

Chapter I

Overview

1.1 About this Report

This Report of the Comptroller and Auditor General (CAG) relates to matters arising from performance audit of selected programmes and Departments of Government of Telangana, compliance audit of transactions of its various Departments, Central and State plan schemes and audit of autonomous bodies of the State pertaining to General and Social Sectors.

The primary purpose of this Report is to bring to the notice of the State Legislature significant results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. Findings of Audit are expected to enable the Executive to take corrective action, to frame appropriate policies as well as to issue directives that will lead to improved financial management of organisations and contribute to better governance.

Compliance audit refers to the examination of transactions of audited entities to ascertain whether provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with. On the other hand, performance audit, besides including compliance audit, also examines whether objectives of programme/activity/Department are achieved economically, efficiently and effectively.

This Chapter, in addition to explaining planning and coverage of audit, provides a synopsis of important achievements and deficiencies in the implementation of selected schemes, significant audit observations made during audit of transactions and follow-up action on previous Audit Reports.

1.2 Profile of General and Social Sector

A summary of the expenditure incurred by Departments of Government of Telangana falling within General and Social Sector (with effect from 2nd June 2014 i.e., after the State came into existence) is given below.

Table-1.1

(₹ in crore)

Sl. No.	Name of the Department	2014-15 [#]	2015-16
A	General Sector		
1	Finance and Planning	13396.77	26251.70
2	General Administration	212.91	553.45
3	Home	3032.41	4638.29
4	Law	339.52	488.17
5	Revenue	1346.41	2316.21
6	State Legislature	42.40	62.12
	Total (A)	18370.42	34309.94

Sl. No.	Name of the Department	2014-15 [#]	2015-16
B	Social Sector		
1	Backward Classes Welfare	1090.51	1073.98
2	Consumer Affairs, Food and Civil Supplies	817.49	1000.13
3	Health, Medical and Family Welfare	2439.02	3294.76
4	Higher Education	1146.48	1684.68
5	Housing	402.18	2527.48
6	Labour, Employment, Training and Factories	217.12	516.56
7	Minorities Welfare	332.31	555.69
8	Municipal Administration and Urban Development	2248.41	4813.49
9	Panchayat Raj ^{\$}	3033.38	6050.61
10	Rural Development ^{\$}	3712.02	5610.97
11	School Education	5938.81	8987.31
12	Scheduled Castes Development	1254.77	2936.33
13	Tribal Welfare	701.75	2148.84
14	Women, Children, Disabled and Senior Citizens	820.06	1127.86
15	Youth Advancement, Tourism and Culture	230.79	250.66
	Total (B)	24385.10	42579.35
Grand Total (A+B)		42755.52	76889.29

Source: Appropriation Accounts of Government of Telangana for relevant years

[#]with effect from 2 June 2014 after the State came into existence; ^{\$}under one Secretariat Department 'Panchayat Raj and Rural Development'

1.3 Office of Principal Accountant General (G&SSA)

Under directions of the CAG, Office of the Principal Accountant General (General & Social Sector Audit), Andhra Pradesh & Telangana conducts audit of 20 Departments and local bodies/public sector undertakings/ autonomous bodies thereunder in the State of Telangana.



Offices of the Accountants' General

1.4 Authority for audit

Authority for audit by the CAG is derived from Articles 149 and 151 of Constitution of India and Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). CAG conducts audit of expenditure of General and Social Sector Departments of Government of Telangana under Section 13¹ of the DPC Act. CAG is the sole auditor in respect of autonomous bodies/local bodies which are audited under Sections 19(2)² and 20(1)³ of the DPC Act. In addition, CAG also conducts audit under

¹ Audit of (i) all transactions from Consolidated Fund of State, (ii) all transactions relating to Contingency Fund and Public Account and (iii) all trading, manufacturing, profit & loss accounts, balance sheets & other subsidiary accounts kept in any Department of a State

² Audit of accounts of Corporations (not being Companies) established by or under law made by State Legislature in accordance with provisions of the respective legislations

³ Audit of accounts of any body or authority on request of Governor, on such terms and conditions as may be agreed upon between CAG and Government

Section 14⁴ of the DPC Act, of other autonomous bodies which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in Auditing Standards and Regulations on Audit and Accounts, 2007 issued by the CAG.

1.5 Planning and conduct of audit

The Audit process commences with assessment of risk in respect of Departments/organisations/autonomous bodies/schemes etc., based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers, assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit are decided and an annual audit plan is formulated to conduct audit.

