To,

Country Director-INDIA
The World Bank.
International Bank for Reconstruction and Development
International Development Association.
18-20 L.G.Marg.
New Delhi-110001

No- 1042/3-7-1 (SOE) /UDWDP (Phase-II), Dehradun, October, 2016

Sub:- Audit Certificate for Uttarakhand Watershed Management Project IDA Credit No.5369-IN for the financial year 2015-16

Dear sir,

Kindly find annexed the Audit Report along with audited financial statement for Uttarakhand Decentralized Watershed Development Project Phase-II, (IDA Credit No 5369-IN ) for the financial year 2015-16 issued by the Office of the Accountant General (Audit) Uttarakhand vide their letter dated 06-10-2016. The audit certificate has been issued for INR 624.178 Million (Rs.Six hundred twenty four million, one hundred seventy eight thousand) only for the project which is inclusive of beneficiary contribution as per the attached claims.

Enc.- As above

Your’s sincerely

(Anand Bardhan)
Chief Project Director,
Watershed Management Directorate Dehradun.

Letter No- 1042/3-7-1 (SOE) /UDWDP dated above.

Copy forwarded for information and necessary action.
2- Mr. S. Krishnamurthy Sr. Financial Management Specialist, The World Bank 70-Lodhi Estate, New Delhi-110003
3- Additional Secretary (FB) Department of Economic Affairs, Ministry Finance
   Government of India North Block New Delhi-110001

Enc.- As above

(Anand Bardhan)
Chief Project Director,
To,
The Programme Director
UDWDP-II Project
Watershed Management Directorate,
Dehradun


Sir,

I am to enclose herewith the Audit Certificate in respect of World Bank assisted Uttarakhand Decentralised watershed Development Project Phase-II (Credit No. 5369) for the Financial year 2015-16.

Encl: As above

Yours faithfully,

(Vidya Bhushan Relan)
Deputy Accountant General/FAW


Copy forwarded to:-
1. Principal Secretary, Watershed Management, Government of Uttarakhand, Uttarakhand Secretariat, 4- Subhash Road, Dehradun-248001.
2. Director (MI), Government of India, Ministry of Finance, (Department of Economic Affairs), Multilateral Institutions (MI) Division, North Block, New Delhi
3. Director General, PPG-EAP, O/o the C&AG, 9 Deen Dayal Upadhyaya Marg, New Delhi-110124

(Vidya Bhushan Relan)
Deputy Accountant General/FAW
We have audited the accompanied Statement of Expenditure (SoE) of the Uttarakhand Decentralised Watershed Development Project, Phase-II (UDWDP-II) financed under World Bank (IDA) (credit No. 53691N) which comprises sources and application of fund for the year 2015-16. These statements are the responsibility of the project’s management. Our responsibility is to express an opinion on the accompanying financial statement based on our audit.

We conducted audit in accordance with auditing standards promulgated by the Comptroller and Auditor General of India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The Audit examines, on a test check, evidence for supporting the amounts and their disclosure in the SoEs. It also includes, assessing of accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the SoE presents true and fair view in all material respects of the sources and application of funds of UDWDP-II for the financial year 2015-16, in accordance with Government of India Accounting standards.

In addition in our opinion in respect to SOEs, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursement of expenditures incurred for the year 2015-16 amounting to ₹ 6241.78 lakh (Annexure-I) and the related documents were examined and these can be relied upon to support reimbursements under the loan/credit agreement.

This report is issued without prejudice to C&AG’s right to incorporate the audit observations in the Report of C&AG of India being laid before parliament/State Legislature.

(Vidya Bhushan Relan)
Deputy Accountant General/FAW
DETAIL OF EXPENDITURE INCURRED UNDER UDWDP-II PROJECT
(CREDIT NO. 5369IN) DURING THE YEAR 2015-16

(Amount in ₹)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance (a)</td>
<td>66</td>
<td>10854927</td>
</tr>
<tr>
<td>Fund received from Govt. through budget (b)</td>
<td>329355861</td>
<td>607640541</td>
</tr>
<tr>
<td>Fund received directly by project implementing agency through external assistance (c)</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Beneficiary contribution if any (d)</td>
<td>10011000</td>
<td>26296700</td>
</tr>
<tr>
<td>Total receipts (e) = (a)+(b)+(c)+(d)</td>
<td>339366927</td>
<td>644792168</td>
</tr>
<tr>
<td>Expenditure incurred during financial year (f)</td>
<td>328512000</td>
<td>624178400</td>
</tr>
<tr>
<td>Closing Balance (g) = (e)-(f)</td>
<td>10854927</td>
<td>20613768</td>
</tr>
<tr>
<td>Ineligible expenditure (h)</td>
<td>139472000</td>
<td>146070000</td>
</tr>
<tr>
<td>Eligible expenditure (i) = (f)-(h)</td>
<td>189040000</td>
<td>478108400</td>
</tr>
<tr>
<td>World bank share (j) = 80% of (i)</td>
<td>151232000</td>
<td>382486720</td>
</tr>
</tbody>
</table>

