

Chapter II: Financial management

Audit objectives:

To assess whether:

- **Fund allotments made to various echelons were based on sound budgetary formulations; and**
- **Allotment under Capital head was adequate for modernisation of the hospitals through the annual acquisition plan.**

2.1 Flow of funds

The DGAFMS is allotted budget mainly under the following two Major heads for procurement of medical stores:

- (i) Minor heads 103 for "other equipment" and 107 for "ECHS" under Major Head 4076- Capital Outlay on Defence Services; and
- (ii) Minor Head 110 D – "Medical Stores" under Major Head 2076- Army (Revenue).

The procurement under Capital budget is done by the DGAFMS, while the funds under Revenue head is to be sub allotted based on the previous year's demands and demands projected by the spending units. The DGAFMS centrally controls all procurement of medical equipment costing ₹10 lakh and above, each with a shelf life of seven years and more, and determines their issue to the hospitals. The revenue expenditure relates to procurement of equipment of revenue nature, repairs and maintenance of medical equipment and procurement of medical stores like drugs, kits and surgical disposables.

Revenue grant allotment for medical services in respect of the Army is received by DGAFMS through Director General Financial Planning of Army Headquarters. Such allotments are made separately for central purchases and local purchases. In the case of the Navy, Air Force, Border Roads, Defence Research & Development Organisation and others, who are treated as payment indentors, the transactions of the utilised budget are adjusted in the same financial year.

The procurement of medical stores is carried out through two methods, namely, central purchase and local purchase. Central purchase comprises purchases by DGAFMS and AFMSD¹⁰s at Delhi, Mumbai and Lucknow which mainly includes supplies under rate contracts and purchase from Pharma Central Public Sector Enterprises (CPSE).

¹⁰ Armed Forces Medical Stores Depot

The responsibility of local purchases of drugs, kits and consumables is distributed among the three¹¹ AFMSDs and seven¹² hospitals declared as independent of these AFMSDs. Together, they are called Direct Demanding Officers (DDOs). The remaining hospitals, Advanced Medical Stores Depot (AMSD)/ FMSD¹³s are dependent on these AFMSDs for their requirements. However, they are also empowered to make emergent purchases if AFMSDs indicate non availability of medicines

The repair responsibility of medical equipment is shared between DGAFMS and EME Branch of Army.

2.2 Trends in capital and revenue expenditure

During 2006-07 to 2010-11, the allotment and expenditure under Capital & Revenue Heads showing expenditure on pay and allowances (Services and ECHS), Local Purchases (LP), Central Purchases (CP) and other Grants was as under:

Table- 2: Allotment & expenditure under Capital and Revenue

(₹ in crore)

Head	2006-07		2007-08		2008-09		2009-10		2010-11	
	Allotment	Expenditure	Allotment	Expenditure	Allotment	Expenditure	Allotment	Expenditure	Allotment	Expenditure
CAPITAL										
Services	93.00	94.76	70.00	78.44	60.00	63.75	70.00	77.47	100.00	107.27
ECHS	23.20	20.22	8.10	9.65	9.50	7.57	6.40	5.91	3.60	2.82
REVENUE										
P&A [^] Service Personnel		1982.42		2043.06		2169.82		3309.59		3851.86
P&A Civilians		116.36		115.75		158.71		210.88		204.67
LP Army	136.10	136.72	164.25	163.21	214.30	209.44	247.70	245.63	283.05	280.05
LP Navy	8.78	8.43	17.05	19.20	29.00	28.88	29.57	27.87	40.00	34.29
LP A/F	12.85	14.37	18.54	20.37	25.84	28.62	36.30	37.17	48.29	48.31
CP	254.00	268.29	316.00	320.28	280.00	294.18	289.20	286.90	281.00	287.29
Other Grants	NA	NA	35.82	35.81	30.53	30.54	41.42	35.96	42.20	42.19
ECHS	324.14	321.60	489.91	482.82	640.14	638.75	889.92	891.96	1061.04	1055.31

[^]Service personnel = Officers + MNS + PBORs

Source of data: P&A Service personnel based on per capita rate, ECHS – Appropriation Accounts and P&A Civilians – Defence Service Estimates.

Allotment of CP and LP for Army – DGAFMS; LP for Navy and Air Force – Respective DGMS.

