

CHAPTER IV

AUDIT OF TRANSACTIONS

4.1 Fraud/misappropriation/embezzlement/losses detected in audit

TRANSPORT, ROADS AND BUILDINGS DEPARTMENT (Roads and Buildings Wing)

4.1.1 Irregular advance payments - Loss due to non-recovery

Action of the Engineer-in-Chief in permitting payment of advances without ensuring protection of Government's interest and failure of the EE, R&B, Bhimavaram to effect recovery of advance coupled with non-recovery of liquidated damages resulted in loss of Rs 2.76 crore to Government.

Government accorded (September 1998) administrative approval for construction of Road over Bridge (ROB) in lieu of the existing level crossing No. 23 of Bhimavaram - Narsapur section in Palakol, West Godavari District, for Rs 9.15 crore and technical sanction was given (November 1998) by Engineer-in-Chief (ENC) for the same amount. The work was entrusted to a contractor (May 1999) with a stipulation to complete the work in 18 months i.e. by November 2000.

Though the work envisaged usage of imported Geo-synthetic material for the approaches of the ROB, neither the notice inviting tender nor the agreement provided for grant of any advance to the contractor for importing the material. However, after award of the work, the contractor represented (July 1999) for payment of advance for procurement of Geo-synthetic material and the Engineer-in-Chief (Roads) (ENC) permitted payment of 80 *per cent* of the cost of the material imported on production of invoice duly obtaining an indemnity bond from the contractor. The contractor was paid an interest-free advance of Rs 3.58 crore (August 1999 to December 2001) to be recovered from the intermediate payments. It was observed in audit that the Department failed to recover full cost of material from the running account bills of the contractor as and when the material was utilised on the work resulting in short recovery of Rs 1.26 crore. Further, the division also failed to take custody of the unutilised balance material for which an advance had been paid to the contractor. The cost of the material at site was assessed to be only Rs 0.07 crore. Despite several notifications, the agency failed to return the balance material for which an advance of Rs 0.75 crore was paid. The Department after terminating the contract duly forfeiting his deposits approached the police for registering a criminal case for misappropriation of Government funds. However, the police refused to register it as a criminal case on the plea that it is a civil matter. The Government instructed (May 2005) to initiate action against the erring officials. However, no action was taken against any

Government official and an amount of Rs 2.76 crore¹ (including liquidated damages levied for delaying the work) was not recovered from the contractor as no assets were available with the Department.

The ENC in his reply (October 2007) accepted that irregularities have been committed in regard to payment of secured advances and its recovery. Thus, irregular payment of advance to the contractor coupled with non-recovery of the cost from the running account bills and failure to take custody of the material on which advance was paid resulted in a loss of Rs 2.76 crore to the Government.

The matter was reported to Government in February 2008; reply had not been received (August 2008).

4.2 Excess payment; wasteful/infructuous expenditure

AGRICULTURE AND COOPERATION DEPARTMENT

4.2.1 Unnecessary interest burden

Drawal of loan of Rs 20 crore from a bank without immediate requirement and without even formulating guidelines for implementation of expansion of area under Integrated Development of Kuppam Project, resulted in unnecessary interest burden of Rs 5.36 crore.

For implementation of two projects viz., Expansion of area² under Integrated development of Kuppam Project in Chittoor District (outlay: Rs 20 crore) and special package of providing additional subsidy to drip system under AP Micro Irrigation Project (APMIP) in Anantapur District (outlay: Rs 20 crore), Government raised (December 2003) a loan of Rs 40 crore from ICICI Bank through Horticulture Development Agency (HDA)³. The loan carries interest⁴ at the rate of 6.5 *per cent* per annum with tenure of five years with one year moratorium from the date of drawal of the amount. The loan amount was deposited (January 2004) in the Personal Deposit Account of HDA. The Secretary, HDA drew the amount in January 2004 on the instructions of the Government and released (February 2004 and June 2006) to the District Collectors, Chittoor (Rs 10 crore) and Anantapur (Rs 16 crore) through cheques on Personal Deposit Account of HDA. The Project Officer, Kuppam Area Development Authority and the Project Director, District Water Management Agency respectively were to implement the projects.

¹ Rs 1.26 crore short recovery + Rs 0.75 crore advance of material found missing + Rs 0.75 crore liquidated damages = Rs 2.76 crore.

² by 20,000 acres

³ designated as Special Purpose Vehicle (SPV) – headed by the Commissioner of Horticulture

⁴ to be paid quarterly

Scrutiny of the records of the Commissioner of Horticulture revealed (January 2008) that the full amount of Rs 40 crore was drawn in advance without finalising the guidelines for implementation of Kuppam Project. An amount of only Rs 16 crore was utilised for the envisaged purpose under the special package (APMIP) in Anantapur District. An amount of Rs 20 crore was refunded⁵ (January 2006 and March 2007) by HDA (Rs 10 crore) and by the District Collector, Chittoor (Rs 10 crore) to the Commissioner of Horticulture. The balance (Rs 4 crore) was still lying unutilised in Personal Deposit account of HDA (March 2008). It was also observed that the Collector, Chittoor, did not utilise the amount of Rs 10 crore for want of guidelines from the Government on the implementation of Kuppam Project and the entire amount had to be returned (February 2007) to the Commissioner. As of March 2008, interest of Rs 8.61 crore was paid⁶ to ICICI Bank on the loan outstanding from time to time. Of this, interest payment of Rs 5.36 crore on the unutilised portion (Rs 24 crore) of the loan amount was wasteful and could have been avoided.

Thus, drawal of loan of Rs 20 crore without even formulating guidelines in respect of the Kuppam Project indicated ineffective financial management. On the whole, it resulted in unnecessary interest burden of at least Rs 5.36 crore. Besides, the intended objective of expansion of area of 20,000 acres under Kuppam Project also remained unachieved. The Commissioner accepted (April 2008) the audit observation.

The matter was reported to Government in April 2008; reply had not been received (August 2008).

4.2.2 Payment of input subsidy to ineligible farmers

Input subsidy amounting to Rs 43.30 lakh was paid to ineligible farmers by JDA, Nalgonda in violation of the guidelines.

Government declared (June and July 2007) input subsidy to the eligible farmers in Nalgonda District under 'Calamity Relief Fund' with a view to give relief to the farmers who have lost their Agriculture and Horticulture crops due to drought situation and hailstorms. The input subsidy to be sanctioned was subject to the conditions *inter alia* that (a) the subsidy would be admissible for Kharif 2006-07 and (b) it would be extended to the small and marginal farmers only and whose actual crop loss was 50 *per cent* and above.

Accordingly, Joint Director of Agriculture (JDA), Nalgonda disbursed (June-July 2007) input subsidy of Rs 15.62 crore to farmers in connection with the drought and hailstorm which occurred during Kharif 2006-07 (Rs 13.63 crore) and April 2007 (Rs 1.99 crore) respectively.

⁵ along with the interest of Rs 51 lakh accrued in the SB account

⁶ by making budgetary provisions from time to time

Audit scrutiny (February 2008) revealed that the Mandal-wise details of crop damaged, etc. were initially identified and submitted to the District Collector. However, the input subsidy in three mandals⁷ was disbursed for an area of 7,281.12 ha as against the actual sown area of 5,018 ha as per the joint survey conducted by the Agriculture and Revenue Departments resulting in excess payment of input subsidy of Rs 18.13 lakh. The difference arose due to extension of relief to the crops not relating to Kharif 2006-07.

Similarly, in the case of hailstorm which occurred in April 2007, although the identification of small and marginal farmers who suffered a crop damage of more than 50 *per cent* was specifically made/available with the JDA, in 11 mandals⁸, failure to limit the input subsidy only to small and marginal farmers resulted in payment of subsidy of Rs 25.17 lakh to ineligible farmers.

Thus, violation of the guidelines by the JDA resulted in payment of input subsidy of Rs 43.30 lakh to ineligible farmers in the above two cases.

The matter was reported to Government in June 2008; reply had not been received (August 2008).

ENVIRONMENT, FORESTS, SCIENCE AND TECHNOLOGY DEPARTMENT (Forest Wing)

4.2.3 Excess payment on digging pits and trenches

Incorrect application of rates resulted in excess payment of Rs 38.49 lakh on digging of pits and trenches.
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As per the provisions of A.P. Forest Departmental Code, the rates prescribed in the Forest Schedule of Rates (FSR) are to be followed and for works like Roads and Buildings, the rates prescribed in Common Standard Schedule of rates (CSSR) are to be followed.

The works of digging pits and trenches executed by the forest department during the years 2004-05 and 2005-06 were scrutinised by audit in three circles⁹ and it was observed that department failed to adopt the rates prescribed in the FSR in the following cases:

- (a) (i) The Divisional Forest Officer (DFO), Nizamabad adopted the rate applicable to 0.45 m³ pits for digging of 0.30 m³ pits resulting in an excess payment of Rs 10.83 lakh for reduced volume of work.
- (ii) The DFO, Medak adopted the rate applicable to hard soils for digging of pits in loose soils and made an excess payment of Rs 6.07 lakh.
- (iii) The DFO, Medak and the DFO, Kamareddy adopted higher rates of Rs 50, 40 and 50 per cum for digging of trenches during 2005-06 against the allowable rate of Rs 35 per cum and made an excess payment of Rs 6.66 lakh.

⁷ Mungode, Marriguda and Thipparthi

⁸ Atmakur, Alair, Bhongir, Bibinagar, Gundala, Mothukur, Mungode, Narayanpur, Rajapet, Turkapally and Valigonda

⁹ Nizamabad, Adilabad and Visakhapatnam Circles

- (b) For the work “Digging of Continuous Contour Trenches” the rates prescribed were Rs 16.24 and Rs 13.00 per cum for the years 2004-05 and 2005-06 respectively. But, higher rates were adopted resulting in an excess payment of Rs 10.34 lakh.
- (c) The DFO, Vizianagaram during 2005-06 adopted higher rate applicable to Soil Moisture Conservation works for digging of pits for plantation and made an excess payment of Rs 4.60 lakh.

Thus, there was an excess payment of Rs 38.49 lakh due to incorrect application of rates. The details are given in *Appendix 4.1*.

The matter was reported to Government in June 2008; Government replied (July 2008) that instructions were issued to recover the excess payment of Rs 15.42 lakh in 2 out of 13 cases but recovery not yet effected (August 2008). In 2 cases (Rs 3.17 lakh), officials were addressed to send further report. In 4 cases, the excess expenditure of Rs 12.73 lakh was ratified by the officials concerned and approval obtained from FSR Zonal Committee. The reply is not acceptable as the FSR rates were blatantly violated when higher rates are ratified. In 4 cases (Rs 4.26 lakh), the adoption of CSSR rates was attributed to non-receipt of communication. The reply is not acceptable as the latest rates should have been obtained before making payments. In one case (Rs 2.91 lakh), the difference was stated to be due to making payments for transportation. The reply is not tenable, as the transportation charges are already included in the CSSR.

HEALTH, MEDICAL AND FAMILY WELFARE DEPARTMENT

4.2.4 Excess payment of water and sewerage charges

Payment of water consumption charges by the Superintendent, Gandhi Hospital without verifying the bills as to the element of rebate resulted in excess payment of water charges of Rs 67.65 lakh up to August 2008.

As per the water rates, tariffs and other charges revised by the Hyderabad Metropolitan Water Supply and Sewerage Board (Board) in December 2006, Government-run general hospitals, Educational institutions where monthly water consumption exceeds 200 kilolitres, are eligible for a rebate of 20 *per cent* on the entire consumption reckoned @ Rs 35 per Kilolitre. The orders took effect from 1 January 2007.

Scrutiny of records of the Gandhi Hospital, Secunderabad revealed (January/ July 2008) that the Superintendent of Gandhi Hospital failed to detect that the bills preferred by the Board did not contain the element of rebate and take up this with the Board for issue of revised bills. Instead, payment was made on the basis of the bills as received, resulting in excess payment of water charges of Rs 67.65 lakh¹⁰ up to August 2008. Until the billing error is rectified, excess payment of about Rs 3 lakh per month will continue to be made. The details are given in *Appendix 4.2*.

¹⁰ Water cess; Rs 50.11 lakh and Sewerage cess @ 35 *per cent* on water cess: Rs 17.54 lakh

Government while accepting the audit observation stated (July 2008) that necessary instructions had been given to the Superintendent of the hospital to pursue the matter vigorously with the Board and ensure refund/adjust the excess amount paid by the hospital.

HOUSING DEPARTMENT

4.2.5 Avoidable payment of interest at higher rates

Failure on the part of the Director/Government to pursue effectively to avail the facility of reduction of interest on the outstanding loans as offered by GIC resulted in avoidable payment of interest at higher rates amounting to Rs 4.45 crore for the period 2004-07 with recurring liability of Rupees one crore per annum till the loans are fully cleared.

Government in Housing Department obtained various loans from time to time from General Insurance Corporation of India (GIC) for construction of houses under the programme of Village Housing and Housing for economically weaker sections of the Society. The loans carried different interest rates ranging from 8 to 13 *per cent* per annum payable half-yearly.

