Report of the Comptroller and Auditor General of India on Economic Sector for the year ended March 2015

Government of Andhra Pradesh

Report No. 3 of 2016

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Table of contents

Appendices

PREFACE

This Report for the year ended March 2015 has been prepared for submission to the Governor of Andhra Pradesh under Article 151 of the Constitution of India.

The Report contains significant results of the performance audit and compliance audit of the Departments of the Government of Andhra Pradesh under the Economic Services including Departments of Agriculture; Rain Shadow Area Development; Agriculture Marketing and Co-operation; Animal Husbandry, Dairy Development and Fisheries; Energy, Infrastructure and Investment; Environment, Forests, Science and Technology; Industries and Commerce; Information Technology, Electronics and Communications; Water Resources; Public Enterprises; and Transport, Roads and Buildings. However, the other Departments are excluded and covered in the Report on General and Social Services.

The instances mentioned in this Report are those, which came to notice in the course of test audit for the period 2014-15 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports; instances relating to the period subsequent to 2014-15 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Chapter - 1
Overview of Economic Sector

Chapter-1

Overview of Economic Sector

1.1 Introduction

Andhra Pradesh State has a population of 4.96 crore with geographical area of 1,62,970 sq.kms. For the purpose of administration, there are 33 Departments at the Secretariat level headed by Principal Secretaries/Secretaries who are assisted by Directors/Commissioners and Subordinate officers under them. This Report covers the functioning of 11 Departments of Economic Sector listed in Table 1.1. This is the first Audit Report on Economic Sector of the AP State after the State's bifurcation. The Audit Report in respect of the Economic Sector of Telangana is being presented separately.

1.2 Expenditure of Economic Sector Departments

Expenditure incurred by the Departments during the period 2010-15 is given in Table 1.1.

Table 1.1 – Table showing the expenditure during 2010-15

(₹ in crore)

Sl. No.	Name of the Department	2010-11	2011-12	2012-13	2013-14	2014-15*
1	Agriculture [1]	2270.40	3334.54	3633.36	2874.65	9258.24
2	Rain Shadow Area Development					
3	Agriculture Marketing & Co-operation					
4	Animal Husbandry, Dairy Development& Fisheries	567.70	729.58	830.61	839.18	715.35
5	Energy, Infrastructure & Investment[2]	3696.98	4367.68	6249.03	7553.28	14476.96
6	Environment, Forests, Science and Technology	277.56	343.01	391.25	399.56	290.60
7	Industries and Commerce	448.45	380.74	760.53	705.66	2464.64
8	Information Technology, Electronics and Communications	24.53	57.72	199.37	155.10	127.02
9	Water Resources[3]	15710.87	17787.39	19704.27	18760.67	9378.12
10	Public Enterprises	1.28	1.46	1.40	1.44	1.22
11	Roads & Buildings[4]	2272.95	3043.04	4188.66	4948.75	5969.18
Total		**25270.72**	**30045.16**	**35958.48**	**36238.29**	**42681.33**

* *These figures represent the expenditure figures of the erstwhile composite AP State from 01 April 2014 to 01 June 2014 and of residuary AP State from 02 June 2014 to 31 March 2015*

(***Source:*** Appropriation Accounts of Government of Andhra Pradesh for the relevant years)

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[1] The expenditure of Agriculture, Rain Shadow Area Development and Agiculture Marketing is covered under Grant No. XXVII – Agriculture and the expenditure of Co-operation Department is covered under Grant No. XXX

[2] These figures represent the expenditure on Energy only. The expenditure of Infrastructure & Investment is covered under Grant No. XI – Roads, Building and Ports

[3] formerly the Irrigation & Command Area Development Department

[4] These figures also include the expenditure on Infrastructure & Investment

Of the 11 Departments with a total expenditure of ₹ 42681.33 crore covered in this Report, the major portion of expenditure was incurred by the Energy Department (33.92 *per cent*), the Water Resources Department (21.97 *per cent*), the Agriculture (21.69 *per cent*) and the Roads and Buildings and the Infrastructure and Investment (13.99 *per cent*) Departments during 2014-15.

1.3 About this Report

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from the audit of 11 Government Departments and Autonomous Bodies under the Economic Sector. Compliance Audit covers examination of the transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with. Performance Audit examines whether the objectives of the programme/activity/Department are achieved economically, efficiently and effectively.

1.4 Authority for audit

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). CAG conducts audit of expenditure of the economic sector Departments of the Government of Andhra Pradesh under Section 13[5] of the DPC Act. CAG is the sole auditor in respect of four[6] autonomous bodies which are audited under Sections 19(2)[7] 19(3)[8] and 20(1)[9] of the DPC Act. In addition, CAG also conducts audit of other autonomous bodies under Section 14[10] of DPC Act which are substantially funded by the Government. Principles and methodologies for

[5] Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts kept in any Department of a State

[6] AP Electricity Regulatory Commission (APERC) under Section 19(2), AP Khadi and Village Industries Board (APKVIB) under Section 19(3), Environment Protection Training and Research Institute (EPTRI) under Section 20(1) and AP Compensatory Afforestation Fund Management and Planning Authority (AP State CAMPA) under Section 20(1) of DPC Act

[7] Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations

[8] Audit of accounts of Corporations (not being companies) established by or under law made by the State Legislature in accordance with the provisions of respective legislations.

[9] Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the CAG and the Government

[10] Audit of all receipts and expenditure of (i) any body or authority substantially financed by grants or loans from the Consolidated Fund and (ii) any body or authority where the grants or loans to such body or authority from the Consolidated Fund in a financial year is not less than ₹ one crore

various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the CAG.

1.5 Planning and conduct of audit

The primary purpose of this Report is to bring to the notice of the State Legislature, the important results of Audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. Findings of Audit are expected to enable the Executive to take corrective action as also to frame policies and directives that will lead to improved Financial Management of the Organisations, thus contributing to better governance.

Audit process starts with the assessment of risks faced by various Departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous Audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of Audit are decided.

After completion of Audit, Inspection Reports containing Audit findings are issued to the heads of Departments who are requested to furnish replies to the Audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, Audit findings are either settled or further action for compliance is advised. Important Audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports which are submitted to the Governor of the State under Article 151 of the Constitution of India. During 2014-15, audit of various Departments/ Organisations under Economic Sector were audited and 153 Inspection Reports containing 978 Paragraphs were issued.

1.6 Response to Audit

1.6.1 Performance Audit and Compliance Audit observations

One Performance Audit report and five Compliance Audit Paragraphs included in this Audit Report were forwarded demi-officially to the Principal Secretaries/Secretaries of the Departments concerned between September and November 2015 with a request to send their responses. Government/ Department's responses had been received for three Compliance Audit Paragraphs. An Exit Conference was held in respect of the Performance Audit with Government representatives in December 2015. Responses of Government/Departments have been taken into account while finalising this Report.

1.6.2 Follow-up on Audit Reports

Finance and Planning Department issued (May 1995) instructions to all Administrative Departments to submit Action Taken Notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) relating to the paragraphs contained in Audit Reports within six months. Audit reviewed the outstanding ATNs as of 31 December 2015 on the paragraphs pertaining to Economic Sector Departments included in the Reports of the Comptroller and Auditor General of India, Government of Andhra Pradesh (paragraphs pertaining to the present Andhra Pradesh State) and found that two Departments[11] did not submit ATNs for the recommendations pertaining to seven audit paragraphs discussed by PAC.

1.6.3 Outstanding replies to Inspection Reports

The Accountant General (E&RSA), Andhra Pradesh and Telangana (AG) arranges to conduct periodical inspections of the Government Departments to test check transactions and verify maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher Authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through replies. Serious financial irregularities are reported to the heads of Departments and the Government.

2172 IRs containing 6854 paragraphs issued upto March 2015 were pending settlement as of 30 September 2015. The Department wise details are given in ***Appendix-1.1***. This large pendency of IRs, due to non-receipt of replies, was indicative of the fact that heads of offices and heads of Departments did not initiate appropriate and adequate action to rectify the defects, omissions and irregularities pointed out by audit in the IRs.

1.7 Significant Audit Findings

Performance Audit

Implementation of Schemes in Animal Husbandry Department

The Animal Husbandry (AH) Department implements several schemes for development of livestock and providing veterinary healthcare. The activities of the Department are oriented towards improving the production potential of

[11] Water Resources Department: 5 ATNs and Animal Husbandry, Dairy Development and Fisheries Department: 2 ATNs

cattle and buffaloes by way of breed upgradation, providing preventive and curative health care to livestock, and spreading awareness among farmers on profitable livestock production/rearing. Performance Audit was conducted to evaluate the implementation of (i) Supply of milch animals schemes, (ii) Calf feed/rearing programmes, and (iii) Sheep and goat development schemes covering the five year period 2010-15.

Major audit findings on implementation of schemes are as follows:

- ***Adequate publicity was not given for generating awareness among potential beneficiaries about the schemes despite availability of funds and display centres were not set up to reduce travel cost to beneficiaries. As a result, some of the animal development schemes did not attract adequate response from potential beneficiaries.***

- ***Despite good response from beneficiaries, schemes like 'Supply of 1+1 Milch Animals' and 'Supply of two Milch Animals' aimed at providing sustainable income to BPL families, and 'Mini Dairy Units Scheme' to encourage rural youth to take up dairying activities were discontinued after 2013-14 without any recorded reasons, indicating lack of long term objective/planning on part of the Department in implementation of these schemes.***

- ***In 'Supply of 1+1 Milch Animals' scheme, the Department supplied only one animal to 7681 (91 per cent) beneficiaries and the objective of providing sustainable income generation to the BPL beneficiaries by supplying two animals was not fulfilled.***

- ***In Mini Dairy Units (MDUs) scheme, 66 per cent of the approved beneficiaries did not establish the units and non-sanction of loans to the selected beneficiaries by banks was one of the main reasons for non-achievement of targets under the scheme.***

- ***In implementation of MDUs scheme, deficiencies like beneficiaries taking back their contribution due to non-supply of animals at the agreed rates, short supply of cattle feed to the inducted animals and non-enrolment of female calves of the beneficiaries were noticed.***

- ***The Medium Dairy Units scheme, which was aimed at developing model dairy farms/commercial dairy enterprises and increasing milk production in the State, was largely a failure due to high investment required of the beneficiaries coupled with wrong selection of beneficiaries and failure of the Department to facilitate bank loans to the selected beneficiaries. As a result, only 6 units were established in test***

checked districts against a target of 84 and the scheme was discontinued while unutilised funds were diverted to other schemes.

- ***The Department introduced 'Calf Rearing (Sunandini) Programme' in 2013-14 with a view to increase the number of lactations and milk production by bringing early maturity in female calves through supply of nutritional feed. Only nine per cent of the calves born from artificial insemination were covered under the scheme and no fresh enrolments were made thereafter to cover the remaining 91 per cent calves, indicating lack of long term planning to achieve the intended objective.***

- ***Though timely supply of the stipulated quantities of nutritional feed to the calves was the key for achievement of the objective under the 'Calf Rearing (Sunandini) Programme', Audit noticed deficiencies like delayed/short supply of feed in the first year after enrolment and non-supply of feed in second year, non-recording of growth pattern of enrolled calves, etc., due to which the objective of the scheme was defeated.***

- ***There was shortage of veterinary staff which was adversely affecting the functioning of the Department and implementation of livestock schemes at ground level.***

[Paragraph 2.1]

Compliance Audit

Finance Control Mechanism in Pay & Accounts Offices

Pay and Accounts Officers (PAOs)/Assistant PAOs (APAOs) conduct pre-check of bills submitted by the Drawing and Disbursing Officers (DDOs) of various Public Works Departments, make payments, compile monthly accounts and render the same to the Accountant General (A&E). The PAO system was to enforce financial discipline in Government expenditure through adherence to financial rules, budgetary controls, and by ensuring that expenditure is incurred in accordance with sanctions of the Legislature. Audit examined functioning of six selected PAOs covering the five years period 2010-15.

