Chapter 5 Use of Special Bills by the State Government

5.1 Introduction

The Finance Accounts of the Government of Andhra Pradesh present the financial position along with accounts of the receipts and disbursements of the Government for the year. It is audited by the Comptroller & Auditor General of India in accordance with the requirements of Articles 149 and 151 of the Constitution of India. Such audit forms the basis for the audit opinion contained in the Certificate signed by the CAG on the Finance Accounts of the year.

The Finance Accounts are prepared by the Office of the Principal Accountant General (Accounts & Entitlements), Andhra Pradesh from the initial accounts received from 13 treasuries and other offices, and/or departments functioning under the control of the Government of Andhra Pradesh. Generally, all the financial accounting entries of the State Government are processed through the treasury system, involving the following steps:

- Drawing & Disbursing Officers in various Departments of the State Government draw the *bills* based on approvals contained in the *sanction orders*.
- The payments are processed by the District Treasury Officers based on availability of budget as contained in the *Budget Release Orders* (BROs) issued by the State Finance Department during the year.

This workflow for financial accounting entries is a part of the framework of internal controls for budget and expenditure management in the State Government. District Treasury Offices are required to ensure that every payment/accounting entry is duly authorised and budgeted and are compliant to rules and regulations. An additional layer of internal control is the Treasury inspection carried out periodically by the Office of the Principal Accountant General (Accounts & Entitlements), Andhra Pradesh.

The compilation of initial accounts in the Treasuries of Andhra Pradesh was automated in 2018-19 with the introduction of Comprehensive Financial Management System (CFMS). All financial accounting entries are initiated, approved, paid and recorded through the CFMS which is designed as a single source of truth. Andhra Pradesh Centre for Financial Systems Services (APCFSS), a Company under the Companies Act, 2013 operates the CFMS.

5.2 Audit of Special Bills

The issue regarding Special Bills was detected during a Treasury inspection conducted by the Office of the Principal Accountant General (Accounts & Entitlements), Andhra Pradesh in March 2021 in respect of certain accounting entries effected centrally at the APCFSS through backend of the CFMS, thus by-passing the controls in the ordinary workflow of financial accounting entries.

Our initial examination showed that for the year 2020-21, 54,092 accounting entries were processed centrally at the APCFSS through backend of the CFMS. They were processed through “Special Bills” in the CFMS, which is not an authorised type of a bill in the Treasury Code. The gross amount transacted through the Special Bills was ₹ 48,284.31 crore including adjustments between the Consolidated Fund of the State and the Public Account. The payments which led to outgo from the Consolidated Fund of the State (CFS) (₹ 13,071.08 crore) accounted for 7.5 *per cent* of the total payments (₹1,73,367 crore) made from the Consolidated Fund of the State; adjustments in the Public Account (₹ 35,213.23 crore) accounted for 13.12 *per cent* of the payments from the Public Account (₹ 2,68,327 crore).

Financial attest audit requires that an Auditor may give an unqualified opinion if he is of the view that Finance Accounts give a true and fair view of the financial position and the receipts & disbursements. However, the Auditor may give a modified opinion in the following circumstances when he is either:

i. Uncertain as to whether the material error does or does not exist in the accounts or;
ii. Disagrees with the way something has been dealt with in the accounts

We conducted an initial examination to assure ourselves that:

- Sufficient reasons existed why these accounting entries could not be booked by following the process flow in the CFMS and routing it through the Treasury,
- Necessary documentation backed these accounting entries to show that the amounts booked were correct, duly authorised, and approved and consistent with the rules and regulations.

This initial examination done with the access provided to us in CFMS, could not provide us the above assurance, raising the possibility of a modified opinion. The Auditing Standards lay down that a disclaimer may be considered when sufficient evidence cannot be adduced but the effect could be both material and pervasive. We concluded that the matter relating to Special Bills may demand a modified opinion with a Disclaimer.

