releasing Government grants to non-government schools, the staff strength and student strength were to be monitored. As per sections 7, 8 and 11 of the Orissa Education Act, the grantees were to submit their audited annual accounts and list of movable and immovable assets. Though the schools in the State under the DEE did not submit any such records for the period under review, the SMED continued to release grants to them regularly. In the absence of submission of such records, the possibility of overpayment on account of non-existent teachers and students could not be ruled out.

Further non-maintenance of records and non-refund of unspent funds of closed schemes were noticed in the following cases, which might likely to lead to abuse of assets and misutilisation.

DRDA, Khurda paid Rs.2.60 lakh to an Under Secretary of PRD over hand receipt

Payment of Rs.2.60 lakh was made (April 2002 and February 2003) by DRDA, Khurda to an Under-Secretary, PRD over hand receipt without obtaining money receipt as required under the DRDA Accounting procedures. Such procedure was fraught with the risk of misutilisation of funds.

ORMAS had an unspent balance of Rs.35.51 lakh under TRYSEM programme closed in 1999

DRDA, Khurda had not submitted utilisation certificates relating to various schemes to the State Government as of May 2004. Unspent grants of Rs.11.57 lakh in respect of schemes closed between 1999 and 2002-03 and Rs.35.51 lakh in ORMAS under TRYSEM programme, which was closed in 1999, were not refunded to Government.

5.1.15 Failure in submission of periodic progress reports

Delay in submission of MPRs by the subordinate officers to the district level officers ranged between 16 and 116 days in SMED and upto 240 days in PRD

The Monthly Progress Reports (MPRs) for the district level officers were the single most important monitoring tool in the hands of the Government. It was observed that the subordinate offices did not submit these reports in time. The delay ranged from 16 to 116 days in case of three offices of SMED and upto 240 days in three offices of PRD. Five¹⁵ offices did not submit even the quarterly reports on physical and financial progress in time. Similarly, monthly and quarterly progress reports were not submitted by OPEPA to SMED during June 2003 to March 2004. As regards ORMAS, there was no provision made by Government for submission of such periodic progress reports, though it received huge amount of government grants. In absence of this vital Management Information System (MIS) as well as due to inadequate inspections, the top executives of the departments did not keep themselves abreast of the strengths and weaknesses of the field level offices.

¹⁵ (i) DSE, Bhubaneswar, (ii) DTE, Bhubaneswar, (iii) DIS, Khurda, (iv) CIS, Bhadrak and (v) CIS, Khurda

Supervisory Controls

5.1.16 Failure to carry out periodic inspection

The heads of the departments / Directors were required to inspect the district offices at least 10 days in a month. However, the actual number of inspections carried out by the Director, Panchayati Raj in PRD recorded a shortfall of 46 days during January to June 2002 and 54 days during January to June 2003. Similarly, Director, Special Projects, PRD had also a shortfall of 56 days during January to June 2003. Such shortfall in inspections by the Directors affected the sense of accountability in the lower formations besides leaving deficiencies in implementation of the schemes undetected.

Officers of various cadres of PRD and SMED including their autonomous organisations failed to carry out periodic inspections affecting the sense of accountability of the sub-ordinate offices

According to the instructions of SMED (July 2000), the Circle Inspector of Schools (CIS) and the District Inspector of Schools (DIS) were to carry out inspections of 192 and 360 schools respectively every year in order to review the working of schools. But while the CIS, Bhadrak had a shortfall of inspection of 154 and 161 schools, the CIS, Khurda recorded shortfall of 166 and 153 schools during 2002-03 and 2003-04 respectively. Similarly, the DIS, Khurda had a shortfall of 314 and 312 schools during the above period. Such shortfall in inspections deprived the higher authorities from knowing about misutilisation/non-utilisation of government grants and deficiencies in implementation of various schemes besides affecting the sense of accountability in lower formations.