In December 2003, GIC offered to reduce¹¹ the interest rate to 9 *per cent* on all the existing loans where the interest rate was above 9 *per cent* per annum fixing the cut off date for reduction of interest as 1 January 2004. The offer *inter alia* was subject to payment of 50 *per cent* of the present value of difference in interest rates discounted at 9 *per cent* per annum payable half yearly (50 *per cent* of pre-payment premium). As on 1 January 2004, a total loan amount of Rs 35.12 crore which carried interest of 12 and 13 *per cent* was outstanding. Government accepted and communicated (February 2004) the proposal to GIC for reduction of interest rates.

Scrutiny (February 2007) of records of the Director, Weaker Sections Housing Programme revealed that the facility of reduction of interest rates had not been availed of by the Government resulting in extra interest burden of Rs 4.45 crore during the period March 2004 – September 2007. The loan-wise details are given in *Appendix 4.3*. In addition, there was unnecessary recurring liability of about Rupees one crore every year on this account. It was observed from the correspondence made with GIC that the GIC reminded (November 2004) the Director, Weaker Sections Housing Programme, regarding the non-payment of 50 *per cent* of pre-payment premium and requested him to inform the probable date of payment of the 50 *per cent* of pre-payment premium so as to facilitate them to send detailed working of pre-payment premium. However, Government/Director neither responded to this nor did they further pursue the matter with GIC. Consequently, Government continued to pay the interest at higher rates of 12/13 *per cent* on the outstanding loans instead of 9 *per cent* per annum as offered by GIC.

¹¹ due to general fall of interest rate structure

When this avoidable payment of interest at higher rates was pointed out, Government stated (June 2008) that no communication was received from GIC in this regard since the acceptance of the offer by the department and hence the department could not make the payment. The reply is not tenable. To compute the pre-payment premium the probable date of premium was first required to be intimated by the Commissioner/State Government. The furnishing of detailed calculation by GIC would be the next stage. Waiting for details of calculation by the Commissioner was unnecessary without first intimating the probable date of premium to GIC. Further, Government's request of May 2008 to GIC to give an opportunity to get the benefit of reduction of interest rate to 9 *per cent* had been turned down (June 2008) by GIC communicating their inability to accede the request on the ground that the Government had failed to convey their consent for payment of yield differential.

This resulted in avoidable payment of interest at higher rates amounting to Rs 4.45 crore for the period 2004-07 with a recurring liability of Rupees one crore per annum till the loans are fully cleared.

IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Irrigation Wing)

4.2.6 Breach of irrigation tank immediately after completion

The intended objective of providing irrigation facilities to an ayacut of 4,500 acres has not been achieved due to breach of a tank built at a cost of Rs 8.45 crore in Warangal District.

An irrigation tank across Karlapally Vagu near Karlapally village Govindaraopet Mandal in Warangal District was constructed (February 2005 - July 2006) at a cost of Rs 8.45 crore. Shortly after completion, when water accumulated in the tank after rains, the earth bund of the tank breached on 4 August 2006.

The third party agency (NCCB), appointed by the department, opined that:

- foundation treatment was not done as per approved drawings
- the casing soils used in the embankment seemed to be of inferior quality
- compaction was not done as per specification
- earth bund was not formed as per the approved drawing

The Director, Geological Survey of India, after inspection of the site, found that the borrow soils were with more silt and were inferior in nature with excessive silt content.

Head of Civil Engineering Department, National Institute of Technology, Warangal who was appointed by the insurance company also concluded that the breach was due to substandard work.

The insurance company did not accept the reason for the breach as unprecedented floods. The insurance company refused the contractors claim attributing the causes for breach to improper design, defective material and defective workmanship.

The breach of the tank was, however, attributed by the department to the very high flood discharge based on rainfall at Kothaguda. This explanation is not acceptable as at the time of designing the tank the rainfall at Mulugu and Narsampet only were considered and taken into account as relevant to the project.

The rectification work to the tank is estimated as Rs 6.80 crore. The breach also caused damage to the crops, lands, property and animals of the villagers in the area and the Government paid compensation of Rs 26.77 lakh. The remedial measures are yet to be undertaken and the objective of providing irrigation facilities to an ayacut of 4,500 acres remained unfulfilled (April 2008).

The matter was reported to Government in July 2008; reply had not been received (August 2008).

4.2.7 Inadequate planning in construction of outfall sluice at sea mouth

Failure to finalise the designs before award of work of the construction of outfall sluice led to the work, on which an expenditure of Rs 0.94 crore has been incurred, remaining incomplete since October 2005 and the intended objective of safeguarding 8,700 acres of standing crop from the sea water had not been achieved.

The work "Construction of outfall sluice at Km 0.175 sea mouth of Repalle Main Drain in Guntur District" was entrusted (April 2005) to a contractor for Rs 1.42 crore to be completed within six months (October 2005). The outfall sluice was intended to protect the standing crops in about 8,700 acres from the sea waters entering into fields and making the irrigation water on the upstream side salty, during high tidal condition. The work was to be executed in the working season (April – July), when the drain water would not hinder the work.

The contractor commenced the work in April 2005. It was observed that the designs were not firmed up prior to award of work. After the work had commenced the department altered the designs which included using of steel flap shutters in place of wooden shutters proposed earlier on the ground that they are corrosion resistant compared to wooden shutters and the cost of maintenance is lower. The modified designs were estimated to involve extra expenditure of Rs 0.33 crore. Although it was decided as early as June 2005 to revise the designs there was enormous delay in getting the necessary approval. Government accorded sanction to revised estimate only in April 2007.

In the meanwhile the contractor after executing work costing Rs 0.94 crore (66 per cent) in two working seasons, stopped the work (July 2006) and did not resume the balance work. The contract was finally terminated (December 2007) and the work remains incomplete.

Due to the above lapses the work on which an expenditure of Rs 0.94 crore has been spent remained incomplete since October 2005 and the intended objective of preventing the sea water from entering into drains had not been achieved, exposing 8,700 acres of standing crop to the risk of damage.

Government in their reply (August 2008) stated that the objective of safeguarding 8,700 acres of standing crop from the sea water would be achieved soon after completion of balance work which was expected to be completed within a year. But the reply is silent about non finalisation of designs before grounding of the work.

IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Projects Wing)

4.2.8 Avoidable expenditure on canal works due to formation of SEZ

Failure to immediately stop work after taking decision to form a Special Economic Zone resulted in avoidable expenditure of Rs 8.44 crore.

The work (package No. 11)¹² of Telugu Ganga Project (TGP) was awarded (March 2005) for Rs 153.70 crore to an agency for creating irrigation potential of 53,000 acres in Chittoor District with a stipulation to complete the work within 24 months (March 2007). While the work of excavation of canal and construction of structures was in progress, the Government in November 2005 i.e. within eight months of awarding the work, instructed Andhra Pradesh Industrial Infrastructure Corporation (APIIC) to consider Satyavedu, Varadaihpaem in Chittoor District and Tada mandal in Nellore District for formation of Special Economic Zone (SEZ). Before issue of the above notification an expenditure of Rs 0.37 crore was incurred on the canal work. The department, however, got the work stopped only in January 2007 resulting in avoidable further expenditure of Rs 8.44 crore after Government's decision for formation of SEZ till stoppage of work, which became wasteful. Further, incurring of expenditure on irrigation works after the decision to form SEZ would have increased the compensation value to the owners of the land though not precisely quantifiable.

The matter was reported to Government in August 2008; reply has not been received.

¹²Providing cement concrete lining to Satya Sai Ganga Canal with paver in between Km 42.400 and Km 151.887, and construction of tail channel with CM&CD works for escape regulator at Km 67.650, Construction of O.T. sluice at Km 67.750, Km 72.000, Km 87.000 and cross regulator at Km 78.182 of Satya Sai Ganga Canal and construction of balance works of branch canals No. 8A, 8B and 9 together with the distributory system creating direct irrigation potential of 53,000 acres including investigation, design and estimation

4.2.9 Inadmissible payment of compensation for irrigation wells

Special Deputy Collector, Land Acquisition, Indira Sagar Project, Right Main Canal, Unit-III, Vijayawada paid Rs 57.16 lakh towards compensation for bore wells intended for irrigation on the lands acquired in addition to the value of the land, contrary to the Supreme Court observations and instructions of the Chief Commissioner of Land Administration.

As per the Land Acquisition Act, 1894, the amount of compensation to be awarded for land acquired under the Act, should be determined by taking into consideration, *inter alia*, the market value of the land on the date of publication of notification by the Government. The Supreme Court had held (September¹³ 1994 and August¹⁴ 1996) that the wells used for irrigation of lands should not be valued separately, in addition to the value of the land, in determining the compensation. The Chief Commissioner, Land Administration (CCLA) had issued (July 1999) instructions to all the Collectors and Special Collectors that compensation cannot be separately awarded for wells and pipelines.

Audit observed (September 2007) that the Special Deputy Collector (Land Acquisition), Indira Sagar Project, Right Main Canal, Unit-III, Vijayawada (SDC) had made such inadmissible payments to the tune of Rs 57.16 lakh towards the compensation for bore wells and pipelines intended for irrigating the lands acquired in five villages, contrary to the court rulings and specific instructions of the CCLA.

The SDC replied (November 2007) that the farmers had invested substantial amount for digging bore wells and laying pipelines for irrigating the lands that were acquired and hence compensation for the same was paid under damages. The reply is not acceptable since the Supreme Court in its judgment clearly opined that irrigation well in an acquired agricultural land cannot have a value apart from the value of the land itself and also due to the fact that the payments were made in violation of the orders of the CCLA not to pay compensation for wells and pipelines.

The above matter was reported to Government in April 2008; reply had not been received (August 2008).

¹³ O. Janardhan Reddy and others Vs. Special Deputy Collector, LA unit IV, LMD Karimnagar, Andhra Pradesh and others (CA No.5283 of 1992)

¹⁴ State of Bihar Vs. Madheshwar Prasad (CA No.10915-16 of 1996)

**MUNICIPAL ADMINISTRATION AND URBAN
DEVELOPMENT DEPARTMENT
(Public Health Wing)**

4.2.10 Incomplete road over bridge

Undertaking construction of approaches to a road over bridge without ensuring clear site led to non-utilisation of the bridge due to abandonment of approach work on which an expenditure of Rs 1.14 crore was incurred and the objective of facilitating smooth traffic across the railway crossing remains unfulfilled.

Government accorded (August 2003) administrative approval for Construction of Sri K.M. Saifullah Road Over Bridge (ROB) at level crossing No. 128-A of Ramachandra Nagar in Anantapur Municipal Corporation limits, with a cost of Rs 4.38 crore (State share : Rs 2.32 crore and Railways share : Rs 2.06 crore). The Superintending Engineer, Public Health Circle, Anantapur (SE) entrusted (March 2004) the construction work of approaches of the ROB to a contractor for Rs 3.03 crore, with a stipulation to complete in nine months.

Audit scrutiny (March 2008) revealed that the work taken up in March 2004 was not completed and the bridge has not been put to use even after four years.

Audit observed that for undertaking the construction of approaches to the ROB, the land belonging to Tirumala Tirupathi Devasthanam (TTD) was required to be taken possession of but SE undertook the work without having a clear site from the TTD in advance. The TTD declined to give the land free of cost and instead asked (January 2005) the Anantapur Municipal Corporation (Corporation) to either purchase the land or give lifetime exemption of property tax to their Kalyanamandapam. The cost of the required land was estimated (January 2006) at Rs 0.20 crore. The Corporation failed to procure this land from TTD even after a lapse of four years. Due to non-acquisition of this land, the work had to be abandoned midway (December 2006).

Thus, undertaking construction of approaches to a road over bridge without ensuring clear site led to non-utilisation of the bridge due to abandonment of approach work on which an expenditure of Rs 1.14 crore was incurred and the objective of facilitating smooth traffic across the railway crossing remains unfulfilled. Besides there is an imminent cost escalation of Rs 1.80 crore on the balance work, due to increase in cost from Rs 4.62 crore to Rs 6.42 crore.

The department in its reply (July 2008) mentioned the various steps taken to get the land after award of work. The reply is silent why the land was not acquired before award of work. Land acquisition is a complex and tedious process where no definite time frame can be set. Any delay results in extra expenditure by way of having to pay the balance work with latest Standard Schedule of Rates. Hence, it was imperative that this task be completed before calling for bids.

The matter was reported to Government in July 2008; reply had not been received (August 2008).