Major Audit findings are summarised below:

- ***Though one of the important functions of PAOs was to see that no payment is made in excess of the funds released, the test checked PAOs paid bills amounting to ₹ 171.39 crore in excess of the Letters of Credit issued by the Heads of Departments.***

- ***The PAOs accepted Bank Guarantees (BGs) instead of Demand Drafts for works costing less than ₹ 50 lakh in 112 works contrary to Government orders. The present system of monitoring of BGs was found to be deficient and not protective of Government interest, as the PAOs simply returned 1078 BGs valuing ₹ 275.83 crore to the respective Departments for renewal, but did not watch their actual renewal.***

- ***In the test checked PAOs, Miscellaneous Public Works Advances of ₹ 43.61 crore, Land Acquisition advances of ₹ 18.80 crore and PWD Deposits of ₹ 97.28 crore were pending clearance and there was no monitoring/pursuance by the PAOs with the respective Departments in this regard.***

- ***Internal control in the PAO system was deficient as there were shortfalls in inspections of subordinate offices by the Director and Joint Directors of Works Accounts and inspection of DDOs by the PAOs, and 1318 Audit Notes issued by the Accountant General involving ₹ 130.12 crore were pending for want of remedial action/replies by the PAOs.***

[Paragraph 3.1]

- ***In distribution of Zinc Sulphate by AP State Co-operative Marketing Federation Limited, there were deficiencies like non-maintenance of beneficiary details, issue of zinc in excess of the prescribed ceiling and furnishing of Utilisation Certificates without actual distribution, indicating lack of transparency/monitoring over zinc distribution.***

[Paragraph 3.2]

- ***Post tender waiver of tender discount for both the additional works as well as the original work contrary to codal provisions in the work of 'Providing road connectivity from Venkatachalam to Krishnapatnam Port' vitiated the spirit of competitive bidding and resulted in extra expenditure of ₹ 19.26 crore to Government and undue favour to contractor.***

[Paragraph 3.3]

- ***Post tender alteration to the agreement clauses relating to recovery of Value Added Tax in 11 contracts pertaining to Krishna Delta Modernisation works, resulted in unwarranted financial commitment of ₹ 12.12 crore on public exchequer and undue benefit to the contracting agency.***

[Paragraph 3.4]

- ***Not considering the saving of ₹ 8.24 crore due to post tender reduction in canal length and allowing additional payment of ₹ 5.19 crore for controlled blasting in Package No.17 of Handri Niva Sujala Sravanthi project (Phase-II) resulted in undue benefit to the agency and extra expenditure to the Department.***

[Paragraph 3.5]

Chapter - 2
Performance Audit

Chapter-2

Performance Audit

Animal Husbandry, Dairy Development and Fisheries Department

2.1 Implementation of Schemes in Animal Husbandry Department

2.1.1 Introduction

The Animal Husbandry (AH) Department implements several schemes[1] for development of livestock and providing veterinary healthcare. The activities of the Department are oriented towards improving the production potential of cattle and buffaloes by way of breed upgradation, providing preventive and curative health care to livestock, and spreading awareness among farmers on profitable livestock production/rearing.

2.1.2 Organisational set up

The AH Department is headed by Principal Secretary at Secretariat level. Activities of the Department are overseen by the Director, who is assisted by two Additional Directors and 15 Joint Directors (JDs) (two in the Directorate and 13 at district level). The JDs in the district are supported by Deputy Directors/Assistant Directors, Veterinary Assistant Surgeons and other veterinary/livestock officers to carry out the various activities of the Department at ground level.

2.1.3 Audit objectives

The Performance Audit was aimed to assess whether:

- Planning for execution of the schemes was done effectively;
- implementation of the schemes was based on the scheme guidelines;
- implementation achieved the objectives of the respective schemes; and
- proper internal control system was in place and monitoring was effective.

[1] (a) Economic support schemes like supply of milch animals, sheep, calf feed, etc.; (b) Support schemes to enhance productivity of fodder and feed, silage making units; (c) Animal health and support services like cattle and sheep insurance, veterinary services; and (d) Infrastructure development schemes like strengthening and construction of veterinary institutions

2.1.4 Audit criteria

The Performance Audit was conducted with reference to the following audit criteria:

- Operational Guidelines of the respective schemes
- Government Orders and instructions/circulars issued from time to time
- Departmental Manuals

2.1.5 Scope and methodology of audit

The Performance Audit was conducted on the implementation of (i) Supply of milch animals schemes, (ii) Calf feed/rearing programmes, and (iii) Sheep and goat development schemes covering the five year period 2010-15. During the period 2010-15, total expenditure of ₹ 199.28 crore was incurred on the above schemes.

Table 2.1 – Expenditure incurred on schemes during 2010-15

(₹ in crore)

Year	Supply of Milch Animals			Calf Feed Programme			Sheep and Goat Development			Grand Total		
	Budget released	Budget utilised	Balance	Budget released	Budget utilised	Balance	Budget released	Budget utilised	Balance	Budget released	Budget utilised	Balance
2010-11	36.89	34.32	2.57	0.23	0.14	0.09	1.96	1.86	0.10	39.08	36.32	2.76
2011-12	78.38	39.91	38.47	0.59	0.32	0.27	8.37	8.02	0.35	87.34	48.25	39.09
2012-13	49.71	46.35	3.36	0.30	0.22	0.08	9.71	3.52	6.19	59.72	50.09	9.63
2013-14	26.64	26.22	0.42	25.33	20.07	5.26	0.63	0.47	0.16	52.60	46.76	5.84
2014-15	0.00	0.00	0.00	33.31	17.48	15.83	0.38	0.38	0.00	33.69	17.86	15.83
Total	**191.62**	**146.80**	**44.82**	**59.76**	**38.23**	**21.53**	**21.05**	**14.25**	**6.80**	**272.43**	**199.28**	**73.15**

Note: The above position depicts figures of the combined AP State upto the date of State bifurcation (02 June 2014) and figures of the present AP State thereafter.

(***Source:*** Information furnished by the Department)

Records of the Directorate, four[2] out of 13 district offices (JDs) and two Deputy/Assistant Directors of each selected district selected through random sampling method (on the basis of district wise expenditure) were audited during February to July 2015. In addition, 25 *per cent* Veterinary Institutions in each selected district were also test checked. An Entry conference was held (March 2015) with the Department wherein the objectives, scope and methodology of the Performance Audit were discussed. An Exit Conference was held in December 2015 with the Joint Secretary, Animal Husbandry, Dairy Development and Fisheries Department, Director of AH and other officers of the Department, wherein the audit observations and recommendations were discussed. The replies given during the Exit Conference have been taken into account while arriving at the audit conclusions.

[2] Ananthapuramu, Chittoor, Guntur and Kurnool

2.1.6 Audit constraints

In the district offices and also in the Directorate, proper documentation in respect of implementation of schemes, selection of beneficiaries, beneficiary-wise sanction files, correspondence with banks, outcomes of the schemes, etc. were lacking and scheme-wise registers were not prescribed/maintained. As a result, audit examination was restricted only to the limited files and correspondence available with the test checked district offices.

Audit findings

The deficiencies noticed in implementation of the above mentioned schemes are discussed in the succeeding paragraphs.

2.1.7 Supply of milch animals[3]

To generate regular income among below poverty line (BPL) farmers/Self Help Groups (SHGs), the Department implemented four subsidised schemes with funds received from GoI under Rashtriya Krishi Vikas Yojana (RKVY), Prime Minister (PM)'s Package and Chief Minister (CM)'s Package, as shown below:

Scheme details	Source of funding	Government Subsidy	Years of implementation
Supply of 1+1 milch animal scheme Two milch animals/pregnant cows or buffaloes/heifers are supplied with a gap of six months (first animal is supplied initially and the second animal after six months) to BPL farmers on subsidy.	RKVY, PM package, and CM package	50% of unit cost	2007-08 to 2013-14
Supply of two Milch Animals Two milch animals/pregnant cows or buffaloes/heifers are supplied as a unit to BPL farmers on subsidy.	RKVY	50% of unit cost	2012-13 to 2013-14
Mini Dairy Units Five milch animals are supplied to unemployed youth, experienced farmers and SHGs on subsidy.	RKVY	25% of unit cost	2010-11 to 2013-14
Medium Dairy Units 20 milch animals are supplied to educated unemployed youth and women SHGs on subsidy.	RKVY	₹ 2.5 lakh per unit	2012-13 to 2013-14

[3] Milch animal : Lactating (milk giving) buffaloes/cows

The non-subsidy portion under the above schemes was to be met by the beneficiaries with their own money and/or from bank loans.

2.1.7.1 Inadequate Publicity

As per the scheme Guidelines, the AH Department is the implementing agency and a District Level Committee under the chairmanship of District Collector oversees the scheme implementation at district level. Adequate publicity was to be given by the Department regarding the schemes, eligibility criteria, method of submitting applications, etc. for awareness of the potential/ interested beneficiaries. Beneficiaries were to be selected by Mandal Level Committees (headed by Mandal Parishad Development Officer) by conducting Gram Sabhas in the selected villages. The District Level Committee under the chairmanship of District Collector finally approves the list of beneficiaries selected by Mandal Level Committees. During 2010-15, animals were supplied to 10199 beneficiaries in the test checked districts under different milch animal schemes and subsidy of ₹ 21.83 crore was utilised.

Audit noticed that despite availability of funds, the Director of AH had not released any funds to the test checked districts for providing publicity. No records about conducting Gram Sabhas for selection of beneficiaries, applications received/rejected and publicity given by the Department for generating awareness among potential beneficiaries were found either in the Directorate or in the test checked districts. Paragraphs 2.1.10.1 and 2.1.11 of this Report bring out the issues of some of the schemes not attracting adequate response from potential beneficiaries.

Though the Department replied that publicity was given through pamphlets, local print media, radio, etc., Audit noticed that no expenditure was incurred towards publicity and no records were available in support of the reply. The Department accepted that no expenditure was incurred on publicity and that documentation was lacking.

2.1.7.2 Selection of beneficiaries

Though the guidelines of milch animals schemes stipulated selection of beneficiaries in Gram Sabhas, in Anantapuramu, Chittoor and Kurnool districts, no record/information about conducting Gram Sabhas for selection of beneficiaries was available either with the JDs or with the test checked ADs/DDs/veterinary institutions.

Further, the details of applications received, accepted and rejected during selection of beneficiaries were not available in any of the four test checked districts, due to which there is no assurance that the selection of beneficiaries was done in a transparent manner.

2.1.7.3 Procurement and supply of milch animals

For supply of milch animals to the beneficiaries selected under various schemes, the Department procured milch animals like cows/buffaloes/heifers from other States by concluding Rate Contract (RC) with supply firms selected after tender process. Audit observed the following deficiencies in procurement and supply of milch animals:

(i) Procurement of over-aged animals: The Scheme guidelines prescribed that age of the milch animals at the time of supply should not be more than 60 months in case of buffaloes and 48 months in case of cows. A condition to this effect was also included in the RCs concluded with animal supply agencies. This was to ensure that the inducted animals give assured yield of milk for longer duration. Audit noticed that 773 out of 6347 buffaloes and 430 out of 7722 cows supplied in test checked districts during 2010-15 were overaged, age of these animals ranging from 65 to 93 months in case of buffaloes and 53 to 78 months in case of cows. Thus, the guidelines in this regard were not followed and assured milk yield for maximum period was not ensured.

During the Exit Conference, the Department replied that over-aged animals were procured in some cases as the beneficiaries choose over-aged animals. The reply is not acceptable since the scheme guidelines and terms of RCs were specific about the age criteria, the Department should not have allowed the supply agencies to offer/supply over-aged animals to beneficiaries.

(ii) Transportation of animals: As per guidelines and the terms and conditions of RCs concluded with the suppliers, it is the responsibility of the supplying agencies to arrange transportation of animals from source point to the beneficiary village by train/trucks. The Department pays transportation charges to the suppliers at the rates stipulated in the guidelines/RCs from time to time. The charges payable depends on the type of animal[4], actual distance and mode of transport (train or truck). As per the RC for the period 2010-12, the rates fixed for transportation of a milch animal by rail was ₹ 2.80/Km and by road was ₹ 3.50/Km. RCs concluded with supply firms stipulated that in case of transportation of animals by trucks the firm should submit way bills, a route map, details of truck number and meter readings along with invoice as proof of transportation. In case of transportation by rail, the firm should submit copies of railway receipts.

