

## Overview

This Report contains 36 Audit Paragraphs (including five general paragraphs) and six performance reviews/long paragraphs apart from comments on the Finance and Appropriation Accounts. As per existing arrangement, copies of the draft Audit Paragraphs and draft Audit Reviews are sent to the concerned Secretary to the State Government by the Principal Accountant General, demi-officially with a request to furnish replies within six weeks. The Secretaries are also reminded demi-officially by the Principal Accountant General for replies. However despite such efforts, in respect of 24 Audit Paragraphs and four Reviews/long paragraphs included in this Report, no response was received from the concerned Secretary to the State Government.

### 1. Finances of the State Government

- ◆ The revenue receipts of the State increased by 5.3 per cent over the previous year as against the average trend rate of 12 per cent during the five-year period 1998-2003. Revenue receipts during the year comprised tax revenue of Rs 12618 crore (55 per cent), non-tax revenue of Rs 3529 crore (15 per cent) and GOI transfers of Rs 6856 crore (30 per cent).

*(Paragraph 1.5.2)*

- ◆ In violation of the Rules, State Government exhibited grants-in-aid to local bodies (Rs 561 crore) and contribution to Reserve Funds/transfer to Deposit Account (Rs 307 crore) under Capital Section instead of Revenue Section. This led to understatement of revenue deficit in the Finance Accounts.

*(Paragraph 1.6.1)*

- ◆ The total expenditure in 2002-03 had increased by Rs 1573 crore over previous year mainly due to increase in interest payment by Rs 1547 crore. The expenditure on General Services and interest payments considered as non-developmental, together accounted for 36 per cent in 2002-03 as against 28 per cent in 1998-99. On the other hand, development expenditure accounted for 60 per cent in 2002-03 as against 62 per cent in 1998-99.

*(Paragraph 1.6.2)*

- ◆ The revenue expenditure (Rs 26925 crore) during the year exceeded the revenue receipts (Rs 23003 crore) resulting in a revenue deficit of Rs 3922 crore. The revenue expenditure accounted for 87 per cent of the total expenditure (Rs 31088 crore) as against 83 per cent in 1998-99.

*(Paragraph 1.6.3)*

- ◆ Though Eleventh Finance Commission recommended to keep the interest payments at 18 per cent of revenue receipts of the State, the interest payments during 2002-03 were 27 per cent.

*(Paragraph 1.6.3(iii))*

- ◆ During the year 2002-03, the share of development expenditure i.e., expenditure on Social Services and Economic Services, in total expenditure declined by three per cent compared to previous year.  
(Paragraph 1.7)
- ◆ While the liabilities grew by 16 per cent, the assets increased by 12 per cent widening the gap between assets and liabilities. Increased proportion of liabilities did not have an asset back-up.  
(Paragraph 1.8)
- ◆ There were 23 incomplete irrigation projects as of March 2003 involving investment of Rs 8692 crore.  
(Paragraph 1.8.1)
- ◆ Return from Government's investment (Rs 4335 crore) in its Statutory Corporations, Government companies, etc. was below one per cent during 1998-2003, while average interest rate paid by Government on its borrowings was 10.58 per cent. This resulted in implicit subsidy of Rs 2059 crore during the period.  
(Paragraph 1.8.2)
- ◆ Interest received by Government on the loans and advances given to Corporations, Companies and Cooperatives during 1998-2003, was between three and six per cent. However, interest paid by Government on borrowing ranged from 10 to 12 per cent resulting in implicit subsidy of Rs 1996 crore.  
(Paragraph 1.8.3)
- ◆ Overall fiscal liabilities of the State increased from Rs 28297 crore in 1998-99 to Rs 54831 crore in 2002-03 at an average rate of 18.75 per cent. Net availability of funds from the borrowings steeply declined from 11.70 per cent in 1998-99 to 4.81 per cent in 2002-03.  
(Paragraph 1.8.6(i))
- ◆ Both revenue deficit (Rs 3922 crore) and fiscal deficit (Rs 7625 crore) increased over previous year. The ratio of revenue deficit to fiscal deficit had increased from 47 per cent to 51 per cent during past five years indicating increased utilisation of borrowed funds for current consumption. Taking into account the off budget borrowings of Rs 1015 crore during 2002-03, the effective fiscal deficit would increase.  
(Paragraph 1.9.1)