Expenditure – Controller General of Defence Accounts (CGDA) compilation report.

The above table indicates a significant shift from CP by DGAFMS and AFMSDs to LP by DDOs and hospitals. The allotments¹⁴ for CP increased marginally by 11 per

¹¹ AFMSD Lucknow, Mumbai and Delhi

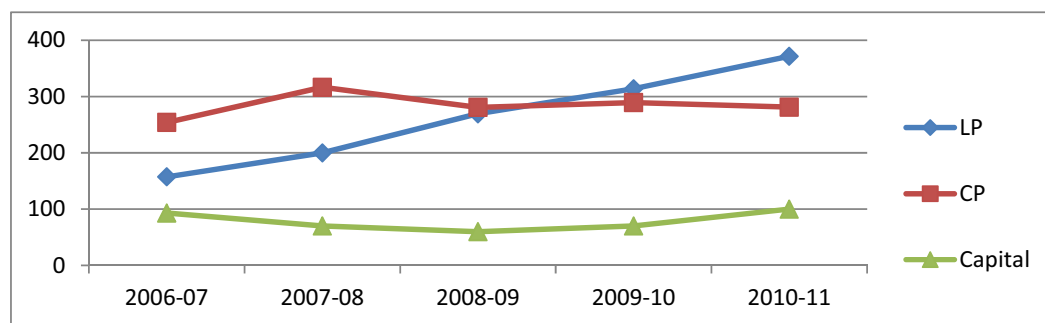
¹² Command Hospitals Pune, Chandimandir, Lucknow, Kolkata and Bengaluru, INHS Ashwini and Army Hospital (Research and Referral) Delhi

¹³ Advance Medical Stores Depot/ Forward Medical Stores Depot

¹⁴ Since there has been insignificant surrender of allotments, it would be reasonable to assume that trends in allotment also truthfully reflected the trends in expenditure.

cent during the period 2006-07 to 2010-11 whereas allotments for LP in the same period, for all the three Armed Forces, registered a significant increase of 135 per cent, rising from ₹157.73 crore in 2006-2007 to ₹371.34 crore in 2010-11.

As a result, the share of CP which constituted 62 per cent of total procurements in 2006-07 gradually declined to 44 per cent in 2010-11 and that of LP went up from 38 per cent in 2006-07 to 56 per cent in 2010-11. This trend is brought out more explicitly in the graph below:



DGAFMS clarified that the increase in allotment of funds for local purchases was due to change in prescription pattern for the medicines, and was necessitated by need to make available medicines in time to consumer hospitals for distribution to the patients and to reduce delay in starting medication.

While need to minimise delay in making medicines available to the patients is undeniable there was no documentary evidence available in DGAFMS of any deliberation over this problem leading to a conscious shift towards more local purchases. The trend of budget allocations matching shifting pattern of expenditure contrary to declared position in favour of centralised procurement and its obvious advantages in terms of quality and cost underlines the *ad hocism* that appears to have overtaken the budgetary decisions in AFMS. Clearly, DGAFMS needs to take stock of this situation and bring harmony between budgetary operations and the procurement policy of AFMS.

2.3 Lack of sound budgetary formulations at any level

Our examination revealed that the annual projection of funds by the DGAFMS for the revenue expenditure was generally unsupported by sound budget formulation exercise by their hospitals.

Considering that the dependencies/beneficiaries of a particular hospital are largely stable over short and medium term, annual increases or decreases in allotment of funds across hospitals did not show any recognisable and stable pattern as indicated in subsequent paragraphs. In respect of 37 hospitals/units the allocation had doubled between 2007-08 and 2010-11 and procurement budgets of individual hospitals increased from 100 per cent (MH Fatehgarh) to 339 per cent (MH Yol) as shown in Table 3 below:

Table- 3: Details of increase in allotment#

(₹ in lakh)