During 2010-15, the Department inducted 14069 animals in four test checked districts and paid ₹ 3.09 crore towards their transportation. A test check of 286 invoices/delivery challans (selected randomly) revealed that in all these delivery challans, transportation charges (₹ 9.35 lakh) were claimed and paid

[4] Milch animal, pregnant milch animal, heifer or pregnant heifer

at rates applicable for transportation by trucks, but way bills were not enclosed in any of them. Truck numbers were noted in only 59 (20 *per cent*) delivery challans and meter readings were not noted in any of them. Despite non-submission of way bills/railway receipts, bills were passed and transportation charges paid based on road transportation rates, without verifying actual mode of transportation used and the distance covered.

The Department replied that transportation charges were paid based on the distance as per Google maps and that their staff was not aware of the stipulation relating to way bills. The reply is not acceptable since Google maps show only the distance but cannot be taken as proof of actual transportation or for the mode of transport. Payment of transportation charges without proof of transportation indicates lack of transparency and possibility of fraud.

(iii) Non-establishment of display centres: After finalisation of tenders for supply of milch animals and placing the supply orders on supplier firms, a committee of technical experts of the Department visits the place of procurement along with supplier firms to choose the breed and also to examine the biological features like health, milk yield, etc. The beneficiaries may accept the breed supplied by the Department or accompany the committee, at their own cost, to choose the animals of their choice either personally or through their representative. The Government instructed (May 2012) the Department to call for tenders from milch animal supplier firms to establish display centres in the State to enable the farmers choose the breed of their choice instead of travelling to other States, thereby reducing the financial burden on them. Audit noticed that even after three years, display centres were not established (June 2015) due to non-finalisation of modalities of tendering process.

The Department stated that display centres were not beneficial either to the suppliers or to the farmers and hence not implemented. The reply is not acceptable since non-setting up of display centres was in contravention of Government orders and the benefits of display centres would be known only after their setting up. The Department neither set up display centres nor explored other methods to facilitate beneficiaries in selection of appropriate breed. It is pertinent to note that only 30.87 *per cent* and 25 *per cent* targets were achieved in Mini Dairy Units and Medium Dairy Units schemes respectively, as discussed in subsequent Paragraphs 2.1.10.1 and 2.1.11.

***(iv) Acknowledgements from beneficiaries*:** Test check of 286 delivery challans revealed that in 112 cases, though the animals were shown as handed over to beneficiaries, acknowledgement (signatures/thumb impression) of beneficiaries in token of receipt of the animal were not obtained, in the absence of which actual delivery of animals to the selected beneficiaries could not be established.

During the Exit Conference, the Department accepted the audit observation and stated that acknowledgements would be obtained in future.

(v) Lack of follow-up on inducted animals: As per the guidelines of milch animal schemes, the Department shall give technical guidance required by the beneficiaries on the follow-up measures to be taken after induction of animals to ensure that all the inducted milch animals conceive within three-four months by making frequent visits to the beneficiaries. Guidelines prescribed maintenance of a 'follow up register', for recording details of follow up action taken in respect of each inducted animal. However, no follow-up registers were maintained in any of the test checked districts. Thus, there was no effective monitoring by the Department over the outcomes of the milch animal schemes.

2.1.8 Supply of 1+1 Milch Animals Scheme

The 1+1 milch animals scheme was being implemented since 2007-08. Under this scheme, beneficiaries from BPL families are selected and supplied with two milch animals with a gap of six months at 50 *per cent* subsidy. The beneficiaries were to bear the remaining cost on their own or from bank loans for each animal at the time of supply.

In the four selected districts, as against a total target of 6770 milch animals, the Department had supplied 9219 animals during 2010-15.

Audit noticed the following deficiencies in implementation of this scheme:

- The scheme guidelines stipulated supply of two animals to each beneficiary since maintenance of one milch animal was not considered economically viable. Thus, supply of two animals was key to provide sustainable income generation to beneficiaries. From the '45 column register of inducted animals' maintained by the Department, Audit noticed that though the Department supplied 9219 animals under 1+1 milch animals scheme during 2010-15, out of the 8450 beneficiaries covered under the scheme, second animal was not supplied to 7681 (91 *per cent*) beneficiaries. There was no monitoring over this issue either at the Directorate level or at the District Office level, as no returns/reports were prescribed/maintained to watch the supply of second animal. The reasons for non-supply of second animal were not forthcoming from the records of the Department. Instead of supplying second animal to the enrolled beneficiaries, the Department identified new beneficiaries and supplied a single animal to them.

  While accepting the above audit observation, the Department stated that the beneficiaries did not come forward to procure second animal. However, no documentation was found in the Department's records about the efforts made by the District offices/Veterinary Institutions to encourage the enrolled beneficiaries to take the second animal.

Thus, due to non-supply of second animals to majority of beneficiaries, the intention of the scheme to provide sustainable income generation to the BPL beneficiaries by supplying two animals was not fulfilled.

- The fact that the test checked districts were able to exceed the targets during 2010-14 indicates that there was good response from the BPL beneficiaries for enrolment in the scheme. However, Audit noticed that the Directorate gradually reduced the targets during the above period. No fresh targets were fixed for the year 2014-15 and no further funds were released for continuation of this scheme for reasons not on record. As a result, no new beneficiaries were enrolled under 1+1 milch animals scheme during 2014-15 (except in Guntur, where animals were supplied to new beneficiaries with left over funds).

  The Department replied that the scheme was not continued due to non-allocation of funds. However, as seen from the budget proposals submitted by the Department to GoAP and GoI, the Department did not seek budget allocations for continuation of this scheme.

2.1.9 Supply of two Milch Animals Scheme

While the 1+1 Milch Animals scheme was still under implementation, the Department came out (November 2012) with a new scheme of 'Supply of two milch animals' to BPL farmers with RKVY funds. Under this scheme, both the animals were to be supplied at a time to the beneficiaries at 50 *per cent* subsidy.

The Department initially set a target of 368 units for the four test checked districts and released funds accordingly. It later set additional targets of 210 units (in March 2013) and 646 units (February 2014) by diverting unutilised funds under other schemes. As against the total target of 1224 units given to the test checked districts, 1249 units were established in these districts by the end of 2013-14.

Audit observed that at the time of introducing the scheme, no long term goals/targets were set by the Department. The fact that the test checked districts could establish 1249 units against the target of 1224 units indicates that there was demand for the scheme from BPL farmers. Despite this, the scheme was not implemented after 2013-14. The reasons for discontinuation of the scheme were not forthcoming from Department's records. Discontinuation of the scheme within two years of its launching indicates that the Department was devising and implementing schemes on ad-hoc basis without any long term objective.

2.1.10 Mini Dairy Units Scheme

To encourage rural unemployed youth to take up dairying activities on fulltime basis and augment milk production in the State, Government accorded (May 2010) administrative approval for ₹ 23.45 crore for implementation of a new scheme of 'Mini Dairy Units' (MDU) with funds received from GoI under RKVY. The scheme targeted 4400 MDUs of three sizes viz., six (3+3), 10 (5+5) and 20 (10+10) milch animals by providing 75 *per cent* 'interest subsidy'[5] to beneficiaries. The Department did not furnish any records/details of interest subsidy paid to the beneficiaries.

Later, the structure of the scheme was revised (June 2011) and it was decided to establish MDUs (each unit consisting of five milch animals)[6] by providing 25 *per cent* of the unit cost as front end subsidy. The balance 75 *per cent* was to be borne by beneficiaries as cash contribution/bank loan.

2.1.10.1 Non-achievement of objectives of MDUs Scheme

Under the scheme, the Department proposed to sanction 8945 MDUs in 22 districts in the State with RKVY funds and 704 MDUs with funds received under National Mission on Protein Supplements (NMPS) Scheme. During 2011-13, the Director released ₹ 34.84 crore to 22 districts.

As against 9649 MDUs targeted, despite availability of funds, the Department was able to sanction only 2979 units (30.87 *per cent*) by utilising a subsidy amount of ₹ 15 crore. In test checked Districts, the targets and achievements are as shown below:

Table 2.2 – Targets and achievement of Mini Dairy Units

(No. of units)

Year	Ananthapuramu		Chittoor		Guntur		Kurnool		Total	
	Target	Achieve-ment	Target	Achieve-ment	Target	Achieve-ment	Target	Achieve-ment	Target	Achieve-ment
2011-12	500	96	523	120	452	80	428	101	1903	397
2012-13	20	10	31	6	26	29	20	38	97	83
2013-14	Nil	Nil	Nil	2	Nil	5	Nil	7	Nil	14
Total	**520**	**106**	**554**	**128**	**478**	**114**	**448**	**146**	**2000**	**494**

(***Source:*** Information furnished by JDs)

As against the total target of 2000 MDUs stipulated by Director for the four test checked districts, only 494 units (i.e. only 24.7 *per cent*) were sanctioned.

[5] Under this scheme, 75 *per cent* amount of the interest paid by the beneficiary (on the loan taken by him/her for establishing Mini Dairy Unit) to the bank would be reimbursed by the Department on quarterly basis

[6] Beneficiaries to be selected from experienced farmers, unemployed rural youth and members from Self Help Groups

Of this, 397 units were sanctioned in 2011-12. The number of units sanctioned declined to 83 in 2012-13 and 14 units in 2013-14.

The JDs attributed the reasons for shortfall mainly due to lack of response from beneficiaries and launching (November 2012) of a new '2-milch animals' scheme by the Department with 50 *per cent* subsidy, which was more attractive than the MDUs scheme which offered only 25 *per cent* subsidy. The reply is not tenable, for the following reasons:

- The '2-milch animals' scheme was limited only to BPL farmers whereas the MDUs scheme was open to all farmers especially to unemployed youth and Self Help Groups.
- Further, Audit also noticed that though 1461 beneficiaries were approved for sanction by the District Level Committees in test checked districts during 2011-14, only 494 beneficiaries (i.e. 34 *per cent* of total selected) were sanctioned MDUs. The reasons for non-establishment of units by the other selected beneficiaries were not documented/analysed by the Department.
- In Ananthapuramu district, Audit noticed 17 cases where the Department collected contribution from beneficiaries but refunded the same after retaining it for three months. Of these, in 11 cases, the beneficiaries sought refund of their contribution on the ground that the animal prices were found to be high at the procurement point. This indicates that the Department/animal supply agencies failed to supply animals to the selected beneficiaries as per the agreed rate contract. This could be one of the reasons for non-establishment of MDUs by the selected beneficiaries.
- Under this scheme, the unit cost works out to ₹ 2 lakh for buffaloes and ₹ 1.75 lakh for cows. The Department gives 25 *per cent* of the unit cost as subsidy and the balance amount of ₹ 1.5 lakh / ₹ 1.31 lakh was to be met by the beneficiary with his/her own money or from bank loan. Thus, financial capacity of the beneficiaries and sanction of loans by banks was a vital element for the success of the scheme. Audit observed that though the beneficiaries were selected/finalised by the Mandal and District Level Committees where the bank representative was a member, non-sanction of loans to the selected beneficiaries by banks was also a factor for non-achievement of targets under the scheme. The Department did not take up the matter with the banks and no correspondence in this regard was available in the records.

While accepting the audit observations, the Department replied that bankers were reluctant to give loans to beneficiaries and were demanding collateral security. The issue had been discussed in the State Level Sanctioning Committee (SLSC) meetings. However, Audit verified the minutes of the 16 SLSC meetings conducted during 2010-15, and found that the above discussion in SLSC meeting (June 2012) was with respect to a different scheme and not Mini Dairy Units scheme. No correspondence with banks was available in the Departmental records in this regard. The steep decline in the number of MDUs sanctioned during 2012-13 and 2013-14, indicating failure of the Department in selecting beneficiaries with adequate financial capacity and in convincing bankers to sanction loans to selected beneficiaries.