The Auditing Standards also require that the auditor must before such action to issue a modified opinion, request the Management to remove the limitation (which will cause the issue of modified opinion). Hence, the State Government was alerted to the possibility of issue of a disclaimer through a letter to the Principal Secretary, Finance dated 11th October 2021. This was followed by a meeting on 18th October 2021 with the Finance Department and another round of meetings in which the officials of the Finance Department provided a walkthrough of these accounting entries in the CFMS.

The Department, in response, categorised the accounting entries into 14 categories[47] (details at ***Appendix 5.1***) from which we drew a sample based on materiality and

[47]There were 15 categories. But one category with a total of 100 accounting entries totalling an amount of ₹ 224.73 related to remitting TDS on GST (deductions made by various State Government departments on goods & services received by them during the year) to the Government account. These accounting entries, though categorised as special bills, were processed through the normal treasury route and not through the back end of CFMS. Accordingly, we did not include this category of accounting entries in our analysis.

perception of potential risk. In all, a sample of 589 accounting entries (details in ***Appendix 5.2***) amounting to ₹ 33,009.43 crore, was selected for detailed examination.

The objectives of our examination were to seek an assurance whether:

- the accounting entries carried out through backend of the CFMS could have been effected through the prescribed treasury route;
- each accounting entry was backed by documents that laid down the basis for effecting them as well as ensured that they did not exceed the laid down limits of authorisation.

On the basis of the examination, we concluded that these material accounting entries were effected without any valid rationale through the backend of the CFMS and were in violation of the Treasury Code and the IT controls. These accounting practices are fraught with the risk of inflating the Government expenditure besides possible misappropriation as these were done in backend of the CFMS. Therefore, a qualified opinion was made in the Audit Certificate of the Finance Accounts and the opinion of Audit on the true and fair nature of accounts was subject to the above violations. This Report provides the results of the detailed examination of the Use of Special Bills in Accounting in Government of Andhra Pradesh during 2020-21.

The report was forwarded (December 2021) to the State Government for their response and the reply is awaited (January 2022).

5.3 Audit Findings

5.3.1 Summary of Audit Findings

5.3.1.1 Basis for the Audit Conclusion

The results of our audit are summarised (**Table 5.1**) under three categories based on the explanation provided by the Finance Department.

Table 5.1 – Summary of the audit findings

Sl.No	Category	Supported by		Possibility of processing through the regular treasury route
		Government Orders/ Sanction orders	Budget Release orders	
I	**Accounting Entries for Special Events**			
a.	Financing of Direct Beneficiary transfer schemes	✓	**Not Applicable**	Yes. These could have been processed using Nil Payment Bills route at DDO level
b.	Deduction of Electricity charges from the 14th Finance Commission Grants given to Local Bodies	✓		
c.	Funds transferred from RLB to ULB due to upgradation from Village Panchayat to Nagar Panchayat	✓		
II	**Accounting Entries for Ordinary Events**			
a.	Lapsing of unutilised Centrally sponsored State scheme funds	✗	✗	Yes. These could have been processed using Nil Payment Bills route at DDO level
b.	Lapsing of unutilised State scheme	✗	✗	

c.	Revalidation of unutilised funds of previous financial year in current year	✗	✗	Yes. These could have been processed using Nil Payment Bills route at DDO level
d.	Alteration memoranda for rectification of Head of Accounts	✗	✗	Yes. These could have been processed through Alteration Memoranda with prior concurrence of O/o PAG (A&E).
e.	Funds transferred from one Fund centre to another Centre due to change of headquarters	✗	✗	Yes. These could have been processed using Nil Payment Bills route at DDO level
f.	Correcting the head of account for NPS transfer	✗	✗	
III	**Accounting Entries for with no valid basis**			
a.	Use of suspense heads for failed DBT transfer	✗	✗	Yes. These could have been processed using Nil Payment Bills route at DDO level
b.	Reversing of the transaction at (a)	✗	✗	
c.	Adjustment of errors	✗	✗	

The financial impact under each category is as under

Table 5.2–Details of sample for each category

(₹ in crore)