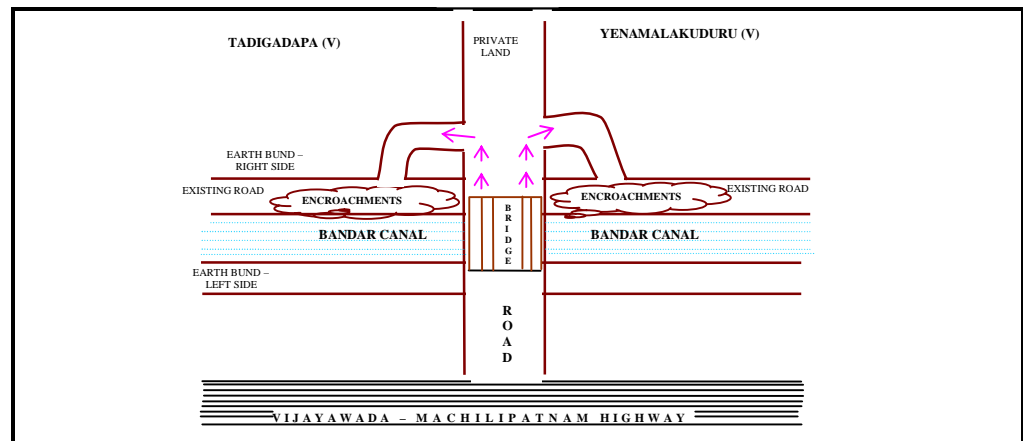
PANCHAYAT RAJ AND RURAL DEVELOPMENT DEPARTMENT

4.2.11 Construction of bridge without clear land for approaches

Undertaking construction of bridge without prior clearance of encroachments resulted in the bridge constructed at a cost of Rs 64.57 lakh in June 2000 remaining unused till date.

Government accorded (April 1999) administrative approval for the work “construction of two way bridge across Bandar canal at 5/5 km near Tadigadapa village (in Krishna District)” at an estimated cost of Rs 87 lakh¹⁵ to connect four villages¹⁶ to growth centres and market yards. The work was to be completed by April 2000.

Audit scrutiny (October 2006 and June 2008) of the records of the Executive Engineer, Panchayat Raj Division (PR), Vijayawada (EE) revealed that the bridge constructed at an expenditure of Rs 64.57 lakh as far back as in June 2000, had not been used as of June 2008 as the approaches to the bridge and the retaining walls were not constructed. The rough sketch of the site plan of the bridge is as shown below:



Detailed audit scrutiny revealed that, there were encroachments at the time of estimating the work and in fact the estimates prepared and submitted (including the formation of approaches) by the EE had invited a reference to this impediment. Clearance of the encroachments was essential for the approaches to the bridge and retaining walls. This was not undertaken before taking up construction of the bridge. Despite this, the Chief Engineer, PR accorded (April 1999) technical sanction to the work without ensuring the clear land for approaches to be laid.

The EE replied (June 2008) that the revenue authorities were addressed (February 2000) to evict the encroachers. The fact remains that the process of eviction had not been started yet. This issue should have been sorted out first before undertaking the work. As this bridge could not be used, the villagers were reportedly compelled to use the existing one-way locks bridge which was 100 years old and likely to collapse any time.

¹⁵ under 'Janmabhoomi' programme

¹⁶ Peddapulipaka, Tadigadapa, Yenamalakuduru and Chodavaram

Thus, undertaking construction of the bridge without prior clearance of encroachments resulted in the bridge constructed at a cost of Rs 64.57 lakh in June 2000 remaining unused till date (June 2008). The objective of providing connectivity to the villages also remains unfulfilled.

The matter was reported to Government in July 2008; reply had not been received (August 2008).

4.2.12 Non-construction of causeway

Non-construction of causeway (though included in the work) resulted in the road laid at an expenditure of Rs 35.90 lakh not being used, rendering the expenditure largely unfruitful. This also defeated the very objective of providing connectivity to isolated habitations.

Government accorded (February 2004) administrative sanction for “Road from Kosagutta to Yapalguda” in Adilabad District under Pradhan Mantri Gram Sadak Yojana (PMGSY) at an estimated cost of Rs 60.60 lakh with an objective to provide connectivity to the isolated habitations. The work (including construction of low-level causeway at 4/10) was awarded to a contractor in July 2004 with a stipulation to complete by April 2005.

Scrutiny (October 2007) of records of Executive Engineer, Panchayat Raj (PR), Nirmal (EE), revealed that although the road work was completed (June 2005) with an expenditure of Rs 35.90 lakh the main component of causeway work remained incomplete (July 2008) even after the lapse of four years since commencement of the work.

Scrutiny also revealed that necessary investigation was not carried out by EE before preparing the designs and estimates. Despite this, sanction was accorded (February 2004) by Chief Engineer, PR (CE). The foundation design for causeway which was approved in the original estimate was for hard gravelly soils. At a belated stage the soils were inspected (February 2005) after the contractor had started execution of work. The revised designs¹⁷ were awaiting approval of the CE since April 2005. This resulted in the contractor stopping (June 2005) the work after completing the roadwork alone (expenditure Rs 35.90 lakh).

The CE agreed (May 2008) that the initial estimates were prepared without conducting detailed soil testing for causeway. Further, in original estimate, the width of the stream on which the causeway was to be constructed, worked out to less than 25 metres and later during the execution it was found to be more than 25 metres. As the work of causeway having width of more than 25 metres was not permissible under PMGSY, efforts were being made to execute this work with the assistance of NABARD funds.

Since the works which could be executed under PMGSY had specific dimension limits, detailed investigation should have been done initially itself

¹⁷ necessitated due to sandy soils being found in a detailed investigation (February 2005) by SE, PR circle, Adilabad subsequently

to correctly assess the width of the causeway. The construction of leftover causeway work had not been taken up as of May 2008 and the road constructed was not useful for all seasons without construction of the causeway. Thus, non-construction of causeway though included in the work resulted in the road laid at an expenditure of Rs 35.90 lakh not being used, rendering the expenditure largely unfruitful. This also defeated the very objective of providing connectivity to isolated habitations.

The matter was reported to Government in June 2008; reply had not been received (August 2008).

SCHOOL EDUCATION DEPARTMENT

4.2.13 Excess release of grants to municipalities

Release of grant-in-aid to two municipalities by the DEO, Kadapa, without deducting the education cess collected/collectable (by the municipalities) resulted in excess release of Rs 2.69 crore.

Government orders (January 1975) stipulated that grants be paid to municipal schools both for elementary and secondary education after setting off the educational cess collectable by the municipalities, during the year. To implement this order, the data relating to education cess collected/collectable by the municipalities was required to be obtained by the District Educational Officer (DEO), prior to release of grants.

It was observed that the DEO, Kadapa released Rs 30.27 crore to Kadapa and Proddutur municipalities without deducting the educational cess collected/collectable to the extent of Rs 2.69 crore¹⁸ during the period 2003-08. The matter was earlier pointed out by Audit regularly in the inspection reports (IRs) issued during 1999-2000 and 2004-05. The Government had also issued specific instructions¹⁹ to the DEO, Kadapa to release education grants to municipalities only after deducting the amount of education cess. Accordingly, the DEO should have collected this data from the municipalities and made appropriate deductions while releasing the grants. Despite the above, the DEO failed to take remedial action resulting in release of excess grants to the municipalities.

The DEO admitted the mistake and stated (February/April 2008) that the matter would be pursued with the municipal authorities concerned for settlement of excess release of grant and that the Government orders would be followed in future.

The matter was reported to Government in June 2008; reply had not been received (August 2008).

¹⁸ Kadapa: Rs 1.09 crore (2003-08) and Proddutur: Rs 1.60 crore (2003-07)

¹⁹ based on an enquiry conducted and recommendations made (March 2005) by the Vigilance and Enforcement Department on receipt of information that the municipalities in Kadapa were running schools under their control and collecting education cess but not remitting the same to the Education Department

TRANSPORT, ROADS AND BUILDINGS DEPARTMENT
(Roads and Buildings Wing)

4.2.14 Unfruitful expenditure on road work

Failure of Executive Engineer (R&B), National Highways Division, Kadapa in handing over the site free from utilities in time led to closure of the contract resulting in unfruitful expenditure of Rs 3.55 crore on unfinished road work.

The “widening work of four laning from km 161/400 to 167/700 of Chittoor-Kurnool Road on NH 18” was technically approved with financial sanction accorded by Government of India (GOI), Ministry of Shipping, Road Transport and Highways (MOSRTH) for Rs 9.48 crore (March 2005). While sanctioning the estimate the MOSRTH had deleted a provision of Rs 0.20 crore towards shifting of utilities stating that Chief Engineer, National Highways (CE) clarified that the State Public Works Department (Department) would undertake the responsibility of shifting the utilities. Although MOSRTH had specifically indicated that the shifting of utilities be monitored before award of work, the Department, without ensuring the clear site, finalised the tenders and awarded the work (August 2005) to a contractor for Rs 8.15 crore at 4.5 *per cent* excess over Estimated Contract Value with a stipulation to complete the work within 12 months (August 2006).

After awarding the work, the Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL) furnished (September 2005) an estimate for Rs 0.84 crore for shifting of electrical poles with a request to deposit the amount. The department deposited the amount in April 2006. The shifting of electric poles has not been completed as reported (May 2008) by the Executive Engineer, National Highways Division, Kadapa (EE). Meanwhile, the contractor, after partial execution of the work, requested (October 2006) for payment at the Schedule of Rates (SOR) 2006-07 for the balance work. Accordingly, the CE submitted a revised estimate for Rs 13.11 crore in October 2006 for approval of MOSRTH. However, the MOSRTH turned down (May 2007) the request of the Department stating that the extra cost due to time overrun needs to be borne by the State Government as the responsibility for not handing over the site to the contractor free from all encumbrances which had led to time and cost overrun solely lies with the State Government. The MOSRTH further stated that it had accorded technical sanction to the work in March 2005 based on the false certificate issued by the then EE, that all utilities have been shifted and site was clear from all encumbrances. The contract was finally terminated in June 2007 and the total payment made to the contractor was Rs 2.71 crore (March 2008). The work has, however, remained unfinished (May 2008).

Thus the expenditure of Rs 3.55 crore spent so far on partly executed and unfinished work remained unfruitful besides balance work to be recast with SOR 2006-07 with an additional financial implication of Rs 3.63 crore (November 2006).

In reply, Engineer-in-Chief, Administration and National Highways (ENC) stated that the utilities include six water pipe lines which were discovered during the execution of the work.

The reply of ENC is not tenable as shifting of utilities was not completed and the water pipe lines are bound to exist in town limits and department failed to coordinate with the authorities concerned in obtaining crucial information about the utilities below the ground in the working reach. Further, the department furnished false certificate about the availability of clear site to GOI. Thus, the failure of the EE in not handing over the site free from utilities in time led to closure of the contract resulting in unfruitful expenditure of Rs 3.55 crore on unfinished road work. Besides this, the objective of completing the widening of road was not achieved causing inconvenience to the vehicular traffic and public.

The matter was reported to Government in February 2008; reply had not been received (August 2008).

4.2.15 Award of work without obtaining prior clearance from Forest Department

Due to irregular grounding of road improvement work without obtaining prior permission of Forest Department, the work on which an amount of Rs 85.50 lakh has been spent remained incomplete and the objective of improved road connectivity to seven villages has not been achieved.

To prevent diversion of forest land for non-forest purposes, the Supreme Court issued orders in February 2000 which requires prior permission of National Board of Wildlife for all works including taking up repair and maintenance works on roads in protected areas like National Parks/Sanctuaries.

To provide improved road connectivity to seven villages, the Superintending Engineer, Roads & Buildings Circle, Nellore (SE) entrusted (June 2005) the work of "Improvements to Atakanithippa to Pernadu road from km 0/0 to km 8/6, in Nellore District" to a contractor for Rs 1.42 crore with a stipulation to complete the work in 12 months. Even though the SE was aware of the fact that this stretch of road was falling under Pulicat Bird Sanctuary, which was a protected area, he entered into the agreement with the contractor without obtaining necessary prior permission of the Forest Department before taking up the work.

Audit scrutiny revealed that after execution of work valuing Rs 85.50 lakh, the work was stopped (August 2005) without laying bituminous surface due to objections raised by the forest authorities and the contract was finally foreclosed (June 2007). At the time of stoppage of work, the road was left without laying gravel blindage over the metal surface. This made the metal layer prone to deterioration due to passage of time and unusable by the public.

Thus, due to taking up the work of road improvement without obtaining prior permission of Forest Department and thereafter leaving the work incomplete

after incurring Rs 85.50 lakh and the objective of improved road connectivity to seven villages has not been achieved. The people of the beneficiary villages continue to face extreme difficulty to reach their villages from various towns and to transport the agriculture and marine products to the nearest towns due to the unfinished road construction.

The matter was reported to Government in July 2008; reply had not been received (August 2008).

TRIBAL WELFARE AND IRRIGATION & COMMAND AREA DEVELOPMENT DEPARTMENTS

(Integrated Tribal Development Agency, Utnoor)

4.2.16 Non-achievement of contemplated ayacut in tribal areas

Non-inclusion of downstream land development works as an integral part of the cost estimates for execution of minor irrigation works (expenditure: Rs 20.68 crore) under AP Participatory Tribal Development Project resulted in non-achievement of 60 per cent of contemplated ayacut with adverse implications on the social objective of raising the farm incomes of tribal families.