## **2. Allocative priorities and appropriation**

- ◆ Expenditure of Rs 39206.26 crore was incurred against total grants and appropriations of Rs 43580.29 crore. The net saving of Rs 4374.03 crore was the result of saving of Rs 4920.28 crore

partly offset by excess of Rs 546.25 crore. The excess requires regularisation under Article 205 of the Constitution of India.

(Paragraph 2.2)

- ◆ Supplementary provision made during the year constituted 10 per cent of the original provision. Supplementary provision of Rs 501.13 crore made in 34 cases proved unnecessary in view of aggregate final saving of Rs 2025.99 crore.

(Paragraphs 2.3.3 and 2.3.4(i))

- ◆ Anticipated savings of Rs 1205.97 crore under 67 grants/appropriations were not surrendered. In 48 cases Rs 3322.86 crore (68 per cent of total savings) were surrendered on the last day of the year.

(Paragraph 2.3.6)

- ◆ 38 per cent of the total expenditure was spent in the last quarter and 22 per cent was spent in the month of March 2003.

(Paragraph 2.3.9)

- ◆ As of 30 June 2003, 1.05 lakh AC Bills for Rs 494.54 crore for the period 1977- 2003 were not adjusted for want of DC bills.

(Paragraph 2.3.12)

- ◆ In violation of the provisions of the Constitution, Government polytechnics/institutions and Health Institutions levied and collected user charges and utilised the same.

(Paragraph 2.3.14)

<b>Performance review of schemes/department</b>
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### **3. Implementation of Drugs and Cosmetics Act, 1940**

*The Drugs and Cosmetics Act 1940 (Act) is a Central Act to be implemented by all the States. The Act along with the other associated Acts and the Rules made thereunder regulate the import, manufacture, distribution, sale and clinical research of drugs and cosmetics. The Act provides for taking punitive measures for violation of provisions of the Act. Implementation of the Act in the State has been ineffective mainly due to inadequate enforcement staff and insufficient funds provision. Drugs not of standard quality was not withdrawn from the market. The licensing system was ineffective and the DCA did not maintain proper record. The menace of spurious drugs to eliminate the danger to human life could not be prevented.*

- ◆ Eighty per cent (578) of the prosecution cases were pending trial in courts due to lack of administrative will.
- ◆ The shortfall in inspections of manufacture and sale units ranged from 15 to 67 per cent due to huge shortage (77 per cent) of

Drugs Inspectors. There was no increase in the number of DIs during last 10 years.

- ◆ Approval of Government on proposals of strengthening of Drugs Control Administration with the World Bank assistance submitted in 1997 was awaited.
- ◆ Due to lack of funds for payment of cost of samples, the targets fixed for analysis of drugs samples were not achieved; shortfall ranged from 4 to 21 per cent.
- ◆ Out of 18493 samples analysed there were delays of over three months in 1588 samples. Analysis of 1807 samples was not completed, of which life of 57 samples had expired.
- ◆ Though 832 samples were declared as not of standard quality (NSQ), no follow-up action was taken by the Drugs Inspectors/DCA to ensure withdrawal of these drugs from the market.
- ◆ The Legal-cum-Intelligence Cell and Anti-spurious drugs squads were not established.
- ◆ Information, Education and communication (IEC) activities were not undertaken. The DCA had not developed any database of manufacturers/sale concerns/ licences/ management information system and monitoring system modules for drugs control functions.
- ◆ Inspection of Indian Medicine units had not been conducted except at the time of sanction of fresh licences. Shortfall in respect of Homoeopathic units was between 92 and 98 per cent.
- ◆ Training of DIs and other staff was altogether neglected and no training programmes were organised by the ADG, DCA.
- ◆ There was no proper monitoring at State level on the implementation of the Act and Rules in the State.