(Vidya Bhushan Relan)
Deputy Accountant General/FAW
Audit Observations

1. As per the Para 27 of Project Appraisal Document (PAD) of UDWDP (Gramya II) project, the IDA (International Development Association) will finance 80% of total project cost and remaining 20% of project cost will be shared by the State Govt and Beneficiaries in the ratio of 16.7% and 3.3% respectively in component 2 i.e. Watershed Treatment and Rainfed Area Development.

During the certification Audit of UDWDP (Gramya II) project, it was observed that during October 2014 to June 2016, the Jalagam Directorate, Uttarakhand had deducted amount of beneficiary contribution (₹ 401.84 lakhs) from project expenditure (₹ 3891.25 lakhs) and then claimed 80% of remaining amount (₹ 2791.53 lakhs) in Watershed Treatment and Rainfed Area Development component from IDA which resulted in reimbursement of lesser amount to the tune of ₹ 321.47 lakhs.

On being pointed out, the Jalagam directorate accepted the fact.

Hence, due to incorrect presentation of claims by the department to IDA, ₹ 321.47 lakhs (being 80% of beneficiary contribution of ₹ 401.84 lakhs) remained unclaimed during the period from October 2014 to June 2016.

2. As per the rule 56(2) of GFR 2005, the balances at the end of financial year should be surrendered to government account.

During the certification Audit for the financial year 2015-16 of UDWDP (Gramya II) project, it was observed that out of 487 Gram Panchayats, 358 Gram Panchayats have closing balance of ₹ 206.13 lakhs in their accounts as on 31.03 2016, which is against the financial rules.

On being pointed out the Jalagam directorate replied that the project in GPs was in planning/demonstration phase and had shortage of multi tasking teams. The implementation of the project will be started soon.

The reply is not acceptable because as per financial rules, ₹ 206.13 lakhs should be surrendered to government account at the end of the financial year 2015-16.

3. As per the Chapter 4 (Project Timelines) of Project Operation Manual (POM) of UDWDP (Gramya II), the Gram Panchayat Watershed Development Plan (GPWDP) should be submitted to DPD/PNGO for approval within 12 months.

During the certification Audit for the financial year 2015-16 of UDWDP (Gramya II) project, it was observed that selected 522 Gram Panchayats (GPs) for the UDWDP project, only 344 GPs started work upto March 2016 and 24 GPs had not prepared their Watershed Development Plan even after lapse of two years.

On being pointed out the Jalagam directorate replied that out of 522 GPs, due to disputes and works falling under other projects’ areas, the Watershed Treatment will be carried out only in 510 GPs and only 498 GPs had prepared their GPWDPs and 344 GPs had started works as per their GPWDPs.
The reply is not acceptable as 178 GPs had not started Watershed Development Plan so far.

4. As per the Para 11.8 of POM of UDWDP (Gramya II), the bio-agents, bio-fertilisers, medicines and vaccines should be purchased from approved government agencies for demonstration and encouragement to adopt new technology of farming to get greater yield of crops.

During the certification Audit for the financial year 2015-16 of UDWDP (Gramya II) project, it was observed that an expenditure of ₹ 84.74 lakhs was carried out on purchase of medicines, Bio-agents and Bio-fertilisers by the various divisions from private firms, without assuring quality and authorisation of firms.

On being pointed out the Jalagam directorate replied that the medicines, bio-agent and bio-fertilisers were purchased from licensed suppliers and the Bio-agents and Bio-fertilisers were purchased from supplier firms authorised by original productive firms.

The reply is not acceptable because the auditee did not provide any evidence for authorisation and testing report of medicine, bio-agents and bio-fertilisers.

Hence, purchase of medicines, bio-agents and bio-fertilisers of ₹ 84.74 lakhs was not in consonant with medical and departmental provisions.

5. As per the Public Works Department, Uttarakhand Schedule of Rates 2010, the labour rates of one labourer with one mule is ₹ 310.00 and for extra mule ₹ 170.00 (total ₹ 480.00) per day.

