

## Overview

This Report includes two Chapters containing observations on Finance and Appropriation Accounts of the Government of Andhra Pradesh for the year 2007-08 and three others comprising five reviews and 33 paragraphs (other than four general paragraphs) dealing with the results of performance audit of selected schemes/programmes, internal control system as well as audit of the financial transactions of the Government and Autonomous Bodies under Government.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples have been drawn based on statistical sampling methods as well as on judgmental basis. Audit conclusions have been drawn and recommendations made, taking into consideration the views of the Government.

A summary of the financial position of the State and the audit comments on the performance of the Government in implementation of certain programmes and schemes, as well as internal control mechanism in Prisons Department and transaction audit findings is given below:

### 1. Financial position of the State Government

The Government achieved Revenue surplus for the second year in succession, with reduced surplus of Rs 159 crore during the current year (2007-08). During the current year Revenue receipts increased by 22 *per cent* while Revenue expenditure increased by 30 *per cent* over previous year. Fiscal deficit during the current year was Rs 8,786 crore and is 2.82 percentage of GSDP higher than 2.10 percentage of GSDP achieved in 2006-07 as against at least 0.25 percentage reduction of GSDP in each financial year contemplated in APFRBM Act. The Primary surplus of Rs 1,636 crore in 2006-07 turned negative and there was primary deficit of Rs 1,197 crore during the current year. The capital expenditure (Rs 12,774 crore) increased by 29 *per cent* over previous year and a large portion (Rs 11,087 crore) of it was spent on Irrigation and Flood Control. The developmental expenditure constituted 69 *per cent* of the total expenditure. During the current year, assets grew by Rs 19,109 crore while liabilities grew by Rs 12,392 crore over the previous year. Seventeen *per cent* of liabilities have no asset back up.

As against total budget provision of Rs 88,450.66 crore, the expenditure was Rs 75,341.04 crore. There was excess expenditure of Rs 201.30 crore under seven grants and three appropriations requiring regularisation by the State Legislature.

## **2. Nutritional Support to Primary Education**

The scheme, commonly known as mid-day meals (MDM) Scheme, was launched by the GOI with the intention to boost the universalisation of primary education by increasing enrolment, attendance and retention in schools and simultaneously improving the nutritional level of the students in primary classes. Performance Audit of the scheme revealed that the enrolment figures were inflated by the State Government while seeking allotment of rice from GOI resulting in excess lifting of rice and huge accumulation of rice stocks with State Civil Supplies Corporation. Utilisation of Fair Average Quality (FAQ) foodgrains in preparing MDM for the children was not monitored. The State Government failed to provide adequate infrastructure in schools and the Central assistance intended for construction of kitchen sheds remained unutilised. Twenty two *per cent* of the schools had no water facility; 67 *per cent* had no kitchen sheds. None of the schools in the sample districts were provided with kitchen utensils and 84 *per cent* schools had no Gas connections. There is no assurance that the stipulated nutritional requirements are being met. No mechanism was evolved to monitor the impact of the scheme on health of the children. Audit also noticed deficiencies in implementation of the scheme by the NGO (at Hyderabad and Visakhapatnam) like non-serving of hot cooked food, etc. The important objectives of periodical health check-ups, nutritional supplementation and supply of tablets for deworming were neglected. The vital aspect of Monitoring and Supervision of the Programme was deficient. Evaluation of the scheme as a whole was not done and as such the impact of the scheme remained unassessed.

[Paragraph 3.1]

## **3. Functioning of Sri Venkateswara University**

Sri Venkateswara University, established in the year 1954, manages eight faculties encompassing 54 departments, eight campus colleges, one Post Graduate Centre and 313 affiliated colleges besides Directorate of Distance Education. Compliance with financial rules was poor in the University. There was no assurance that all demand drafts remitted into banks were credited to University account. Collection of prescribed tuition fees and examination fees was not ensured. Advances given to Principals and various departmental officers of the University were outstanding. The Finance Branch failed to ensure *inter alia* correct remittances of amounts due to University account by the Engineering College and Hostels. Annual Reports did not highlight areas of concern. Certain courses offered by the University did not attract enough candidates leading to low enrolment. The functioning of the Academic Staff College was far from satisfactory as there was heavy shortfall (up to 69 *per cent*) in conduct of training programmes and very few specialised programmes were conducted by the College. Hostels were overcrowded. There was no assurance that works were properly executed as no Quality control checks were ensured by the Engineering Department. There was no internal audit since inception of the University and as such there was no assurance to the University management that the rules and procedures were being complied with by

various departments of the University. Audit noticed deficiencies/shortcomings in maintenance of cash books, account of receipts, physical verification of stores and stock, etc. besides excess/inadmissible payments, non/short collection of fees and undue benefit to contractors.

[Paragraph 3.2]

#### **4. Management of Wastes**

Waste represents a threat to the environment and human health if not handled or disposed off properly. To regulate the management and handling of waste GOI notified (1998/1999/2000) Biomedical Waste (Management & Handling) Rules, Recycled Plastics Manufacture and Usage Rules, Municipal Solid Waste (Management & Handling) Rules. Performance Audit revealed that the present arrangements for solid waste management suffer from a number of deficiencies. State Government failed to provide funds till 2006-07 and consequently specified time frames stipulated by GOI for management of waste had not been adhered to. Systematic procedure was not followed for segregation of solid waste into biodegradable and non-biodegradable waste which require different operations for treatment of these wastes. Suitable lands for permanent dump sites were not identified. Landfills have not been established in any of the Urban Local Bodies (ULB) in the State and the solid waste dumped in open dump yards with adverse implications on human health and environment. The waste generated by ULBs was not being scientifically utilised as the implementation of power projects is still in proposal stage. A large number of plastic units continue to manufacture plastics without licence. The monitoring and control of mounting e-waste had not been addressed by the Government or AP Pollution Control Board (APPCB). Almost all the test checked Government hospitals violated Bio-medical waste management rules while handling the biomedical waste. Monitoring and enforcement of the Rules by APPCB, the regulatory authority to enforce implementation of the Rules has so far restricted its efforts to mere issue of notices and not penalised the defaulters though stiff penalties were provided for by the legislature. Thus, the legislative intent has not been translated into effective compliance.

[Paragraph 3.3]

#### **5. Implementation of Andhra Pradesh Community Forest Management Project**

The Andhra Pradesh Community Forest Management (APCFM) Project aided by International Development Agency (IDA) is being implemented by Forest Department in 14 districts of the State with the objective of reduction of rural poverty through improved forest management with the involvement of communities represented by 5,000 Vana Samrakshana Samithis (VSSs). Performance Audit revealed that the implementation of the Project was marked by delays in approval to Annual Work Plans and slow pace of work necessitating extension of project period by one year up to March 2009. Progress achieved so far under the vital component of Community Development

was only 51 *per cent* and there is remote possibility of achieving the full results as envisaged before closure of the project by March 2009. The department failed to ensure that records relating to revenues accruing to VSS members were properly maintained with adverse implication for fair and equitable distribution of revenues among VSS members. There was failure to attract VSS members to rehabilitation package under Rehabilitation Action Plan. The absence of success stories in any division under the plan will have dampening effect on new VSS members from other divisions from being attracted to the package offered. Audit also noticed deficiencies such as incomplete treatment of forest areas, ineligible expenditure, diversion of Project funds, non-utilisation of procured/hired vehicles for project implementation in the field, etc. Monitoring was inadequate at all levels.

[Paragraph 3.4]

## **6. Internal Controls in Prisons Department**

Internal Controls is an integral component of an organisation's management processes which are established in order to provide reasonable assurance that the operations are carried out effectively and efficiently, financial reports and operational data are reliable and the applicable laws and regulations are complied with so as to achieve organizational objectives. An evaluation of Internal Controls in Prisons Department revealed that there was failure to comply with financial rules and codal provisions as well as Government instructions resulting in under realisation of revenue, etc. No control existed for operation of Prisons Development Board Fund and its accounting. State-level Security Review Committee constituted to review the security situation and the overall discipline prevailing in the prisons had not met since 2001. There has been increase in the number of incidents of escape of prisoners. No effective control mechanism was in place for police escort of prisoners. Failure to mobilize adequate police escort to sick prisoners for treatment in outside hospitals has led to denial of such treatment to a large number of sick prisoners. None of the test checked prisons have had the system of Board of Visitors depriving the prisoners of the opportunity of a redressal mechanism. All the prisons in the State were overcrowded far in excess of the norm prescribed. A meagre 3 to 16 *per cent* of the convict prisoners were given vocational training with adverse implication on the objective of improving the earning capacity of the convict prisoners. Training slots for training of officers of the Prisons Department were underutilised to the extent of 84 *per cent*. The functioning of internal audit was inadequate. In the absence of effective Internal Audit, there was no assurance to the management on the adequacy of the internal controls in the Department.