After completion of audit of each unit, Inspection Report (IR) containing audit findings is issued to head of the unit with a request to furnish replies within one month of receipt of IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in Government, are processed for inclusion in Audit Reports which are submitted to the Governor of Telangana under Article 151 of the Constitution of India for causing them to be laid on the Table of State Legislature.

1.6 Response of Departments to Audit findings

Heads of offices and next higher authorities are required to respond to observations contained in IRs and take appropriate corrective action. Audit observations communicated in IRs are also discussed in meetings at district/State levels by officers of the AG's office with officers of the concerned Departments.

As of 30 September 2016, 2412 IRs containing 16,493 paragraphs pertaining to the previous years were pending settlement as detailed below. Of these, first replies have not been received in respect of 246 IRs (3,902 paragraphs). Department-wise details are given in *Appendix-I.1*.

Table-1.2

Year	Number of IRs/Paragraphs pending settlement as of 30 September 2016		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
2011-12 and earlier years	2037	10515	77	554
2012-13	41	1012	14	516
2013-14	46	693	16	312
2014-15	140	2098	48	928
2015-16	148	2175	91	1592
Total	2412	16493	246	3902

⁴Audit of all (i) receipts and expenditure of a body/authority substantially financed by grants or loans from Consolidated Fund of State and (ii) all receipts and expenditure of any body or authority where grants or loans to such body or authority from Consolidated Fund of State in a financial year is not less than ₹ one crore

Lack of action on audit IRs and paragraphs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports, dilution of internal controls in process of governance, inefficient and ineffective delivery of public goods/services, fraud, corruption and loss to public exchequer.

As per instructions issued by Finance and Planning Department in November 1993, administrative Departments are required to submit Explanatory Notes on paragraphs and performance audit reports included in Audit Reports within three months of their presentation to Legislature, without waiting for any notice or call from Public Accounts Committee, duly indicating action taken or proposed to be taken. Explanatory Notes with regard to the issues exclusively pertaining to the State of Telangana are yet to be received from six⁵ Departments in respect of six paragraphs/performance audit reports that featured in the Audit Report for the year 2014-15. Explanatory Notes are also yet to be received from nine⁶ Departments of Government of Telangana in respect of 21 paragraphs/performance audit reports that featured in Audit Reports for the years 2006-07 to 2013-14 i.e., relating to the period prior to bifurcation of the erstwhile State of Andhra Pradesh. Details are given in *Appendix-1.2*.

As per Finance Department's Handbook of Instructions and their U.O. dated 3 November 1993, all Departments are required to send their responses to draft audit paragraphs proposed for inclusion in Report of Comptroller and Auditor General of India, within six weeks of their receipt. During 2016-17, one draft Performance Audit report and 13 draft compliance audit paragraphs were forwarded to Special Chief Secretaries/Principal Secretaries/Secretaries of Departments concerned of the State Government of Telangana, drawing their attention to audit findings and requesting them to send their response within six weeks. It was brought to their personal attention that in view of likely inclusion of these paragraphs in the Report of Comptroller and Auditor General of India, which would be placed before State Legislature, it would be desirable to include their comments/responses to the audit findings. Despite this, seven⁷ Departments did not furnish reply to the draft Performance Audit Report and 11 draft compliance audit paragraphs as on the date of finalisation of this Report. Responses of Departments, where received, have been appropriately incorporated in the Report.

1.7 Significant Audit observations

This Report contains findings of Audit from a test-check of accounts and transactions of eight Departments of Government of Telangana during 2015-16. Audit focus during the year has been primarily on evaluating implementation of specific Government programmes and initiatives in Departments covering mainly Health, Medical and Family Welfare; School Education; Women, Children, Disabled and Senior Citizens; Youth

⁵Backward Class Welfare; Information Technology, Electronics and Communications; Minority Welfare; Scheduled Castes Development; School Education; and Tribal Welfare

⁶Finance; Health, Medical and Family Welfare; Home; Housing; Minority Welfare; Panchayat Raj and Rural Development; Tribal Welfare; Youth Advancement, Tourism & Culture; and Women, Children, Disabled & Senior Citizens

⁷Health, Medical and Family Welfare; Higher Education; Home; Revenue; School Education; Youth Advancement, Tourism & Culture; and Women, Children, Disabled & Senior Citizens

Advancement, Tourism and Culture; Home; Revenue; Higher Education and Municipal Administration & Urban Development under General and Social Sectors so as to aid Government in taking necessary corrective action to improve service delivery levels to citizens with special focus on procurement, availability of medicines and medical equipment at health facilities and also on children & welfare of senior citizens. Towards this end, one Performance Audit report and 13 draft compliance audit paragraphs have been issued to the Government.

The Performance Audit included in this Report is on ‘Procurement and Distribution of Drugs and Equipment’ pertaining to Health, Medical and Family Welfare Department.

Significant results of audit featured in this Report are summarised below:

1.7.1 Procurement and Distribution of Drugs and Equipment

The Health, Medical and Family Welfare Department (Department) provides health and medical services to the public through various health facilities including hospitals and health care centres. The procurement and distribution of drugs, medicines, surgical items, consumables, etc., required by these health facilities had been entrusted to the Andhra Pradesh/Telangana State Medical Services and Infrastructure Development Corporation (APMSIDC/TSMSIDC - Corporation) which finalises procurement through tenders and ensures distribution to various health facilities through Central Medicine Stores (CMS) located in each district of the State. The Corporation has also been meeting the requirement of medical equipment by procuring and arranging to install them directly at the health facilities.

A Performance Audit was carried out covering the five year period 2011-16 to evaluate the effectiveness of procurement and distribution system in the State in respect of medical supplies and its impact on the timely availability of drugs, medicines and medical equipment at various health facilities. Significant findings of this Performance Audit are summarised below.

Provision and utilisation of funds

While the budgeted funds were not being released in full (short release ranged between 4 per cent to 35 per cent during 2014-16) for procurement and distribution of medicines and equipment, the amounts released were not fully utilised by the Corporation. In the case of procurement of drugs, medicines and equipment in 2014-15, the non-utilisation was almost 40 per cent.

(Paragraph 2.3)

Estimation and indenting of drugs and surgical items

The Corporation has been procuring drugs, medicines and surgical items without considering the need-based requirement of health facilities. As a consequence, there were instances of non-supply/inadequate supply of essential drugs and surgical items to hospitals, compelling them to procure such drugs and surgical items locally at higher prices and that too tapping the meagre budget allocated to them for emergency local purchases of drugs.

(Paragraph 2.4.1)

Procurement process of drugs and surgical items

- Against 635 items of essential drugs identified in the State, no arrangements were made for procurement of 237 items. Further, 197 purchase orders (cost: ₹12.17 crore) placed during 2014-16 were not executed by the supplier firms. As a consequence, a number of essential drugs were not supplied/belatedly supplied to health facilities, thereby depriving the patients of the timely availability of essential medicines.

(Paragraphs 2.4.2.1 and 2.4.2.2)

- Central Medicine Stores (CMSs), Adilabad, Hyderabad and Warangal had accepted drugs and medicines (cost: ₹1.27 crore), having less than 80 per cent of shelf-life and drugs and medicines (Adilabad and Hyderabad/cost: ₹1.28 crore) having active ingredients below the stipulated optimal level, disregarding the Procurement Policy as well as the conditions of bids with regard to ensuring potency of drugs.

(Paragraphs 2.4.2.4 and 2.4.2.5)

- In the five test-checked hospitals, although a significant volume of drugs and surgical items (cost: ₹8.30 crore) had been procured through decentralized procurement system, the hospital authorities had neither obtained proper confirmation/acknowledgement of non-availability of items of drugs/surgical items from the Central Medicine Stores, nor did they adopt the rate contract for transparency in procurement.

(Paragraph 2.4.2.6)

Distribution of drugs and surgical items

- Against 635 listed items of essential medicines, only 303 (48 per cent/2014-15) and 335 (53 per cent/2015-16) items of drugs and medicines were available with Central Medicine Stores in the State and this had defeated the prime objective of making available the essential drugs to all the health facilities when needed. As for the essential surgical items, against 360 listed items, 289 (80 per cent/2014-15) and 272 (76 per cent/2015-16) surgical items only were available with CMSs.

(Paragraph 2.4.3.1)

- Several items of drugs went out of stock repeatedly and there were delays in replenishing exhausted stock. Cases of stock remaining un-replenished in Central Medicine Stores, Adilabad, Hyderabad and Warangal were observed, resulting in critical medicines getting out of stock at hospitals, thereby compelling hospitals/patients to source them from the market on their own.

(Paragraph 2.4.3.2)

Storage of drugs and surgical items

- Provision of space and storage arrangements for large quantities of various drugs/medicines and surgical items were inadequate at all the three sampled Central Medicine Stores. There was also no assurance that FEFO (First Expiry First Out) system as stipulated in the Procurement Policy had been followed.

(Paragraph 2.4.5.1)

- Although certain medicines were required to be stored in controlled environment, there were no proper arrangements in Central Medicine Stores, Adilabad, Warangal and many of the test-checked hospitals, exposing medicines to the risk of degradation.

(Paragraph 2.4.5.2)

Quality of drugs and surgical items

- Due to inadequate pre-despatch quality testing of drugs (even in case of vital medicines) and surgical items through empanelled laboratories, there was no assurance that all the batches of all drugs and surgical items procured were undergoing Quality Control (QC) testing before they were distributed to health facilities and that standard/quality medicines were being issued to patients as stipulated in the Procurement Policy.

(Paragraph 2.4.6.1)

- There were delays in acquiring Quality Control test reports from the empanelled laboratories. During the year 2015-16, only 29 per cent (Tablets, Capsules, etc.), 47 per cent (I.V. fluids & injections) and 56 per cent (surgical items) of samples could get QC test reports within the stipulated period, leaving QC test reports for the remaining samples either being received after extended periods of delays or remaining to be analysed by the laboratories.

(Paragraph 2.4.6.2)

Supply and utilisation of medical equipment

- Due to the absence of Procurement Policy for purchase of medical equipment, there were deficiencies relating to need-assessment, indent mechanism, technology options, specification of equipment, delays in installation and maintenance of equipment, etc.

(Paragraph 2.5.1.1)

- Audit observed deficiencies such as delays in supply of equipment (ranging from 74 to 153 days) and delays (ranging from 30 to 224 days) in installation of 383 items of equipment (value: ₹10.67 crore) and equipment lying idle due to non-availability of consumables/facilities to install/utilise the equipment.

(Paragraphs 2.5.2 and 2.5.3)

1.7.2 Compliance Audit Observations

1.7.2.1 Functioning of Residential Educational Institutions

Government had established (1972) ‘Andhra Pradesh Residential Educational Institutions Society (APREIS)’ with the objective of providing quality education to the rural talented children from economically backward families in the combined State of Andhra Pradesh. Post-bifurcation, the Telangana Residential Educational Institutions Society (TREIS) came into existence (June 2014) for the administration of Residential Educational Institutions in the State. As at the beginning of the academic year 2015-16, there were 47 Residential Schools (Classes V to X) with 17,054 students and four Junior Colleges (offering two year Intermediate course) with 826 students, functioning in the State for providing free quality education with boarding and lodging facilities to the students.

Audit scrutiny showed that although Residential Educational Institutions were established with the aim of imparting quality education to the targeted children with the aspiration of achieving 100 *per cent* success rate in public examinations, the academic performance of the institutions showed declining trend during the years 2013 to 2016, which was mainly attributable to significant shortages in facilities and faculty, both in quantitative and qualitative terms. A majority of the Residential Institutions in the State lacked adequate accommodation and infrastructure facilities in terms of classrooms, dormitories, kitchens, dining halls, toilets & bathrooms, staff quarters, furniture, safe drinking water, etc. Inspection of schools was not given adequate attention and, as such, these factors have been responsible to a significant extent for the decline in academic performance of the students/institutions.

(Paragraph 3.1)

1.7.2.2 Welfare of Senior Citizens

In recent times, due to stress on the joint family system and other factors, a large number of parents are being neglected by their families exposing them to the lack of emotional, physical and financial support. In the absence of adequate social security, these older persons face a number of problems. As per the Census 2011, the population of senior citizens (persons aged 60 years and above) in Telangana State was 32.70 lakh, which was 9 *per cent* of the total population.

While the initiative taken in terms of old age pensions disbursement was commendable, Audit scrutiny showed that the overall implementation of the various programmes emanating from the Maintenance and Welfare of Parents and Senior Citizens Act, 2007 and the Rules framed thereunder were deficient in many aspects/components. These included lack of efforts in raising the awareness levels of older persons about the provisions of various welfare measures under the Act and Rules, non-establishment of the prescribed number of Government old age homes (at least one in each district) to accommodate senior citizens who were indigent, non-monitoring of old age homes run by NGOs to ensure suitable accommodation and non-enforcement of the minimum standards of care and services for the welfare of senior citizens, deficient provision of priority health care services to senior citizens, non-implementation of comprehensive action plan for protection of life and property of senior citizens, etc. The chief underlying factor of the shortcomings in implementation was the lack of creating awareness and action required on the part of civil societies and Government stakeholders like the Health, Police Departments, etc.

(Paragraph 3.2)

1.7.2.3 Centre of Excellence in Institute of Mental Health not established

Government of India (GoI) had identified (June 2009) the Institute of Mental Health (IMH), Hyderabad for upgradation under the Centre of Excellence scheme (Manpower Development component) of “National Mental Health Programme (NMHP)”. Inaction on the part of the IMH to utilize the GoI grant led to the objective of establishing the “Centre of Excellence” not being achieved, besides resulting in foregoing of the Central assistance to the extent of ₹25 crore.