Depot/ Hospital	Beds	Allotment and Expenditure under LP during								Increase in allotment in 2010-11 compared to 2007-08 (in percentage)
		2007-08		2008-09		2009-10		2010-11		
		Allot - ment	Expen- diture	Allot - ment	Expen- diture	Allot - ment	Expen- diture	Allot - ment	Expen- diture	
Southern Command										
57 FMSD		30	30	50	50	65	65	65.6	65.50	119
CH SC	1082	915	915	1352.8	1352.8	1717.1	1717.1	1944.5	1944.5	113
MH Saugor	198	17.5	17.5	53	53	58	58	58	58	231
MH Panaji	96	20	20	50	50	50	50	43.5	43.5	118
MH Kirkee	846	175	175	311.25	311	380	380	439.7	439.7	151
MH Kamptee	149	11	11	18	18	23	23	30	30	173
MH Jamnagar	99	6	6	12	12	13	13	18.3	18.3	205
MH Deolali	280	36	36	66	66	91	91	104.2	104.2	189
MH Belgaum	149	36	36	51	51	71	71	76.8	76.64	113
MH Avadi	49	8.5	8.5	13	13	15	15	21.6	21.6	154
Eastern Command										
38 AMSD		145	145	145	145	145	145	301.2	301.2	108
58 FMSD		68	68	118	118	118	118	172.7	172.7	154
ECTC Kolkata		15	15	15	15	20	20	52.4	52.4	249
181 MH	198	10	10	26	26	31	31	37	37	270
CH EC Kolkata	760	600	600	975	975	1045	1045	1209.5	1209.5	102
MH Panagarh	149	16.75	16.75	24.75	24.75	30	30	44.1	44.1	163
MH Shillong	297	30	30	50	50	50	50	73.5	73.5	145
Western Command										
AH (R&R)	860	2521.6	2521.6	3397	3397	4942.5	4942.5	6189.6	6234.96	145
MH Amritsar	199	47	47	90	90	145	125	146.2	125.80	211
159 GH	300	62	62	92	92	102	102	125	125	102
MH Patiala	248	27	27	52	52	62	62	87	87	222
MH Palampur	125	12	12	12	12	15	15	30.05	30.05	150
MH Yol	241	20.5	20.5	67.5	67.5	80	80	90	90	339
Central Command										
CH CC Lknw	780	570	570	1098.5	1098.5	1098.5	1098.5	1456.1	1456.1	155
MH Allahabad	290	26	26	42	42	77	77	95	95	265
MH Bareilly	495	135	135	178.25	178.25	210	210	313.36	313.36	132
MH Danapur	199	33	33	58	58	66	46.75	77.5	77.5	135
MH Fatehgarh	116	23	23	48	48	48	36.38	46	46	100
MH Gaya	98	11.5	11.5	24.5	24.5	24.5	24.5	32.3	32.3	181
MH Meerut	545	155	155	210.25	210.25	265	265	355.7	355.7	129
MH Mhow	149	37	37	60	60	73	73	78.5	78.5	112
MH Namkum	775	108	108	182.6	182.6	200	200	230.1	230.1	113
MH Mathura	190	50.02	50.02	80.02	80.02	85	85	106	106	112
South Western Command										
MH Jaipur	166	70	70	148.5	148.5	180	180	226.7	226.7	224
MH Kota	149	26.95	26.95	41	41	56	56	59.7	59	122
187 MH	139	22	22	44	44	44	44	44.9	44.9	104
55 FMSD		40	40	40	40	70	70	82.9	82.9	107

#Source of data - DGAFMS/DGFP

Note: Table 3 includes hospitals covered and other hospitals where allotment had doubled.

This is further illustrated by our observations in various hospitals as indicated below:

MH Saugor - a 198-bedded hospital - had an allotment of only ₹17.5 lakh in 2007-08, which increased to ₹53 lakh next year. From 2008-09 to 2010-11, however, the allotment has remained more or less static.

MH Amritsar - a 199-bedded hospital - which had an allotment of ₹47 lakh in 2007-08, had their allotment increased to ₹90 lakh next year. In 2009-10, the allotment had increased further to ₹1.45 crore, hovering in that range during 2010-11.

In nine units, namely MH Saugor, MH Jamnagar, EC TC Kolkata, 181 MH, MH Amritsar, MH Patiala, MH Yol, MH Allahabad and MH Jaipur, the allotments had trebled by 2010-11 in comparison to 2007-08.