[Paragraph 5.1]

## Transaction Audit Findings

The audit of financial transactions, subjected to test-check, in various departments of the Government and their field formations revealed instances of losses, overpayments and wasteful expenditure, etc. of Rs 173.35 crore as mentioned below:

- Payment of fraudulent claims/excess/irregular/inadmissible payments/loss amounted to Rs 2.76 crore in Transport, Roads and Buildings Department.
- Excess payments; wasteful/infructuous expenditure amounting to Rs 59.63 crore in Agriculture and Cooperation Department (Rs 5.79 crore), Environment, Forests, Science and Technology Department (Rs 0.38 crore), Health, Medical and Family Welfare Department (Rs 0.68 crore), Housing Department (Rs 4.45 crore), Irrigation and Command Area Development Department (Rs 18.40 crore), Municipal Administration and Urban Development Department (Rs 1.14 crore), Panchayat Raj and Rural Development Department (Rs 1.01 crore), School Education Department (Rs 2.69 crore), Transport, Roads And Buildings Department (Rs 4.41 crore) and Tribal Welfare and Irrigation and Command Area Development Departments (Rs 20.68 crore).
- Violations of contractual obligations and undue favour to contractors amounting to Rs 14.02 crore in General Administration Department (Rs 1.49 crore), Irrigation and Command Area Development Department (Rs 9.12 crore), Transport, Roads and Buildings Department (Rs 3.13 crore), and Transport, Roads & Buildings and Irrigation and Command Area Development Departments (Rs 0.28 crore).
- Idle investments/blocking up of funds, etc. amounting to Rs 5.69 crore in Health, Medical and Family Welfare Department.
- Inappropriate payment of security car allowance to Members of Parliament (Rs 7.39 crore), additional expenditure due to irregular creation of ex-cadre posts (Rs 1.78 crore), inadmissible payments towards encashment of leave to Members of AIS (Rs 1.69 crore) by General Administration Department, non-realisation of revenue (Rs 0.40 crore) due to deficiencies in leasing of medical shops by Nizam's Institute of Medical Sciences (Health, Medical and Family Welfare Department), irregularities in implementation of MPLAD Scheme (Rs 69.77 crore) by Planning Department, un-authorized retention/utilisation of Government receipts (Rs 5.80 crore) by the District Collector, Ranga Reddy (Revenue Department), and avoidable payment of ex-gratia (Rs 4.42 crore) due to injudicious extension of Voluntary Retirement Scheme to unidentified posts by Girijan Cooperative Corporation Limited (Tribal Welfare Department).

**Some of the major findings are summarised below:**

- (i) Action of the Engineer-in-Chief in permitting payment of advances to a contractor 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.

*[Paragraph 4.1.1]*

- (ii) Due to improper design and defective execution, an irrigation tank built at a cost of Rs 8.45 crore in Warangal District breached immediately after its completion and the intended objective of providing irrigation facilities to an ayacut of 4,500 acres has not been achieved, besides causing damage to the crops, lands, property and animals of the villagers in the area.

*[Paragraph 4.2.6]*

- (iii) Implementation of Member of Parliament Local Area Development Scheme in five District Rural Development Agencies (DRDAs) suffered from several irregularities like non-commencement of works, diversions, irregular payments, etc. involving Rs 69.77 crore which denied the envisaged benefits to the public at large.

*[Paragraph 4.5.5]*

- (iv) Failure to promptly stop work after taking decision to form a Special Economic Zone in Telugu Ganga Project area resulted in avoidable expenditure of Rs 8.44 crore.

*[Paragraph 4.2.8]*

- (v) Failure of the Project Officer, Integrated Tribal Development Agency, Utnoor (Adilabad District) to include 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.

*[Paragraph 4.2.16]*

- (vi) Change in scope of work after award of contract of a Godavari Lift Irrigation Scheme work in Warangal District resulted in extra expenditure of Rs 5.82 crore.

*[Paragraph 4.3.2]*

- (vii) 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.

*[Paragraph 4.2.1]*

- (viii) Failure of Regional Cancer Centre, Hyderabad 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.

*[Paragraph 4.4.1]*

- (ix) The payment of security car allowance (Rs 7.39 crore up to August 2008) to Members of Parliament (MP) 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.

*[Paragraph 4.5.1]*

- (x) 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 Government of India, amounting to Rs 1.69 crore during the period January 2005 to October 2007 in 676 cases.

*[Paragraph 4.5.3]*

- (xi) 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. The District Collector also appropriated part of the amount (Rs 2.67 crore) towards expenditure which had no legislative sanction.

*[Paragraph 4.5.6]*

- (xii) Failure on the part of the Director, Weaker Sections Housing Programme and the Government to pursue effectively to avail the facility of reduction of interest on the outstanding loans as offered by General Insurance Corporation of India 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.

*[Paragraph 4.2.5]*

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

*[Paragraph 4.3.3]*