Integrated Tribal Development Agency (ITDA), Utnoor (Adilabad District) had taken up 120 minor irrigation works²⁰ (estimated cost of Rs 23.65 crore) under 'AP Participatory Tribal Development Project' during 1995-2006. The objectives of the project *inter alia* included generating sustainable increases in productivity and diversifying the cropping system and raising farm incomes of the tribal families. The project implementation guidelines clearly stipulate that the cost of downstream development works²¹ should form an integral part of the cost estimates for minor irrigation works.

Audit scrutiny (August 2007) of the records of Project Officer, ITDA, Utnoor (PO), however, revealed that the Executive Engineer (EE), Special Minor Irrigation Division (SMID), Utnoor, Irrigation and Command Area Development Department, did not include the cost of downstream development works in the cost estimates of all the 120 works (expenditure: Rs 20.68 crore) of forming new tanks, etc. Despite this, the PO accorded sanction without ensuring the submission of comprehensive proposals by the EE.

Field channels facilitate 100 per cent irrigation benefits. Undertaking of minor irrigation works without the associated downstream development works for distribution of water resulted in irrigating of 3,955 acres (40 per cent) as against the contemplated ayacut of 9,920 acres resulting in the expenditure of Rs 20.68 crore remaining largely unfruitful. The details of works are given in *Appendix 4.4*. The PO attributed (June 2008) the non-inclusion of provision for downstream development works in the cost estimates to insufficient budget

²⁰ funding source for 116 works: International Fund for Agriculture Development and for four works: Grant-in-Aid

²¹ such as channel alignment and land development works

allotments. He stated (June 2008) that the inclusion of downstream development works would cost huge amounts. Hence, it was proposed to get the main components executed and the downstream development works would be carried out subsequently using funds from other programmes. This contention is not tenable as the PO should have optimised the utilisation of funds by restricting the number of minor irrigation works to the extent of available funds so that the works including the downstream development works could be undertaken comprehensively to achieve the 100 *per cent* of the contemplated ayacut for each project work.

Non-inclusion of provision for downstream land development works as an integral part of the cost estimates by EE, SMID, and the failure of PO, ITDA, to ensure their inclusion while according administrative approval resulted in the contemplated ayacut not being achieved to the extent of 60 *per cent* with adverse implications on the social objective of raising farm incomes of the tribal families.

The matter was reported to Government in June 2008; reply had not been received (August 2008).

4.3 Violation of contractual obligations, undue favour to contractors and avoidable expenditure

GENERAL ADMINISTRATION DEPARTMENT (Andhra Pradesh Bhawan, New Delhi)

4.3.1 Undue favour to existing contractor

Government suffered loss of Rs 1.49 crore (up to July 2008) in a catering contract in AP Bhawan, New Delhi.

The catering contract of AP Bhawan, New Delhi which was awarded (August 2000) to M/s Sai Caterers, New Delhi for Rs 50,000 per month towards hire charges was to expire on 2 August 2005. Instead of taking advance action to call for bids and fix the agency well before this date the Government invited bids at a belated stage on 3 August 2005. Eight caterers (including Sai Caterers) responded to the tender call. Of these, three caterers (other than Sai Caterers) qualified in the technical bid. The tender Committee recommended (2005) the contract to the highest bidder for Rs 6.60 lakh per month for three years although the party did not fulfill clause 2.2 i.e., prescribing turnover criteria and experience in running canteen in State Bhawans, Government establishments, etc., but the party had experience in hotel industry. The tender conditions stipulated in the notice inviting tenders led to the litigation and the existing contractor (Sai Caterers) got benefit by way of extensions. While disposing the case, the Supreme Court ordered that fresh bids be invited (September 2006). Fresh bids were not invited and the existing contractor continues to derive benefit by way of extensions from time to time (July 2008).

Despite this, the Government had neither called for fresh bids nor fixed a new catering contractor. Scrutiny also revealed that the existing contractor was given undue benefit by way of extensions at the old rate (Rs 50,000 per month) up to November 2006 and at the rate of Rs 4 lakh per month from December 2006, which is far lower than the rate of Rs 6.60 lakh per month quoted by the highest bidder for the bids called in August 2005.

Consequently, there was loss of Rs 1.49 crore (up to July 2008) and corresponding undue benefit to the contractor. This was not the only occasion when favour was granted to the existing contractor. As pointed out in the Audit Report for the year ended 31 March 2004 (Para no. 4.3.3), the contractor was given undue benefit of Rs 51 lakh due to non-incorporation in the agreement the clause prescribing that electricity and water charges should be borne by contractor²² contrary to the clause in original tender document.

Government replied (July 2008) that keeping in view the prolonged litigation, it had decided to continue the existing contractor till litigation was over and that rent of Rs 4 lakh was fixed after due deliberations (November 2006). Government also stated (July 2008) that action was being taken to finalise the tender process and to issue final order early. Government had however, not offered their specific remarks as to why advance action was not taken to call the bids before expiry of the contract on 2 August 2005. Specific reasons were also not given by the Government for not calling the fresh bids (as of July 2008) after September 2006 as ordered by Supreme Court while disposing the litigation.

IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Irrigation Wing)

4.3.2 Avoidable extra expenditure due to improper planning

Change in scope of work after award of contract resulted in extra expenditure of Rs 5.82 crore.

As per the prevailing practice being followed in a number of cases, whenever there is any change in scope of work after award of contract, the monetary value of the new items of work is computed on the basis of latest Standard Schedule of Rates (SSR). If this work had been included in the original contract the value of work would have been of lower value with original SSR. Hence, it is imperative to precisely decide the scope of work initially itself while calling for bids.

The Phase I work of Stage I of Godavari Lift Irrigation Scheme (GLIS) was entrusted (January 2004) to a contractor under Engineering, Procurement and Construction (EPC) turnkey system for Rs 843.98 crore with a stipulation to complete within 18 months. The work involved lifting of water from the Godavari River near Gangaram village of Eturunagaram Mandal in Warangal District to supply irrigation water to 1.23 lakh acres of land in nine mandals in Warangal and Karimnagar Districts and also to provide drinking water to

²² electricity and water charges are now being collected from the contractor after being pointed out by Audit

tri-cities (Warangal, Hanamkonda and Kazipet). The work was in progress and an amount of Rs 750.12 crore was paid to the contractor as of January 2008.

Under the agreement, Nagaram tank was one among the six intermediary tanks to be connected enroute, as balancing tanks for interconnectivity. Audit observed (March 2008) that during execution the department decided to bypass Nagaram tank and construct an RCC tank at Pulkurthy as an alternative to it. This was on the ground that sewerage water from Warangal Municipal Corporation limits was being discharged into Nagaram tank, making the tank water unsuitable for pumping to next tank of Dharmasagar, which was being used for supply of drinking water. Accordingly, the additional items of the RCC tank and the extra length of pipeline were entrusted (November & December 2007) to the same contractor with the SSR of 2005-06 for a total of Rs 28.31 crore which would have costed Rs 22.49 crore at original agreement rates (i.e. with SSR of 2002-03 plus 7.987 *per cent* tender premium). Thus, change in scope of work after concluding the agreement led to post agreement deviations, resulting in cost escalation of Rs 5.82 crore.

The Chief Engineer, GLIS, Hanamkonda, replied (April 2008) that some farmers who were utilising the sewage water of Nagaram tank for cultivation of their crops, objected to diverting of the sewage flows and hence the department was constrained to change the scope of work. The reply is not tenable. As the Nagaram tank was already being utilized for sewage water, an alternative arrangement should have been worked out before award of work.

The matter was reported to Government in July 2008; reply had not been received (August 2008).

4.3.3 Undue favour to contractor due to incorrect computation of value of balance work

Incorrect computation while giving the benefit of latest SSRs for assessing the value of remaining work to be done resulted in undue benefit to the contractor to the tune of Rs 2.07 crore.

The work "Formation of new M.I. tank across Jilledubanda Vagu near Guddampalli Thanda of Gunjepalli (V) Mudigubba (M) in Ananthapur District" was administratively approved (November 2003) for Rs 7.87 crore and the technical sanction was accorded (February 2004) for Rs 5.99 crore. The Estimate Contract Value (ECV) of the work was Rs 4.45 crore with Standard Schedule of Rates (SSR) 2003-04. The Superintending Engineer, Irrigation Circle, Ananthapur (SE) entrusted (July 2004) the work to a contractor for Rs 2.82 crore at a tender discount of 36.63 *per cent* on ECV, for completion within 12 months i.e. by July 2005.

Prior to calling for bids, proper investigation should have been done to correctly assess the scope of work. Any incorrect assessment in scope of work has an adverse implication in that the payment for the additional scope of work has to be made at revised SSRs plus or minus tender premium/discount resulting in extra cost. Land acquisition is a complex and time consuming process where no definite time frame can be set. Any delay results in extra

expenditure by way of having to pay the balance work with latest SSRs instead of original SSRs. Hence, it is imperative that the task of land acquisition should be completed before calling for bids. Both these principles were ignored in the instant case.

The progress of the work was hampered due to delays in land acquisition and finalisation of designs and drawings. The contractor could complete about half of the work only within the agreement period. Further, the scope of the work underwent certain deviations on finalisation of designs. At this juncture, the contractor requested (November 2006) for payment with the rates of SSR 2005-06 and without deducting the tender discount, citing reasons like, the delays attributable to the department, abnormal increase in the rates of materials and abnormal increase in quantities. Based on the proposals of the Chief Engineer, Minor Irrigation (CE), the Government, while according revised administrative approval, ordered (November 2006) that the balance work be got executed with the existing agency with the reassessed rates of SSR 2005-06 duly allowing two *per cent* tender discount instead of the original tender discount of 36.63 *per cent*. Accordingly, revised technical sanction was accorded and a supplemental agreement was concluded (February 2007) with the contractor, duly showing the value of balance work as Rs 5.86 crore, after applying two *per cent* discount on the estimated cost of Rs 5.98 crore with SSR 2005-06. Extension of time was granted up to December 2007 by the SE. The work was in progress and an amount of Rs 5.26 crore was paid to the contractor so far (September 2007).

In reply (August 2008) the Government stated that the decision was taken keeping in view the trend of tenders and steep hike in material cost prevailing during that period.

Having given the benefit of latest SSRs for assessing the value of balance work, it was incorrect to have given an additional benefit to the contractor by applying a two *per cent* discount to the value of work computed on the basis of latest SSRs instead of the original discount of 36.63 *per cent*. The reduction in tender discount had resulted in undue benefit of Rs 2.07 crore²³ to the contractor.

IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Projects Wing)

4.3.4 Undue favour to the contractor

Payments made towards maintenance charges to the contractor who abandoned the works resulted in undue favour of Rs 1.23 crore.

The works “Investigation, design, preparation of Hydraulic particulars, estimates and execution of works for excavation of Galeru Nagari Sujala Sravanthi (GNSS) Flood Flow Canal from Owk Reservoir to Gandikota Reservoir including construction of CM&CD²⁴ works (i) from Km 16.500 to 34.800 (Package No. 48) and (ii) from Km 34.800 to 52.875 (Package No. 49) for a

²³ Being the difference in tender discount (of 34.63 *per cent*) on the balance work of Rs 5.98 crore

²⁴ Cross masonry and cross drainage

carrying capacity of 10,000 cusecs” were awarded (March 2005) to a contractor for Rs 78.56 crore and Rs 73.66 crore respectively with Standard Schedule of Rates (SSR) 2004-05.

When the agency was executing the earth work and the structures were to be taken up, the carrying capacity of GNSS Flood Flow Canal (FFC) was enhanced from 10,000 cusecs to 20,000 cusecs requiring widening of the FFC. In view of the unwillingness of the agency to carry-out the widening works for 20,000 cusecs, his contracts were closed and the balance works under these contracts and the additional works for widening the canal were recast with SSR 2006-07 and entrusted (June/July 2007) to new agencies under Package No(s). 48A and 49A.

As per the agreement provision the contractor was required to maintain the works during maintenance period of two years after successful commissioning of the project and the contract price was inclusive of cost of maintenance. Accordingly an amount of Rs 0.79 crore and Rs 0.74 crore were earmarked towards maintenance charges in the payment schedules in these cases. Audit observed that the department paid (July 2007) Rs 0.63 crore and Rs 0.60 crore towards maintenance charges to the first agency though the completion of the balance works and their maintenance were entrusted to new agencies.

The Superintending Engineer, Construction Circle-III, Kadapa, replied (May 2008) that, in the sanctioned estimate a nominal provision was made towards maintenance charges and that the provision at one *per cent* of agreement value of earth work was set aside in the payment schedule as a precautionary measure and the same was paid to the contractor as per the instructions (May 2007) of the Chief Engineer (Projects), Irrigation, Kadapa. The reply is not tenable since all payments were required to be regulated in accordance with the payment schedules for various items of work with a discount as quoted by the contractor. Thus, this payment was irregular as after closure of works the contractor had no obligation to maintain the work and the payment is to be construed as an undue favour to the contractor.

The matter was reported to Government in August 2008; reply has not been received.