Similarly, the PDs, DRDA of Khurda and Cuttack conducted annual inspection in only two out of 10 blocks and five out of 14 blocks respectively in their respective districts during 2003-04. This indicated poor monitoring by the DRDAs of the actual implementation of the poverty alleviation schemes at the block level.

Such shortfall in inspection at various levels affected the functional efficiency and proper implementation of various schemes and activities.

5.1.17 Non-adherence to prescribed controls in stores management

Prescribed controls in stores management of both the departments were not adhered to

The Orissa General Financial Rules (OGFR) prescribes procedures for procurement, storage and disposal of stores. During the review of selected 14 offices of the two departments, the following deficiencies in stores management were noticed.

Eleven out of 14 offices and six out of nine autonomous bodies did not carry out any physical verification of stores at least once in a year during 2002-04 as required under the OGFR. Due to such non-verification, loss of government stores would remain unnoticed.

Storekeepers of eight out of 14 offices as well as the district level offices of OPEPA did not furnish any security deposit or bond though required under the OGFR. The absence of such bonds or securities meant the absence of essential

safeguards against losses due to pilferage etc.

The DPO, Cuttack did not maintain any dead-stock register. The SRC did not maintain stock register in prescribed form and stock entry was not made on bills in proof of receipt of stores in good condition. The PRD (GP) neither mentioned the cost of the articles in the stock registers nor recorded the stock balance correctly as the furniture issued for office use were deleted from the stock account. Such deficiencies in maintenance of stock records are fraught with the risk of misplacement and mismanagement of stock.

5.1.18 Failure of monitoring mechanism

Governing Body/Executive Committee Meetings were conducted to monitor and evaluate proper and timely execution of various schemes and activities.

The Governing Body (GB) of OPEPA, which was to meet twice in a year, did not hold any meeting since 1997 as the Government did not nominate members to GB despite request of OPEPA. Similarly, the GB of ORMAS required to meet once in four months did not hold any meeting during 2002-03 and met only twice during 2003-04.

In Khurda and Cuttack DRDAs, the GB met once in 2003-04 and twice in a year during 2002-04 respectively though required to meet once in a quarter.

As per Rules of SRC, an external agency was to conduct regular / periodical evaluation of the Centre's activities. However, no such evaluation was conducted after 1999.

During 2002-04, shortfalls in holding monthly review meetings in ZSS, Puri and Bhadrak were 14 and six respectively

Such deficiencies at the highest level of these autonomous bodies/societies does not augur well for efficient monitoring and execution of the schemes.

5.1.19 Internal Audit

Internal Audit, as an independent entity within or outside the department was to examine and evaluate the level of compliance to the departmental rules and procedures so as to provide independent assurance to senior management on the adequacy of the risk management and internal control framework in the department.

The scope of audit included check of receipts and expenditure, compliance with laws and regulations and the propriety of expenditure in the subordinate offices of the department. The audit processes, which consisted of planning, execution, issue of reports and their follow-up were generally to be codified in an 'Audit Manual'. Following points were noticed:

The departments did not have any Audit Manual nor they prepared any audit plan for the years under review. No annual targets in terms of number of units to be audited were set for the audit staff. There was no system of supervision of the audit conducted to ensure efficient conduct of audit and follow up. The periodicity of audit of the departmental offices had not been decided. Thus, audit was not undertaken in any systematic and periodical basis.

Failure of review, monitoring and evaluation mechanism indicated gross deficiencies in review of activities and evaluation of execution of the schemes at the highest level

Neither of the departments had any audit plan, targets for the audit staff, periodicity of audit and system of supervision

Audit was conducted on the basis of allegations and requisitions

Special audit was conducted on the basis of 'allegations' and 'requisitions'. The number of offices audited and the percentages are given below which showed that the audit coverage was very poor.