Category	Total entries		Sampled entries	
	Number	Amount	Number	Amount
I	10,664	26,839.60	117	25,993.68
II	26,740	12,320.14	356	1,545.27
III	16,688	9,124.57	116	5,470.48
Total	**54,092**	**48,284.31**	**589**	**33,009.43**

Thus, we concluded that:

- In respect of 05 out of 14 categories totalling to ₹ 26,839.60 crore, the Finance Department informed us that the entries were a consequence of Government orders on schemes and on local bodies. While the relevant Government orders were provided to us, no valid reason was forthcoming as to why these entries could not be carried out in consonance with the Treasury code, through the CFMS and the Treasury system.

- In respect of 16,688 accounting entries totalling to ₹ 9,124.57 crore, the Finance Department had no explanation as to why they were even necessitated in the first place, much less being carried out through the backend.

- There were 1,006 accounting entries with a debit of ₹ 8,891.33 crore to the Consolidated Fund of the State which were made without requisite sanction orders or Budget Release Orders, while 25,734 entries totalling to ₹ 3,428.81 crore, were only supported by internal documents of the APCFSS as the basis, which were not valid as per the Treasury code.

5.3.1.2 On the rationale for use of Special Bills

In a series of correspondence, the Finance Department conveyed to us that *"certain repetitive and routine accounting entries are enabled to be carried out centrally every year, such as lapsing of PD Accounts, issue of alteration memoranda, transfer of TDS, reprocess of failed payment etc. This is provided essentially to ensure the accurate classification of expenditure, to reflect the actual expenditure incurred through deposit accounts, to ensure compliance with the norm of prudent fiscal management, etc"*. The Department also offered a reassurance that it is undertaking necessary measures and implementation of e-Treasury, which will act as central processing centre with a mandate to undertake all the centralised accounting entries under proper authorisation and is under time bound development.

We do not find the above rationale tenable because:

- These accounting entries could have been done through the existing workflow in CFMS as detailed in **Table 5.1.**
- Any new procedure for financial accounting entries (such as Special Bills) should be preceded with an amendment to the rules concerned, backed by a valid reasons for such amendment.

5.3.1.3 On the ratification of the entries

Upon being questioned by PAG (A&E), the Principal Secretary (Finance) ratified (August 2021) the backend transactions made at the APCFSS.

We noted that the Financial Rules are made under Article 283 of the Constitution of India, which states that "the custody, receipts, withdrawals of the Government accounts shall be regulated by the law of legislature or rules made by Governor of the state." Thus, the powers of ratification of accounting entries made in violation of the Rules was not within his powers as the procedure for carrying out these adjustment transactions are laid down in the treasury code. Further, the Finance Department in compliance to Audit observations and as a corrective measure, issued a Government Order No.80 dated 12 October 2021 entrusting the activities which were being managed by APCFSS to Director of Treasury and Accounts, Pay and Accounts officer and Director of Works and Accounts, which confirms the contention of Audit that the operation of Special Bills was unauthorised.

The details of these accounting entries are discussed in the following paragraphs:

5.3.2 Detailed audit findings

5.3.2.1 Category I: Special events

_A_ Extra Budgetary funding for Welfare Schemes

The State Government established (November 2020) a dedicated Corporation namely "Andhra Pradesh State Development Corporation Limited (APSDC)" with the mandate of planning, funding and financing social and economic development projects and activities in the State of Andhra Pradesh. For financing the Corporation, Government shall identify requisite resources comprising of existing revenue streams and new revenue streams though levying of cess, development cess, fees, charges, *etc.* as applicable and assign these revenues to the Corporation to raise financing and fulfil its objectives. Once assigned, for the purpose of raising financing, such identified revenue sources shall not be used for any other purpose. In case the Government cancels or reduces the assigned revenue streams or there is any shortfall in the assigned revenues for meeting the debt servicing obligations of the Corporation, Government shall assign alternative revenue streams to meet the committed financing and debt servicing liabilities of the Corporation or alternatively the Government shall take over the financial and debt servicing obligations of the Corporation. Further, the core activities of the APSDC are to mobilise resources from banks, financial institutions, nonbanking financial companies, investors, contributors and others through the escrow of the assigned cash flows and to raise money from capital markets (domestic and international), money markets, borrowings from banks, financial institutions and other instruments in compliance with various Statutes, rules, regulations as prescribed by various statutory and regulatory authorities.

The State provided (November 2020) a guarantee of ₹ 25,000 crore for the loans to be raised in future by APSDC. During the year 2020-21, APSDC borrowed ₹ 17,472 crore from a consortium of banks. Out of this, an amount of ₹ 16,899 crore was disbursed to 63 Corporations for implementing the State Government Welfare Schemes (*Navaratnalu*[48]) *viz.,* YSR Aasara, Amma Vodi and YSR Cheyuta. Out of the 63 Corporations, 56 Backward Classes Corporations were established only in 2020-21. These borrowings by APSDC were solely for the purpose of meeting revenue expenditure of the Government towards welfare schemes, which if were budgeted would have impacted the Revenue Deficit and Fiscal Deficit for the year 2020-21.

APSDC could raise the market loans from a consortium of banks against guarantees provided by the State Government. Such guarantees are in the nature of contingent liabilities which are based on two assumptions:

- that the Corporation would be able to repay the borrowed sum along with interest from its own sources of revenue and;
- The State would have to discharge this liability only in the *contingency* that APSDC fails to discharge its debt obligation.

State Government decided (September 2020) to levy 10 *per cent* of Additional Retail Excise Tax (ARET) on various alcoholic beverages and transfer (November 2020) ARET collected from 10 selected depots of Andhra Pradesh State Beverages Corporation Limited, a day after collection, to an escrow account assigned to APSDC for the repayment of its loans. State Government assigned ₹ 910.75 crore as Grants-in-Aid to APSDCL for further transfer to escrow account.

APSDC has no source of revenue other than the revenue of Additional Retail Excise

[48] Navaratnalu are a set of nine welfare schemes introduced by the Chief Minister of Andhra Pradesh, as promised during Praja Sankalpa Yatra before 2019 assembly elections

Tax. In effect, the borrowings of APSDC will have to be totally repaid by the State Government. Thus, these borrowings are no different from the borrowings reflected in the budget with regard to the liability of repayment. Therefore, even though repayment of borrowed amount and its interest are being financed through Government revenue, the Government's financial documents do not reflect these borrowings.

Notwithstanding the APSDC Act and the Government orders, the power to assign revenue (including taxes) vests with the Legislature, which is exercised through the Appropriation Bill each year. Commitment of future revenues to loan repayment is predicated on such appropriation each year by the legislature. Further, it impacts on inter-generational equity. The borrowings were neither part of the budget and not reflected as debt in the account of the Government due to use of another agency for raising borrowed funds even though the liability for servicing remained with the State Government.

B Financing of Direct Benefit Transfer (DBT) schemes

The event: A budget provision ₹ 10,895.67 crore was made for the financial year 2020-21 for two Direct Benefit Transfer (DBT) schemes, YSR Cheyutha & Asara, which was to be implemented by eight[49] corporations/PD Accounts. To facilitate the implementation, budgetary transfer was made from the Consolidated Fund of the State to the Personal Deposit[50] accounts of these eight corporations.

Subsequently, the Government took a decision to fund these schemes not through the budget but through market loans. The State Government entrusted six welfare schemes, including the above two DBT schemes to APSDC.

In line with these decisions, the entire budget provision of ₹ 10,895.67 crore was withdrawn and adjusted back to the Consolidated Fund of the State through 15 special bills. Later, the same amount was transferred from Personal Deposit Account of APSDC to the Personal Deposit Accounts of the eight corporations through three special bills.

No Need for backend adjustments**:** These 18 special bills were transacted by APCFSS in the back end. But all the transactions could have been done using the authorised Nil payment[51] bills by the Drawing & Disbursement Officer with an authorised order approving the accounting entry. As these are transactions of routine nature involving both CFS and Public accounts, there is no need for the department to take this route. The concerned departments could have been instructed to do these transactions with a proper order from the department.