TRANSPORT, ROADS AND BUILDINGS DEPARTMENT (Roads and Buildings Wing)

4.3.5 Avoidable extra financial commitment on construction of a court building complex

Failure of the Engineer-in-Chief (R&B) in finalisation of designs of a court building complex, coupled with delay in payments to the contractor, resulted in closure of the contract and consequent cost escalation of Rs 1.40 crore.

Government accorded (September 2000) administrative approval for Rs 3.40 crore for construction of a Court Building Complex at Ongole with ground plus three floors under a Centrally Sponsored Scheme. The Engineer-in-Chief (Roads & Buildings), Administration and Buildings (ENC) accorded (March

2001) technical sanction for Rs 3.40 crore. After call of tenders the work was entrusted (January 2002) to a contractor for an amount of Rs 2.25 crore @ 13.40 *per cent* below the Estimate Contract Value (ECV) of Rs 2.60 crore (prepared with SSR 2000-01), with a stipulation to complete the work in 18 months i.e., by 23 July 2003.

To ensure timely execution of work, liquidated damages clause was included in the agreement. The department was to provide the drawings reasonably in advance and make timely payments to facilitate smooth progress of work.

Audit observed (January 2005) that after conclusion of the agreement, the ENC communicated the drawings and designs for the work in a phased manner. Some of the designs were made available just before the completion of the original agreement period. During the agreement period, the contractor could complete the superstructure and brickwork of the ground floor and roof slab of the first floor only, i.e., about 51 *per cent* of the total work valuing Rs 1.14 crore. As against this, the department made payment of Rs 45 lakh only to the contractor within the original agreement period due to failure to arrange for funds. The contractor stopped the work in July 2003 and requested (October 2003) for closure of the contract on the ground that he had incurred heavy loss due to delay in furnishing of drawings and non-release of full payments. Accordingly, the contract was closed (February 2004) duly releasing the payments due to the contractor.

An estimate for the balance work (prepared with SSR 2006-07) was approved (January 2007) by the Chief Engineer (R&B), Buildings (CE). However, with a view to restrict the amount of the revised estimate to the original estimate amount of Rs 3.40 crore, the balance work was restricted to three (ground plus two) floors only instead of four floors contemplated originally. It was decided to forego a floor comprising of library, conference hall and recreation hall. The balance work was entrusted (October 2007) to another contractor for Rs 2.19 crore at 4.19 *per cent* excess over the ECV. The work was yet to commence (January 2008).

Thus, the failure of the ENC in timely finalisation of designs coupled with non-release of full payments, led to the contractor backing out from the agreement, resulting in cost escalation to the tune of Rs 1.08 crore besides foregoing one floor of the court building valuing about Rs 32 lakh (at original agreement rates). Further, the court building on which an expenditure of Rs 1.14 crore has been incurred and intended for completion by July 2003 has not been completed even as of January 2008.

On this being pointed out, the Government replied (June 2008) that the designs were furnished well within the agreement period in a phased manner as per the general practice and accepted that the contractor backed out due to non-release of payment for want of funds. The reply is not acceptable since the designs of column footings and columns for the building were sent by the ENC only in May 2002 i.e., nearly four months after concluding the agreement and the designs of roof beams and roof slabs of three floors were sent only at the fag end of the agreement period, in June/July 2003. Further, Government should have ensured timely release of the required funds to facilitate smooth progress of work.

4.3.6 Avoidable extra expenditure due to change in specification

Action of Chief Engineer, Roads & Buildings, National Highways, Hyderabad in considering the contractor's proposal for changing to a different specification, after concluding the agreement, has resulted in avoidable extra expenditure of Rs 1.20 crore.

Government of India, Ministry of Shipping, Road Transport and Highways (MOSRTH) accorded (February 2005) technical approval and financial sanction for the work "Widening to four lane from Km 18/740 to 30/000 on Hyderabad – Bhupalapatnam section on National Highway 202" for Rs 13.64 crore and the Chief Engineer, Roads & Buildings (R&B), National Highways, Hyderabad (CE) accorded (May 2005) technical sanction for the same amount. The work was entrusted (August 2005) to a contractor for Rs 10.50 crore at 11.177 per cent less on the Estimated Contract Value.

The agreement, *inter alia*, included 'providing two layers of Granular Sub-base (GSB) using coarse graded material as per clause-401 of MOSRTH specification' for a quantity of 37,533 cum at an agreed rate of Rs 255 per cum. As per the MOSRTH specification, the material to be used for GSB was natural sand, moorum, gravel, crushed stone or combination thereof. The description of GSB in the agreement also specified that 'coarse graded material' should be used and there was no specific reference to gravel. However, during execution of the work, the contractor represented (October 2005) that the gravel required for the work was scarcely available in Government lands, river beds and the Revenue Authorities were not allowing to lift the material and that even though it was available in some places no body was allowing him to lift the material. Hence, he proposed to change the specification to Crusher Run Macadam Base (CRMB) in place of GSB as an alternative. Based on the recommendation of the CE, the MOSRTH agreed (December 2005) for change in the specification from GSB to CRMB (Clause 410 of MOSRTH specification). Accordingly, CRMB of a quantity of 34,863 cum was executed and the contractor was paid at the rate of Rs 598.47 per cum for this item of work.

As per the tender conditions, the contractor should inspect the quarries before submitting his bid to satisfy himself about the quantity and availability of material as required for the work and the Government would not, after acceptance of the contract, pay any extra charges for lead or for any other reasons in case the contractor misjudges the availability of materials. Since, it was entirely the responsibility of the contractor to bring either gravel from a farther place or any other alternative materials specified in MOSRTH specification, any extra cost thereon should be borne by him. Thus, consideration of the contractor's proposal for changing to a different specification has resulted in avoidable extra expenditure of Rs 1.20 crore.

The matter was reported to Government in May 2008; reply had not been received (August 2008).

4.3.7 Undue favour to a contractor

Undue benefit was extended to a contractor to the tune of Rs 0.53 crore due to change of specification after award of work.

Ministry of Road Transport and Highways (MORTH) accorded financial sanction for "Widening to 4 lanes from Km 10/0 to Km 22/0 on Hyderabad - Vijayawada section National Highway 9" for Rs 11.95 crore. The Chief Engineer, National Highways (NH), Hyderabad (CE) accorded technical sanction (February 2003) for the work, which *inter alia* included widening of pavement with three layers of Water Bound Macadam (WBM). The work was awarded (May 2003) to a contractor for Rs 10.58 crore with a stipulation to complete the work in 18 months i.e. by 21 November 2004.

Within two months of the award of work the contractor sought permission (July 2003) to execute, at same agreement rates, the pavement widening with Wet Mix Macadam (WMM) instead of WBM as the latter involved slow process, labour oriented and takes considerable time for completion. He argued that as the traffic in that stretch of road was very high, round the clock, slow execution may cause fatal accidents.

The CE in turn recommended (July 2003) to MORTH for change of specification stating that WBM was a time taking process whereas WMM would be executed mechanically, which was accepted (September 2003) by MORTH. But the CE failed to change the scheduled date of completion of work due to change in the specification. The contractor completed the entire work by June 2004 much before the stipulated time of completion (November 2004). Later, the contractor represented (October 2004) for bonus as per conditions of the agreement for early completion of work. The CE recommended (December 2004) bonus of Rs 0.53 crore to the contractor for which MORTH had accorded approval in the revised estimate (September 2006). Accordingly an amount of Rs 0.53 crore was paid to the contractor.

The Engineer-in-Chief, Admn. and NH, (ENC) stated (January 2008) that the recommendation of the department that WMM is faster than WBM was due to misconception and in fact the latter was a faster process and there was no saving of time. He also stated that the specification was later changed to WMM due to space and working conditions in the heavy traffic zone.

The reply is not tenable. As per the contractor's representation, widening with WBM is a slow process being labour oriented and takes more time as compared to WMM. The initial stipulated period of 18 months was with WBM specification and this period should not have been the basis for award of bonus for execution of work with revised specification. The CE's recommendation (July 2003) to the Director General (RD) and Special Secretary, MORTH (DG(RD)) requesting for change in specification as sought by the contractor was faulty as it stated that there would be no financial implication. The CE failed to inform the DG (RD) that there could be additional payment accruing by way of bonus through early completion due to

change of specification from WBM to WMM. This led to DG (RD) for grant of approval for revised specification on the erroneous impression that there was no additional implication. Thus, change of specification after award of work had resulted in an undue benefit to the contractor to the tune of Rs 0.53 crore and additional expenditure for the department by a similar amount.

The matter was reported to Government (January 2008); reply had not been received (August 2008).

TRANSPORT, ROADS & BUILDINGS AND IRRIGATION & COMMAND AREA DEVELOPMENT DEPARTMENTS

(Roads & Buildings and Irrigation Wings)

4.3.8 Extra expenditure due to acceptance of second lowest tender

Indecisiveness on the part of Superintending Engineer, R&B Circle, Chittoor, Chief Engineer, R&B, Roads and the Commissionerate of Tenders led to unwarranted correspondence on a frivolous complaint till the expiry of the validity period of lowest tender, resulting in extra expenditure of Rs 27.61 lakh due to acceptance of second lowest tender.

The Chief Engineer, Roads & Buildings, Roads (CE) accorded technical sanction (January 2004) for the work "Improvements to Rayachoty-Angallu road from Km 24/7 to 40/0 in Chittoor District" for Rs 2.98 crore. In response to notice inviting tenders in January 2004, two tenders were found technically qualified. The lowest (L1) and the second lowest (L2) tenderers quoted a tender discount of 12.06 and 2.34 *per cent* respectively. The SE recommended (February 2004) to the CE for acceptance of the L1 tender.

At this stage, the L2 tenderer complained (February 2004) to SE seeking technical disqualification of L1 tenderer, that after registering with the Chief Engineer, Minor Irrigation (CE, MI) as Class-I contractor, the L1 tenderer changed its constitution of the partners and did not inform the registration authority about it. The SE obtained (April 2004) clarifications from the CE, MI and also from L1 tenderer, on this issue and found that there was no substance in the allegations. The CE recommended (May 2004) to the Commissionerate of Tenders (COT) for acceptance of the L1 tender. However, the COT returned (June 2004) the tenders for want of clarification from CE, MI on the status of validity of contractor's registration of L1. The CE, MI clarified (June 2004) that there was no change in the partners of L1. The SE raised a new issue against the L1 party regarding non furnishing of Sales Tax Registration and Clearance certificates at the time of registration as Class-I contractor. This was objectionable as the party was considered as technically qualified before opening of bids. Having given extension of the validity period twice, the L1 party refused to extend the validity period further beyond 31 August 2004.

The CE recommended (30 August 2004) cancellation of the bids and calling for fresh tenders. On representation by L2 party the work was awarded at his quoted rate. The work was completed at a cost of Rs 2.77 crore and there was extra expenditure of Rs 27.61 lakh.

The Engineer-in-Chief, R&B, Administration & NH in his reply (May 2008) stated that L1 tenderer did not have a valid registration and had no legal right to participate in the tender process. The reply is not tenable. Transparency and fairness demands that the eligibility to participate in the bidding process should have been decided before opening of price bids and not after the party emerged L1. The party was already in the list of approved contractors and executing projects already.

The matter was reported to Government in April 2008; reply had not been received (August 2008).

4.4 Idle investments/idle establishments/blocking of funds/delays in commissioning of equipment; diversion/misutilisation of funds

HEALTH, MEDICAL & FAMILY WELFARE DEPARTMENT (MNJ Institute of Oncology and Regional Cancer Centre, Hyderabad)

4.4.1 Non-installation of advanced radiotherapy equipment

Failure of Regional Cancer Centre, in ensuring suitable accommodation to house the Radiotherapy equipment before its procurement resulted in the equipment procured at a cost of Rs 5.69 crore remaining idle for over one and half years and deprived the poor cancer patients of the benefit of improved treatment facility.

MNJ Institute of Oncology & Regional Cancer Centre, Hyderabad (RCC) procured (November 2006) one Clinical High Energy Linear Accelerator at a cost of Rs 5.69 crore²⁵ (including customs duty) from a foreign based firm²⁶. The cost was inclusive of freight, insurance, installation and two years warranty from the date of commissioning the equipment. A room to house the equipment was also to be constructed by the supplying firm at an additional cost (Rs 66.50 lakh) as a part of turnkey project. The equipment is highly sophisticated and is used to destroy cancerous cells without collateral damage to the normal surrounding cells.

Audit observed (June 2007) that although the equipment was procured in November 2006, the equipment had been lying idle in the Central warehouse (at Hyderabad), as the construction of room to house the equipment was not yet completed as of July 2008.

²⁵ Expenditure met from accumulated annual grant from GOI for the years 2001-04 (Rs 2.25 crore) and the balance from the institute's own resources

²⁶ M/s Varian Medical Systems International, Switzerland through their Indian Branch Office M/s Varian Medical Systems India Private Ltd., Chennai

RCC called for tenders for supply and installation of linear accelerator in October 2003 without ensuring the availability of adequate funds. Due to insufficiency of funds, the purchase orders could be placed on the selected firm belatedly in March 2006. After award of contract, RCC decided (December 2006), to construct rooms to accommodate four linear accelerators²⁷ (instead of one initially proposed). However, RCC failed to get the civil works completed through the supplying firm or by a new contractor²⁸ to house the equipment. The civil works were yet to be completed, resulting in the equipment received in November 2006 lying idle. Further, a mandatory gadget required for radiation measure (3D RFA dosimetry system²⁹) had also not been procured.