As opposed to increases, there were nine cases of reduction in allotments over this period. The reduction in allotment for hospitals by 2010-11 with reference to 2007-08 had ranged from one *per cent* (158 BH) to 38 *per cent* (MH Faizabad). The reduction was quite substantial in respect of AFMSD Lucknow being 57 *per cent* and 20 *per cent* each in respect of AFMSDs Delhi and Mumbai as detailed below:

Table- 4: Details of decrease in allotment@

(₹in lakh)

Sl. No	Depot/ Hospital	Allotment and Expenditure under LP during								Percentage increase as of 10-11 w.r.t. 07-08
		2007-08		2008-09		2009-10		2010-11		
		Allot - ment	Expen- diture	Allot - ment	Expen- diture	Allot - ment	Expen- diture	Allot - ment	Expen- diture	
									-	-
AFMSDs										
1	Lucknow	399.1	399.1	400	400	400	400	173.2	173.2	-57
2	Delhi Cantt	595.85	595.85	625	625	550	550	478.7	478.7	- 20
3	Mumbai	253.12	253.12	265	265	290	290	202.4	202.4	- 20
4	Pune	100	100	100	100	110	110	95.8	95.8	-4
Eastern Command										
5	158 BH	165	165	166.75	166.75	150	150	162.57	162.57	- 1
6	56 FMSD	35	35	40	40	30	30	25.54	25.54	- 27
Western Command										
7	AFC Delhi	411.87	411.87	411.87	411.87	412	423.23	358.6	358.6	- 13
Central Command										
8	MH Faizabad	33.5	33.5	58.5	58.5	58.5	31.14	20.9	20.9	- 38
South Western Command										
9	184 MH	25.5	25.5	25.5	25.5	25.5	25.5	22.2	22.2	- 13

@Source of data - DGAFMS/DGFP

We did not come across any evidence to suggest that such increases or decreases in allotments detailed above were supported by proper budgetary exercises done at the level of the hospitals or were the results of well thought out strategies in the office of the DGAFMS.

Out of the hospitals selected by us for the Performance Audit, in 18 hospitals we made an effort to analyse and explain the changes in allotment for local procurement

assuming a direct correlation between the expenditure on medicines and the clientele workload in terms of OPD and patient admissions of both service personnel/ESM and their dependents. The results of our analysis are given in Table 5:

Table-5: Increase/decrease in allotment vis-a-vis workload

(₹ in lakh)

Hospital**	2007-08		2008-09		2009-10		2010-11	
	No. of patients	Allotment/ Expenditure	No. of patients	Allotment/ Expenditure	No. of patients	Allotment/ Expenditure	No. of patients	Allotment/ Expenditure
MH Agra	144137	100/100	132459	139/139	139335	150/150	143238	153.6/153.6
variation	-	-	-8	39	5	8	3	2
MH Gaya	8985	11.5/11.5	20090	24.5/24.5	24659	24.5/24.5	40074	32.3/32.3
variation	-	-	124	113	23	0	63	32
MH Jodhpur	166541	138/138	180626	161.1/160	182791	188.5/188.5	158588	219.1/219.1
variation	-	-	8	17	1	17	-13	16
BH Delhi Ct	655102	1382/1382	647702	1312.9/1312.9	668862	1375/1375	708893	1796.8/1796.8
variation	-	-	-1	-5	3	5	6	31
166 MH	579187	255/255	501423	321.7/321.70	465924	445/445	433146	487.3/487.3
variation	-	-	-13	26	-7	38	-7	10
MH Ambala	248960	155/155	199454	197.25/197.25	165494	250/250	180741	257.6/257.6
variation	-	-	-20	27	-17	27	9	3
MH Amritsar	90573	47/47	89980	90/90	96016	145/125	90595	146.2/125.8
variation	-	-	-1	91	7	61	-6	1
170 MH	75868	16.25/16.25	75889	19.25/19.25	59125	21.5/21.5	58150	32.7/24.7
variation	-	-	0	18	-22	12	-2	52
CH NC	133317	555/555	132819	678.1/678.1	146102	640/640	109479	887.1/887.1
variation	-	-	0	22	10	-6	-25	39
AH R&R	386201	2521.58/2521.58	405463	3397/3397	371028	4942.5/4942.5	387359	6189.6/6234.96
variation	-	-	5	35	-8	45	4	25
MH Alwar	NA	NA	28425	38/38	34946	38/38	39569	45.6/45.6
variation	-	-	-	-	23	0	13	20
MH Jabalpur	80640	129.45/129.45	84392	177.97/177.97	89892	200/200	NA	214.1/214.1
variation	-	-	5	37	7	12	-	7
MH Allahabad	84636	26/26	114757	42/42	138437	77/77	NA	95/95
variation	-	-	36	62	21	83	-	23
92 BH	93366	176/177	91949	236/236	100707	236/236	NA	235.4/235.4
variation	-	-	-2	34	10	0	-	0
MH Deolali	77142	36/36	74958	66/66	79586	91/91	NA	104.2/104.2
variation	-	-	-3	83	6	38	-	15
178 MH	7679	21/21	8038	21/21	20365	26/26	NA	22.7/22.7
variation	-	-	5	0	153	24	-	-13
CH SC	231773	915/915	250456	1352.8/1352.8	255650	1717.05/1717.05	NA	1944.5/1944.5
variation	-	-	8	48	2	27	-	13
CH WC	389866	1120/1120	395577	1466/1466	405696	1666/1666	NA	1490.1/1490.1
variation	-	-	1	31	3	14	-	-11