(Paragraph 3.5)

1.7.2.4 Finance Commission Grants foregone

The upgradation works of Police Training Centres (PTCs) at Warangal, Karimnagar and Medchal (Medak), intended to provide training to in-house and newly recruited policemen, sanctioned by GoI under the Thirteenth Finance Commission (TFC) grants in 2012, had remained incomplete even after four years of sanction. This was attributable to the indecision of the Government with regard to the number of PTCs to be established and the consequential delays in preparation of action plans/identification of works, coupled with the failure to utilize the TFC grant in time. This had resulted in foregoing of the TFC grant of ₹38 crore due from GoI, putting an avoidable burden upon the State Government to that extent.

(Paragraph 3.7)

1.7.2.5 Faulty planning and shortcomings in execution of Sewerage Master Plan

Faulty planning and shortcomings in execution of Sewerage Master Plan by the Hyderabad Metro Water Supply and Sewerage Board in Project Divisions VII and VIII (expenditure: ₹96.73 crore) resulted in the primary objective of sewage treatment not being achieved even after seven years of commencement of the project, resulting in cost overruns, besides contributing to environmental degradation.

(Paragraph 3.8)

1.7.2.6 Unfruitful expenditure on Quli Qutub Shah Deccan Park

Failure of Quli Qutub Shah Urban Development Authority (QQSUDA) to resolve the issue of renaming of the “Quli Qutub Shah Deccan Park” (completed in the year 2006) had rendered the entire expenditure of ₹2.70 crore incurred on the development of the Park unfruitful, besides denying recreational facilities to the general public.

(Paragraph 3.9)

1.7.2.7 UGC sponsored infrastructure development works

Non-release of matching State share by the Government and diversion of UGC funds (given as one-time catch-up grant intended for improving the infrastructure and quality) resulted in non-completion of the envisaged infrastructure development works in the Mahatma Gandhi University in Nalgonda District even after the lapse of over five years, besides loss of UGC assistance of ₹2.25 crore.

(Paragraph 3.6)

1.7.2.8 Unfruitful outlay on establishment of a Training facility

With the objective of catering to the needs of the general public, as well as to create a training facility for the students of Hospitality, Dr. Y.S.R. National Institute of Tourism and Hospitality Management (NITHM), Hyderabad, had proposed (August 2013) setting up a restaurant to be managed by the students of the Institute. Failure to assess commercial viability of the restaurant resulted in the facilities, created at a cost of ₹1.33 crore, remaining unutilised, rendering the entire expenditure unfruitful.

(Paragraph 3.12)

1.7.2.9 Implementation of 'Indira Gandhi Matritva Sahyog Yojana'

The Ministry of Women and Child Development (MWCD), Government of India (GoI) had formulated (November 2010) the Indira Gandhi Matritva Sahyog Yojana (IGMSY) – a Centrally sponsored Conditional Maternity Benefit Scheme for pregnant and lactating mothers. Audit scrutiny showed that delays and failure in timely release of funds on the part of the State Government, coupled with non-compliance with prescribed procedures for payment of incentives, resulted in denial of targeted benefits to the intended beneficiaries, besides negating the primary objective of compensating wage loss at the time of pregnancy and child care.

(Paragraph 3.3)

1.7.2.10 Non-resumption of alienated land despite non-utilisation

Allotment of land by the State Government in an arbitrary manner to a Trust at a rate far lower than the market value resulted in loss of revenue to the Government. This, coupled with the failure of the District Collector, Medak District to resume the land despite its non-utilisation, led to the land valued at ₹75 lakh being locked up with the Trust for over eight years.

(Paragraph 3.10)

1.7.2.11 Stoppage of infrastructure expansion works due to non-compliance with provisions of Building Rules

Lack of planning on the part of Dr. Y.S.R. National Institute of Tourism and Hospitality Management (NITHM) coupled with the violation of Government orders/building rules before embarking on the infrastructure expansion works led to stoppage of construction works midway and consequent locking up of ₹1.13 crore, for over two years.

(Paragraph 3.11)

1.7.2.12 Payments to food suppliers without receipt of stock

Under the State sponsored scheme of 'Indira Amrutha Hastam', payments were made by the Project Director, District Women & Child Development Agency (DW&CDA), Karimnagar and Director, Women Development and Child Welfare Department for stock worth ₹1.02 crore of food supplies without the actual receipt of stock (consisting of provisions for One Full Meal programme, Snack Food/Weaning Food, for children, etc..) at the Child Development Project Offices (CDPOs), contrary to the Codal provisions.

(Paragraph 3.4)