Name of the Department	2002-03			2003-04		
	Number of offices under control	Number of offices audited	Percentage	Number of offices under control	Number of offices audited	Percentage
SMED	300	7	2	300	6	2
PRD	350	19	5	350	20	6

Audit conducted on hundred per cent basis contributed to the shortfall in coverage of units ranging from 94 to 98 per cent

There were no guidelines prescribing the quantum of audit scrutiny i.e. the percentage of transactions to be checked in audit. The audit conducted was on hundred *per cent* basis as a result of which the coverage of the subordinate offices was only two to six *per cent*.

Audit reports were to be prepared within 15 days from the date of completion of audit and issued within seven days thereafter. None of the 13 audit reports in the SMED were issued in time. The details pertaining to issue of audit reports were not available with the PRD.

In PRD, no register for watching compliance to audit reports and settlement of audit paragraphs was maintained.

Reports on non-compliance of audit observations by subordinate offices were not prepared or submitted any time to the FA or the Secretary of the department for monitoring in the selected departments during the entire period of review.

Thus, in absence of audit planning and poor audit coverage, and almost non-existent follow-up of audit reports, the Internal Audit in both the departments was ineffective and could not be relied upon for providing independent assurance to the management about the compliance of ICM.

The CCA of both the departments were ineffective and could not be relied upon for providing independent assurance to the management

5.1.20 Lack of response to audit

Principal Accountant General (Civil Audit), Orissa arranges to conduct periodic inspection of Government transactions and the audit findings are communicated through Inspection Reports to the Heads of the Offices/Departments to comply with the audit observations and rectify the defects and promptly report the compliance to the Principal Accountant General. A half yearly report on the pending Inspections Reports is sent to each department to facilitate monitoring and compliance of audit observations.

As on 30 September 2004, 5622 paragraphs relating to 1606 Inspection Reports of SMED and 18321 paragraphs relating to 2193 Inspections Reports of PRD issued up to 30 June 2004 were still pending for settlement. Of these, 1295 paragraphs relating to 476 Inspection Reports in SMED and 2067 paragraphs relating to 390 Inspection Reports of PRD were more than 10 years old. The position of paragraphs in respect of the remaining departments awaiting settlement has been shown in Appendix-XXXIV. Several serious irregularities commented upon in these IRs with money value, vide Appendix-XXXV, had not been settled as of September 2004. Failure to comply with the issues raised by Audit facilitated the continuation of serious financial irregularities and loss to the Government.

5.1.21 Conclusions

The Internal Controls viz. budget control, expenditure control, cash management, control in store management, operational control and monitoring mechanism were inadequate and ineffective in School and Mass Education Department and Panchayati Raj Department. The basic checks such as proper maintenance of cash book, submission of reports and returns were disregarded. General failure to observe internal control procedures has increased the risk of misappropriation and fraud taking place and remaining unnoticed. No efforts either to set right the system or to take action against the erring officials were evident. Internal Audit was ineffective and failed to bring the failures in ICM to the notice of the management. The autonomous bodies were not serious in implementing the rules and regulations and failed to submit progress reports in time. Despite this, release of funds to these organisations continued.

Recommendations

- ✓ Internal audit coverage of the auditee units should be planned such that all the units are covered in a cycle of one to three years.
- ✓ A provision may be included in the Orissa Treasury Code for closure of PL accounts at the close of a financial year in accordance with the provision in the Civil Accounts Manual of the Government of India.
- ✓ Government should revamp the system of proper response to the audit observations pointed out in Inspection Reports of the Accountant General (Audit) in a time bound manner.

The Commissioner-cum-Secretary, SMED stated (November 2004) that he would get the facts mentioned in the review confirmed from the field offices and assured that action would be initiated to remedy the situation, in the light of the observations made in audit. The Commissioner-cum-Secretary to Government, PRD did not reply so far (November 2004).

BHUBANESWAR

(NAND KISHORE)

THE

**ACCOUNTANT GENERAL (CIVIL AUDIT)
ORISSA**

COUNTERSIGNED

NEW DELHI

(VIJAYENDRA N. KAUL)

THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA