

CHAPTER III

INTEGRATED AUDIT

FINANCE DEPARTMENT

3.1 Integrated Audit of Finance Department

Highlights

Finance Department is mainly responsible for the overall management of the State finances which includes mobilisation of resources and collection of revenues and other financial resources, budgeting and allocation of funds to meet the demands of expenditure, spending of resources on specified objectives and monitor funds utilisation. Integrated Audit of Finance Department revealed that weaknesses and system lapses existed in the Department, in the areas of preparation of budget, release of funds, compliance with Public Finance Accountability norms and asset and contract management. Functioning of all the Directorates of the Finance Department including their district offices test checked was deficient. Internal audit in the department including the directorates was inadequate.

Budget Estimates (BEs) were unrealistic in all the years 2006-07 to 2008-09. There was either huge overestimation or underestimation.

[Paragraph 3.1.6.1]

Timely release of funds to user departments was not ensured adversely affecting the implementation of schemes/programmes. About 33 to 49 per cent of the anticipated savings were not surrendered by spending departments during 2006-07 and 2007-08. Supplementary grants of Rs 2,591 crore were unnecessary during the years 2006-07 and 2007-08 and expenditure of Rs 276 crore was incurred without the budget provision.

[Paragraphs 3.1.6.3, 3.1.6.4, 3.1.6.5 and 3.1.6.6]

The tax recovery mechanism was not effective and the State Government resorted to sale of lands for revenue mobilisation. Arrears of revenue accumulated to Rs 2,413 crore as of March 2008; of this, Rs 862 crore (36 per cent) was outstanding for more than five years. Further, as against the value of Audit observations of Rs 472.30 crore with regard to under-assessment, etc. a meagre 2.59 per cent (Rs 12.23 crore) was recovered. The cost of collection of tax was higher as compared to all India average.

[Paragraphs 3.1.7.1, 3.1.7.3, 3.1.7.4 and 3.1.7.5]

Accountability obligations such as timely adjustment of abstract contingent (AC) bills, reconciliation of receipts and expenditure figures, submission of utilisation certificates by Local Bodies and others and Accounts by autonomous bodies, etc. were largely violated by various departments indicating lack of effective controls with the Finance Department. Adequate controls did not also exist with the Finance

Department to ensure obtaining of financial concurrence by all departments before issue of orders involving financial commitments.

[Paragraphs 3.1.7.8 and 3.1.8.1]

Functioning of all the Directorates of the Finance Department was deficient. Audit noticed lapses such as, accumulation of stamps with Director of Treasuries and Accounts, irregular transfer to Civil deposits, non-renewal of bank guarantees in Director of Works Accounts, poor recovery of surcharge amounts, huge arrears of cost of realisable audit fee, non/delayed submission of Audit Reports to Legislature by Director of State Audit, etc. Asset and Contract management was also poor in all the directorates. Scrutiny of records of the district offices also revealed the weak internal controls.

[Paragraphs 3.1.7.10, 3.1.9 and 3.1.10.5]

The return on investments made by the Government in various Commercial Enterprises was poor. There were chronic arrears in preparation of Proforma Accounts by Departmentally Managed Government Undertakings. Andhra Pradesh Government Life Insurance under the control of Finance Department compiled Proforma Accounts up to 2001-02 only.

[Paragraphs 3.1.7.7 and 3.1.8.3]

Excess expenditure of Rs 13,254.20 crore incurred in the years 1997-98 to 2007-08 remains to be regularised.

[Paragraph 3.1.6.9]

Monitoring by Finance Department was poor with regard to submission of Explanatory Notes to Audit Paras, Action Taken Reports to Public Accounts Committee recommendations, settlement of Accountant General's inspection report (IR) Paras, etc. by the administrative departments.

[Paragraph 3.1.10.3]

Utilisation of funds provided for training was poor in almost all the Directorates under the Finance Department. Training courses with outdated modules were continued. There were huge vacancies in key areas in the Directorates of Treasuries and Accounts and Pay and Accounts Office, Hyderabad, adversely affecting the pre-audit functions.

[Paragraphs 3.1.11 and 3.1.11.2]

In the absence of internal audit, there was no assurance to the management that the departmental rules, regulations and procedures were being complied with.

[Paragraph 3.1.10.1]

3.1.1 Introduction

Finance Department is responsible for the overall management of the State finances which includes mobilisation of resources and collection of revenues and other financial resources, budgeting and allocation of funds to meet the demands of expenditure, spending of resources on specified objectives and monitor funds utilisation.

3.1.2 Organisational set-up

Principal Secretary to Government is the head of the Finance Department. He is assisted by four Secretaries and six heads (Directors) of departments. The Secretaries look after Fiscal Policy, Institutional Finance, Works and Projects and Resource Mobilisation.

At the Directorate level, Director of Treasuries and Accounts (DTA), Pay and Accounts Officer, Hyderabad (PAO-H), Director of Insurance (DOI), Commissioner of Small Savings and State Lotteries (CSS) and Director of State Audit (DSA) report to the Secretary (Fiscal Policy). Director of Works Accounts (DWA) reports to Secretary (Works and Projects). All these Directors have separate and specific functions assigned to them. Organisational Chart of the Department is given in [Appendix-3.1](#).

3.1.3 Audit objectives

The Performance Audit had the following objectives:

- Whether formulation of the budget was as per the provisions of A.P. Budget Manual;
- Whether budgeting and expenditure controls were adequate and effective and whether adherence to AP Treasury Code, AP Finance Code and other manuals is ensured;
- Whether mobilisation of resources was sufficient to implement various schemes and whether Government succeeded in tapping all possible avenues;
- Whether all accountability obligations were fulfilled; and
- Whether functioning of internal control mechanism in the department including internal audit was effective.

3.1.4 Audit criteria

The following criteria were adopted for the Performance Audit:

- AP Budget Manual, Document on Budgetary Procedures, Budget Release Orders, Treasury Control Orders;
- AP Secretariat Office Manual;
- AP Treasury Code, AP Financial Code;
- AP Fiscal Responsibility and Budget Management (APFRBM) Act, 2005;

- Recommendations of Twelfth Finance Commission (TFC);
- Orders of Finance Department for release of funds to ascertain whether funds were being released in time and other executive instructions issued to all departments from time to time; and
- Website of the Finance Department (www.apfinance.gov.in) and AP Government Portal (www.aponline.gov.in).

3.1.5 Scope and methodology of audit

Integrated audit of the Finance Department was conducted during February to June 2009 by test-check of records in the Finance Department in Secretariat, all the six Directorates located in Hyderabad and district offices in six¹ out of 23 districts. The selection of districts was done on Simple Random Sampling without Replacement method. The results of the Performance audit are discussed in the succeeding paragraphs.

Audit findings

3.1.6 Financial Management

Financial Management with regard to budgetary practices, expenditure controls and mobilisation of resources was deficient as discussed in the succeeding paragraphs.

3.1.6.1 Budgetary process

In all the three years there was overestimation of funds (saving) by more than 15 per cent

Funds are provided to Finance Department under Grant No. IX: Fiscal Administration, Planning, Surveys and Statistics for meeting expenditure under Fiscal Services, Pensions and Other Retirement Benefits, Debt Servicing and Loans and Advances besides meeting establishment expenditure. Budget allotment vis-à-vis the expenditure during 2006-09 was as given in Table-1. Major Head-wise details are given in [Appendix-3.2](#).

Table-1 (Rupees in crore)

Year	Budget allotment	Expenditure	Extent of overestimation (saving)
2006-07	19496.37	16278.57	3217.80
2007-08	23130.33	19408.64	3721.69
2008-09	23525.75	19242.99	4282.76

It is seen from the above table that in all the three years there was overestimation of funds by more than 15 per cent.

¹Adilabad, Anantapur, East Godavari, Guntur, Nellore and Nizamabad districts

Persistent savings were noticed under ‘2049 Interest Payments (Charged)’ indicating overestimation. These savings registered a high of Rs 1,039.91 crore during 2007-08 but reduced marginally to Rs 927.84 crore during 2008-09. Similarly, there was overestimation of requirements to the extent of 40 to 49 *per cent* under the head ‘6003 - Internal Debt of the State Government’. Under the head ‘Pension and other retirement benefits’ while there was under-estimation to the extent of Rs 211 crore and Rs 168 crore in the years 2006-07 and 2007-08 respectively, there was overestimation of Rs 100 crore in the year 2008-09 (Para 3.1.6.8 refers).

Government attributed saving to non-availment of Ways and Means advances, receipt of fewer amounts of loans than anticipated and less accumulation of funds under General Provident Fund. The reasons given by the Government are not acceptable. The expenditure under above three heads is a committed expenditure. But these have been consistently showing huge variation. This indicates bad financial management.

3.1.6.2 Delayed submission of Budget Estimates

Audit observed that within the Finance Department, except the Directorate of Insurance, none of the Directorates submitted the budget proposals by scheduled dates and the delays ranged from 18 to as high as 83 days during the years 2006-07 to 2008-09. The Directorate-wise and year-wise details are given in [Appendix-3.3](#). It was also seen that Control Registers to watch receipt of proposals from the unit/district offices were also not maintained in any of the Directorates.

Finance Department did not furnish the information with regard to dates of submission of BEs to it by the other administrative departments.

3.1.6.3 Timeliness in release of funds to user departments

Timeliness in release of funds to user departments was not ensured

For effective implementation of the schemes/programmes, the Finance Department is required to ensure timely release of funds through the quarterly budget release orders. This facilitates smooth progress of expenditure throughout the year. Audit noticed the following:

- In the years 2006-07 and 2007-08, 40 and 45 *per cent* of the total expenditure was incurred by the spending departments in the months of March 2007 (Rs 20,480.85 crore) and March 2008 (Rs 29,900.39 crore) respectively.
- For the year 2008-09, Audit reviewed the releases made by the Finance Department during the last week of March. It was observed that significant portion of the funds of second quarter/instalment of the year 2008-09 was released in the last week of March 2009 thus causing inconvenience to user departments in meeting the annual targets besides adversely affecting the implementation of several Plan and Non-plan schemes as shown in the Table-2.

Table-2

(Rupees in crore)

Name of the Scheme (Plan/Non-plan)	Total Provision	Released in the last week of March	Release pertains to quarter/instalment
APMIP- RIDF (Plan)	50.00	25.00	Second
Welfare of SC/ST/OBCs-cost of ration/diet charges (Plan)	38.00	19.00	Second
Centralised purchase of drugs and Medicines (Non-plan)	171.94	85.97	Second
Government Hostels	20.00	10.00	Second
Per capita and Seigniorage grant to ZPs and MPs	129.09	36.18	Third

Note: The above list is only illustrative and not exhaustive

3.1.6.4 Surrender of savings

About 33 to 49 per cent of the anticipated savings were not surrendered by spending departments

According to Para 20.1 of AP Budget Manual, spending departments are required to surrender the grants/appropriations or portions thereof to the Finance Department, as and when the savings are anticipated. Saving of Rs 6,980.45 crore (2006-07: Rs 3,172.69 crore and 2007-08: Rs 3,807.76 crore) equivalent to 33 per cent and 49 per cent of the anticipated savings in 36 grants and appropriations² including that of Finance Department was not surrendered by the spending departments as shown in the Table-3.

Table-3

(Rupees in crore)

Year	Anticipated savings	Amount of saving not surrendered (Percentage)
2006-07	9736.35	3172.69 (33)
2007-08	7820.72	3807.76 (49)
Total	17557.07	6980.45 (40)

Further, surrender of savings on the last day of the financial year increased from 67 per cent (Rs 7,455 crore) in the year 2006-07 to 73 per cent (Rs 9,692.30 crore) in the year 2007-08.

The deficiencies pointed out in Paras 3.1.6.3 and 3.1.6.4 have adverse implications on the overall State economy and fiscal position. A few departments kept the unutilised funds with themselves depriving the other needy departments.

² 2006-07: I, II, III, IV, V, IX, X, XI, XII, XIII, XV, XVI, XVII, XVIII, XIX, XX, XXI, XXII, XXIII, XXIV, XXV, XXVI, XXVII, XXVIII, XXIX, XXX, XXXI, XXXII, XXXIII, XXXIV, XXXV, XXXVI, XXXVII, XXXVIII, XXXIX and XL
2007-08: I, II, III, IV, V, VI, IX, X, XI, XII, XIII, XIV, XV, XVI, XVII, XVIII, XIX, XX, XXI, XXII, XXIII, XXIV, XXV, XXVI, XXVII, XXVIII, XXIX, XXX, XXXI, XXXIII, XXXIV, XXXV, XXXVI, XXXVII, XXXVIII and XL

This indicates a need to introduce an effective mechanism such as having an independent representative of Finance Department in each department to ensure financial discipline.

3.1.6.5 Unnecessary supplementary grants and injudicious re-appropriations

Item/requirement	Audit observation
Budgetary discipline in obtaining supplementary grants	<p>In 24 grants/appropriations, supplementary grant of Rs 1,584.79 crore was unnecessary during the year 2006-07 as the expenditure did not exceed even the original provision.</p> <p>Similarly, during 2007-08, supplementary grant of Rs 1,006.30 crore in respect of 32 grants/appropriations was provided although the expenditure did not exceed even the original provision.</p>
Injudicious re-appropriations	<p>Re-appropriation of funds was injudicious as it was either excessive or resulted in savings, by over Rs 5 crore in each case, in respect of 56 heads of account in the year 2006-07 and 52 heads in 2007-08.</p> <p>Further, in respect of 230 heads of account re-appropriations amounting to Rs 1,021.43 crore were made during 2007-08 without original and supplementary provisions.</p>

3.1.6.6 Expenditure without provision

Expenditure of Rs 276 crore was incurred without the Budget provision

As per the provisions of Para 20.3.1 of AP Budget Manual, expenditure should not be incurred on a scheme or service without provision of funds therefor. Audit noticed that expenditure of Rs 276.06 crore was incurred under 18 heads of account (10 grants) without provision of funds during 2006-07 (Rs 125.19 crore) and 2007-08 (Rs 150.87 crore).

3.1.6.7 Provision of funds for vacant posts

As per the provisions of Para 16.14 of AP Budget Manual, estimates should be framed on the basis of the expenditure likely to be incurred in the coming year on officers and subordinates likely to be on duty and the actual salary likely to be drawn by them, irrespective of the sanctioned strength. Audit noticed that in the year 2007-08 the entire provision of Rs 22.44 crore made for vacant posts was surrendered during March 2008.

3.1.6.8 Actuarial valuation of pension liabilities

Andhra Pradesh Fiscal Responsibility and Budget Management (APFRBM) Act, 2005 provides for preparation of Medium Term Fiscal Policy Statement which *inter alia* includes the estimated yearly pension liabilities worked out on actuarial basis for the next ten years.

Audit noticed that the State Government did not work out the yearly pension liabilities on actuarial basis. There was underestimation of requirement in 2006-07 and 2007-08 and overestimation in the year 2008-09 as shown in Table-4.

Table-4 (Rupees in crore)

Year	Budget Estimate	Supplementary grant	Total grant	Actual expenditure	Variation Excess (+) Saving (-)
2006-07	3934.03	8.00	3942.03	4152.81	210.78
2007-08	4524.13	400.03	4924.16	5092.13	167.97
2008-09	5202.75	416.22	5618.97	5518.46	(-) 100.51

Thus, there is a need to work out pension liabilities on actuarial basis in compliance with the provisions of APFRBM Act.

3.1.6.9 Non-regularisation of excess over grant/appropriation

Excess expenditure of Rs 13,254.20 crore incurred in the years 1997-98 to 2007-08 remains to be regularised

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularised by the State Legislature. However, the excess expenditure amounting to Rs 13,254.20 crore for the years 1997-98 to 2007-08 remains to be regularised. Year-wise details are given in [Appendix-3.4](#).

3.1.7 Mobilisation of resources and collection of revenue

3.1.7.1 Dependence on sale of lands for revenue mobilisation

State Government resorted to sale of lands for revenue mobilisation

During 2006-09, Government targeted to muster funds aggregating Rs 24,450 crore. Against this estimate, it could raise Rs 10,578 crore (44 per cent) leaving a gap of Rs 13,872 crore. Of this, revenue realised during 2008-09 was Rs 2,131 crore (18 per cent of the estimate). The percentage of actuals to Budget Estimates under Capital Account decelerated to 65.51 from 99.48 and 98.51 during 2007-08 and 2006-07 respectively. Simultaneously, Revenue Expenditure registered a growth from Rs 39,648.83 crore (2006-07) to Rs 58,624.76 crore (2007-08). The year-wise details are given in the Table-5.

Table-5 (Rupees in crore)

Year	Budget Estimate	Actual revenue realised	Shortfall (Percentage)
2006-07	3050.00	1889.32	1160.68 (38)
2007-08	9400.00	6557.71	2842.29 (30)
2008-09	12000.00	2131.00	9869.00 (82)
Total	24450.00	10578.03	13871.97 (56)

Such a dependence on sale of land would have been appropriate in extraordinary circumstances and that too after exhausting other avenues such as collection of tax arrears and tightening leakage of revenue. Since the revenue from lands is highly dependent on market conditions, budget itself is vulnerable to the external conditions.

3.1.7.2 Grants-in-aid from GOI

Absorption of Twelfth Finance Commission grants was poor which resulted in non-release of further grants by GOI. Monitoring by Finance Department was ineffective

TFC recommended *inter alia* Grants-in-aid of Rs 1,828.00 crore during the period 2005-10 to local bodies. Monitoring by Finance Department with regard to utilisation of TFC grants was ineffective resulting in non-release of further grants by GOI as discussed below:

- It was observed that due to non-submission of UCs for the grant of Rs 43.75 crore received under State specific needs³ for 2006-07, subsequent instalments of grants for the years 2007-08 and 2008-09 were not released by GOI as of November 2008.
- Youth Advancement, Tourism and Culture Department did not utilise the entire release of Rs 20 crore intended for Heritage Conservation activities.
- Rural Local Bodies (RLBs) utilised Rs 653.74 crore during 2005-09 (November 2008) against the receipt of Rs 795.90 crore and Urban Local Bodies (ULBs) spent Rs 150.18 crore against the release of Rs 187.57 crore. In all, Rs 179.55 crore was awaiting utilisation in local bodies. Further, five instalments of grants (two for RLBs and three for ULBs) were awaiting release due to non-submission of UCs.

3.1.7.3 Arrears of revenue

Audit noticed that there were arrears of revenue amounting to Rs 2,412.71 crore realisable by Government as of March 2008. Of this, Rs 861.78 crore (36 *per cent*) was outstanding for more than five years. These arrears mainly persisted in the areas of Taxes on vehicles, receipts under sugarcane and taxes and duties on electricity. Government did not furnish to Audit the position of arrears of revenue as at March 2008 in respect of Commercial Taxes, State Excise, Registration and other departments despite constant pursuance.

3.1.7.4 Short collection of tax

Tax recovery of a meagre 2.59 *per cent* of value of accepted audit observations on short recovery indicated lackadaisical approach of the Government

Finance Department being the custodian of the State finances, is required to formulate measures/procedures to ensure proper collection of revenue. Mention was made in the C&AG's Audit Reports (Revenue Receipts) for the years 2005-08 pointing out the underassessment/non/short levy of taxes/loss of revenue, failure to raise demands, etc. involving money value of Rs 472.30 crore, during 2005-06 to 2007-08. Although the audit observations were accepted by the Government, a meagre 2.59 *per cent* (Rs 12.23 crore) was recovered as of October 2008. Details are given in Table-6.

³(1) Drinking water supply to fluoride affected areas and (2) Improving Socio-economic condition of people living in remote areas

Table -6 (Rupees in crore)

Year of Audit Report	Total money value	Accepted by the Government (money value)	Recovery made (percentage)
2005-06	189.69	49.60	4.45 (0.89)
2006-07	401.59	245.39	3.42 (1.39)
2007-08	443.46	177.31	4.36 (2.46)
Total	1034.74	472.30	12.23 (2.59)

Poor recovery indicated lackadaisical approach of the Government towards its commitment made to Audit to recover the taxes, etc. aggregating Rs 460.07 crore during 2005-08.

The cost of collection of tax was higher as compared to all India average

3.1.7.5 High Cost of tax collection

The percentage of cost of collection of Sales Tax, State Excise and Taxes on Vehicles during 2005-07 was higher as compared to the All India average as shown in the Table-7.

Table -7

Revenue Head	Year	Gross collection	Expenditure on collection of revenue	Percentage of cost of collection to gross collection	All India average percentage
Sales Tax	2005-06	12,541.61	145.86	1.16	0.91
	2006-07	15,461.08	166.07	1.07	0.82
	2007-08	19,026.49	175.73	0.92	NA
State Excise	2005-06	2,684.57	138.75	5.17	3.40
	2006-07	3,436.63	165.78	4.82	3.30
	2007-08	4,040.69	162.24	4.02	NA
Taxes on vehicles	2005-06	1,355.74	48.30	3.56	2.67
	2006-07	1,364.74	55.43	4.06	2.47
	2007-08	1,603.80	62.46	3.89	NA

NA: Not Available

3.1.7.6 Lack of effective follow-up action with regard to evasion of VAT

There was lack of effective follow-up action on Vigilance and Enforcement reports on tax evasion

During the period 2005 to 2008 Vigilance and Enforcement (V&E) Directorate detected cases of tax evasion (VAT) aggregating Rs 19 crore in the raids conducted in Hyderabad and at other places in the State. The V&E Directorate reportedly brought this matter to the notice of the Government and recommended adoption of scientific measures for collection of tax to be paid by builders and others and take stringent measures against the defaulters.

Steps taken on the reported findings of V&E Directorate were not furnished by the Finance Department. It is also pertinent to point out that periodical review meetings held in Finance Department with regard to monitoring the collection of revenues and mobilisation of resources did not take cognisance of this vital aspect.

3.1.7.7 Return on investments in Commercial Enterprises

There was very poor return from investments in Commercial Enterprises

The earnings on investments in Commercial Enterprises are characterised by poor returns. There was a drop in earnings during 2007-08 to the extent of Rs 35.45 crore as compared to the year 2006-07. Government Companies accounted for Rs 34.67 crore (98 *per cent*) as detailed in Table-8.

Table-8

(Rupees in crore)

Nature of concern (Number)	2006-07		2007-08		Fall in earnings
	Investment	Dividend/interest received	Investment	Dividend/interest received	
Statutory Corporations (4)	984.86	1.52	984.86	0.76 ⁴	0.76
Government Companies (51)	3613.02	45.77	3651.32	11.10 ⁵	34.67
Joint Stock Companies (37)	34.07	-	44.09	-	-
Co-operative Banks and Societies ⁶ (80)	1144.22	0.11	1251.14	0.09	0.02
Total (172)	5776.17	47.40	5931.41	11.95	35.45

Finance Department needs to take effective measures with regard to the investments in such Commercial concerns which do not give considerable returns so as to protect the Government interest.

3.1.7.8 Absence of financial concurrence to remission of stamp duty

Orders for remission of Stamp Duty were issued by Revenue Department without obtaining the mandatory concurrence of Finance Department. This indicated lack of adequate controls with the Finance Department

Rule 11 of the Andhra Pradesh Government Business Rules and Secretariat Instructions specifies that no department should, without previous consultation of the Finance Department, authorise any order which would affect the finances of the State and involve relinquishment of revenue. In violation of the rules, the Revenue Department, without the concurrence of the Finance Department, issued orders in January 2009⁷ for remission of Stamp Duty payable under the Indian Stamp Act 1899 on flats/apartments by 5 *per cent*⁸ and the remission was applicable for two years i.e. from 1 January 2009 to 31 December 2010. Although the order evidently has financial implication in the form of reduced revenue, the Revenue department did not obtain mandatory concurrence of the Finance Department. While accepting the audit observation, the Finance Department did not, indicate any measures/steps taken/proposed to be taken to avoid non-compliance of the instructions of the Finance Department by other departments in future.

⁴ Declared by Andhra Pradesh State Warehousing Corporation Ltd

⁵ Singareni Collieries Company Limited declared dividend of Rs 10.63 crore and Andhra Pradesh State Seeds Development Corporation Rs 0.47 crore

⁶ An amount of Rs 78.79 crore was invested in Cooperative Sugar Factories during 2007-08

⁷ G.O.Ms.No.01 Revenue (Registration-I) Department, dated 1 January 2009

⁸ to flats/apartments measuring up to 1,200 Sft or below including common area excluding parking area

3.1.7.9 Off-budget borrowings

Government continued to resort to off budget borrowings

State Government continued to resort to off-budget borrowings which were raised upon the security of the Consolidated Fund of the State during 2006-09 as indicated in the Table-9.

Table-9 (Rupees in crore)

Year	Source through which borrowed	Amount borrowed
2006-07	APWRDC ⁹	600.00
	AP TRANSCO	500.00
	AP TRANSCO(PFC)	299.00
2007-08	AP TRANSCO	125.00
2008-09	AP TRANSCO	350.00
Total		1874.00

Government has been encouraging public utilities like APTRANSCO to raise funds to meet its promises/obligations made to public which turned out to be a committed liability to the Government as the Government only has been repaying the loans, etc. raised in the form of Off-budget borrowings. This also indicates lack of concern for legislative approval.

During the three year period 2006-09, Government paid interest of Rs 1,019.15 crore on these borrowings.

3.1.7.10 Non-recovery of cost of audit

Unrealised Audit fee accumulated to Rs 21.72 crore

Section 4 of the A.P State Audit Act, 1989 enables the Director of State Audit to conduct audit in respect of any local authority or any other authority specified therein and to recover the cost of audit in respect of such authorities as may be specified by the Government by order subject to such rules as may be made in this behalf.

The un-realised audit fee accumulated to Rs 21.72 crore as of July 2009. Details of major defaulting institutions are furnished in the Table-10.

Table-10 (Rupees in crore)

Name of the Organisation	Realisable Audit fee
Tirumala Tirupati Devasthanams	6.08
Hindu Religious and Charitable Endowment Institutions	8.03
Agricultural Market Committees	1.69
Universities	2.35
Andhra Pradesh Housing Board	1.81
Andhra Pradesh Residential Educational Institutions Society	1.48

⁹Andhra Pradesh Water Resource Development Corporation

It was also observed that the procedure for calculation of cost of audit was prescribed in May 1969 and no further instructions were issued thereafter despite several changes in the composition of audit teams with the induction of Audit Officers and Asst. Audit Officers (AAOs) which was not anticipated earlier while issuing the G.O. *ibid*.

3.1.8 Accountability obligations

3.1.8.1 Compliance to the instructions issued in GO No. 507

Compliance of Finance Department's instructions of April 2002 by all departments was not watched

Government prescribed norms for Public Finance Accountability before release and drawal of funds through the Government (in Finance Department) orders¹⁰ of April 2002. As per these norms, drawal of further funds is admissible by the Treasury/PAO only when the DDO/Head of the Department (HOD) furnishes compliance in the form of certificate regarding (i) detailed contingent bills for the amounts drawn on Abstract Contingent bills, (ii) reconciliation of accounts between the DDOs and Treasury Officers, (iii) submission of Statement of Expenditure and Utilisation Certificates for earlier drawals, (iv) recovery of loans, advances, taxes, etc due to be paid back to Government, (v) clearance of pendency relating to finalisation of annual accounts of local bodies and statutory audit and (vi) replies to pending audit paras. Further instructions of the Finance Department issued in October 2003 also stressed the need for maintenance of registers in respect of expenditure control, re-appropriations and supplementary estimates and reconciliation.

Audit however, observed that these exhaustive orders/instructions issued by Government were largely ignored by DDOs/HODs, as discussed below:

Subject/Requirement	Audit findings
<p>Huge number of Abstract Contingent Bills awaiting adjustment</p> <p>Monies are drawn on Abstract Contingent (AC) bills, where monies are required in advance and yet the exact amount required for the purpose cannot be specifically calculated.</p>	<p>As of March 2009, 1.23 lakh AC bills aggregating Rs 806.06 crore¹¹ were awaiting adjustment in respect of all departments.</p> <p>Test-check of records revealed that AC bills for an aggregate¹² value of Rs 449.65 crore were awaiting adjustment with Director of Treasuries and Accounts¹³, Director of Works Accounts¹⁴ and PAO (H) as of March 2009. Further, district treasury officers and others did not maintain the control registers to watch adjustment.</p>

¹⁰ vide GO Ms. No. 507 dated 10 April 2002

¹¹ Up to 2002-03: 82,226 bills – Rs 222.44 crore; 2003-04 to 2008-09: 41,173 bills – Rs 583.62 crore

¹² DTA – Rs 164.46 crore, DWA – Rs 7.00 crore and PAO (H) – Rs 278.19 crore

¹³ DTA: Adilabad – Rs 18.62 crore; Anantapur – Rs 17.85 crore; East Godavari – Rs 38.36 crore; Guntur – Rs 35.74 crore; Nellore – Rs 37.28 crore and Nizamabad – Rs 16.61 crore

¹⁴ PAO (W): Anantapur – Rs 21.10 lakh; Guntur – Rs 675.00 lakh and Nellore – Rs 4.15 lakh

<p>AC bills are required to be adjusted within one month from the date of drawal by submission of Detailed Contingent (DC) bills, to account for the funds utilised. AC bills are charged as expenditure.</p> <p>Thus, to the extent that these AC bills have not been adjusted by the submission of DC bills confirming actual expenditure, expenditure is over-stated or unaccounted for in the accounts. Government ordered (April 2002) for simplification of the process which provided that the maximum number of pending AC bills could never exceed two.</p>	<p>The above items included the following:</p> <p>(i) AP Public Service Commission has 430 bills (Rs 5.08 crore) pending with it.</p> <p>(ii) In Social Welfare Department, DC bills for value of Rs 201.97 crore were still pending in respect of 70 AC bills.</p> <p>Further, District Treasury, Adilabad drew an amount of Rs 28 lakh on AC bills in the month of June 2009 after completion of the event (General Elections 2009).</p> <p>Those officials who have drawn money on AC bills should have no hesitation in submitting details of bills for expenditure if these were legitimate items of expenditure. Non-submission of details within the stipulated period raises a strong suspicion about the bonafides of the expenditure incurred. The appropriate course of action would therefore, be to proceed against officials treating the non-submission of DC bills as a case of unauthorised expenditure.</p>																			
<p>Lack of concern for reconciliation of expenditure figures</p> <p>Government ordered (October 2003) that all the DDOs should reconcile figures of expenditure with those booked in Treasury/ PAO on or before 20th of each month for the expenditure in previous month.</p>	<p>As of June 2008 expenditure of Rs 55,159.98 crore incurred by 29 departments remained un-reconciled. Of this, the expenditure of Rs 16,710.25 crore pertained to Finance and Planning Departments during the year 2007-08 which also remained un-reconciled.</p> <p>As against 591 reconciliation certificates due, from Finance Department (Secretariat) and Directorates under its control, during 2003-04 to 2008-09 (December 2008), only 47 certificates were received by AG leaving 544 certificates covering several periods. Non-reconciliation accounted for 92 <i>per cent</i>. Details are given in Table-11. HOD-wise and year-wise details of non-reconciliation are given in Appendix-3.5.</p> <p>Table-11</p> <table border="1" data-bbox="634 1304 1409 1509"> <thead> <tr> <th rowspan="2"></th> <th colspan="3">Number of Reconciliation Certificates</th> </tr> <tr> <th>Due</th> <th>Received</th> <th>Outstanding (<i>Per cent</i>)</th> </tr> </thead> <tbody> <tr> <td>Secretariat Department</td> <td>420</td> <td>12</td> <td>408 (97)</td> </tr> <tr> <td>Directorates</td> <td>171</td> <td>35</td> <td>136 (80)</td> </tr> <tr> <td>Total</td> <td>591</td> <td>47</td> <td>544 (92)</td> </tr> </tbody> </table> <p>DSA did not maintain the control register to watch reconciliation.</p> <p>Finance Department while agreeing that they did not have details of outstanding reconciliations from HODs, stated (July 2009) that all Secretariat Departments were being addressed to ensure early completion of reconciliation by HODs.</p>		Number of Reconciliation Certificates			Due	Received	Outstanding (<i>Per cent</i>)	Secretariat Department	420	12	408 (97)	Directorates	171	35	136 (80)	Total	591	47	544 (92)
	Number of Reconciliation Certificates																			
	Due	Received	Outstanding (<i>Per cent</i>)																	
Secretariat Department	420	12	408 (97)																	
Directorates	171	35	136 (80)																	
Total	591	47	544 (92)																	

<p>Adjustment of Personal Deposit Accounts</p> <p>As per the extant instructions, balances available in personal deposit (PD) accounts are to be lapsed at the end of the year or after completion of the applicable period.</p>	<p>Results of study¹⁵ of 24 PD accounts conducted by the DSA revealed the status of the balances available in PD accounts and those lapsable as at the end of March 2006, 2007 and 2008 as given in the Table-12.</p> <p style="text-align: center;">Table-12 (Rupees in crore)</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>Balance</th> <th>Lapsable amount continued to be retained</th> </tr> </thead> <tbody> <tr> <td>As on 31.03.2006</td> <td>210.43</td> <td>92.80</td> </tr> <tr> <td>As on 31.03.2007</td> <td>257.90</td> <td>56.70</td> </tr> <tr> <td>As on 31.03.2008</td> <td>481.61</td> <td>143.99*</td> </tr> </tbody> </table> <p>Note: List of 24 PD Accounts is given in Appendix-3.6</p> <p>*Of this, Rs 100.25 crore pertained to AP Health, Medical, Housing and Infrastructure Development Corporation Limited</p> <p>Lapses such as drawal of funds and their investment in fixed deposits, arrears in reconciliation with bank/treasury, operation of several bank accounts, absence of internal audit and unspent balances in schemes continued to persist as disclosed in the study.</p>		Balance	Lapsable amount continued to be retained	As on 31.03.2006	210.43	92.80	As on 31.03.2007	257.90	56.70	As on 31.03.2008	481.61	143.99*
	Balance	Lapsable amount continued to be retained											
As on 31.03.2006	210.43	92.80											
As on 31.03.2007	257.90	56.70											
As on 31.03.2008	481.61	143.99*											
<p>Non-submission of UCs/Accounts by local bodies/ autonomous bodies</p>	<p>State Government disbursed an amount of Rs 39,110 crore as grants and loans to local bodies and other institutions during 2005-08.</p> <p>Of the 2,989 utilisation certificates (UCs) due in respect of grants aggregating Rs 600.35 crore paid up to 30 September 2006, 2,944 UCs for an amount of Rs 560.72 crore were outstanding as of 31 August 2008 from eight departments¹⁶.</p> <p>There were arrears in submission of accounts for audit (by the Accountant General) from 392 Autonomous Bodies to the extent of 1,296 accounts (June 2009).</p>												

The above deficiencies indicated failure of reporting mechanism and non-fulfilment of accountability obligations of the Government.

3.1.8.2 Overpayment of Pension/Family Pension

DTOs/STOs made excess payment of pension aggregating Rs 1.60 crore indicating the need to prevent such overpayment

Audit noticed from the test-check of records that 13 District Treasuries¹⁷, 296 Sub-Treasuries¹⁸ and six Pension Payment Offices¹⁹ under the control of DTA made an aggregate overpayment of Pension/Family pension of Rs 1.60 crore (2006-07: Rs 0.41 crore, 2007-08: Rs 0.57 crore and 2008-09: Rs 0.62 crore) indicating the need to prevent such overpayment. Details of overpayments are given in [Appendix-3.7](#).

¹⁵ as per the orders of the Finance Department

¹⁶ School Education; Revenue, Registration and Relief; Tribal Welfare; Social Welfare; Panchayat Raj; Rural Development; Municipal Administration and Urban Development and Animal Husbandry

¹⁷ 2006-07: Guntur, Khammam, Karimnagar, Nizamabad and Prakasam
2007-08: Krishna and Medak

2008-09: Adilabad, Khammam, Kurnool, Rangareddy, Srikakulam and Visakhapatnam

¹⁸ 95 in 2006-07, 128 in 2007-08 and 73 in 2008-09

¹⁹ 2006-07: Tarnaka, Motigally, Punjagutta and Chandrayangutta

2007-08: Motigally, Punjagutta, Narayanguda, Malakpet and Chandrayangutta

3.1.8.3 Submission of accounts by Government Undertakings

The Departmentally Managed Government Undertakings (DMGUs) that were set up with activities of quasi-commercial nature are required to prepare and submit the annual accounts in the prescribed format (Proforma Accounts) showing the results of the financial operations so as to enable the Government to make an assessment of their functioning.

- DMGUs have not been preparing Proforma Accounts annually and there were chronic arrears as shown in [Appendix-3.8](#).
- Andhra Pradesh Government Life Insurance (APGLI) run by the Director of Insurance a DMGU under the administrative control of the Finance Department prepared its accounts only up to the year 2001-02. This causes delay in declaration of bonus to its subscribers.

3.1.9 Directorate specific observations

Functioning of Directorates was deficient. Various lapses were noticed by Audit

Audit noticed lapses in functioning of all the Directorates as discussed below Directorate-wise:

3.1.9.1 Director of State Audit (DSA)

The primary function of the DSA is to conduct audit of accounts of rural and urban local bodies and other institutions in the State and submit consolidated audit report to the State Legislature in accordance with the provisions of State Audit Act, 1989.

Subject	Audit observation
Poor recovery of surcharge²⁰ amounts	Although equipped with the authority to issue surcharge proceedings, DSA unnecessarily referred (September 2006 to October 2008) 21 cases of serious irregularities (Rs 13.78 crore) to the State Government in respect of various municipalities. Belatedly, the Finance Department directed only in December 2008 to initiate further action as per the State Audit Rules. Thus, in the process, since valuable time was lost, currency of the objections was lost and serving of the surcharge notices also became difficult and the whole process resulted in non-recovery of surcharged amounts of Rs 13.78 crore (January 2009).
Non-receipt of annual accounts from local bodies	As of August 2008, 464 annual audits were pending due to non-furnishing of the annual accounts by the Municipal Corporations and Municipal Councils. Rural Local Bodies have not been furnishing annual accounts by due dates. As a result, audit by the DSA was held up.
Format of accounts of Universities not prescribed	Universities have been compiling only Receipts and Payments Accounts and Balance Sheets were not prepared. As a result, comprehensive financial position is not known. DSA did not prescribe the uniform format of accounts for the Universities.

²⁰Recovery from a person liable for the loss, waste, misappropriation or other property belonging to local authority

Arrears in collection of Pension Contributions and Leave Salary Contributions	As of January 2009, about 170 employees of DSA were continued to be on deputation on Foreign Service terms with various employers. The foreign employers were to remit pension contribution (PC) and leave salary contribution (LSC) in respect of the employees who have been working with them. As of March 2008, an aggregate amount of Rs 50.57 lakh (PC: Rs 32.44 lakh and LSC: Rs 18.13 lakh) was due from foreign employers, earliest period being 1987.
Un-invested amounts under Charitable Endowment Fund	As per the provisions of the Functionary Manual of the Department, DSA is the ex-officio Treasurer of Charitable Endowments in the State. The cash balance as per cash book was Rs 80 lakh as of January 2009. Despite having huge cash balances it was not invested in deposits. The DSA did not also approach the Government seeking instructions for investment in fresh Government securities/bonds, issued for investing the idle cash balance. DSA admitted the lapse.
Improper Contract Management	Anantapur, Guntur and Nellore District Audit Officers made payment of rent of office buildings without the support of the valid and subsisting lease deeds. Car hire charges were being paid without conclusion of agreements, non-submission of trip sheets, etc. Income Tax at applicable rates was not being deducted from the payments made to the supplier of vehicles.
Delayed submission of Audit Reports	State Audit Reports for the years 1989-90 to 1997-98 were presented to the State Legislature in March 2008 and those for the years 1998-99 to 2004-05 were presented in December 2008 with delays up to as high as 17 years. Preparation of Audit Reports does not serve the desired purpose unless they are submitted to the Legislature in time.

3.1.9.2 Director of Treasuries and Accounts (DTA)

DTA is entrusted with the task of conducting financial transactions of the Government, payment of pensions, exercising treasury control and conducting pre-audit.

Subject	Audit observation
Accumulation of stamps	Stamps valuing Rs 166.43 crore ²¹ (Share transfer, Special adhesive, Court Fee papers, Court Fee labels, A.P.A.W.F. and Insurance), which had no demand since May 1996 have been lying idle with DTOs awaiting instructions of DTA.
Non-disposal of spoiled stamps	Stamps worth Rs 10.82 lakh were lying for over three years in the district treasuries of Anantapur (Rs 10.12 lakh) and Nellore (Rs 0.70 lakh) for want of orders of destruction from DTA.
GPF of Class IV Employees	Value of unposted Credits (Rs 4.56 crore) and Debits (Rs 74.19 lakh) in relevant accounts has been increasing. Due to non-posting of debits the accounts balances were inflated. Annual account slips were issued without the details of missing credits.

²¹Anantapur : Rs 4.68 crore; Guntur: Rs 157.03 crore and Nellore: Rs 4.72 crore

Non-reimbursement of Railway pension	Railway Pensions aggregating Rs 81.70 lakh disbursed up to the year 2005 and claimed for reimbursement by three ²² district treasuries were pending for want of reimbursement as of May 2009.
Non-submission of vouchers	Audit noticed ²³ that 271 vouchers for an amount of Rs 5.08 crore up to March 2008 were still not received by AG from Treasuries despite regular correspondence with Deputy Directors (DD) concerned (Earliest period of voucher pertained to the year 1989-90 from Warangal District).

3.1.9.3 Director of Works Accounts

Secretary, Finance (WP) is responsible for overall administration of PAO (Works) organisation. PAOs are mainly responsible for cent *per cent* pre-audit of works and other bills, scrutiny of estimates and agreements, disbursement of payments and compilation and accounting of transactions conducted by them.

Subject	Audit observation
Transfer of funds to Civil Deposits to avoid lapse of Grant	As per the provisions of Para 20.2.2 of AP Budget Manual, savings should not be utilised to cover the expenditure of ensuing years. However, the department resorted to transfer of funds amounting to Rs 1369.73 crore in respect of land acquisition payments towards the close of the years 2006-07 to 2008-09 to Public Account head 8342/8443-Deposits to meet the expenditure of subsequent years. Audit noticed that these amounts were transferred to Deposits to avoid lapse of balance funds available under the grant violating prescribed financial procedures. The PAOs stated (March 2009) that transfer of funds were made as per the orders of Government. Of the amounts so transferred, Rs 543.21 crore ²⁴ still remained unspent as of March 2009 for periods ranging between 12 to 24 months.
Outstanding balances under Suspense heads of account	Suspense heads of account (MPWA, Purchase, Stock, Workshop Suspense and CSS) are transitory heads. As per Paras 7.10.1 to 7.10.19 of PAO Manual, the balances pending under various suspense heads of account require proper and immediate adjustment to the final head of account by the PAO. Audit scrutiny revealed that outstanding balances amounting to Rs 31.04 crore ²⁵ under various suspense heads of account in respect of engineering divisions under the payment control of test checked PAOs were awaiting clearance (March 2009). The department replied (March 2009) that the matter would be pursued with concerned divisions for early clearance of balances.

²² Anantapur (Rs 23.01 lakh), East Godavari (Rs 53.45 lakh) and Nellore (Rs 5.24 lakh)

²³ during compilation of accounts by AG

²⁴ JDWA Dowlaiswaram: Rs 110.29 crore, PAO Anantapur: Rs 9.07 crore, APO Dowlaiswaram: Rs 213.58 crore, PAO Guntur: Rs 29.74 crore, PAO SP Nellore: Rs 25.00 crore, PAO Nirmal: Rs 128.53 crore and PAO Nizamabad: Rs 27.00 crore

²⁵ MPWA: Rs 12.22 crore; Purchase: Rs 10.57 crore; Stock: Rs 3.90 crore; Workshop suspense: Rs 4.32 crore and CSS: Rs 0.03 crore

Outstanding balances under Schedule of Settlement with Treasury (SST)	As per Paras 11.14.1 and 11.17.3 of PAO Manual, the PAOs should periodically reconcile the outstanding balances under SST with treasuries and divisions concerned. The PAOs should bestow personal attention on this aspect for early clearance and settlement of existing balances under both remittance and payments. It was observed that balances were outstanding (May 2009) under both remittances and cheques for SST amounting to Rs 248.37 crore in six ²⁶ PAOs. The PAOs assured to carry out reconciliation and settle the said balances.
Non-renewal of Bank Guarantees	PAOs are responsible for safe custody and monitoring the validity of Bank Guarantees (BGs) obtained in lieu of EMD, Performance security and security against Mobilisation advances etc. These BGs are to be got revalidated/renewed before their expiry till due performance of the contract. Audit observed that lapsed BGs worth Rs 12.93 crore were yet to be revalidated by three ²⁷ PAOs (March 2009).
Non-realisation of forfeited amount	Executive Engineer, Godavari Head Works Division, Dowlaiswaram forwarded (July 2006) three pay orders for Rs 44.01 lakh towards EMD in respect of bidders who did not participate in the auction for “collection of toll tax on SAC Barrage” to APAO, Dowlaiswaram for forfeiture and crediting the amount to Government account. The value of the above pay orders had not been realised even as of May 2009 as these were found (August 2006) fraudulent and a police case was stated to be lodged. The matter was under police investigation (May 2009).
Pre-audit	Audit noticed that an amount of Rs 11.94 crore towards IT, VAT, Cess, etc. was not recovered/short recovered from work bills of engineering departments under the payment control of six ²⁸ PAOs/APAOs. This shows that the pre-audit by the PAOs/APAOs was ineffective.

3.1.9.4 Commissioner of Small Savings and State Lotteries

The main objective of the Small Savings Department is to create awareness among the people and encourage citizens to invest in small savings schemes for their own benefit and for the benefit of the State.

Subject	Audit observation
Delays in release of incentives to NSS Agents	CSS disbursed Rs 379.01 crore as subsidy to NSS Agents during 2004-05 to 2008-09, leaving a balance of Rs 40.65 crore as of February 2009. As per the extant instructions in force, NSS agents are to submit their incentive claims within six months from the date of receipt of commission. Audit however, noticed that of the amount of Rs 49.49 crore disbursed during the year 2008-09, Rs 7.99 crore pertained to the year 2008-09 and the balance Rs 41.50 crore related to the incentive amount of earlier years. There was non-achievement of net targets ²⁹ during the years 2007-08 and 2008-09.

²⁶ Anantapur: Rs 32.86 crore; Dowlaiswaram: Rs 83.71 crore; Guntur: Rs 94.62 crore; Nellore: Rs 13.89 crore; Nirmal: Rs 10.04 crore and Nizamabad: Rs 13.25 crore

²⁷ Guntur: Rs 0.38 crore; Nirmal: Rs 5.58 crore and Nizamabad: Rs 6.97 crore

²⁸ Anantapur: Rs 4.36 crore; Dowlaiswaram: Rs 3.35 crore; Guntur: Rs 20.00 lakh; Nellore: Rs 87.00 lakh; Nizamabad: Rs 1.27 crore and Nirmal: Rs 1.89 crore

²⁹ Net Target is difference between total funds mobilised *minus* payments made during the year

<p>Incorrect utilisation of district incentive funds</p>	<p>Against the release of Rs 135.00 crore, CSS received UCs only for Rs 80.55 lakh from district offices. Collectors of Anantapur, East Godavari, Nellore and Nizamabad Districts diverted funds of Rs 1.97 crore for ineligible purposes.</p> <p>Thus, objectives set by Government for utilisation of district incentive funds for mobilisation of resources were not fully achieved.</p>
<p>Inadequate action against delinquent NSS agents</p>	<p>Central Government provided Extension Agencies for giving satisfactory service to the investing public and also with a view to provide service at the doorstep of the investors. Mandal Revenue Officer/Mandal Development Officer is the appointing authority of Agents. The Agents so appointed have to furnish prescribed security in the form of cash or bank guarantee or a fidelity guarantee policy with Life Insurance Corporation of India or personal securities for appointment as Agent. Departmental Manual of the Small Savings and State Lotteries provided that the appointing authority should take <i>suo moto</i> prompt action in cases of misappropriation of investor's money by the Agents and take steps to recover the losses from them or their sureties besides initiating criminal action.</p> <p>There were fraudulent drawals of moneys deposited by public amounting to Rs 55.73 lakh by NSS agents in the districts of Adilabad (Rs 13.00 lakh), Anantapur (Rs 30.78 lakh) and Nellore (Rs 11.95 lakh). Action was yet to be taken against delinquent agents.</p>
<p>Inspection of district offices</p>	<p>CSS did not visit any of the unit offices in districts despite complaints of alleged fraudulent drawal of investors' funds by the Small Savings Agents in Adilabad, Anantapur, Nellore, etc.</p>

3.1.9.5 Director of Insurance (DOI)

The main function of DOI is administration of Andhra Pradesh Government Life Insurance (APGLI). The main objective of APGLI is to ensure protection to the families of deceased Government employees and to augment the resources at the time of retirement. APGLI has been issuing endowment policies which mature on the date of superannuation of the policy holders concerned. As of March 2008, fund balance was Rs 1539.22 crore. This fund is incorporated in Part-III Public Account under '8011 Insurance and Pension Funds'. There were deficiencies in maintenance of accounts.

<p>Subject</p>	<p>Audit observation</p>
<p>Amounts lying in suspense</p>	<p>Audit noticed that part of the premium paid by subscribers against their policies remains un-credited to respective accounts due to quoting incorrect policy numbers, etc. Such un-credited amounts up to the year 2008-09 aggregated to Rs 249 crore. Earliest period of the suspense amount dated back to 1975-76.</p>
<p>Belated issue of Account slips</p>	<p>APGLI Manual prescribes that account slips to the subscribers of APGLI should be issued by 30th September of the succeeding year. Audit noticed that account slips for the year 2006-07 only were issued as of March 2009. Further, slips were sent by post and no acknowledgments were on record about the receipt/issue of slips in the District Insurance Offices.</p>

Overstatement of Insurance Fund and minus balances	<p>As of March 2009, the balance under Group Insurance Scheme stood at Rs 449 crore. Audit noticed that most of the district treasuries were clubbing schedules of Insurance Fund and Savings Fund and as a result balance under Insurance Fund got overstated.</p> <p>In respect of Group Insurance Scheme of Panchayat Raj employees, minus balances continued to persist during the three year period. No amount was credited towards interest and the closing balance as of March 2009 stood at Rs (-) 38.20 crore. Similarly, in respect of Family Benefit Fund, minus balances aggregated to Rs 111.16 crore as of March 2009.</p>
Declaration of bonus	<p>Bonus for the triennium ended March 1999 was declared only in June 2006 after a delay of six years. Bonus for the triennium ended March 2002 was yet to be declared (March 2009).</p>
Improper Asset Management	<p>There were arrears in collection of rent from tenant departments aggregating Rs 1.48 crore as of March 2009.</p> <p>Instances of loss of currency of lease deeds, non-conclusion of lease deeds were noticed in Anantapur and Nellore District Offices.</p>

3.1.10 Internal Control Mechanism

3.1.10.1 Internal Audit

In the absence of internal audit there was no assurance to the management that the departmental rules, regulations and procedures were being complied with

Government constituted (November 2003) State Level Internal Audit Committee and Internal Audit Wing at Secretariat level in Finance Department with one Joint Secretary/Deputy Secretary, three Deputy Directors/Asst. Directors from Treasuries/PAO(PW)/State Audit. The Internal Audit Wing at Secretariat comprises a section consisting of one Section Officer, two Assistant Section Officers (ASO), and four Data Processing Officers. A Chartered Accountant was also appointed by CGG³⁰ on tenure basis for strengthening the Internal Audit as a mechanism for monitoring and evaluation of internal controls. Secretary (FP) is the Head of Internal Audit Wing. Government ordered (July 2004) for renaming the Central Checking Cells functioning in District Treasuries as Internal Audit Cells.

Except the checking of pay fixation in the Revised Pay Scales, 2005, the Internal Audit wing of the Finance Department did not conduct the internal audit of either any wing within the Finance Department or any Directorate of the Finance Department. In the Directorates also Internal Audit wings were not existing.