**Source of data - DGAFMS/DGFP/Hospitals
NA – Data Not Available, Variation shown is in percentage.

In six hospitals viz., MH Gaya, MH Amritsar, MH Deolali, AH (R&R), MH Allahabad and CH SC though the allotment has doubled during 2007-08 to 2010-11 as reflected in Table 3, the clientele had not increased to that extent barring MH Gaya.

In the 18 hospitals for which data was analysed, there was no correlation between the workload and allotment of funds. In some allotment/expenditure declined even though number of patients treated increased, while in some hospitals the position was reversed.

In the absence of formulation of Budget Estimates at the hospital level no rationale or otherwise of the asymmetrical correlation between increase/decrease and budget/expenditure of the hospitals could be established. The inescapable conclusion which can be drawn from this position is that in general, the allocation of funds to hospitals under LP was characterised by *ad hocism*.

AFMSDs Delhi, Mumbai and Lucknow cater to a large dependency, comprising hospitals, FMSD and AMSDs for supply of drugs and consumables. The allotment of funds to these AFMSDs under LP was considerably reduced during the years 2007-08 to 2010-11 as shown below:

Table- 6: Table indicating allotment & expenditure under LP to AFMSDs

(₹ in lakh)

Name of Depot	Allotment and Expenditure under LP during								Percentage decrease as of 10-11 w.r.t. 07-08
	2007-08		2008-09		2009-10		2010-11		
	Allot - ment	Expen- diture	Allot - ment	Expen- diture	Allot - ment	Expen- diture	Allot - ment	Expen- diture	
AFMSD Lucknow	399.10	399.10	400	400	400	400	173.2	173.2	57
AFMSD Delhi Cantt	595.85	595.85	625	625	550	550	478.7	478.7	20
AFMSD Mumbai	253.12	253.12	265	265	290	290	202.4	202.4	20
Total	1248.07	1248.07	1290	1290	1240	1240	854.3	854.3	32

#Source of data - DGAFMS/DGFP

We observed that a large part of the funds allotted by the DGAFMS to AFMSD Mumbai for local procurements of drugs, surgical instruments, laboratory stores, etc. were utilised by the latter to defray expenditure on repairs/ annual maintenance contracts (AMC) of medical equipment. The expenditure on AMC was not being captured under a distinct object head although procurement of stores and repairs and maintenance of equipment are different activities. This is borne out by following analysis of the expenditure of AFMSD Mumbai for the year 2010-11.

Table- 7: Details of expenditure booked under LP by AFMSD Mumbai

Sl. No.	Details of expenditure	Amount ₹	Percentage to total expenditure
1	AMC of equipment	10935779	58
2	Repairs of equipment	530142	3
3	Procurement under RC	783121	4
4	Non medical stores	1001439	5
5	Drugs against NAC	874348	5
6	Local purchase of drugs by AFMSD	4711024	25
	Total expenditure	18835853	

It was further noticed that the procurement of non-medical stores, viz. furniture, maintenance of computer and battery-operated trucks by AFMSD Mumbai were also accounted for as local purchase of medical stores.