[49]Backward Classes Co-operative Finance Corporation, Brahmin Welfare Corporation, Christian Minorities Finance Corporation, AP State Kapu Welfare Corporation, AP State Scheduled Tribes Co-operative Finance corporation, AP State Scheduled Caste Co-operative Finance corporation, AP Minorities Corporation, Backward Classes Welfare Corporation (Economically Backward Classes).

[50]Personal Deposit accounts are virtual bank accounts that facilitate uninterrupted availability of funds for operations at the field level for scheme implementation. Funds are given under the Personal Deposit Accounts for specific purposes by debiting the service heads in the Consolidated Fund of the State

[51] Accounting entries that transfer funds from the Public Account to the Consolidated Fund of the State or vice- versa do not result in a payment and hence are called Nil payment bill

C Deduction of Electricity Charges from the Finance Commission Grants of the Local Bodies

The event: One of the pre-conditions set (March 2021) by the Government of India for release of Tranche-II under the Liquidity Infusion Scheme was that the State Government may clear all its electricity dues to the Distribution Companies (DISCOMs). Accordingly, Government Orders were issued (March 2021) by the Finance Department and Energy department was to deduct the electricity charges of Panchayati Raj Institutions (PRI) at source from their Fourteenth Finance Commission Grants. For this purpose, the Energy Department was authorised to operate the head of account into which the Finance Commission grants to the PRIs are remitted into.

***No Need for backend adjustments*:** These deductions were done through 10,597 special bills, amounting to ₹ 854.19 Crore, on the basis of the Government order. Our test-check showed that these deductions were made from the General funds of the Panchayat Raj institutions, based on the Government order to deduct such arrears at source of the grant. These accounting entries (and transfers to the Energy Department) could have been done once again, through Nil payment bills.

Other issues: The different streams of revenue Finance Commission Grants, Own Revenues, State finance commission Grants, any other scheme grants are the rightful receipts of the PRIs, which are recognised as third tier of governance by the Constitution of India. Such decision to deduct the electricity dues directly at source from its legitimate grants, go against the spirit of the Constitution. Authorising the Energy Department to operate the head of account into which the Finance Commission Grants to the PRIs are remitted into, also runs contrary to the constitutional intent of autonomy to the PRIs. We also noted that the 14th Finance Commission had stipulated that no conditions other than fixed by the Commission, should be imposed either by the Union or the State Government for the release of funds.

D Upgradation from Village Panchayat to Nagar Panchayat

Through a Government order (January 2020), 24 Gram Panchayats were upgraded as Nagar Panchayats. Accordingly, fund amounting to ₹ 14.32 crore, through 44 Special bills, was transferred to Personal Deposit Accounts of the Nagar Panchayats from Personal Deposit accounts of Gram Panchayats. The available route of Nil payment bills was not used.

5.3.2.2 Category II: Ordinary events

A Lapsing of funds

Ordinarily, funds earmarked for Centrally assisted State Plan scheme (CASP) are transferred by a debit from the expenditure head in the Consolidated Fund of the State and a credit to the Personal Deposit Accounts opened for each scheme. Funds lying unspent at the end of the year are lapsed by reversing the initial accounting entry. The Finance Department informed us that 24,627 Special Bills involving an amount of ₹ 2,276.38 crore related to funds lapsed at the end of financial year 2020-21.

In addition, 27 special bills were operated to transfer unutilised State scheme funds to the Consolidated Fund of the State. The schemes involved were Jagananna Vasati devena, Vidya devena, Amma Vodi, Assistance to APRDC already detailed under Category I-A.

In respect of either categories of accounting entries, we were not provided with supporting documents authorising these transactions. The only assurance we could draw was that these Special Bills did indeed involve a lapse of funds into the Consolidated Fund of the State from the stated Personal Deposit Accounts.