The following further observations are made:

- While noting that Internal Audit was not effective, Government ordered (June 2005 and July 2007), to start the conduct of Internal Audit in Collegiate Education and School Education Department through DSA. Although, DSA conducted the audit and issued reports, compliance has not been watched.

³⁰Centre for Good Governance

- Government received grant of Rs 1.72 crore (equivalent to USD 430,000) in September 2006 *inter alia* for establishing the Internal Audit Wing in Finance Department. Audit noticed that the expenditure up to August 2008 was a meagre Rs 20.79 lakh constituting 12 *per cent* of the project cost indicating tardy implementation of the World Bank Project.

In the absence of internal audit, there was no assurance to the management that the departmental rules, regulations and procedures were being complied with.

Government while agreeing that the internal audit was not effective attributed (April 2009) it to shortage of manpower.

3.1.10.2 High Power Committee (Shakdher Committee) recommendations

Government of Andhra Pradesh accepted the recommendations of the High Powered Committee known as Shakdher Committee, set up to improve the responsiveness to audit observations. The details of recommendations made and accepted by the Government are given in [Appendix-3.9](#). Government did not however, furnish the action plan drawn for implementation of the accepted recommendations (June 2009).

3.1.10.3 Explanatory notes to C&AG audit Paras and Action Taken Notes on PAC recommendations

Monitoring by Finance Department with regard to submission of ENs to Audit Paras, ATNs to PAC recommendations, settlement of AG's IR Paras was poor

The Finance Department is the nodal agency to coordinate/ensure submission of explanatory notes (ENs) on audit paragraphs and reviews included in the C&AG Audit Reports within three months and Action Taken Notes (ATNs) on the PAC recommendations within six months. The Finance Department is also the nodal agency to ensure prompt response to the Inspection Reports issued by the Accountant General (AG) to ensure remedial action in compliance with the prescribed rules and procedures and accountability of the deficiencies and lapses noticed during inspection and proper functioning of Audit Committees.

Subject	Audit observation
ENs and ATNs	<p>The following is the status of non-receipt of ENs and ATNs as of July 2009:</p> <ul style="list-style-type: none"> • 22 departments had not submitted explanatory notes in respect of 152 paragraphs/reviews which featured in the Audit Reports for the years 1996-97 to 2007-08. These included two ENs in respect of Para Nos. 4.1.1 and 4.2.2 titled 'Failure of Treasury Officers in exercising checks while admitting Bills' (Treasuries) and 'Payment of excess/inadmissible claims on foreign travel' (PAO, AP, Hyderabad) included in the Audit Report 2006-07 against Finance Department. • ATNs for 424 recommendations were also due. Of these, 222 ATNs were due from Irrigation and Command Area Development Department alone. • The Department-wise and Audit Report-wise details are given in Appendix-3.10.

IRs/Paragraphs	<p>The status of pendency of IRs/Paragraphs as at the end of June 2007, June 2008 and June 2009 is detailed below:</p> <p>Table-13</p> <table border="1" data-bbox="565 317 1344 495"> <thead> <tr> <th rowspan="2"></th> <th colspan="3">Pending as at the end of</th> </tr> <tr> <th>June 2007</th> <th>June 2008</th> <th>June 2009</th> </tr> </thead> <tbody> <tr> <td>Number of IRs</td> <td>12647</td> <td>13669</td> <td>11600</td> </tr> <tr> <td>Number of Paragraphs</td> <td>43482</td> <td>47345</td> <td>43267</td> </tr> </tbody> </table> <p>The year-wise and department-wise break-up of these IRs and paragraphs is indicated in Appendix-3.11. Lack of action on audit IRs and Paras has adverse implication of continuation of financial irregularities and loss to Government.</p>		Pending as at the end of			June 2007	June 2008	June 2009	Number of IRs	12647	13669	11600	Number of Paragraphs	43482	47345	43267
	Pending as at the end of															
	June 2007	June 2008	June 2009													
Number of IRs	12647	13669	11600													
Number of Paragraphs	43482	47345	43267													
Audit Committee meetings	<p>The status of audit committee meetings held during 2006-07, 2007-08 and 2008-09 is discussed below:</p> <ul style="list-style-type: none"> • The Apex level State Audit and Accounts Committee met only once during each year 2006-07, 2007-08 and 2008-09 against the two meetings stipulated. • As against 31 departments, State Level Departmental Audit Committee meetings were conducted in 23 departments during 2006-07, in 8 departments³¹ during 2007-08 and only in 4 departments³² during 2008-09. • No State Level Departmental Audit and Accounts Committee meeting was held since reconstitution of the Committees in June 2004 in respect of 20 Departments. 															
Action on reports of ACB, Vigilance cases, etc.	<p>Action on 371 cases (January 2009) pertaining to Anti Corruption Bureau (ACB) (28), Court cases (110), AP Administrative Tribunal (190) and disciplinary cases (43) in the Directorate of Treasuries and Accounts was inadequate.</p>															

3.1.10.4 Non-authentication of Manuals

Dr. Marri Channa Reddy Human Resource Development Institute of Andhra Pradesh compiled Departmental and Functionary manuals for all the Directorates of Finance Department. Audit found these manuals do not have official authority and hence lack sanctity. This has been the status for over five years.

DSA while accepting the audit point did not give reasons for not obtaining the Government's approval for these manuals.

³¹Environment, 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

³²Finance, Labour, Employment & Training, Municipal Administration and Urban Development and Tribal Welfare Departments

3.1.10.5 Internal Controls in District Offices

Deficiencies noticed in the internal controls in District Offices of the Directorates of Treasuries and Accounts, Works Accounts, Insurance and State Audit are detailed below:

Office	Audit observation
District offices of Directorate of State Audit (DSA)	<ul style="list-style-type: none"> • Non-maintenance of Treasury Bill Register, non-preparation of Bank Reconciliation Statements, non-reconciliation of expenditure figures with District Treasury, incomplete maintenance of cash book and absence of closings, not obtaining attestation of entries in Service books from the employees, non-maintenance of Budget Control Register, etc were noticed. • Guard files of important instructions were not maintained by district audit offices. • DSA conducted inspection of District Offices and others and issued 868 observations during 2007-09. All the 868 observations raised by DSA remained un-settled as of January 2009. • Poor progress in issue of Special Letters was noticed. • There were arrears in receipt of Audit fee. • Registers including Audit fee and Comprehensive Demand Register were not maintained. • Irregularities were noticed in processing of pension cases of Class-IV employees. • There was no follow up action on the huge pendency of Audit Report Paras. The due dates in issue of Audit Reports were also not adhered to in all the district offices.
District offices of Director of Treasuries and Accounts	<ul style="list-style-type: none"> • Audit noticed that Watch registers for Certificates of Acceptance of Balances (CABs) and reconciliation with DDOs (Drawing and Disbursing Officers) were not maintained in district treasuries test-checked. • Records that were ripe for destruction were not identified and consequently no record was destroyed in all the treasuries test-checked.
District offices of Director of Works Accounts	<ul style="list-style-type: none"> • No statutory inspections were conducted since inception of the Directorate. • Audit noticed that PAO Objection Book, Calendar of Returns, PW Deposits Registers, and Cadre Strength Register were not maintained in all the PAOs test-checked.
District offices of Director of Insurance	<ul style="list-style-type: none"> • In all the district insurance offices test-checked, Audit noticed non-posting of schedule amounts to respective accounts and huge balances under suspense account, non-receipt of schedules from district treasury and non-conducting periodical review of cases. • District Insurance Offices are maintaining database of all the subscribers utilising software, namely 'Automatic Insurance Management System (AIMS)' that was supplied and controlled by the Directorate. Audit noticed that (i) no user/Functionary manual of the software was provided to the District offices and that

	<p>there was no provision for ‘DDO code’ and the month of premium. Further, there was no provision in AIMS to generate report on ‘financial year-wise new business achieved’, (ii) District insurance offices were unaware of the security policy of the department, (iii) there is no mechanism available in District Insurance Offices to have back-up of the data as every thing is controlled centrally, (iv) there is no mechanism in place to work off-line in case of emergency and at times of break-down of net work and connectivity problems associated with the Servers set up in district Collectorates and (v) no shelf life was fixed for the files kept in district insurance offices.</p> <ul style="list-style-type: none"> • Periodicity of preservation of records was not prescribed.
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3.1.11 Manpower management

Finance Department has the sanctioned strength of 6372 posts. Of these, ASOs (134), Shroffs (319), STOs (595), Senior Accountants/Senior Auditors (1990), Junior Accountants/Junior Auditors (826), Auditors (335), Divisional Accounts Officers (327), Senior Assistants (416) and Junior Assistants (182) represent the bulk of the manpower.