The present system of classification of expenditure by clubbing both the types of expenditure against budget allotment for local purchase tends to increase opacity in financial reports of AFMS.

Allotment for central purchase

The budgeted fund under CP allotted to DGAFMS and the AFMSDs as well as expenditure incurred thereagainst was as under:

Table-8: Allotment & expenditure under CP#**(₹in crore)**

Agency	2007-08		2008-09		2009-10		2010-11		Percentage increase (+)/ decrease (-) in allotment in 2010-11 compared to 2007-08
	Allotment	Expenditure	Allotment	Expenditure	Allotment	Expenditure	Allotment	Expenditure	
DGAFMS	191.07	207.65	66.75	110.96	89.50	109.25	105.09	126.90	-45
AFMSD Delhi	64.75	64.75	105.00	105.00	98.00	99.79	88.54	88.54	+37
AFMSD Mumbai	16.00	16.00	35.50	35.70	38.00	32.79	33.66	32.85	+110
AFMSD Lucknow	35.50	35.50	58.00	58.00	48.00	41.25	36.31	36.31	+2
AFMSD Pune	1.20	1.20	1.18	1.18	1.75	1.71	1.69	1.66	+41
AFTC ¹⁵ s	7.48	7.48	13.57	13.57	13.95	9.21	15.71	14.64	+110
Total	316.00	332.58	280.00	324.41	289.20	294.00	281.00	300.90	- 11

#Source of data - DGAFMS

The CP allotment to DGAFMS/AFMSDs/AFTCs has decreased by 11 per cent despite an increase in the overall allotment under revenue head by 26 per cent from 2007-08 to 2010-11 as indicated in Table 2 above.

Low materialisation of medical stores at Service hospitals and ECHS polyclinics and inadequate provision for repair and maintenance needs of medical equipment, as

¹⁵ Armed Forces Transfusion Centre

explained in the subsequent chapters, amply underscore the need for proper budgetary practices in AFMS.

Recommendation No 1

All hospitals and AFMSDs may formulate budget estimates to project their requirement of funds keeping in view the workload and past trends of expenditure. DGAFMS may allot funds based on such estimates. Funds may be allotted separately for maintenance and repairs of hospital equipment.

The Ministry agreed to strengthen the budgetary system.

2.4 Disconnect between Annual Acquisition Plan and budget allotment

Annual Acquisition Plan (AAP) reflects the plan for procurement of equipment for modernisation of AFMS covering both revenue and capital items. We observed that over a period of time, inadequate budgetary allotments under Capital Head has created a wide gap between the needs as reflected in the capital portion of AAP and actual procurement done as indicated by the following table.

Table- 9: Allotment vis-a-vis orders placed under Capital#

(₹ in crore)

Year	AAP requirement	Backlog of AAP	Allotment	Orders placed (AAP)	Cumulative backlog
2006-07	247.34	-	93.00	18.38	228.96
2007-08	88.06	228.96	70.00	27.25	289.77
2008-09	180.70	289.77	60.00	39.46	431.01
2009-10	278.91	431.01	70.00	60.81	649.11
2010-11	367.01	649.11	100.00	72.71	943.41

#Source of data - DGAFMS

A huge backlog of ₹ 943.41 crore existed as of March 2011 against the approved AAP. This made the plans largely irrelevant, so far as procurement of capital items is concerned. There was apparently a huge disconnect between the approved AAP and the allotment of funds.

The Ministry in their reply denied that funds were a constraint for fulfilling the AAP. It was argued that AAP was in the nature of a revolving plan which need not have corresponding budget provision for all cases reflected in it and that it cannot be linked to budget allocation because gestation period of more than one year involving vendor lead time and delivery period result in utilisation of budget only when cash outgo materialised.

Without discounting the argument of the Ministry that budget allotment/expenditure cannot have a complete correlation owing to procurement action spill over, it may be pointed out that the table above brings out in abundant measure the fact that annual allotments were only a small fraction of the AAP backlog and the value of orders placed is even lower leaving a huge gap between the AAP, financial planning and procurement action. This is a reality which is stark and disturbing and cannot be explained away by the Ministry's arguments.

Recommendation No 2

The Ministry and DGAFMS may rationalise the Annual Acquisition Plans after a review of actual requirements and implement the AAP in a time bound manner to modernise the hospitals.