*(Paragraph 3.1)*

#### **4. Prevention and control of fire**

*The objectives of the Fire Services Department are fire fighting, rescue, prevention and creating awareness among public to avoid fire accidents. Achievement of these objectives in the State was poor due to shortfall in fire stations, vehicles, equipment and operational staff. Eleventh Finance Commission (EFC) grants were largely utilised on the existing fire stations. Fire prevention measures were inadequate. Fire hazard risk analysis had not been conducted.*

- ◆ EFC grants of Rs 11.78 crore for opening new fire stations were spent for existing stations and purchase of luxury car. No risk hazard analysis was done by any of the Divisional Fire Officers.

- ◆ The response time taken was three to 10 times the prescribed limit due to shortage of fire stations and vehicles.
- ◆ Out of 233 fire stations 77 were functioning in temporary structures and 21 in dilapidated old buildings/without any shelter. Only one per cent of staff members were provided with rent free accommodation. No independent water source was provided at any of the fire stations.
- ◆ Though the AP Fire Services Act was passed in 1999, statutory powers had not been vested with the Department to enforce the Act against the violators.
- ◆ 12 to 55 per cent of posts in different cadres remained vacant as no recruitment was made since 1993-94.
- ◆ The lone Training School of the State at Hyderabad was functioning without permanent building, adequate infrastructure facilities, essential equipment and hostel facilities since its inception (1978).
- ◆ The State workshop at Hyderabad had been functioning without any repairs being undertaken, though Rs 69.80 lakh were spent on salaries of the idle staff.
- ◆ There was no separate fire prevention wing. Joint inspection by Audit and the DFOs concerned revealed that Fire safety equipment/measures were inadequate in several public places and multi-storied buildings.
- ◆ In the six test-checked divisions, the DFOs/subordinate officers had not conducted inspections of 7533 fire hazardous units for which provisional NOCs were issued.

*(Paragraph 3.2)*

## **5. National AIDS Control Programme**

*The Centrally Sponsored "National AIDS Control Programme" was implemented with the aim to slow down the spread of HIV infection, reduce the future mortality and strengthen the capacity to respond to HIV/AIDS. Implementation of the programme in the State suffered mainly due to absence of specific direction by NACO and short-utilisation of funds by the State AIDS Control Society. No parameters were set to assess the performance of NGOs and judge the success of their effort. Up to 2001-02 the Society paid little attention to the activities of strengthening of STD clinics, upgradation of the blood banks and establishment of modern blood banks. Resultantly, incidence of HIV and AIDS cases increased.*

- ◆ Financial outlay of the Action Plans submitted by the State were drastically reduced by NACO every year. However, neither the Society nor NACO revised the physical/ financial targets,

rendering the implementation of the programme directionless. The Society also did not fix the district-wise physical/financial targets in any year.

- ◆ There was no involvement of the District Committees in the functioning/monitoring of the activities of the NGOs.
- ◆ AIDS counselling services were not provided through STI clinics/blood banks in the State. No zonal blood testing centres were established during 1999-2003. The Society did not supply any equipment to blood banks.
- ◆ HIV prevalence among STD clinic attendees had increased from 22 per cent in 1998 to 29 per cent in 1999 and gradually declined to 23 per cent in 2002. The prevalence rate was very high (35 to 40 per cent) in Visakhapatnam, Chittoor and Warangal. No STD clinics were set up in Guntur and Karimnagar while such clinics in East Godavari and Warangal started in 2002-03.
- ◆ Incidence of AIDS increased from 485 in 1999 to 1478 in 2002. As of 2002 death cases reported were 297. Prakasam, Chittoor, Kurnool and Hyderabad topped the list of AIDS cases with 10 to 17 per cent.
- ◆ Monitoring at State level was very poor.