The MDUs scheme was launched for experienced farmers, unemployed rural youth and members of women SHGs to take up dairying as full time activity and to augment milk production in the State. While the MDUs scheme was a partial success (2979 units sanctioned in the State during 2011-14), the Department did not set further targets after 2012-13 and no further funds were released.

2.1.10.2 Health and nutritional support for female calves

Guidelines of MDUs scheme stipulated that milch animals are to be procured, within 30 days from calving and supplied to beneficiaries along with their calves. It was further stipulated therein that the female calves supplied to each beneficiary shall be registered (upto two calves per beneficiary) by the Department for extending health and nutritional support, worth ₹ 150 and ₹ 1500 respectively, to each female calf so as to bring in early maturity/ calving in the enrolled female calves.

Audit noticed that while allocating funds to district offices, the Director had released the funds based on the physical targets of MDUs and cost per unit. However, the cost towards health and nutritional support to female calves was neither included in the unit cost nor sanctioned separately to district offices. A total of 2465 milch animals along with their calves were supplied to the beneficiaries of 494 MDUs set up in the test checked districts. Out of these, 1052 were female calves. However, none of these female calves were enrolled and health and nutritional support was not provided to them as stipulated in the scheme guidelines, as no funds were sanctioned/released for implementation of this component of the scheme.

The Department accepted the audit observation and assured that female calves would be enrolled in future.

2.1.10.3 Supply of cattle feed

The scheme guidelines contemplated supply of 450 kg of cattle feed for the first 100 days of lactation at 25 *per cent* subsidy to each animal inducted under MDUs scheme (estimated cost at 2011-12 rates: ₹ 4500 out of which ₹ 1125 was subsidy). The balance 75 *per cent* non-subsidy portion was to be collected from the beneficiary before supply of the cattle feed to ensure supply of 100 *per cent* (450 kg) feed to them.

In test checked districts, as the beneficiaries did not contribute non-subsidy portion, the Department, instead of ensuring collection of beneficiary contributions from beneficiaries, supplied only 110 kg of feed per animal (as against 450 kg) with the 25 *per cent* subsidy amount (₹ 1125) during 2011-12 and 2012-13. During 2013-14, when the market rates of cattle feed increased, the Department further reduced the feed quantity and supplied only 83 kg per animal to limit the cost of the feed to the subsidy amount of ₹ 1125, instead of increasing the allocation.

Thus, there was no assurance that the objective of increasing the milk yield by supplying 450 kg of nutritious feed to inducted animals was achieved.

The Department replied that the beneficiaries did not come forward as they were accustomed to the traditional system of feeding their milch animals. However, the Department could not show any record regarding their efforts to create awareness among beneficiaries about the benefits of concentrated feed which was crucial in achieving the maximum milk yield from the inducted animals.

2.1.11 Medium Dairy Units Scheme

To develop model dairy farms/commercial dairy enterprises and to increase milk production in the State, the Department introduced (November 2012) another scheme of 'Medium Dairy Units' with RKVY funds. Under this scheme, 20 animals in two spells (10+10) were to be supplied to each selected beneficiary (educated unemployed youth/women Self Help Groups). Unit cost[7] was fixed at ₹ 11.41 lakh for cows and ₹ 13.50 lakh for buffaloes out of which ₹ 2.5 lakh per unit would be given as subsidy. Out of the non-subsidy portion, 10 *per cent* was to be contributed by beneficiary and balance amount from bank loan. The Department had targeted establishment of 400 Medium Dairy Units across the State and ₹ 10 crore was allocated towards subsidy.

For 13 districts of present AP State, the Department had initially set a target of 233 units with total subsidy of ₹ 5.88 crore. There was poor response to the scheme and the Department reduced (March 2013) the target to only 72 units and allotted ₹ 1.8 crore towards subsidy while converting the remaining 161 Medium Units to 576 units of '2-milch animal' scheme at 50 *per cent* subsidy to utilise the remaining subsidy amount of ₹ 4.08 crore.

[7] This includes cost of animals, transportation, insurance, construction of shed, milking machine, cost of fodder cultivation, chaff cutter (3 HP) and cost of feed for one month (4 kg per animal per day)

The Director of AH did not furnish the details of Medium Diary Units established in the State. In the test checked districts, audit noticed that even the reduced targets were not achieved so far, as shown below:

Table 2.3 – Targets and achievement of Medium Dairy Units in test checked districts

District	Original target	Revised target	Achievement
Ananthapuramu	22	6	4
Chittoor	23	7	1
Guntur	20	6	1
Kurnool	19	5	0
Total	**84**	**24**	**6**

(***Source:*** Information furnished by JDs)

Audit noticed the following:

- The scheme was launched at a time when the Department was finding it difficult to implement even the Mini Dairy Units scheme which involved lower investment by beneficiaries (discussed in paragraph 2.1.10.1).
- To set up a Medium Dairy Unit under this scheme, the beneficiary was to bring in substantial investment of his own (including loan) ranging from ₹ 8.9 lakh to ₹ 11 lakh, which could possibly lead to lack of adequate response from beneficiaries.
- Further, though sanctioning of loans by banks to the selected beneficiaries was vital for the success of the scheme and bank representatives were members of the Mandal and District level selection committees, no correspondence/record was available with the Department regarding the efforts made to encourage/convince the banks to sanction loans to the selected beneficiaries for the success of the scheme.
- Though in test checked districts the failure of the scheme was attributed by the Department to poor response from beneficiaries, there was no evidence that it was adequately publicised among potential beneficiaries. No records regarding selection of beneficiaries were available with the districts. Chittoor and Kurnool district offices did not furnish the details of beneficiaries selected in these districts. In Ananthapuramu and Guntur districts, Audit noticed that only five units were sanctioned against 24 beneficiaries selected by Mandal Level Committees.
- Since the beneficiary's contribution under this scheme was high (₹ 8.91 lakh to ₹ 11 lakh), it was essential that beneficiaries with adequate financial capacity are selected for sanction of units. As per guidelines, the scheme was not exclusively for BPL families. However, Audit observed that in Ananthapuramu District, all the 18 beneficiaries

selected by the Department had low annual incomes of less than ₹ 50000. This indicates that beneficiaries having adequate financial capacity were not selected. Out of the 18 beneficiaries selected, only four beneficiaries were finally able to set up the units.

Thus, due to not selecting the beneficiaries keeping in view the requirements of the guidelines and failure of the Department to facilitate bank loans to the selected beneficiaries resulted in non-achievement of targets. As a result, the Medium Dairy Units scheme was largely a failure.

The unspent balance of ₹ 0.44 crore (out of the total allotment of ₹ 0.58 crore) under the Medium Dairy Units scheme was not surrendered, even though no units were set up during 2014-15. The amount was lying in the bank savings accounts of the district offices (July 2015).

The Department stated that the scheme failed as it was not attractive to the farmers. As regards selection of low income beneficiaries, it was stated that there was no clarity in the guidelines whether to select BPL beneficiaries or APL beneficiaries. However, there was no ambiguity in selection criteria in the guidelines and if there was doubt, the same should have been sorted out by the Directorate which had formulated and issued the guidelines.

Thus, gaps in planning of the scheme combined with ineffective implementation resulted in its failure and non-achievement of intended objective.

2.1.12 Calf Rearing (Sunandini) Programme

To increase the number of lactations and milk production by bringing early maturity in female calves through supply of nutritional feed, the Department launched (June 2013) 'Calf Rearing Programme', also known as 'Sunandini'. The scheme contemplated enrolling cross breed and graded murrah female calves (up to two calves per each BPL family) born out of artificial insemination (AI) at the age of three-four months and supply feed to them up to 24 months and 28 months of age respectively, with 75 *per cent* subsidy, besides providing healthcare and insurance with 100 *per cent* subsidy. The scheme was being implemented with GoAP funds[8] as well as RKVY funds.

Under this scheme, 260 kgs of feed (worth ₹ 3900), mineral supplementation and healthcare (worth ₹ 500) and insurance (premium: ₹ 600) was to be provided in the first year to each calf at a total cost of ₹ 5000 (Government subsidy: ₹ 4025 and beneficiary contribution: ₹ 975). In the second year, 610 kgs of feed worth ₹ 10000 (Government subsidy: ₹ 7500 and beneficiary contribution: ₹ 2500) was to be given to each calf. The feed was to be

[8] Normal State Plan funds and Special Component Plan for Scheduled Castes

supplied on quarterly basis and medicines and insurance immediately on enrolment.

The deficiencies noticed in implementation of Sunandini scheme are discussed below:

2.1.12.1 Targets and achievement

On launching of the scheme, the Department fixed a target of covering 82346 calves under the scheme in the 13 districts of the State during 2013-14. The targets were fixed based on the district wise data of number of calves born out of artificial insemination (9.07 lakh in 13 districts) during the previous year.

The targets fixed consisted of only nine *per cent* of total calves born from artificial insemination and the Department successfully achieved the target in the same year. Despite the success in enrolment in the first year, no further targets were fixed for 2014-15 and no fresh enrolments were made to cover the remaining 91 *per cent* calves born from artificial insemination in the State. The reasons for discontinuation of fresh enrolments were not forthcoming from the Department's records. Audit noticed that while submitting budget proposals for 2014-15, the Department included proposals for second year's feed supply for already enrolled calves and did not propose allocation of funds for fresh enrolments.

In the test checked districts, 36270 calves were enrolled under Sunandini scheme. As per the scheme Guidelines, a selection committee consisting of local Veterinary Assistant Surgeon (VAS) and Divisional Assistant Director (AH) would select the beneficiaries in Gram Sabhas. Audit noticed that Gram Sabhas were not conducted in any of the test checked districts for selection of beneficiaries. The JDs accepted the fact and stated that selection was done based on records of AI calves available with them. However, selection of beneficiaries through Gram Sabhas would have ensured transparency in selection process and accrual of scheme benefits to the most deserving BPL beneficiaries.

2.1.12.2 Supply of feed to enrolled calves

Since, the objective of the scheme was to achieve early maturity of the enrolled calves, timely supply of the stipulated quantities of nutritional feed to the calves was the key for its achievement.

- As per guidelines, the quantum of feed was to be supplied during the first year depending on the age of the enrolled calf, as shown below:

Age of the calf	Feed requirement per calf per day
4 to 6 months	500 grams
7 to 9 months	One Kg
10 to 12 months	1.5 Kg

Audit noticed that in the test checked districts, the JDs supplied feed to beneficiaries at uniform quantities, without assessing the quantum of feed to be supplied considering the age of calves. Though the quantum of feed was to be supplied at the rate of one Kg per day per calf of seven-nine months of age and at the rate of 1.5 Kg per day per calf of 10 to 12 months age, the Department during first quarter supplied feed at 500 grams per day per calf irrespective of its age which was only half/one-third of the actual requirement. This resulted in short supply of 846 MT of feed in the first quarter to the enrolled calves due to not considering the age of calves (details in ***Appendix-2.1***), though funds were available.

- In all four test checked districts, though the Department supplied feed for the first and second quarters in time, the third quarter feed was supplied belatedly due to non-release of funds in time by Government. The delays ranged from one to eight months as shown in ***Appendix-2.2***.
- In Ananthapuramu district, the third quarter feed was not supplied fully. As against 125 Kg of feed per calf to be supplied in the third quarter, only 50 Kg of feed per calf was supplied to the 2982 calves enrolled in the district. While the short supply in respect of 2382 calves enrolled under State Plan was due to non-release of adequate funds, there was short supply in respect of 600 calves enrolled under RKVY also despite availability of funds.
- In Chittoor and Guntur districts, 4285 and 3000 beneficiaries respectively were selected (January-March 2014) under Normal State Plan as per the additional targets fixed by the Director of AH. However, the Director of AH did not release funds in respect of these additional enrolments. Audit could not analyse the reasons for non-release of funds due to non-production of relevant records by the Director of AH. While JD-Guntur extended the benefits to these beneficiaries by utilising the leftover funds under other schemes (with the permission of Director), JD-Chittoor supplied only 120 Kg of feed per calf (as against 260 Kg contemplated) to the 4285 calves due to non-availability of funds.
- Scheme Guidelines contemplated supply of 260 kgs of feed to each enrolled calf in the first year of enrolment. The cost of feed was initially worked out at ₹ 3900 at a rate of ₹ 15 per Kg and funds were released accordingly. However, by the time of actual supply, the feed rate had increased to ₹ 16.4 per Kg, but Department did not increase the allocation to meet the additional cost. As a result, the Department supplied only 237 Kg - 240 Kg of feed in the test checked districts as against 260 Kg to be supplied in the first year of enrolment.