Although the Government, while accepting the delay in installation of the equipment, assured (June 2008) that the building for housing the equipment would be ready by August 2008, the civil works had not been completed as at the end of August 2008.

Thus, failure of the RCC, in ensuring suitable accommodation to house the equipment resulted in the equipment procured in November 2006 at a cost of Rs 5.69 crore remaining idle for over one and half years and deprived the poor cancer patients the benefit of improved treatment facility.

4.5 Regularity issues and others

GENERAL ADMINISTRATION DEPARTMENT (Andhra Pradesh Bhawan, New Delhi)

4.5.1 Payment of security car allowance to Members of Parliament

The payment of security car allowance (Rs 7.39 crore up to August 2008) to Members of Parliament by the State Government is inappropriate as the pay and allowances of MPs are regulated under the provisions of the Salary, Allowances and Pension of Members of Parliament Act, 1954.

Government of Andhra Pradesh, keeping in view the security threat to the elected representatives to the Legislative Assembly, sanctioned (13 February 2002) Security Car Allowance (SCA) of Rs 15,000 per month to carry the Personal Security Officers during their visits in the State. The Government extended (16 February 2002) this facility *suo moto* to the Member of Council of Ministers, Vice Chairman, State Planning Board, Speaker, Deputy Speaker, Chief Whip and other Whips and the Leader of Opposition. Thereafter, the Government, in view of the severe threat perception reported by the Inspector General of Police issued orders (16 April 2002) for payment of SCA of

²⁷ three more were decided to be procured in future in the wake of GOI's proposal (May 2006) to develop the RCC into a Centre of excellence

²⁸ to whom the work was entrusted in July 2007 through AP Health, Medical Housing and Infrastructure Development Corporation, after the supplying firm had backed out

²⁹ to be supplied by the foreign firm for which Letter of Credit (LOC) for Euro 117536 yet to be opened

Rs 15,000 per month to 27 MPs (Lok Sabha and Rajya Sabha) from the State to carry the additional personal security officers in hired vehicles during their visits/tours in the State. This facility was later extended (June 2002) *suo moto* to all MPs from the State with retrospective effect i.e. 16 April 2002 the date on which this facility was given to certain MPs. The quantum of SCA to all MPs from the State was enhanced to Rs 25,000 per month in January 2006.

The SCA is disbursed by Andhra Pradesh Bhawan, New Delhi and debited to the Head of Account to which the regular pay and allowances of the staff of AP Bhawan are debited. During the period from April 2002 to August 2008, total payment of SCA amounted to Rs 7.39 crore.

Audit observed that the payment of SCA to all MPs was being made without reference to the visits/tours made by them in the State, number of security personnel provided by the Police Department and the threat perception. SCA now is being paid to all MPs as a monthly allowance without relating it to actual requirement. More importantly, the Salary, Allowances and Pension of the Members of Parliament (MPs) are regulated under the provisions of the Salary, Allowances and Pension of Members of Parliament Act, 1954 (Act), as amended, and the rules made thereunder and payment of allowance referred to above should have been determined by the agency entrusted with the payment of pay and allowances under the Act. Contrary to this, the allowances are being paid by the State Government.

Further, the State Government is expected to provide security cover only for the periods that the MP is within the State and hence the basis for SCA is not clear.

Thus, it is inappropriate for the State Government to give such allowance to an MP whose pay and allowances are governed by the Act cited above.

GENERAL ADMINISTRATION DEPARTMENT

4.5.2 Creation of ex-cadre posts in excess of norms

Government of Andhra Pradesh irregularly created ex-cadre posts of IAS/IPS/IFS far in excess of cadre strength, which resulted in additional expenditure of Rs 1.78 crore to the exchequer for the years 2002-03 to 2007-08.

According to the cadre Rules³⁰ of IAS/IPS, 1954 and IFS Pay Rules, 1966, State Governments may with the prior approval of the Central Government appoint a cadre officer to hold an ex-cadre post in excess of number specified for the State concerned in item 5 of the schedule to the IAS (Fixation of Cadre Strength) Regulations, 1955, and for so long as the approval of the Central Government remains in force, the said ex-cadre post shall be deemed to be addition to the number specified. Pay Rules³¹ of IAS/IPS/IFS also specified

³⁰ Rule 8(3) of IAS Cadre Rules 1954/IPS Cadre Rules 1954 and Rule 9 of IFS Pay Rules 1966

³¹ Rule 9(7) of IAS and IPS Pay Rules 1954 and Rule 9(7) of IFS Pay Rules 1968

that at no time the number of members of the service appointed to hold posts, other than cadre posts referred to thereunder and which are reckoned against the State Deputation Reserve (SDR) shall, except with prior approval of the Central Government exceed the number of cadre posts at that level of pay in State cadre or as the case may be, in a joint cadre.

Audit scrutiny revealed that the State Government had created ex-cadre posts of IAS/IPS/IFS far in excess of cadre strength during the years 2002-03 to 2007-08, the excess ranging from 1 to 20 in IAS, 1 to 4 in IPS and upto 2 in IFS. The cadre-wise details are given in *Appendix 4.5*. The action of the State Government was in violation of the provisions of the Rule 9 (7) of the IAS (Pay) Rules, as also observed by the Government of India, Ministry of Personnel, PG & Pensions, Department of Personnel and Training.

Government while accepting (July 2008) the audit observation confirmed that Government of India (GOI) also noticed from the quarterly cadre returns (31 March 2007) furnished that the State Government was utilising more than 100 *per cent* ex-cadre posts than the permissible limits and requested the State Government to reduce the ex-cadre posts to the permissible limits. The State Government attributed the operation of ex-cadre posts *inter alia* to (a) pendency of Cadre Review of ex-cadre posts by GOI for over 10 years (b) the necessity of creation of ex-cadre posts in view of the developmental activities/welfare schemes being taken up by the successive State Governments and (c) promotion of the officers to several grades being given batch-wise, etc.

The reply is not tenable as the action of the State Government is in violation of the Cadre Rules of the respective services. Continued operation of the posts despite specifically being objected to by the GOI was not conducive to administrative discipline. Creation of ex-cadre posts in excess of the permissible limits without the approval of the GOI is therefore objectionable.

Non-observance of codal provisions and irregular creation of ex-cadre posts in excess had, thus, resulted in additional expenditure of Rs 1.78 crore to the exchequer.

4.5.3 Inadmissible payments towards encashment of leave to Members of AIS

Members of All India Services (AIS) were allowed the benefit of encashment of leave while in service contrary to the provisions of AIS rules and ignoring specific instructions of GOI, which amounted to Rs 1.69 crore during the period January 2005 to October 2007 in 676 cases.

According to the provisions of Rule 2(b) of the All India Services (Conditions of Service – Residuary matters) Rules, 1960 and Rule (1) of AP Fundamental Rules, the conditions of service of All India Services (AIS) officers working with the affairs of a State are to be regulated under the provisions of All India Services Act, 1951. When specific provision is made in regard to them on

particular subject regulating their conditions of service in the said Act and the Rules, the question of applicability of the State Fundamental Rules to them does not arise.

As per Government of India (GOI), Ministry of Personnel, Public Grievances & Pensions notification of December 1993 incorporated under Rule 20 of AIS (Leave) Rules, 1955, members of AIS, are entitled to encashment of leave only on superannuation or in the case of death. Members of AIS are, however, not entitled to the benefit of encashment of leave while in service except encashment of Earned leave for 10 days while availing Leave Travel Concession (LTC) subject to maximum of 60 days in their service. The Ministry, while informing the Chief Secretaries of all the State Governments that the members of the AIS were not entitled to the benefit of encashment of leave under any of the rules of the State Government, specifically directed (January 2005) that no benefit under the rules of the State Government should be allowed to the members of the AIS.

It was, however, observed in audit that contrary to the provisions of AIS Rules and ignoring the specific instructions of the Government of India, the members of AIS were allowed the benefit of encashment of earned leave of 15 days once in a year or 30 days for every two years or more while in service without actually going on leave and to receive leave salary in lieu of the leave so surrendered, as applicable to the employees of State Government. During the period January 2005 - October 2007, AIS officers working with Government of Andhra Pradesh were irregularly sanctioned and paid Rs 1.69 crore³² towards encashment of leave in 676 cases.

The Chief Secretary replied (February 2008) that it was decided by the State Government to extend/continue the facility of encashment of leave as applicable for the State Government employees to AIS officers working in the State Government. The Chief Secretary also stated (May 2008) that the expenditure was being met out of State Exchequer and there was no contribution from the Government of India.

The reply is not tenable. Although the pay and allowances are borne by the State Government the fact remains that the conditions of service of AIS officers are regulated under AIS rules issued by GOI as per Rule 1 of AP Fundamental Rules. As the payment of encashment of leave to AIS officers while in service goes against the provisions of rules³³ applicable to members of AIS, the ineligible payments stand to be recovered from the AIS officers concerned.

³² IFS: 155 cases - Rs 40.68 lakh; IPS: 227 cases - Rs 52.08 lakh; IAS: 294 cases - Rs 76.52 lakh

³³ Rule 2(b) of AIS (Conditions of Service-Residuary matters) Rules 1960 read with Andhra Pradesh Civil Services (Classification, Control and Appeal) Rules, 1991

HEALTH, MEDICAL AND FAMILY WELFARE DEPARTMENT
(Nizam's Institute of Medical Sciences, Hyderabad)

4.5.4 Deficiencies in leasing of medical shops

The leasing contract was awarded to a party who did not fulfill the stipulated experience criterion and failure to collect the dues during the currency of the agreement led to default in payment of Rs 40.50 lakh by the party.

Nizam's Institute of Medical Sciences, Hyderabad (NIMS) selected (March 2003) IRHS³⁴ for opening and running two medical shops within its premises on lease basis. An agreement was entered in May 2003 which was effective for two years from June 2003. Audit scrutiny (July 2007) of the records of NIMS revealed that the selection of contract firm was faulty. Further, the selected firm defaulted in payment of dues to the extent of Rs 40.50 lakh.

- The terms and conditions of the tender *inter alia* stipulated that the prospective bidder should have at least 15 years experience in Super Speciality hospital. Three firms had responded to the tender notice. One firm viz. IRHS, though did not have the requisite experience submitted its bid. The bids of two other firms were rejected on the ground that they had no experience. IRHS which had failed to produce the requisite experience certificate was awarded the contract. This was a highly restrictive clause. Any firm having drug licence and capable of running medical shop would have served the purpose. Fresh bids should have been called with revised criterion but this was not done.
- The bids received were as follows:

Name of the firm	Rate quoted (Rs per month)
1. M/s. The Guntur Diocese Social Service and Welfare Society	50,000
2. M/s. Sri Parameswari Educational Society	1,11,159
3. M/s. Institute for Rural Health Studies (IRHS)	20,000 plus 60 per cent of profit

- The quotation from IRHS consisted of a fixed component and a variable component in departure from the NIT conditions which stipulated quoting of lease rental. The fixed component was much lower than the quotations received from the other two parties. In the absence of any minimum guaranteed amount with regard to the variable component, there was no assurance at the time of award of contract that the variable component would along with the fixed component be higher than the value quoted by the other parties. Even the variable component accrues to NIMS fund and not directly to NIMS. It was further observed that the Director, IRHS was made the Chairman of NIMS Fund Committee.

³⁴ M/s. Institute for Rural Health Studies (IRHS), Hyderabad

- The Security Deposit collected was Rs 5 lakh and the dues were allowed to exceed the Security Deposit. There was failure to ensure timely remittance of surplus profits by IRHS. The institute failed to ensure that the party paid its due share of the profits during the currency of the agreement. From the accounts rendered by the firm, the share towards NIMS Fund as on date of vacation (August 2005) worked out to Rs 70.50 lakh, of which only Rs 30 lakh was collected. As a result, dues of Rs 40.50 lakh remained unrealised before expiry of the contract. No responsibility was fixed on any official for the shortfall in collection.
- NIMS failed to invoke the bank guarantee in time before it lapsed in June 2005.

Thus, the inclusion of restrictive clause while calling for bids resulted in a party not satisfying the requisite experience participating in the bid and managing to get the contract awarded. The party was further favoured by allowing the dues to accumulate and exceed the Security Deposit. This coupled with defective agreement conditions resulted in non-realisation of revenue to the extent of Rs 40.50 lakh by the time of expiry of the contract.

PLANNING DEPARTMENT

4.5.5 Member of Parliament Local Area Development Scheme

Irregularities like non-commencement of works, diversions, irregular payments, etc. involving Rs 69.77 crore in implementation of MPLAD Scheme denied the envisaged benefits to the public at large.