(Paragraph 3.3)

## **6. Functioning of Agriculture Department**

*The objectives of Agriculture Department are to transfer the latest technical know-how to farming community, provide agriculture extension services and skills and knowledge to farmers, to boost up agricultural production. Functioning of the department during 1998-2003 was deficient because State Government did not release the Centrally Sponsored Schemes funds in full and the Commissioner could not utilise the allocations fully. This resulted in huge shortfalls in physical performance. Budgetary process was defective. Soil conservation activity was deficient and the net area sown declined. Envisaged targets of Ninth Five Year Plan (1997-2002) were not achieved for the crops except for food-grains in 2000-01. Targeted annual growth rate of six per cent was not achieved.*

- ◆ Plan outlay for Agriculture was only three per cent of total annual outlay of the State though 75 per cent people depend on it. Non-plan expenditure constituted 66 per cent (Rs 900.20 crore) of total expenditure (Rs 1354.90 crore) during 1998-2003.
- ◆ Budgetary process was deficient and expenditure control mechanism was ineffective. Monthly expenditure statements were either not submitted or submitted late by the DDOs.

- ◆ The net area sown decreased from 110.74 lakh ha to 97.30 lakh ha in five years. There was a decline in the area under canal irrigation and increase in the area under ground water irrigation. No soil survey was conducted during 2001-03.
- ◆ The envisaged targets of IX Five Year Plan (1997-2002) were not achieved in any year for any category of crop (except for foodgrains in 2000-01); average shortfalls ranged between 10 and 58 per cent. The shortfalls in physical performance of various components of the four Centrally Sponsored Schemes also ranged from four per cent to as high as 100 per cent.
- ◆ The implementation of Tribal Sub-plan for Agriculture was ineffective mainly due to underutilisation of funds.
- ◆ While the average annual growth rate of Agriculture was 1.42 per cent during the Ninth Five year plan 1997-2002, the growth rate was negative during 2001-03. Thus, the six per cent growth rate envisaged was not achieved.
- ◆ Internal audit of the Commissionerate was not conducted since inception. There were heavy shortfalls in internal audit of field offices too.

(Paragraph 3.4)

## **7. Alimineti Madhava Reddy Project (former Srisailam Left Bank Canal Scheme)**

*The Alimineti Madhava Reddy Project (SLBC) taken up (estimated cost : Rs 480 crore) in 1983-84 for completion in six years envisaged providing irrigation facility to 2.20 lakh acres in drought prone areas of Nalgonda District and drinking water to Nalgonda town and 212 fluoride affected villages. The project had not been completed (expenditure :Rs 564.93 crore) as of March 2003.*

- ◆ Superintending Engineer, SLBC Circle I, GV Gudem, Nalgonda, in contravention of the agreement, entrusted the rectification work to a new agency instead of getting the same executed by the original contractor. This led to an avoidable expenditure of Rs 37.34 lakh with a further liability of Rs 34.69 lakh.
- ◆ Delay in taking the decisions by Government on the mode of drawal of water for the scheme and consequential stoppage of ongoing works led to escalation of cost by Rs 6.38 crore besides delay of more than 11 years in execution of works.

(Paragraph 3.5)

## **8. Information Technology Audit of computerisation in Forest Department**

*Computerisation of AP Forestry Project was taken up with the loan assistance of World Bank for online monitoring and evaluation of various forest activities, strengthening data collection capabilities of forest survey teams. However, the objectives could not be achieved even after eight years.*

- ◆ The ICMIS<sup>1</sup> package developed was abandoned rendering the expenditure of Rs 62.02 lakh thereon infructuous.
- ◆ Large number of computers were procured without assessing the requirements and distribution to various field offices was not properly monitored.
- ◆ The Forest Management Information System package operational in the department was fraught with many deficiencies.

*(Paragraph 3.6)*

## **9. Evaluation of Internal audit system in Government Departments**

*Internal control is an integral part of an organisation's operations to safeguard against occurrence of irregularities in operational and financial matters. Greater effectiveness of internal audit would ensure greater efficiency of control systems. Review of the internal audit arrangement in the Directorates of 'Tribal Welfare', 'Insurance Medical Services' and the Commissionerate of 'Commercial Taxes' revealed that the internal audit was inadequate and ineffective in both the Directorates/Commissionerate.*

- ◆ In the two Directorates, the staff earmarked for internal audit were diverted for other purposes. Internal audit of subordinate offices in Tribal Welfare Department was not at all conducted during 1998-2003 (except 2001-02). In Commercial Taxes Department, 13 posts of Assistant Commissioner (Audit) and six posts of Commercial Tax Officer (Audit) were lying vacant.
- ◆ Neither the departmental manuals contain the provisions with regard to internal audit nor any standards set by the Government.
- ◆ There were huge arrears in internal audit in the two Directorates, shortfall in audit ranged between 74 to 100 per cent.