- Though the scheme contemplated supply of calf feed up to the age of 24 months/28 months, detailed guidelines regarding implementation of the scheme for the second year were issued belatedly in November 2014 and necessary subsidy funds were not released by Government as of July 2015. Resultantly, feed for the second year was not supplied to any of the beneficiaries in the three test checked districts (Ananthapuramu, Chittoor and Kurnool). In Guntur district, the JD collected beneficiary contribution of ₹ 2500 from 2066 (out of a total of 11884) beneficiaries and supplied (June 2015) feed to them for the first quarter of the second year within the amount so collected. No feed was supplied to the remaining 9818 beneficiaries due to non-release of subsidy funds by Government.

The Department accepted the short supply of feed due to enhancement of rate, belated issue of guidelines and non-release of funds for second year.

Thus, supply of feed without considering the age of the enrolled calves, delayed-supply of quarterly feed, short-supply of feed in the first year and non-supply of feed in the second year of enrolment, resulted in non-supply of the stipulated feed within 24 months/28 months of age to the enrolled calves, defeating the very objective of the scheme.

2.1.12.3 Non-supply of calf card to the beneficiaries

Scheme guidelines stipulated maintenance of two calf cards in the prescribed format for each enrolled female calf. One card should be with the beneficiary and the other one with the Veterinary Assistant Surgeon (VAS) concerned. These cards were to contain the details of beneficiary, details and dates of supply of feed and medicines/vaccinations and also acknowledgements of the beneficiary in token of receipt of the supplies. However, Audit noticed that in Chittoor district, calf cards were not supplied to the beneficiaries and only departmental copies were maintained. The stipulation of issuing calf cards to the beneficiaries was to ensure transparency in distribution of calf feed and this was not achieved due to non-issuance of calf cards to them.

Audit further noticed that though the calf cards were required to be printed in Telugu as per instructions issued (July 2013) by the Directorate, in three out of four test checked districts, the calf cards were printed in English (except Kurnool where the cards were in Telugu). Since majority of the beneficiaries are rural farmers, obtaining acknowledgements of beneficiaries on cards printed in regional language was necessary to ensure transparency in supply of feed, medicines, etc.

The Department accepted the above observations and assured remedial action.

2.1.12.4 Non-extension of calf feed benefit to second calf in the case of death of enrolled calf

As per scheme guidelines, enrolment of calves should be limited to two calves per beneficiary. Guidelines further stipulated that in case of death of enrolled calf, the benefit of calf feed supply for the remaining period shall be extended to the other calf born out of artificial insemination available, if any, with the same beneficiary. Audit noticed that in Kurnool district, though 270 calves died after enrolment, no new calves of the beneficiaries were identified for extending scheme benefits. The JD replied that new calves were not enrolled as clarification in this regard was not received from the Directorate. The reply is not acceptable since the scheme guidelines are self-explanatory.

2.1.12.5 Deficient provision of healthcare to enrolled calves

The total cost of implementation of the scheme for the first year of enrolment was ₹ 5000 (Government subsidy: ₹ 4025 and beneficiary contribution: ₹ 975) per beneficiary. Out of this, an amount of ₹ 1100 was to be utilised for mineral supplementation and healthcare (₹ 500) and insurance (₹ 600) of the enrolled calf.

Audit noticed that in respect of calves enrolled under Normal State Plan (NSP) and Special Component Plan for SCs (SCP), no separate Head of Account was created for release of funds required for insurance and healthcare. The Director was releasing the entire subsidy amount (of ₹ 4025 per calf) under the head of account titled 'Material and Supply (M&S)'. As a result, the test checked JDs were not utilising the subsidy amount for insurance premium and healthcare since M&S head of account could not be operated for this purpose and were using the beneficiary contribution for the same. Out of the beneficiary contribution of ₹ 975 collected for each calf, the JDs of Chittoor, Guntur and Kurnool utilised an amount of ₹ 588 towards insurance of calf and used the balance amount of ₹ 387 for supply of mineral supplementation/ medicines (as against ₹ 500 contemplated in guidelines). As a result, mineral supplementation/medicines worth ₹ 113 were short supplied to each calf enrolled under NSP and SCP.

Audit noticed that the JDs restricted supply of mineral supplementation/ medicines to ₹ 387 in respect of calves enrolled under RKVY also, despite availability of RKVY funds for reasons not on record. Thus, all the 33288 calves enrolled in these three districts were deprived of mineral supplementation/medicines worth ₹ 113 each.

In Ananthapuramu district, mineral supplementation/medicines were not supplied to any of the 2982 calves enrolled under RKVY, NSP and SCP due to non-release of adequate funds by the Director of AH under the scheme.

The Department accepted the above audit observations and assured that remedial action would be taken.

2.1.12.6 Evaluation of scheme outcomes

The main objective of the Sunandini Calf Rearing Programme was to ensure early attainment of maturity of enrolled calves and decrease the age at first calving by providing concentrated feed supplementation and healthcare to them.

Under the programme, enrolment of calves began in October 2013 and 48 *per cent* of calves were enrolled at the age of five-ten months. Thus, as of June 2015, most of the enrolled calves in the test checked districts would have reached the age of 24 months. However, the details of maturity/first calving of the enrolled calves were not being monitored and recorded in three test checked districts.

Further, the scheme guidelines stipulated that growth pattern of the enrolled calves shall be recorded periodically by assessing their body weight, coat, texture and health. The Department also instructed the district offices to upload the growth pattern in a dedicated website. Audit observed that in Ananthapuramu and Kurnool districts, the periodical growth patterns of calves were not being recorded/monitored. In Chittoor district, though the JD stated that the records of growth pattern were being maintained by VASs, the same were not produced to Audit. In Guntur district, only the weights of the calves were being recorded in the calf cards at the time of supply of feed but details of health conditions were not noted therein. None of the district offices was uploading the growth pattern in the Department's website.

Due to non-recording/monitoring of growth pattern and the details of maturity/first calving, there was no assurance about the outcomes of the scheme, despite spending ₹ 12.08 crore on the scheme in test checked districts.

While accepting the above audit observation, the Department replied that it was planning to develop a software application to monitor the growth pattern of enrolled calves and outcomes of the scheme.

2.1.12.7 Delay in settlement of insurance claims

As per the scheme guidelines, all the enrolled calves are provided insurance cover. In the event of death of the calf, the beneficiary has to submit a claim with necessary endorsements from the Department to the Company within seven working days and the Insurance Company was to settle the claim within 15 days of its receipt.

Out of the 2854 insurance claims made (November 2013 to July 2015) across the State, 670 claims were pending with the Insurance Company/Department as of July 2015. Of these, 261 claims were pending due to non-endorsement of claims by VASs and the remaining claims were pending for other reasons like incorrect bank account details, improper filling of claim documents, etc. The oldest pending claim pertained to January 2014.

In the test checked districts, 309 claims were pending settlement as of July 2015. There was no monitoring/pursuance by the Department over this issue and reasons for non-settlement of claims were not documented in the records of District Offices. Abnormal delays in endorsing the insurance claims and in rectifying the defects in the claims by the Department were leading to delayed settlements, thereby putting the beneficiaries to hardship.

While accepting the above audit observation, the Department replied that action would be taken for early settlement of insurance claims.

2.1.13 Sheep and Goat development schemes

Sheep and Goat rearing is an income-generating activity for weaker sections of the society. With a view to uplift the economic status of shepherds, the Department has been implementing various Sheep and Goat Development schemes, as shown below:

Name of the Scheme and unit details	Source of funding	Government subsidy	Year of implementation
Sheep & Goat Units (Supply of 20 ewes and one ram)	State Plan	50%	2010-11 to 2014-15
Ram Lamb Units (Supply of 20 Ram Lambs)	RKVY and State Plan	50%	2010-11 to 2014-15
Mini Sheep/Goat Units (Supply of five ewes/doe and one ram/buck)	NMPS component under RKVY and State Plan	50% in extremist affected areas 33% in non-extremist areas 90% in under Tribal Areas Sub-Plan	2013-14 to 2014-15
Ram Lamb rearing units (Supply of 50 Ram lambs and providing feed/health care/mineral supplementation)	RKVY	25%	2012-13
Intensive Goat Production (Supply of 47 ewes/doe and 3 rams/bucks and providing feed, medicines/vaccines, shed, silage pit and insurance)	NMPS component under RKVY	100%	2012-13
Improving productivity of goats under conventional small holder/pastoral system (Goat Cluster scheme) (clusters with 2000 goats are identified and provided feed and medicines/ vaccines)	NMPS component under RKVY	100%	2011-12 to 2012-13

The non-subsidy portion is to be met from beneficiary's contribution/bank loan. As per the information furnished by DAH, an amount of ₹ 21.05 crore was released for the above schemes during 2010-15, out of which an expenditure of ₹ 14.25 crore was incurred so far (over and above funds released/spent on Mini Sheep/Goat Scheme in 2014-15 under RKVY the details of which were not furnished by the Department).

2.1.13.1 Selection of beneficiaries

As per the guidelines issued by the Department for the above schemes, the beneficiaries were to be selected in Gram Sabhas, after giving adequate publicity about the schemes. Audit noticed that no funds were released/spent towards publicising these schemes. No records/information about conducting of Gram Sabhas, number of applications received/rejected/accepted and copies of resolutions of Gram Sabhas were available with the test checked District JDs.

2.1.13.2 Improper implementation of Goat Cluster scheme

In 2011-12, GoAP introduced a scheme called 'Improving productivity of goats under conventional small holder/pastoral system' (Goat Cluster scheme) to be implemented with funds received from GoI under the "National Mission on Protein Supplements (NMPS)" component of RKVY. Under this scheme, clusters having flock of 2000 goats are identified from habitations within a radius of 10 Km. Concentrated feed mix and health care (medicines/ vaccinations) are provided to the clusters to decrease mortality rate and increase body weights of the goats as well as to increase the weight of young ones at birth, so as to generate additional income to goat rearers.

In the test checked districts 16 goat clusters[9] were identified under the scheme by the District Level Selection Committees during 2011-13. Audit noticed that:

- As per the scheme guidelines, a minimum of 2000 goats should be identified in each cluster and concentrated feed mix at the rate of 250 Grams per goat per day was to be supplied for 60 days. In Ananthapuramu district, six clusters of 2000 goats each were identified. As against the total quantity of 1.8 MT of feed to be supplied to these clusters, the Department supplied only 1.5 MT of feed, despite availability of funds. Thus, there was a shortfall of 0.3 MT in feed supply.
- In Kurnool district, 7641 goats were registered in the three goat clusters[10] covered under the scheme. However, the Department

[9] Ananthapuramu: 6, Chittoor: 4, Guntur: 3 and Kurnool: 3
[10] Mangampeta: 2340, Seethamma Thanda : 2849 and Gudembai Thanda: 2452

supplied only 0.60 MT of feed (i.e. for 40 days considering 2000 goats in each cluster) to these clusters as against the total requirement of 1.15 MT, resulting in short supply of 0.55 MT of feed. Even this quantity was supplied in two spells (June 2012 and December 2012) with an abnormally long gap of six months, despite availability of funds.

While JD-Ananthapuramu did not furnish any reply, JD-Kurnool replied that balance feed could not be supplied due to expiry of the Rate Contract (RC) for supply of feed. However, Audit observed that the Department had released funds for this scheme in January/April 2012 itself and RC was in operation at that time. There was no justification for short/belated supply.

2.1.13.3 Deficient implementation of Intensive Goat Production scheme

The Department introduced (2012-13) 'Promoting Intensive Goat Production' scheme with funds received from GoI under NMPS component of RKVY. Under the scheme, SC/ST/BPL goat rearers who already had ten or more goats, would be selected and be supplied with 47 female and 3 male goats as a unit with 100 *per cent* subsidy. This would be followed up by providing feed, medicines/vaccines, construction of shed, silage pit, metal feeders and insurance. The objective was to inculcate the habit of intensive system of rearing among goat rearers and to showcase these units as demonstration units for other goat rearers.