The “Member of Parliament Local Area Development Scheme (MPLADS)”, was designed to enable the Members of Parliament (MPs) to recommend works for provision of certain basic facilities with emphasis on the creation of durable community assets in their constituencies. The scheme is fully funded by Government of India. Under the Scheme, the Members of Lok Sabha can recommend works for their respective constituencies up to Rs 2 crore during the financial year to the District Collector. In case a Lok Sabha constituency covers more than one district, the Member may choose one of the districts as the Nodal District. Elected Members of Rajya Sabha can recommend works in one or more districts in the State from where he/she was elected. Nominated Members of Lok Sabha and Rajya Sabha can recommend works in one or more districts anywhere in the country. The District Collector is the nodal officer at the district level and the works are executed by the District Rural Development Agencies (DRDA), District Water Management Agencies, Chief Planning Officers, etc. through the identified implementing agencies like Panchayat Raj Engineering/Rural Water Supply Divisions in rural areas and Municipal Corporations/Municipalities in urban areas. The implementation of the Scheme is governed by the guidelines and instructions issued from time to time by the Ministry of Statistics and Programme Implementation, GOI.

Scrutiny of the transactions of MPLAD Scheme accounts of the five³⁵ DRDAs (comprising 13 MPs³⁶) for the period 2001-02 to 2005-06 (up to 2004-05 for Khammam) and further information obtained as of June 2008 revealed the following deficiencies:

Non-commencement/non-completion of works

As per the instructions issued under the scheme the works taken up under the scheme should generally be completed within one year. In the five districts, out of 6869 works sanctioned during 2001-07 (estimated cost: Rs 131.49 crore), only 5254 works (estimated cost: Rs 88.58 crore) were completed leaving a balance of 1615 works (24 *per cent*) (estimated cost: Rs 42.91 crore) (some of them taken up six years ago) not yet completed rendering the expenditure of Rs 3.40 crore already incurred on these works³⁷ unfruitful.

Further, 468 works (seven *per cent*) sanctioned during the years 2001-07 costing Rs 10.31 crore were not even started as of June 2008 resulting in locking up of funds of Rs 6.58 crore already released to the executing agencies. Details are given in *Appendix 4.6*. There was no justification in keeping the moneys unutilised with the executing agencies when the works could not even be started for several years. The Project Directors (PDs), DRDAs attributed the delays mainly to site disputes and technical problems, etc. Land acquisition is a tedious and complex process where the time required to complete the task is uncertain. Sanctions should not therefore have been accorded unless the site acquisition has been completed in advance.

Delay in sanction of works

The guidelines stipulate that, as far as possible all sanctions for works should be accorded within 45 days from the date of receipt of proposal from the MP concerned. It was however, observed in DRDA, Visakhapatnam that, during the years 2001-06 there was inordinate delay in sanction of 16 works relating to provision of drinking water, construction of library room, cement concrete road, old age home, etc. ranging from four months to as high as 31 months after those were duly recommended by MPs. The PD, DRDA attributed the delay to preparation of estimates, etc. by the implementing agencies³⁸. As the guidelines stipulated that the work should be completed within a year, there is a need to expedite the process of preparation of estimates.

³⁵ Karimnagar, Khammam, Mahaboobnagar, Ranga Reddy and Visakhapatnam

³⁶ Lok Sabha: Visakhapatnam, Anakapalli, Khammam, Bhadrachalam (ST), Karimnagar, Peddapalli (SC), Hyderabad, Mahaboobnagar and Nagarkurnool (SC)
Rajya Sabha : Visakhapatnam, Ranga Reddy (two MPs) and Mahaboobnagar

³⁷ 1147 works which were in progress

³⁸ Executive Engineers (EEs), Panchayat Raj (PR), Visakhapatnam, Paderu and Narsipatnam, Rural Water Supply (RWS), Visakhapatnam, Irrigation and Command Area Development, Visakhapatnam, Roads and Buildings, Visakhapatnam

Execution of inadmissible works

In all the five districts, 822 inadmissible works (estimated cost : Rs 20.27 crore) like road repairs and improvement works, community halls and kalyanamandapams/shadikhanas intended for particular community (not for general public), buildings for cooperative societies, agriculture godowns and works at religious places, etc. which were prohibited under the scheme were sanctioned for execution during 2001-08. District-wise details are given in *Appendix 4.7*. Although initially recommended by the MP, it was the duty of the District Collector to bring it to the notice of the MP that the works were inadmissible so that the MP could recommend alternative works.

The PDs assured that the guidelines would be kept in view while issuing the sanctions in future.

Diversion of funds

As per the instructions issued (April 2000) by GOI, MPLADS funds cannot be withdrawn or transferred for any other purpose. Contrary to this, in Khammam District, MPLADS funds aggregating Rs 6.33 crore were diverted (during September 2001 to May 2007) towards administrative expenses, Incentive Deposit, Interest Subsidy, Pushkaram works, etc. by the DRDA. Of this amount, Rs 2.88 crore was yet to be recouped as of June 2008.

The PD replied (February 2008) that the diversions made had the approval of the District Collector and stated that this amount would be reimbursed to MPLADS account shortly. The fact however, remains that this was in violation of the guidelines laid down.

Parking of MPLADS funds in Fixed Deposits

As per the guidelines, the MPLADS funds shall be kept only in Savings Bank (SB) account of any Nationalised Bank. Parking of these funds in Fixed Deposits is not permissible. The intention behind the stipulation of keeping funds in SB account was that the works would be executed expeditiously without delay. In all the five districts, scheme funds of Rs 43.86 crore were irregularly deposited by the DRDAs and implementing agencies during 2000-08 in the shape of Fixed Deposits (FDRs)/Short Term Deposits ranging for a period from one month to more than four years in violation of the guidelines. Parking of funds in FDRs clearly demonstrates that the objective of speedy execution of works has been defeated. The district-wise details are given in *Appendix 4.8*.

Irregular retention of balance funds of retired Rajya Sabha Members

As per the scheme guidelines, in respect of elected Members of Rajya Sabha the balance of funds (funds not committed for the recommended and sanctioned works) left in the nodal district by the predecessor Members in a particular State were to be equally distributed by the State Government among the successor elected Rajya Sabha Members in that State. In respect of nominated Members of Rajya Sabha, the balance funds were to be distributed amongst the successor nominated Members of Rajya Sabha by GOI. It was

however, observed that, an amount of Rs 1.11 crore being the un-spent balances in respect of retired Members of Rajya Sabha were irregularly retained by the PDs, DRDAs for over four to 12 years in the four Nodal districts (Karimnagar: Rs 47.92 lakh, Khammam³⁹: Rs 12.88 lakh, Mahboobnagar: Rs 17.67 lakh and Ranga Reddy: 32.98 lakh) thereby violating the scheme guidelines. Further, the PD, DRDA, Khammam had diverted these funds for other purposes as per the instructions of the District Collector.

Release of funds to trusts in excess of prescribed limit

As per the guidelines, not more than Rs 25 lakh can be spent from funds for one or more works of a particular Society/Trust and if such amount was availed, no more work can be recommended for that Society/Trust under the Scheme. In Ranga Reddy District, scheme funds were irregularly released to two trusts viz., C.R. Foundation, Kondapur, Hyderabad (Rs 40 lakh) and Thakur Hari Prasad Institute of Research and Rehabilitation for Mentally Handicapped, Hyderabad (Rs 27.50 lakh) in excess of the prescribed limit. The PD, DRDA replied (February 2008) that compliance with the guidelines would be ensured in future.

Non-remittance of unutilised balances and interest

The PDs, DRDAs, failed to obtain from the implementing agencies an amount of Rs 2.42 crore (Karimnagar: Rs 0.48 crore, Khammam: Rs 0.71 crore, Mahboobnagar: Rs 0.49 crore, Ranga Reddy: Rs 0.08 crore and Visakhapatnam: Rs 0.66 crore) being the unutilised balances of completed works and interest accrued on MPLADS funds, as of June 2008.

The PDs, DRDAs replied that action would be initiated to recover the unutilised balances along with the interest accrued on MPLADS funds from the implementing agencies.

Non-maintenance of asset register

The DRDAs of Karimnagar, Khammam, Visakhapatnam and Ranga Reddy were not maintaining the asset register, though envisaged in the scheme guidelines. The DRDA, Mahboobnagar had an asset register but not in the prescribed format.

Non-transfer of assets to user agencies

As per the guidelines, on completion of the work, the district authority and the implementing agency is required to arrange to transfer the asset to the user agency without any delay. The district authority shall record the details of assets transferred to user agencies in the asset register. Since launching of the scheme in 1993-94, 17,286 works were completed at a cost of Rs 232.92 crore in five districts (district-wise details are given in *Appendix 4.9*) as of June 2008. Though the assets were to be transferred to the user agencies, there was no record to show that assets were transferred to user agencies in all the five DRDAs.

³⁹ Rs 34.06 lakh was transferred to the successor RS members in April 2008 and June 2008 only after it was pointed out by Audit

Other points of interest

- (i) The guidelines stipulated that advance up to 75 per cent (50 per cent from November 2005) of the cost of the work would be released as first instalment and the balance was to be released on watching the progress. There is no provision in the guidelines for any discretion in this regard. Contrary to these instructions, PDs, DRDAs had released 100 per cent of the estimated cost of the work up to 2006-07 in Visakhapatnam and Khammam Districts and up to 2007-08 in Karimnagar District.
- (ii) Though prescribed in the guidelines, MP-wise cash books were not maintained by the PDs, DRDAs Visakhapatnam (up to 2005-06) and Karimnagar (up to 2007-08) and by 11 implementing agencies of all the five districts. Further, DRDAs/implementing agencies in Karimnagar, Mahboobnagar and Ranga Reddy Districts had opened/operated more than one account (two to seven) per MP in violation of the guidelines.
- (iii) As per guidelines, the first instalment of Rupees one crore out of the total entitlement of Rs 2 crore, was to be released in the beginning of the financial year subject to the condition that second instalment (Rupees one crore) of the previous year had already been released to the MP concerned. The second instalment was to be released subject to the fulfilment of the conditions *inter alia* that utilisation certificate for the previous financial year and the audit certificate for the funds released for MP concerned in the year prior to the previous year had been furnished by the district authority. It was observed that there were delays in submission of utilisation certificates by DRDAs, Khammam and Ranga Reddy. This resulted in non- receipt of funds (as of June 2008) to the extent of Rs 4 crore and Rs 7 crore respectively from GOI for the years 2006-07 and 2007-08 with potential adverse implications on the timely implementation of the scheme works in these districts.
- (iv) Though specifically prescribed in the guidelines, the DRDAs in all the five districts had not obtained the undertakings from the user agencies for operation, upkeep and maintenance of the proposed asset, which was required to be obtained before execution of the works.

Poor Monitoring

Guidelines stipulated that the district authority shall visit and inspect at least 10 per cent of works under implementation every year. Although the DRDAs of Visakhapatnam and Ranga Reddy have reported that the district authorities had conducted the inspection of the works as and when they visited the mandals, no records were maintained/shown to audit to this effect. The DRDAs of Khammam, Karimnagar and Mahboobnagar had not conducted any inspection during the period 2001-08. Thus, monitoring was poor in all the five DRDAs and consequently there is no assurance that the works are properly executed.

Thus, the monetary value of various irregularities/deficiencies in the implementation of MPLAD scheme meant for benefitting public at large worked out to Rs 69.77 crore.

The irregularities/lapses discussed above show that there is no proper accounting and monitoring system for effective implementation and to watch the progress of the scheme.

The above observations were reported to Government in June 2008; reply had not been received (August 2008).

REVENUE DEPARTMENT

4.5.6 Un-authorized retention/utilisation of Government receipts

There was failure on the part of the District Collector, Ranga Reddy District to remit the entire receipts (Rs 5.80 crore being the transaction charges from RAJiv centres) into Government account and part of the amount (Rs 2.67 crore) was diverted towards expenditure which had no legislative sanction.

Rule 7(1) of AP Treasury Code (Vol. I) of Financial Rules stipulate that all moneys received by or tendered to Government servants in their official capacity should be paid in full into the treasury without undue delay. Further, such moneys should not be appropriated to meet departmental expenditure or otherwise kept apart from the Government account.

Government launched Rajiv Internet Village (RAJiv) centres (Rural e-Seva centres) in August 2004 to bring Government services/benefits closer to the people living in villages through Service Provider⁴⁰. This was structured on a Public Private Partnership and there is no Government investment involved in this scheme. Entire expenditure on Capital as well running expenses is to be met by Service Providers. Revenue stream for Service provider is through transaction charges collected from Citizens/Departments for their services rendered.

Apart from the regular services,⁴¹ to strengthen the services of RAJiv centres⁴² by introducing online internet based delivery of certified copies of land records to the citizens in Ranga Reddy District, the District Collector entered (May 2005) into Memorandum of Understanding (MoU) with the Commissioner, Electronically Deliverable Services (EDS), Department of Information Technology & Communications (Commissioner) as authorised by the Government. As per the MoU, the Commissioner would pay⁴³ the amount received from the citizens⁴⁴ to the Collector.

⁴⁰ provides services to Citizens through RAJiv centres

⁴¹ such as payment of Utility Bills, Certificates, Licence Renewal, Transport Department Services and Internet services, etc.