3.1.11.1 Vacancies in key areas

Finance Department has a critical role in all aspects relating to Government’s finances. Any shortage of personnel has a deleterious effect on safeguarding the finances. But there were vacancies in key areas as detailed below:

- In Finance Department in Secretariat, there were 70 vacancies in the cadre of ASO due to non-availability of feeder cadre.
- In DTA, there existed 505 vacancies in the cadre of Senior/Junior Accountant although this cadre is the backbone for the functioning of Treasuries and Accounts Department.
- Similarly, in PAO (Hyderabad), there were 147 vacancies in the cadre of Auditor. Vacancies in key areas adversely affect the pre-audit function of the PAO.

3.1.11.2 Training

Audit noticed that DTA did not utilise the entire allotment for training during 2005-06, 2006-07 and 2008-09; expenditure in 2007-08 was a meagre Rs 49.89 lakh (8 per cent) as against the allotment of Rs 5.84 crore. Position of utilisation in other Directorates also remained the same as shown in Table-14.

Utilisation of funds provided for training was poor in almost all the Directorates under the Finance Department

Table-14

(Rupees in lakh)

Directorate	Budget allotment	Expenditure	Un-utilised balance
DTA	583.84	49.89	533.95
DOI	7.05	0.87	6.18
PAO (H)	1.23	0.23	1.00

Further, Finance Department did not formulate any training policy, although their staff carry out technical and non-routine functions.

Audit also noticed that newly recruited AAOs in the Directorate of State Audit were being trained as per the training plan approved as far back as in 1989.

The above points indicate lack of importance given to training by the Finance Department.

3.1.11.3 Payments to outsourcing agencies

Proper mechanism was not in place in Finance Department for conclusion of agreements with outsourcing agencies, etc.

Government issued (December 2006) specific guidelines for implementation of functions under outsourcing. Proper mechanism was not in place for ensuring remittance of service tax collected by the firms, accounting of ESI, EPF recoveries and employer's share to the departments concerned in respect of the outsourced staff as discussed below:

- DOI engaged three outsourcing agencies³³ for supply of 88 Data Entry Operators (DEOs), 12 Attenders and 23 Sweeper-cum-Night Watchmen during the period 2006-09 and incurred an aggregate expenditure of Rs 2.00 crore. The firms had executed agreements for one year from September 2006 to August 2007 and the same were extended up to July 2008. Their engagement was continued without subsisting contracts due to absence of instructions from Government.
- Audit also observed that Contract/Agency firms have been charging commission/agency charges at varying rates of the bill amount. Agency firms have not been submitting details of remittances made to the concerned Government departments (EPF and ESI) while preferring claims for the subsequent months despite the stipulation to that extent.
- Payments to outsourced agencies were made up to November 2007 by DTA and thereafter this function was delegated to Deputy Directors (DDs) of District Treasuries. There was thus no scope for verification of remittance particulars of EPF, ESI, etc as the agreements were not available with the district treasuries but with the DTA.
- Service Tax Registration numbers of the agencies were also not verified by the DDs beforehand and no such numbers were indicated on the invoices although it is mandatory as per Rule 4A of Service Tax Rules, 1994.

3.1.12 Government Website

3.1.12.1 Non-hosting of quarterly reports on the Web

Government has been preparing quarterly reports on the compliance made by the Government to the APFRBM Act, 2005. Audit observed that the quarterly reports were not being posted on the website in the recent past and latest/last report available in the web pertained to the quarter ended June 2007.

³³ M/s Srinivasa Outsourcing Services Pvt. Ltd, Hyderabad, M/s Sri Sai Infotech, Hyderabad and M/s Jyothi Computers Services, Hyderabad

3.1.12.2 Uploading incomplete Government Orders on the website

On perusal of Government Orders (GOs) posted on AP Government Website “www.ap.gov.in/goir” during March 2009, it was observed that some GOs were incomplete and did not contain data such as the name of the issuing authority, number, date, unit of measurement, etc. Details are given in the [Appendix-3.12](#).

3.1.13 Constraints and achievements

Audit has not been able to ascertain the constraints faced by the Finance Department as no reply was received for the audit observations. The following were the achievements of the Finance Department:

- The Finance Department piloted the APFRBM Act, 2005 to ensure prudence in fiscal management and to maintain fiscal stability in the State.
- The Finance Department prepared Fiscal Correction Path for the Government indicating the milestones of outcome indicators with target dates of implementation keeping in view the fiscal targets laid down in the APFRBM Act and Rules made thereunder.
- The Finance Department accorded priority to asset formation in annual budgets with emphasis on capital outlay. The major beneficiary sectors are Irrigation and Flood Control and Transport. The increasing trends in capital expenditure as reflected by its increasing ratio with reference to total expenditure and GSDP as well as a significant proportion of Non-salary component of Revenue expenditure (net of subsidies) indicates an improvement in quality of expenditure during the period 2006-08.
- The State finances have shown Revenue surplus for the second consecutive year although it declined from Rs 2807 crore in 2006-07 to Rs 159 crore in the year 2007-08.
- Due to good fiscal performance State Government received debt relief of Rs 1,186.31 crore and Rs 703.08 crore during 2006-07 and 2007-08 respectively from Central Government under Debt Consolidation and Relief Facility (a scheme formulated by Central Government in pursuance of the recommendations of the TFC for fiscal consolidation and elimination of revenue deficit of the States).
- The Finance Department did not resort to Ways and Means Advances for the successive fourth year (during 2007-08) due to better management of cash balances.
- Despite a steep fall in revenue surplus and a sharp increase in fiscal deficit during the year 2007-08, an increase of two *per cent* in Balance from Current Revenue (BCR) (Rs 8,503 crore) over that of 2006-07 indicates that funds were available with the State Government for creation of assets and to meet other development needs of the State.
- The existing manual accounting procedures have been computerised and the daily accounts from sub-Treasury to the District Treasury are computerised. As a result, monitoring of State finances has become possible on a day-to-day basis.

3.1.14 Conclusions

The objective of the Finance Department is overall management of the State's finances including mobilisation of resources and collection of revenues and other financial resources. The financial management was deficient. Audit noticed huge variations in BEs and the actual expenditure, unnecessary supplementary grants, non-surrender of anticipated savings, expenditure without provision, etc. Accountability obligations were largely ignored by DDOs/HODs. Adequate internal controls did not exist with the Finance Department in areas of watching compliance of instructions by other administrative departments. The return on investments in Commercial Enterprises was poor. There were chronic arrears in preparation of Proforma Accounts by Departmentally Managed Government Undertakings. Monitoring by Finance Department was also ineffective with regard to submission of Explanatory Notes to Audit Paras, Action Taken Reports to PAC recommendations, settlement of AG's IR Paras by other administrative departments. Functioning of all the Directorates under the control of Finance Department was deficient. Audit noticed lapses such as, accumulation of stamps with DTA; irregular transfer to Civil deposits, non-renewal of bank guarantees in DWA; huge arrears of cost of realisable audit fee, non/delayed submission of Audit Reports to Legislature by DSA, etc. Audit also noticed weak internal controls in their district offices. Tax recovery mechanism was not effective and the Government resorted to sale of lands for revenue mobilisation. In the absence of effective internal audit, there was no assurance to the management on the adequacy of the internal controls in the Department.

3.1.15 Recommendations

- Government should put in place an effective mechanism such as having an independent representative of Finance Department in each Department to ensure financial discipline and to prepare realistic budget and avoid unnecessary supplementary grants, non-surrender of anticipated savings. Timely release of funds at prescribed intervals to user departments should be ensured for smooth flow of expenditure.
- Finance Department should ensure strict compliance of its own instructions in GO Ms. No. 507 dated 10 April 2002 to honour Public Finance Accountability norms viz. timely adjustment of abstract contingent bills, reconciliation of receipts and expenditure figures by all departments, submission of accounts by autonomous bodies, etc.
- Government should gear up its machinery to ensure realisation of tax revenue which was in arrears. Immediate steps should also be taken to effect recovery of tax pointed out by Audit and accepted by Government.
- Finance Department should ensure expeditious submission by all departments of Explanatory Notes to Audit paras and Action Taken Notes on PAC recommendations and timely and proper response to the Inspection Reports of AG. Finance Department should also ensure conducting of Audit Committee Meetings in all the departments regularly

for speedy settlement of pending IRs and paras and effect recoveries pointed out in the IRs promptly.

- Finance Department should take effective steps for expeditious furnishing of Explanatory Notes and Action Taken Notes to PAG for vetting for regularisation of excess expenditure in the years 2004-05 to 2007-08.
- Finance Department should ensure proper internal controls in all the Directorates and the district offices as well. Director of Insurance needs to take early steps to clear the balance lying in suspense account. Director of State Audit is to expedite the submission of Audit Reports to Legislature without delay to serve the desired purpose.
- Finance Department should bring out ways to minimise avoidable expenditure in significant expenditure items of budgets and streamline revenue collection mechanism in areas which form part of sizeable budget.
- Internal Audit in Finance Department including all the directorates is to be strengthened to derive the benefit of this important tool for financial management.

The above audit observations were reported to the Government in August 2009; their reply has not been received.

Hyderabad
The

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