In the four test checked districts, though the Department fixed a target of 39 units, only 28 units were identified and sanctioned under the scheme, with a shortfall of 11 units (10 in Kurnool and one in Chittoor). In Kurnool district, as against a target of 10 units, the achievement was nil. Keeping in view non-achievement of targets in Kurnool district, the Department reduced (March 2014) the targets to five units (by transferring five units to another district). However, no units were sanctioned in the district during 2014-15. Non-achievement of targets even in respect of this 100 *per cent* subsidy scheme indicates failure of the district offices in identifying beneficiaries.

The Department replied that the reasons for non-achievement of targets would be analysed and remedial action would be taken.

2.1.14 Internal Control and Monitoring

2.1.14.1 Internal Audit System

The Department had an Internal Audit (IA) wing, consisting of three officers headed by a Senior Accounts Officer. Out of 52 field offices in the 13 districts of the present AP State, the IA wing audited only 24, 7 and 12 units during 2011-12, 2012-13 and 2013-14 respectively and none of the units were audited in 2010-11 and 2014-15 for reasons not on record. The Department replied that the shortfall was due to staff shortage.

None of the 175 observations in audits conducted during 2011-14, had elicited any response, indicating a lack of seriousness on part of the field offices.

2.1.14.2 Absence of vigilance mechanism

Milch Animals Scheme Guidelines stipulated that a Vigilance Committee should be formed at Directorate level for conducting surprise checks of all the beneficiary oriented programmes. However, no such Committee had been formed by the Director so far.

2.1.14.3 Submission of incorrect Utilisation Certificates

The RKVY funds released by GoI are received by the State Agriculture Department, which in turn releases the allocated funds to the AH Department. States are to furnish Utilisation Certificates (UCs) for the RKVY funds released. Director of AH is required to furnish UCs to the Agriculture Department for submission of consolidated UCs to GoI. The UCs furnished by the Director of AH did not reflect correct expenditure details on the date of submission of UCs as shown below:

Table 2.4 – Details of incorrect Utilisation Certificates furnished by the Directorate

(₹ in crore)

Year	Date of furnishing of UC	Expenditure shown in the UC	Actual expenditure	Difference between UC amounts and Expenditure
2010-11	04-08-2011	40.58	36.82	3.76
2011-12	26-11-2011	35.35	21.19	14.16
2012-13	02-05-2013	46.75	4.94	41.81

The Department replied that due to release of funds at the fag end of the year, UCs were given for the full amounts. The reply is not tenable since UCs are to be given only for actual expenditure and issuing UCs without actual expenditure indicates incorrect reporting.

2.1.14.4 Non-remittance of unspent balances to GoI

GoAP received ₹ 242.16 crore from GoI during the period 2006-11 under PM package for implementation of livestock development schemes for vulnerable farmer families or families where a suicide had taken place. The scheme was closed by September 2011 requiring the unspent funds to be remitted back to

GoI. However, an amount of ₹ 3.10 crore[11] available with the Directorate was yet to be remitted to GoI as of June 2015.

Similarly, in Kurnool district, an unspent balance of ₹ 1.4 crore was lying in bank accounts without remittance to GoI.

2.1.15 Shortage of manpower

Audit noticed that there were 31 *per cent* vacancies in the field staff like Veterinary Assistant Surgeons, Veterinary Livestock Officers, Livestock Assistants and Veterinary Assistants, as shown below:

Table 2.5 – Cadre wise vacancy position in test checked districts

	Name of the Post	Sanctioned Strength	Men in Position	Number of Vacancies	Percentage of vacancies
1	Veterinary Assistant Surgeons	531	449	82	15
2	Veterinary Livestock Officers	107	64	43	40
3	Junior Veterinary Officers	217	202	15	7
4	Livestock Assistants	345	267	78	23
5	Veterinary Assistants	440	148	292	66
	Total	**1640**	**1130**	**510**	**31**

(***Source:*** Information furnished by JDs)

The Director accepted that shortage of manpower was adversely affecting the functioning of the Department and implementation of schemes.

2.1.16 Conclusion

Schemes like 'Supply of 1+1 Milch Animals' and 'Supply of two Milch Animals' which were aimed at BPL beneficiaries and 'Mini Dairy Units Scheme' which was aimed at promoting entrepreneurship in rural youth and augmenting milk production were discontinued after 2013-14, despite good response from beneficiaries. In implementation of milch animal schemes, deficiencies like lack of publicity, lack of documentation about selection of beneficiaries, payment of transportation bills without details, non-obtaining of acknowledgements from beneficiaries, non-supply of stipulated number of animals, etc. were noticed. In implementation of 'Calf Rearing (Sunandini) Programme', deficiencies like delayed/short supply of feed in the first year and non-supply of feed in second year, non-recording of growth pattern of enrolled calves, etc. defeated the objective of the scheme. There was shortage

[11] Principal: ₹ 0.74 crore and interest: ₹ 2.36 crore

of veterinary staff which is detrimental to efficient implementation of live stock schemes at ground level.

2.1.17 Recommendations

Audit recommends that:

- ***Department should give adequate publicity about the schemes to bring in awareness among the potential/interested beneficiaries and it should maintain proper documentation on selection of beneficiaries to ensure transparency.***

- ***Department should ensure timely and adequate release of funds to field offices since timely supply of feed, medicines, etc. to enrolled animals is vital for the success of livestock development schemes.***

- ***In 'Sunandini Calf Rearing Programme', Department should supply feed to the enrolled calves, duly considering their age and ensure timely and adequate supply of feed so as to achieve the intended objective of the scheme, and also ensure monitoring of growth pattern of enrolled calves to assess the outcomes of the scheme implementation.***

- ***The vacant posts in field staff be filled at the earliest to improve efficiency in implementation of schemes.***

During the Exit Conference, the Department accepted the above recommendations.

Chapter - 3
Compliance Audit

Chapter-3

Compliance Audit

Finance (Works &Projects) Department

3.1 Finance Control Mechanism in Pay & Accounts Offices

3.1.1 Introduction

Public Works Departments like Water Resources[1] (WRD), Roads and Buildings (R&B), Panchayat Raj and Rural Development (PR&RD), Municipal Administration and Urban Development (MA&UD), Environment, Forests, Science and Technology (EFS&T), etc. execute works, prepare and submit work bills to the concerned Pay and Accounts Officer (PAO)/Assistant PAO (APAO) in the district for making payments. The PAOs/APAOs conduct pre check of all bills received by them, make payments, compile monthly accounts and render the same to the Accountant General (A&E). In the State, 648 Drawing and Disbursing Officers (DDOs) of the above mentioned Departments draw work bills through the PAOs/APAOs. In addition to the work bills of the above Departments, bills relating to pay and allowances of WRD are also drawn through PAOs, while other Departments draw the pay and allowances from respective Treasury Offices. The PAO system was supposed to enforce financial discipline in Government expenditure through adherence to financial rules, budgetary controls, and by ensuring that the expenditure is incurred in accordance with the sanctions of Legislature.

Principal Secretary to Government, Finance (Works & Projects) Department exercises overall administrative control over the Pay and Accounts Organisation. The Director of Works Accounts (DWA) is the Head of the Organisation, who is assisted by three[2] Joint Directors of Works Accounts (JDWAs) and 19 PAOs/APAOs.

3.1.2 Scope and objectives of Audit

Audit of records for the period from 2010-11 to 2014-15 in the offices of DWA, all the three JDWAs and six[3] out of 19 PAOs/APAOs selected on the basis of simple random sampling method with reference to amounts involved in work bills was conducted (May 2015 to August 2015) to assess:

- compliance with Pay and Accounts Organisation's financial control framework in exercising accurate and appropriate checks and controls; and
- the efficacy of internal control mechanism.

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[1] Formerly Irrigation and Command Area Development (I&CAD) Department
[2] Dowlaiswaram, Kadapa and Ongole
[3] PAO, Ananthapuramu; APAO, Chittoor; PAO, Kadapa; APAO, Narasaraopet; PAO, Ongole; and PAO, Visakhapatnam

Audit findings

3.1.3 Financial control framework

Deficiencies in the financial control framework of the PAO system noticed by audit are discussed below:

3.1.3.1 Payments made in excess of Letter of Credit

As per the PAO Manual, it is an important function of the PAO to see that no payment is made in excess of budget allotment. After the Budget is passed by Legislature and Appropriation Act enacted, Government in Finance Department releases Letter of Credit (LOC), Plan/Non-plan and head of account wise periodically (generally on quarterly basis). The concerned Heads of Departments (HODs) in turn distribute the LOC among their DDOs and communicate the DDO wise allocations to the PAOs and DDOs concerned. The PAOs/APAOs are required to watch the availability of LOC before making payment. In case the DDOs submit any bill in excess of LOC available, the PAOs/APAOs are required not to admit the bill.

The amounts of LOC received from the HODs are fed into a computerised Bill Monitoring System (BMS) by Directorate. Payments are made online by PAOs/APAOs using BMS. As and when payments are made, the amount paid is required to be entered into BMS to watch the expenditure against LOC. Audit noticed that selected PAOs/APAOs had not taken into account the amounts of LOCs while passing the bills, resulting in expenditure exceeding the LOC limits. This indicates that BMS software did not reject payments in excess of LOC. Audit noticed that the six test checked PAOs paid bills amounting to ₹ 171.39 crore in excess of the LOCs during 2010-15, as detailed below:

Table 3.1 – Details of payments made by test checked PAOs in excess of LOC during the period 2010-15

(₹ in crore)

Sl. No	Name of the PAO/APAO	Amount of LOC released			Amount of bills paid			Excess expenditure beyond LOC		
		WCE[4] Salaries	Work bills	Other items	WCE Salaries	Work bills	Other items	WCE Salaries	Work bills	Other items
1	Ananthapuramu	44.67	0	0.92	60.33	0.13	3.01	15.66	0.13	2.09
2	Chittoor	15.13	0	0.05	19.58	0.43	0.44	4.45	0.43	0.39
3	Kadapa	55.71	1.79	0.28	69.13	32.06	24.71	13.42	30.27	24.43
4	Narasaraopet	39.43	0	0	52.68	0	0	13.25	0	0
5	Ongole	37.17	5.80	0.23	61.36	8.47	0.25	24.19	2.67	0.02
6	Visakhapatnam	23.10	0	0.30	47.81	14.90	0.68	24.71	14.90	0.38
	Total	**215.21**	**7.59**	**1.78**	**310.89**	**55.99**	**29.09**	**95.68**	**48.40**	**27.31**
	Grand total	**224.58**			**395.97**			**171.39**		

(***Source:*** Data as per Bill Monitoring System)

[4] The staff whose pay and allowances are charged to the work on which they were employed are called Work Charged Establishment

The above excess expenditure of ₹ 171.39 crore was incurred mainly on WCE (₹ 95.68 crore), work bills (₹ 48.4 crore) and other items (₹ 27.31 crore) like hiring/maintenance of vehicles, postage/telegram/telephone charges, travelling allowances, water and electricity charges, etc.

Though the test checked PAOs were manually maintaining LOC Registers and noting the details of LOC received and amount of each bill there against, the PAOs did not limit the payments to the extent of LOC available and passed bills in excess of available LOC for the reasons not on record. Thus, neither was the BMS software developed in a manner to disallow the bill when the expenditure exceeded the LOC limits, nor were the payments manually restricted within the LOC amounts. This indicates non-adherence to budgetary control functions entrusted to the PAOs.

The Department replied (December 2015) that the pay and allowances of WCE cannot be stopped for want of LOC. It is further replied that proposals had been sent to Government for treating WCE salaries under the non budget control item at par with salaries of regular staff. However, WCE is the part of the project cost and thus, payment in excess of LOC was irregular and violated the budgetary controls stipulated in PAO Manual. As regards the work bills and other bills paid in excess of LOC, the DWA replied that the concerned PAOs were directed to verify their records.