⁴² main objective of the programme is to bring the Government closer to the people in rural areas and make the service delivery in rural areas more efficient and transparent

⁴³ after deducting Rs 20 for each application entered through RAJiv centres, towards miscellaneous charges

⁴⁴ towards collections for services such as issuing certified copies of land records, Internet services rendered through e-Seva, AP-Online

During the period May 2005 - September 2007, the Collector, Ranga Reddy District received Rs 5.80 crore from the Commissioner being the revenue received on account of issue of certified copies of land records to the citizens through RAJiv centres.

Scrutiny of the records of the District Collector, however, revealed that the District Collector in contravention of codal provisions deposited Rs 2 crore as Fixed Deposit in a private bank instead of remitting the receipts received from time to time into the Government account. It was also observed that the District Collector appropriated receipts to the extent of Rs 2.67 crore towards expenditure on account of scanning land records, remuneration to land holding persons/outsourcing employees, advertisements, purchase of air conditioners, office expenses and other miscellaneous expenditure, etc. The balance Rs 1.13 crore was available in the Savings bank account of the District Collector. Thus, neither the expenditure nor the receipts were accounted for in the Government account by the District Collector and the entire expenditure was also without any legislative sanction.

In response to the audit observation, the District Collector stated (June 2008) that as the funds allotted by Government were insufficient, the receipts were utilised to meet urgent needs. The contention is not tenable as the action of the District Collector is a clear violation of Rule 7 (1) of AP Treasury Rules.

The matter was reported to Government in July 2008; reply had not been received (August 2008).

TRIBAL WELFARE DEPARTMENT
(Girijan Cooperative Corporation Limited, Visakhapatnam)

4.5.7 Injudicious extension of Voluntary Retirement Scheme to unidentified posts

Girijan Cooperative Corporation injudiciously extended the benefit of VRS to 149 unidentified persons in violation of the scheme guidelines resulting in avoidable payment of ex-gratia of Rs 4.42 crore.

Government issued (January 1996 and March 2001) guidelines for implementation of Voluntary Retirement Scheme (VRS) to the employees of Public Sector Undertakings, Public Enterprises, Cooperative Institutions and other State Undertakings to improve their performance. The guidelines, *inter-alia*, stipulated that the organisation should first identify the surplus posts and staff category-wise and offer VRS to such employees only. Once the option for VRS is accepted, the related posts should simultaneously be abolished and not be held in abeyance. An employee whose request for VRS is accepted would be entitled to ex-gratia payment⁴⁵ in addition to normal terminal benefits.

⁴⁵ Forty five days emoluments for each completed year of service or the monthly emoluments at the time of retirement multiplied by the balance months of service left before normal date of retirement whichever is less

Girijan Cooperative Corporation (GCC) Limited⁴⁶, Visakhapatnam, to provide greater operational flexibility and agility decided (January 2001) to downsize the total minimum required strength from 2563 to 1835. GCC identified (January 2001) 728 posts (including 227 vacant) for abolition. Based on the existing strength and the applications received from its employees, 319 persons were identified in different cadres for VRS. GCC implemented VRS in three phases⁴⁷ during June 2001 to January 2006. The details are given in the *Appendix 4.10*.

In phase I, 265 persons were allowed to retire and all the posts held by them belong to the surplus category. Thereafter, in addition to balance 54 persons, another 149 persons not eligible as per the scheme as they were not occupying the posts identified for abolition were allowed (June 2003, September 2005 to January 2006) to retire on medical grounds. This resulted in total avoidable ex-gratia payment of Rs 4.42 crore. GCC did not benefit from the VRS of these 149 persons as their posts were not abolished and their objective of downsizing the required staff strength was also defeated.

GCC had approached (September 2003 and January 2004) the Government seeking permission for direct recruitment of personnel in category of Salesmen and Drivers. As of February 2008, GCC had already recruited 150 Salesmen and 27 Drivers on contract basis against 31 Salesmen and 24 Drivers allowed to retire on VRS. This goes against the guidelines issued by the Government for implementation of VRS.

Vice-Chairman and Managing Director, GCC replied (April 2008) that the GCC had extended VRS to 149 employees in excess of the identified surplus as they were redundant and burden to the organization due to their health conditions. The reply is not tenable. The persons opting for VRS under medical grounds for the posts not identified as surplus should have been allowed to retire with grant of normal terminal benefits without the element of ex-gratia payment specifically meant for surplus posts.

Thus, the injudicious decision of GCC to extend VRS to 149 unidentified posts in violation of scheme guidelines resulted in avoidable payment of ex-gratia of Rs 4.42 crore to ineligible persons.

The matter was reported to Government in April 2008; their reply had not been received (August 2008).

⁴⁶ a body registered under Cooperative Societies Act

⁴⁷ Phase I (June 2001): 265, Phase II (June 2003): 132 - implemented with the loan assistance by Government and Phase III (September 2005 and January 2006): 71 – expenditure met by GCC from its own resources

4.6 General

Follow-up on Audit Reports

4.6.1 Non-submission of Explanatory (Action taken) Notes

As per the instructions issued by the Finance and Planning Department in November 1993, the administrative departments are required to submit explanatory notes on paragraphs and reviews included in the Audit Reports within three months of presentation of the Audit Reports to the Legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken.

However, as of August 2008, 25 departments had not submitted explanatory notes in respect of 141 paragraphs/reviews featured in the Audit Reports for the years 1996-97 to 2006-07. The details are given in *Appendix 4.11*.

4.6.2 Action taken by Government

Government/Heads of Departments have to take necessary remedial action on the points mentioned in the Reports of the Comptroller and Auditor General of India. Audit test-checks compliance of some of the crucial issues/system deficiencies pointed out in the Audit Reports of previous years by revisiting the auditee units concerned.

Scrutiny of compliance of the action taken on the irregularities/system deficiencies in five cases in five departments pointed out in the Audit Report for the year 2005-06 revealed that shortcomings/deficiencies were not rectified and the irregularities persisted in two cases as discussed below:

Title of para (Department)	Audit Finding
<p>Non-utilisation of funds under Compensatory Afforestation <i>(Environment, Forests, Science and Technology Department (Forest Wing))</i></p>	<p>Mention was made in para 3.2.5.2 of the Audit Report 2005-06 on non-utilisation of funds under Compensatory Afforestation of Rs 10.20 crore. Funds of Rs 10.20 crore⁴⁸ deposited (September 1998 – November 2005) by Andhra Pradesh Transmission Corporation (APTRANSCO) and Uranium Corporation of India (user agencies) for development of the Rajiv Gandhi Wildlife Sanctuary (RGWS) were not fully utilized resulting in the very purpose for which they were remitted not being achieved.</p> <p>Further scrutiny (August 2008) revealed that out of Rs 10.20 crore deposited by the user agencies, Government released only Rs 3.06 crore during the years 2005-06 to 2007-08 to the Principal Chief Conservator of Forests (PCCF). The balance amount of Rs 7.14 crore (70 per cent) deposited by the user agencies was still lying with the Government. Out of Rs 3.06 crore released, the PCCF utilised only Rs 1.90 crore towards development of the RGWS leaving Rs 1.16 crore unutilised. Non-release/utilisation of substantial portion of the funds earmarked for wildlife sanctuary even after 3 to 10 years since the date of deposit by the user agencies has adversely affected the progress of development of wildlife sanctuaries.</p>

⁴⁸ APTRANSCO: Rs 4.60 crore, Uranium Corporation of India: Rs 5.60 crore

<p>Modernisation of Bacterial Vaccine Production laboratories did not take off <i>(Animal Husbandry and Fisheries Department)</i></p>	<p>Mention was made in para 4.4.1 of Audit Report 2005-06 about the delayed completion of the new building for the Bacterial Vaccine Production Laboratory by more than five years, and its non-utilisation thereafter rendering the expenditure of Rs 1.68 crore unfruitful. Meanwhile, vaccines continued to be produced in the laboratories declared unfit without the licence from Drug Control Administration and in contravention of its 'Stop production' orders.</p> <p>In the Explanatory Notes the Government stated (March 2008) that the work would be completed and production started in the new laboratory in six months time.</p> <p>Further scrutiny (August 2008) revealed that as of August 2008 i.e., even after 10 years from the date of its proposal and despite being pointed out in the Audit Report for the year ended 31 March 2006 the proposed building for Bacterial Vaccine Production Laboratory had not been completed (expenditure already incurred: Rs 10.50 crore) and the works like pipeline works for sterile steam, water and electricity connections, etc. estimated to cost Rs 2.33 crore were yet to be executed. Audit also observed that the vaccines continued to be produced in the laboratories which were declared unfit.</p>
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4.6.3 Action not taken on recommendations of the Public Accounts Committee

The Finance and Planning Department issued (May 1995) instructions to all administrative departments and the Heads of Departments to submit the Action Taken Notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) within six months from the date(s) of receipt of recommendations. As of August 2008, the administrative departments concerned are yet to submit ATNs for 433 recommendations pertaining to the period 1962 to 2007-08. Of these, 218 ATNs were due from Irrigation and Command Area Development Department alone. Details are given in *Appendix 4.12*.

4.6.4 Lack of response to Audit

The Principal Accountant General (Civil Audit) (PAG) arranges to conduct periodical audit inspection of the Government departments to test-check the transactions and verify the maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed up with Inspection Reports (IRs). The Hand Book of Instructions for speedy settlement of audit observations/IRs issued (1995) by the Government in Finance and Planning Department also provides for prompt response by the executive to the IRs issued by the PAG to ensure rectificatory action in compliance of the prescribed rules and procedures and accountability for the deficiencies and lapses noticed during inspection. A half-yearly report of pending IRs is sent to the Secretary of the department concerned to facilitate monitoring of the audit observations and its disposal. The Heads of offices and the next higher authorities are required to comply with the observations contained in the IRs and rectify the defects promptly and report their compliance to the PAG.

The status of pendency of IRs/Paragraphs as at the end of June 2006, June 2007 and June 2008 is shown in the following table:

	Pending as at the end of		
	June 2006	June 2007	June 2008
Number of IRs	16489	12647	13669
Number of Paragraphs	54676	43482	47345

Of the 13669 IRs containing 47345 paragraphs pending as on 30 June 2008, even first replies had not been received in the case of 1161 IRs and 5881 paragraphs. The year-wise and department-wise break-up of these IRs and paragraphs is indicated in *Appendix 4.13* and *4.14* respectively. The Principal Secretaries/Secretaries, who were also informed of the position through half yearly reports, could not ensure prompt and timely action by the officers concerned. Lack of action on audit IRs and paras facilitate continuation of serious financial irregularities and loss to Government.

Constitution of Audit Committees

Government while accepting the recommendations of Shakhder Committee (High Powered Committee) instructed (November 1993) all the departments to nominate a designated Officer within the department for monitoring the follow-up action on audit observations. For regular review at higher levels, the departments were instructed to ensure that there should be a monitoring committee consisting of the Secretary of the Department and the Finance Secretary. Government also reformulated (June 2004) constitution of Audit Committees at three levels i.e., Apex level, Departmental level and District level for speedy settlement of audit observations. These three Committees are required to meet twice in a year (i.e., January and July), once in three months and once in two months respectively. The audit observations communicated in the Inspection Reports (IRs) are also discussed in the meetings at district level by the officers of the departments with the officers of the PAG's office.

The status of audit committee meetings held during 2007-08 is as discussed below:

- The Apex level State Audit and Accounts Committee met once during 2007-08 against the two meetings stipulated.
- Out of 31 departments, State level Departmental Audit Committee meetings were conducted during 2007-08 in eight departments⁴⁹ only. No State level Departmental Audit and Accounts Committee meeting was held since reconstitution of the Committees in June 2004 in respect of 18 Departments. The details are given in *Appendix 4.15*.

⁴⁹ Environment, Forests, Science & Technology; Finance (three), Irrigation & Command Area Development, Tribal Welfare, Information Technology & Communication; Labour, Employment & Training; Municipal Administration & Urban Development, and Panchayat Raj & Rural Development Departments

- No district level Audit and Accounts and monitoring committee meetings were held in twelve districts⁵⁰. In the remaining districts, as against six meetings to be held in a year in each district, meetings were held only once in seven districts⁵¹, twice in three districts⁵², four in one district⁵³.

This indicates lack of seriousness on the part of these departments in rectifying the deficiencies pointed out by Audit.

It is recommended that Government should (i) ensure timely and proper response to the IRs of the PAG, (ii) conduct Audit Committee Meetings regularly for speedy settlement of pending IRs and paras and (iii) effect recoveries pointed out in the Inspection Reports, promptly.

⁵⁰ Adilabad, Ananthapur, Chittoor, East Godavari, Guntur, Kadapa, Krishna, Kurnool, Nellore, Nizamabad, Prakasham and West Godavari

⁵¹ Karimnagar, Khammam, Mahboobnagar, Medak, Nalgonda, Ranga Reddy, Warangal

⁵² Srikakulam, Visakhapatnam, and Vizianagaram

⁵³ Hyderabad