B Revalidation of lapsed scheme funds

As mentioned above, budgeted funds if left unutilised at the end of the financial year, are lapsed to the Consolidated Fund of the State. In the case of Centrally Assisted State Plan schemes (CASP), unutilised funds lapsed during the previous year are revalidated in the next financial year. This revalidation needs sanction orders and Budget Release Orders (BROs) from the finance department.

In 2020-21, unutilised funds relating to the previous year *i.e*, 2019-20 were revalidated using 1,006 special bills using disbursement tracker system. Ordinarily, such revalidation is done through Nil payment bills

Our test-check of 100 of these bills showed that:

- In 31 bills an amount of ₹ 246.28 crore was revalidated without lapsing the funds during the year 2019-20.
- In respect of 32 bills, we found that the amount lapsed in the corresponding head of account was zero in the previous financial year (2019-20) and yet, the balances were revalidated into the same head of account.
- None of the entries were supported by sanction orders.
- We were not provided with the Budget Release Orders (BROs) of the Finance department in respect of 27 cases. In respect of remaining cases where BROs were provided by Finance Department (December 2021) it was found that these orders were issued after the adjustments were made in CFMS through special bills.

C Alteration Memoranda

Finance Department informed us that, 28 special bills amounting to ₹ 507.67 crore were necessitated to correct discrepancies in Head of Account in Vote on Account and General Budget during the year 2020-21. We noted that this is a routine activity at the treasuries. As per the treasury rules, the District Treasury Officer is required to prepare a rationale for such corrections while submitting the Alteration Memo to the Office of Principal Accountant General (Accounts & Entitlement) which examines the rationale before approving it. This procedure was by-passed while making these corrections. We could draw an assurance that the alterations found a reflection in the Monthly Accounts of the following month.

D NPS Challans transferred to respective Fund Manager

1051 Special bills were used to rectify an error made in the head of account while transferring contributions of officials enrolled in the National Pension Scheme. Our test-check showed that only an internal document of the APCFSS was made available to us as a supporting document for these transactions. However, we could assure ourselves that the accounting entries show the corrections as provided in the response of the Finance Department.

5.3.2.3 Category III: Events with no basis

A. Debit of Suspense account

In respect of 16 accounting entries totalling to ₹ 5,454.54 crore, the Finance Department stated that these special bills were necessitated because of failed electronic transfer of Direct Benefits under a State scheme. According to the Department, the transfers failed because the Aadhar based payments could not be routed through Reserve Bank of India's e-kuber system. The entire funds that could not pass through the portal were transferred to a suspense head through eight special bills (₹ 2,727.27 crsore) and the suspense head was cleared through another set of eight special bills (₹ 2,727.27 crore). However, we were not provided a trail as to assure ourselves that the suspense head was indeed operated on account of failed Direct Benefit transfers (DBT). Further, we found that the suspense was cleared on 30 May 2020 whereas the suspense was credited on 31 May 2020. Finance Department replied (December 2021) that, in anticipation of failed transactions the suspense account was debited on 30 May 2020 and the amount was transferred to PD Accounts for DBT payments and after the receipt of confirmation of adjustment of funds to beneficiaries from the concerned department the transaction was reversed, and suspense was credited by debiting PD Accounts on 31 May 2020.

We were however not shown any of these beneficiary linked transactions. Further, operation of suspense head in anticipation was incorrect.

B. Adjustment to correct erroneous adjustments

Finance Department informed that 16,672 special bills amounting to ₹ 3,670.03 crore were necessitated to rectify the erroneous adjustments made by Drawing & Disbursing Officers to some Personal Deposit Accounts. We test-checked 100 bills against which we were provided with no supporting documents confirming that the errors had indeed occurred and on what account, did these errors occur

5.4 Audit Conclusion

The treasury system is part of internal controls framework of the state financial management. While internal control framework exists, the operation of special bills portrays the failure of internal controls in expenditure management.

5.5 Recommendation

The operation of special bills through backend of the CFMS bypassing the controls of the treasury system should be stopped immediately and all the transactions should be made through the established standard operating procedure.