3.1.3.2 Acceptance of bank guarantees

PW Departments execute large number of works on a regular basis by entering into agreements with contractors selected through tender process. As per tender procedure stipulated (March 1999, July 2003 and December 2004)[5] by Government, earnest money deposit (EMD) collected at the time of tendering and concluding agreement shall be in the shape of Demand Drafts (DDs) for works costing ₹ 50 lakh and below and in the shape of Bank Guarantees (BGs) for works costing more than ₹ 50 lakh. In addition, the PW Departments also collect BGs from contractors as security before payment of mobilisation advances to them. The BGs collected by Departments are forwarded to the respective PAOs and as per PAO Manual (para 9.17.2), PAOs are responsible for safe custody of BGs. It was further stipulated therein that the PAOs should check the BGs to see whether they are in the prescribed format and conform to the instructions issued by Government from time to time. During the period 2010-15, the test checked PAOs received 3485 BGs valuing ₹ 1104.88 crore from various Departments.

[5] G.O.Ms.No.23 of Irrigation & Command Area Development (PW.Cod) Department, dated 5.3.1999; G.O.Ms.No.94 of I&CAD (PW-Cod) Department, dated 1.7.2003; and G.O.Ms.No.142 of I&CAD (PW-Reforms) Department, dated 20.12.2004

Audit observations in respect of BGs are as follows:

(i) Incorrect acceptance of BGs: The executive Departments under the jurisdiction of the four test checked PAOs collected EMDs in the shape of BGs (amounting to ₹ 0.76 crore)[6] in 112 works costing less than ₹ 50 lakh during 2010-15, in violation of Government orders. The PAOs/APAO did not object to the furnishing BGs instead of DDs and accepted the same.

Thus, acceptance of BGs in place of DDs by PAOs/APAO was in violation of Government orders/rules and against the interest of Government.

The Department replied that the PAOs had been instructed either to obtain DDs or to recover the EMD amounts from running bills for the above works duly surrendering the BGs. It was further replied that instructions were also issued to all the PAOs to verify such cases of incorrect submission of BGs in future.

(ii) Monitoring the validity of BGs: As per the tender procedure stipulated by Government, BGs collected towards EMD should be valid till the end of defect liability period of two years after completion of work. PAO Manual stipulated that the BGs received in the PAO's office should be entered in a register, the register should be reviewed weekly and respective authorities should be intimated sufficiently in advance for renewal of BGs where necessary.

Audit observed that the PAO manual did not prescribe separate format of register for noting the BGs, but stipulated that the BGs should be noted in the Register of Interest Bearing Securities (PAO Form - 43). The format of this register did not contain vital details like stipulated date of completion of work as per agreement, extension of time granted, if any, actual date of completion of work, date of end of defect liability period, etc. which are essential for monitoring the renewal of the BG beyond its original validity. As a result, the test checked PAOs were not recording these details in the BGs Registers and as and when a particular BG was nearing expiry, the PAOs were simply addressing the respective Departments for renewal in a routine manner and showing disposal against the entry in the Register. Though the PAOs had returned 1078 BGs valuing ₹ 275.83 crore to the respective Departments for renewal during 2010-15, they had not watched their actual renewal. The fact whether the returned BGs were renewed or not were not being recorded against any BGs. In some cases, the BGs revalidated were recorded as a fresh entry in the BGs' Register and in respect of BGs which were not renewed, there was no pursuance by the PAOs.

[6] Ananthapuramu: 20 works (₹ 0.14 crore); Chittoor: 5 works (₹ 0.04 crore); Kadapa: 11 works (₹ 0.05 crore); Ongole: 76 works (₹ 0.53 crore)

The Department replied that the DDOs were being reminded one month before expiry of BG for renewal; and that it was neither possible to keep track of the validity of BG nor desirable to hold PAOs responsible for this omission. It was further stated that the PAOs were ensuring that the BGs were in force on the date of payment. The reply is not acceptable since the present system of monitoring of BGs at the time of payment does not address the risk of non-availability of valid BGs for forfeiture in the event of default by contractors like suspension of work, etc.

3.1.3.3 Passing of Bills without prescribed checks

Passing of bills without labour certificates: Standard Schedule of Rates of PW Departments provide for addition of 13 *per cent* of labour component (10 *per cent* for labour importation and 3 *per cent* for labour amenities) in the rates of individual work items in the departmental estimates towards labour importation and labour amenities in respect of works executed in municipal areas, when local labour is not sufficient to execute the work. Government orders[7] (June 2005) stipulate that for passing bills in respect of such works, a certificate obtained from Labour Department should be enclosed to the work bills and when such certificate is not enclosed with the bill, payment towards labour amenities should not be allowed. Audit observed that APAO, Kadapa admitted 37 bills amounting to ₹ 230.54 crore in respect of 'Package No. LI-01/2006 of Gandikota Lift Irrigation Scheme (which included an amount of ₹ 4.92 lakh towards labour amenities), even though certificates from Labour Department were not enclosed with the bills.

The Department replied that instructions were issued to the APAO and the JDWA concerned to obtain the labour certificate or to recover the amount from the next bill and that similar instructions were also issued to other PAOs in the State.

3.1.4 Accounting Controls

The PAO is required to maintain the accounts for the payments made, both final and intermediary in nature. After making payment of intermediary nature of bills, PAO is required to adjust the payment to final heads of account. The deficiencies in discharging these responsibilities are discussed below:

(i) Miscellaneous Public Works Advances: Paras 424 and 426 of AP Public Works Accounts (APPWA) Code prescribe that certain items[8] of expenditure whose allocation is not known at the time of payment or cannot be adjusted to final head are initially debited to the suspense head 'Miscellaneous

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[7] G.O.Ms.No.7 of Finance (W&P) Department, dated 20.6.2005

[8] (i) Sales on credit; (ii) expenditure incurred on deposit works in excess of deposits received; (iii) Losses, retrenchments, errors, etc.; and (iv) other items

Public Works Advances' (MPWA). These charges are required to be adjusted to final head at the earliest possible time. As per Paras 7.10.7 and 7.10.8 of PAO Manual, PAOs are required to maintain full details of MPWAs in a register and exhibit year wise and DDO wise balances and furnish details of pending items to the DDOs in January and July each year for review and clearance of suspense balances by proposing Transfer Entry Orders to the relevant head of account.

Audit observed that in the test-checked PAOs, MPW Advances aggregating ₹ 43.61 crore[9] were lying unadjusted under their jurisdiction as of March 2015. However, the PAOs neither maintained any register of MPWAs nor produced the list of advances pending adjustment. As a result, Audit could not conduct age analysis of the outstanding advances.

PAO, Narsaraopet however, produced MPWA register pertaining to only one DDO, viz. - R&B Division, Narsaraopet which was maintained upto September 2003. As per this register, a total of 185 advances aggregating ₹ 0.52 crore were pending adjustment as on September 2003. Out of these, the oldest item dated back to the year 1972 and the latest item pertained to the year 1998. As per the information furnished by the PAO, there was no clearance of pending advances since 2003 and the same amount (₹ 0.52 crore) was being shown as outstanding even now, indicating lack of pursuance with the matter.

The Department replied that these transactions were long pending under suspense head and action had to be initiated by the Divisions for their clearance by obtaining budget for the settlement of these items. It is further replied that the PAO/APAOs had been addressing the DDOs to take action for clearance of the balances under suspense heads. However, no proof in support of this was produced to Audit.

Non-adjustment of long pending advances of ₹ 43.61 crore, indicate that there was no assurance that the amounts were actually spent for the intended purposes.

(ii) Land Acquisition (LA) advances: PAOs also make advance payments to Revenue/land acquisition officers (LAOs) for acquiring lands on behalf of the PW Departments. The LA authorities are required to furnish copies of LA awards passed by them and detailed accounts of expenditure incurred there against within three months for adjustment of expenditure to final head of account. Para 7.8.14 stipulated that if there is delay by LAOs, the matter should be investigated and brought to the notice of Special Collector. Audit

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[9] Ananthapuramu - ₹ 2.77 crore; Chittoor – Nil; Kadapa - ₹ 16.66 crore; Narasaraopet - ₹ 17.58 crore; Ongole - ₹ 5.63 crore; and Visakhapatnam - ₹ 0.97 crore

noticed that in three of the test checked PAOs[10], advances amounting to ₹ 18.80 crore paid to LA authorities were pending adjustment. The earliest advance pending pertained to the year 2004-05 in PAO, Kadapa indicating lack of effective pursuance with the LA authorities to obtain the accounts for pending amounts. Though, the advances were required to be adjusted within three months, the PAO had not pursued with LAOs for adjustment of these advances.

Further, Para 7.8.10 of PAO Manual prescribed maintenance of a register of LA awards and monitor payments made there against. However, none of the test checked PAOs maintained the register of awards. In the absence of such a register, the details of LA awards passed by LA authorities against the advances received by them, amount of land compensation paid, etc., were not available in the PAOs' records. This shows lack of monitoring over the progressive expenditure against the advances made to LA authorities.

The Department replied that as of May 2013, an amount of ₹ 460 crore was accumulated with LA authorities and due to continuous pursuance, an amount of ₹ 313 crore had been remitted back to Government account. It was further stated that pursuance was being made with concerned authorities for the remaining amount. The Department was silent about non-maintenance of register of LA awards, due to which monitoring over land acquisition payments was deficient.

(iii) Deposits: Deposits furnished by contractors, etc., towards security/ earnest money which are refundable to the depositors after certain period of time (e.g., after completion of work, etc.) are accounted for in the PWD Deposits. Para 7.11.7 of PAO (WA) Manual read with para 463 of APPW Account Code prescribe that such deposits of contractors, lying unclaimed for more than three financial years after they become due are to be lapsed and credited to Government Account. The PAO Manual further stipulated that the PAO is required to maintain a register of deposits with required details and communicate the list of outstanding deposits to concerned Executive Engineer (EE) every year in January and July so as to enable him to identify the deposits to be lapsed. On receipt of the list of deposits to be lapsed from EE, the PAOs are required to take action to credit the same to relevant Government Account as revenue.

As of March 2015, deposits amounting to ₹ 97.28 crore were pending in the PWD Deposits account in five test checked PAOs[11]. Audit noticed the

[10] Ananthapuramu - ₹ 0.02 crore; Kadapa - ₹ 18.75 crore; and Ongole - ₹ 0.03 crore

[11] Ananthapuramu - ₹ 15.6 crore; Chittoor - ₹ 20.51 crore; Kadapa - ₹ 20.53 crore; Ongole - ₹ 15.7 crore; and Visakhapatnam - ₹ 24.94 crore (APAO, Narsaraopet did not furnish details of deposits to Audit)

following deficiencies:

- Though the PAOs maintain Deposits Registers, the details such as name of the remitter, name of work, reference to agreement, nature of deposit, voucher number/date, etc., were not being noted therein, thus making monitoring of the deposits difficult. In the absence of this data, Audit could not do age analysis of the outstanding deposits, as the due dates of payment of these deposits and due dates for lapsing of unclaimed deposits were not ascertainable.
- PAOs were also not communicating the list of outstanding deposits to the respective EEs, as prescribed in PAO Manual. As a result, there was no assurance that the EEs were reviewing the outstanding deposits on regularly and that unclaimed deposits, if any, due for lapsing were being credited to Government account as a receipt.

The Department replied that action to credit the unclaimed items to revenue was to be taken by the EEs. The reply was silent about non-maintenance of details of deposits and non-pursuance with the respective EEs by the PAOs about pending deposits.

(iv) Regularisation of provisional payments: Paras 7.5.1 to 7.5.3 of PAO Manual permits PAO to make provisional payments in case of emergency, pending Administrative Approval to estimate/revised estimate, and conclusion of supplemental agreement. These payments are to be regularised by way of sanction to estimates, etc. PAO Manual (Para 7.5.4) prescribes that PAO should maintain a separate register of provisional payments for each Division to note every such payment and watch their regularisation. In respect of items outstanding for more than one month, action was to be initiated to get the items cleared by addressing the Departmental officers demi-officially.