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<sup>1</sup> Integrated Computer based Management Information System



- ◆ The pace of settlement of internal audit reports/paragraphs has been very slow and there was no proper mechanism for timely rectification of the deficiencies pointed out in internal audit.

(Paragraph 5.1)

## **10. Infertuous/wasteful expenditure and overpayments**

(i) Failure of the Government to incorporate warranty condition in the agreement coupled with reliance of the selection committee on the supplier for purchase of animals resulted in the infertuous expenditure of Rs 3.16 crore as 60 out of 160 animals died in quarantine due to viral disease. The remaining animals had not been released from the quarantine facility as of November 2003.

(Paragraph 4.1.1)

(ii) The Shrimp culture project at Bhyravapalem completed in December 2000 came to a standstill in June 2001 due to defective civil works and outbreak of viral disease. This rendered investment of Rs 6.20 crore in the project unfruitful.

(Paragraph 4.1.2)

## **11. Avoidable/excess/unfruitful expenditure**

(i) The Commissioner and Director of Collegiate Education sanctioned Bachelor of Computer Applications (BCA) course in 27 government degree colleges without ascertaining its demand. The course was however, not started in any college for want of candidates rendering the expenditure of Rs 2.33 crore on purchase of computer equipment, accessories and books unfruitful.

(Paragraph 4.2.3)

(ii) Fourteen 30-bedded hospitals in 10 districts upgraded at a total cost of Rs 6.13 crore had not been commissioned as of November 2003 due to non-sanction of additional staff and equipment even after two to seven years of completion.

(Paragraph 4.2.5)

(iii) Failure of the Executive Engineer, TGP<sup>2</sup> Division No.1, Velugodu to ensure usage of suitable soils and proper consolidation of the embankment caused piping in the bund resulting in avoidable expenditure of Rs 1.84 crore on reformation.

(Paragraph 4.2.10)

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<sup>2</sup> Telugu Ganga Project

(iv) Entrustment of preparation of Comprehensive Project Report to a consultant by ENC, PH<sup>3</sup>, contrary to the rules in vogue, resulted in avoidable expenditure of Rs 1.23 crore.

*(Paragraph 4.2.12)*

(v) Due to non-commissioning of four Lift Irrigation schemes and five infiltration wells in Mahboobnagar and Visakhapatnam Districts expenditure of Rs 1.77 crore proved unfruitful besides denying the envisaged irrigation facilities to 1020 beneficiaries.

*(Paragraph 4.2.14)*

(vi) Incorporation of price adjustment clause by the SE, APHM & ECRP<sup>4</sup> circle, Warangal in the agreement for the work resulted in avoidable expenditure of Rs 1.34 crore.

*(Paragraph 4.2.17)*

## **12. Idle investment/idle establishment/blockage of funds**

(i) Central assistance of Rs 22.92 crore received in May 2000 for purchase of Teaching and Learning Material under the extended Operation Black Board scheme had not been utilised as of September 2003 owing to the failure of the Commissioner and Director of School Education to formulate and communicate guidelines for utilisation of funds to District Educational Officers.

*(Paragraph 4.3.1)*

## **13. Delays in commissioning of schemes/equipment**

(i) The scheme of strengthening and upgrading the Public Libraries did not take off (July 2003) as the State Government did not release the interest of Rs 82.54 lakh accrued on the Corpus, though required, despite release of Central assistance in 2000-01.

*(Paragraph 4.4.1)*

<sup>3</sup> Engineer-in-Chief, Public Health

<sup>4</sup> AP Hazard Mitigation and Emergency Cyclone Recovery Project