During the certification Audit for the financial year 2015-16 of UDWDP (Gramya II) project, it was observed that various divisions had paid ₹ 380.00 per day to a man with mule, which is ₹ 70.00 more than the rates specified in PWD Schedule of Rate 2010.

On being pointed out the Jalagam directorate replied that as per Superintending Engineer, 9th Circle, PWD Dehradun letter dated 03rd May 2008, the rate of man with mule was revised as ₹ 380.00 per day.

The reply was not acceptable as the letter dated 03rd May 2008 referred to by management stood superseded by the Schedule of Rates 2010.

Hence, Jalagam directorate paid in excess of ₹ 70.00 per day per man with mule. As the bills and payments records in this regard were voluminous, it was not possible for audit to work out the total amount of overpayment.

6. As per the Para 11.8 of POM of UDWDP (Gramya II), the bio-agents, bio-fertilisers, medicines and vaccines should be purchased from approved government agencies and disseminate technology, quality seeds and seedlings as per para number 17 of PAD.
During the certification Audit for the financial year 2015-16 of UDWDP (Gramya II) project, it was observed that an expenditure of ₹ 169.78 lakhs was carried out on purchase of seeds and seedlings by the various divisions from private firms, without assuring the hybrid quality, certificate of quality checks & expiry date etc.

On being pointed out the Jalagam directorate replied that the seeds and seedlings medicines were purchased from supplier firms authorised by original productive firms.

The reply is not acceptable because the auditee did not provide letter of authorisation and quality checks report etc. of seeds and seedlings by the suppliers.

Hence, an expenditure of ₹ 169.78 lakhs in purchase of seeds and seedlings were not in consonant with medical and departmental rulings.

7. As per the Regulations of Act, Minerals are classified into two groups, namely major minerals and minor minerals. They include stones, gravel, ordinary clay, ordinary sand, lime stone, boulders, kankar etc. which may be extracted in specified quantity within stipulated period after getting permission and payment of royalty.

During the certification Audit for the financial year 2015-16 of UDWDP (Gramya II) project, it was observed that the various divisions of the project are not paying the royalty for extracting the minor minerals, which were used to make village ponds, check dams, irrigation channels, bridle path and animal shelter etc.

On being pointed out the Jalagam directorate replied that the deductions of royalty will be made from the bills in future.

8. As per the para 7.1 (4) of CPWD Works Manual 2014, the payments to contractors and others for the work done or other services rendered are made on the basis of measurements recorded in the Measurement Book.

During the certification Audit for the financial year 2015-16 of UDWDP (Gramya II) project, it was observed that both PNGOs of the project have paid an amount of ₹ 4.65 lakh for wall writing and slogan writing in various gram panchayats, but the unit had not made any MBs for the work done and rate were not fixed.

On being pointed out the Jalagam directorate replied that the work was carried out on account of advertisement of the project and presented the details of villages, where the work was done.

The reply was not acceptable as the MBs was not prepared and verified by the competent authority and the payment was done without MBs.

Hence, an amount of ₹ 4.65 lakh was incurred without proper MBs.
9. As per previous audit observation for the financial year 2014-15, the expenditure from June 2013 and onward was admissible for the project under retro-period. It was noticed that Bageshwar and Pithoragarh divisions had charged operating expenditure of ₹1.84 lakh incurred before June 2013 (before retro-period) on this project in the months 02/2014 and 03/2014 without the approval of Uttarakhand Govt and IDA.

On being pointed out, the Jalagam directorate replied that expenditure of ₹1.84 lakh was incurred for the preparation of UDWDP (Gramya II) but didn’t produce any evidence.

The reply is not acceptable as the expenditure was pertained to the period prior to June 2013 (the specified retro period).

Hence, audit observation of 2014-15 is still stands.

10. During the scrutiny of records i.e. Stock registers (D-2 & D-4), Cash Books and other records of WMD and various divisions, it is observed that:

i) The total number of items, number of items disbursed and number of items at balance under a particular category and location of asset was not ascertainable from the stock registers.

ii) Annual physical verification of assets was also not conducted by the WMD and divisions during financial year 2015-16.

iii) In divisions and units, the seal of “Paid and Cancelled” was not marked on bills after payments to avoid duplication.

iv) Cash books of divisions and units were not closed by the DDO at the end of each month.

(v) Overwritings/corrections in cash books were not verified by the competent authorities.

(Vidya Bhushan Relan)
Deputy Accountant General/FAW