Audit noticed that none of the PAOs had maintained separate register for provisional payments. While PAOs at Narsaraopet and Visakhapatnam stated that no provisional payments were made by them, as per the information furnished by APAO, Chittoor, the APAO made provisional payments of ₹ 6.36 crore during 2012-14 which are pending regularisation. PAOs at Ananthapuramu, Kadapa and Ongole had not furnished the details of provisional payments made by them in the last five years.

These lapses indicate lack of monitoring over the regularisation of provisional payments.

The Department replied that APAO, Chittoor had been instructed to regularise the provisional payment by pursuing with the concerned DDOs. The reply was silent on non-maintenance of register of provisional payments by the PAOs.

3.1.5 Internal Control Mechanism

3.1.5.1 Annual inspections

(i) Government stipulated that the Director of Works Accounts (DWA) shall conduct inspection of the PAO offices. Audit observed that the DWA conducted inspection of only nine out of 19 PAOs during the five year period 2010-15. Five out of the six test checked PAOs were not inspected by DWA in the last five years (except PAO, Kadapa which was stated to be inspected in 2012, but the inspection report was not furnished to Audit).

(ii) As per Para 3.16.1 of PAO manual, the Joint Directors of Works Accounts[12] (JDWA) shall inspect the PAO offices under their control once in a year and issue suitable instructions as deemed fit and send their reports to Government regularly. Audit noticed that JD, Dowlaiswaram inspected the six PAOs under his control only once (2012-13) in the last five years. JD, Ongole did not inspect any of the six PAO offices under his control in the year 2014-15. The JDWAs of Dowlaiswaram and Kadapa did not furnish their Inspection Reports to Audit. Therefore, Audit could not verify the issues raised in their reports and whether the PAOs had taken remedial action thereon.

(iii) Paras 14.1.1, 14.2.1, 14.3.1 and 14.7.2 of PAO Manual stipulated that the PAOs shall conduct inspection of the offices of DDOs under their respective jurisdiction annually to satisfy himself about the accuracy of the data based on which the claims were prepared and to see that initial accounts and records based on which the claims are prepared are properly maintained in the prescribed forms and that financial rules and regulations are observed. Audit noticed that five out of the six test checked PAOs were not conducting inspection of DDOs annually. Three PAOs (Narsaraopet, Ongole and Visakhapatnam) had not conducted inspection even once in the last five years. PAO, Ongole conducted the last inspection of DDOs 14 years ago in 2001. Two PAOs (Ananthapuramu and Kadapa) inspected the DDOs only once (2011-12) in the last five years. However, the PAOs did not furnish their inspection reports/notes to Audit. No evidence was found in the records that the PAOs had been issuing any instructions to the DDOs on maintenance of books/accounts/records.

The Department replied that the DWA/JDWAs/PAOs/APAOs conducted very few inspections due to meager staff and assured that the organisation was striving to complete inspections as per mandate.

3.1.5.2 Response to audit objections

On receipt of monthly account and related vouchers, the Office of the Accountant General (E&RSA) conducts audit of vouchers and communicates

[12] Formerly called as Director of Accounts

Audit Notes (ANs) containing objection to the PAOs concerned. The PAOs are required to rectify the defects pointed out by audit and submit replies within 30 days for settlement of the objections. During 2010-15, the Audit Office issued 1549 ANs on the 19 PAOs involving a total amount of ₹ 226.17 crore, which included audit observations relating to short recovery of Value Added Tax, Income Tax, labour cess, seigniorage charges; excess payments to contractors in work bills; short deduction of AP Group Life Insurance premium, professional tax, etc. from pay bills; irregular reimbursement of medical claims; etc. As of March 2015, as many as 1318 ANs involving ₹ 130.12 crore were still pending for want of remedial action/replies by the PAOs (Out of these, 411 ANs were on the test checked PAOs[13]). The age analysis of the pending ANs is as follows:

Table 3.2 – Details of audit notes pending

Year	Number of audit notes pending as of March 2015	Amount involved (₹ in crore)
2006-07 to 2009-10	58	3.79
2010-11	46	4.33
2011-12	52	5.12
2012-13	88	6.80
2013-14	543	95.75
2014-15	531	14.33
Total	**1318**	**130.12**

As seen from the above table, 58 ANs pertain to the period prior to 2010-11 (the oldest being 2006-07).

The Department replied that the audit notes were being communicated to all PAOs and that the Department was monitoring the status of submission of replies in monthly review meetings. However, above mentioned ANs are pending for want of remedial action/response from Department.

[13] Ananthapuramu - 130 ANs (₹ 3.22 crore); Chittoor - 45 (₹ 2.92 crore); Kadapa - 46 (₹ 10.10 crore); Narsaraopet - 20 (₹ 0.11 crore); Ongole - 61 (₹ 0.97 crore) and Visakhapatnam - 109 (₹ 1.96 crore)

Agriculture and Co-operation Department
(AP State Co-operative Marketing Federation Limited)

3.2 Distribution of Zinc Sulphate by Andhra Pradesh State Co-operative Marketing Federation Limited

Zinc is one of the essential micro-nutrient in soils, the deficiency of which leads to decrease in soil fertility resulting in delayed/non-uniform maturity of crops, decrease in yield as well as the quality of crops. Presence of zinc, both in low concentration and excess concentration in soils, limits crop growth. Thus, presence of adequate zinc in soils is essential to optimise crop yield/ agricultural production. GoAP has been supplying 'Zinc Sulphate-21%' (zinc) to the farmers in zinc deficient Mandals at 50 *per cent* subsidy, with Normal State Plan funds and also with funds received from GoI under National Mission for Sustainable Agriculture and National Food Security Mission. For this purpose, GoAP nominated the Andhra Pradesh State Cooperative Marketing Federation Limited (APMARKFED)[14] as nodal agency for supply of zinc to farmers. APMARKFED was to conduct zinc operations as per the guidelines issued by the Commissioner and Director of Agriculture (CDA). As per the guidelines issued by the CDA, the APMARKFED has to procure zinc in the quantities specified by the Agriculture Department and position the stocks at the designated sale points (generally the member societies of APMARKFED).

Audit examined the records of four[15] districts offices of APMARKFED and two Primary Agriculture Cooperative Societies in each district with respect to distribution of zinc. During 2010-14, APMARKFED supplied the following quantities of zinc in the four test-checked districts:

Table 3.3 – Details of zinc supplied in test checked districts during 2010-14

District	Quantity distributed (in MTs)	Value (₹ in crore)
Ananthapuramu	1571.73	5.17
Krishna	1243.16	4.12
SPS Nellore	2138.14	7.16
Srikakulam	286.06	1.00

(***Source:*** Sales ledger from SAP data of APMARKFED)

[14] APMARKFED is a federation of Primary Agriculture Cooperative Societies (PACSs) in the State established (in the year 1957 and registered under the AP Cooperative Societies Act) with the objective to help the farmer's community to secure better price for their produce by taking care of their market needs and providing agriculture inputs

[15] Ananthapuramu, Krishna, Nellore and Srikakulam

Following are the audit observations in this respect:

3.2.1 Non-maintenance of details of beneficiaries

As per the Operational Guidelines issued by CDA, APMARKFED was required to print and supply permit books to Mandal Agricultural Officers (MAOs) for issue of permits to the farmers for supply of zinc. The MAOs issue permits to the farmers based on the land holding and the proposed crop as per their pattadar pass books. While issuing permits to eligible farmers, the MAOs have to record in each permit slip the name of the farmer, land area and the quantum of zinc to be supplied. Farmers have to take the permit slips along with their pattadar pass books to the sale counters. Sales in-charge has to issue zinc to the farmer as per the quantity mentioned in the permit slip by collecting the non-subsidy amount (*50 per cent* of the cost) from beneficiary and obtain the beneficiary's signature in the bill book and permit slip. The District Manager, APMARKFED (DM) should collect the non-subsidy amount from sales-in-charge and remit it to the head office. The sales-in-charge should furnish the list of beneficiaries, stock statements and company invoices to the DM, APMARKFED or Agriculture Department. After completion of distribution of zinc, the Joint Director of Agriculture (JDA) furnishes Utilisation Certificates (UCs) to APMARKFED for the zinc distributed, based on which APMARKFED claims reimbursement of subsidy from Government.

Audit noticed that though permit books were stated to have been printed by APMARKFED and supplied to respective agricultural officers, the details thereof, acknowledgements given by MAOs upon receipt of permit books, signed copies of bill books and permits were not available in any of the test checked districts. In the absence of these basic documents, there was no assurance that the above quantities were issued transparently to eligible farmers.

Government replied (December 2015) that copies of permits would be maintained in future.

3.2.2 Non compliance of guidelines in distribution of zinc to farmers

Application of correct dosage of zinc is essential for achieving optimal crop yield. The dosage of zinc to be supplied depends on the soil type, crop variety and cropping intensity. In respect of paddy crops, guidelines stipulated that zinc should be supplied at a dosage of 50 Kg/Ha for a maximum extent of two Ha for each farmer. Thus, the maximum eligible quantity per farmer works out to 100 Kg. Guidelines further stipulated that the DMs of APMARKFED should verify the dosage per Ha and sanction limit while distributing. It was noticed in audit that APMARKFED supplied (2014-15)

55.75 MTs of zinc to Cooperative Rural Bank (a member society of APMARKFED), Buchireddypalem in SPS Nellore district and the Society distributed (September to November 2014) the same to farmers. However, no details of beneficiaries (like the name of the farmer, extent of land (in Ha) and serial number of the permit issued by MAO) to whom the above zinc was distributed were available either in the records of the District Manager or in the stock register of the Society. This indicates lack of monitoring by APMARKFED over distribution of zinc.

Audit noticed from stock register of the society, that the Society distributed more than the maximum ceiling of 100 Kg per farmer to 87 farmers. This was in deviation of guidelines and gives scope to misuse of zinc.

Government replied that 55.75 MT of zinc was supplied to 963 beneficiaries within the prescribed ceiling. The reply is not correct since audit observed 87 cases of excess zinc issued as per the stock register of the Society.

3.2.3 Issue of Utilisation Certificates without actual distribution of zinc

It was noticed that APMARKFED supplied 11.50 MT of zinc to the Primary Agricultural Cooperative Society, Agiripalli, Krishna District, for distribution to farmers on subsidy. The Society sold 6.00 MT to farmers during two years leaving a closing stock of 5.50 MT as at the end of March 2015. However, the JDA, Krishna district furnished UC for the entire quantity issued in the District and APMARKFED claimed the subsidy accordingly from the Government. Thus UCs were being issued without verifying the actual distribution to farmers.

Government replied that UC was issued since the MAO had identified the farmers and issued permits to them and that the farmers lifted the stock subsequently. The reply is not acceptable since at the time of furnishing of UC, the total quantity of zinc was not fully distributed. Issuing UC without actual distribution was not in order.

Transport, Roads and Buildings Department

3.3 Extra Expenditure due to waiver of tender discount

Government of Andhra Pradesh accorded administrative sanction (November 2004) for the work on "Providing a Two-lane road connectivity from Venkatachalam to Krishnapatnam Port from Km 0/000 to Km 23/325" for ₹ 29.02 crore. The work was divided into three reaches, i.e. from Km 0/000 to 6/200 (Reach-A), Km 6/200 to 10/850 (Reach-B) and Km 10/850 to 21/850 (Reach-C). The Department sanctioned (August 2006) an estimate for ₹ 31.9 crore for reaches 'B' and 'C'. Estimate for Reach-A was not sanctioned as this reach passes through forest area and forest clearance was yet to be obtained. Tenders were invited (September 2006) for reaches 'B' and 'C' and agreements concluded (January 2007) with lowest bidder (same contractor for both works) for ₹ 6.24 crore (Reach-B) and ₹ 17.77 crore (Reach-C) at a tender discount[16] of 15.50 *per cent* and 16.04 *per cent* respectively.

After award of works to the agency, the Government decided to convert the road to four-lanes instead of two-lanes in view of development of Krishnapatnam Port and accorded revised administrative sanction (July 2007) for ₹ 102 crore (earlier ₹ 29.02 crore).

The contractor requested (July 2007) the Department for entrustment of revised four lane work including work in Reach-A with 2007-08 rates at a tender discount of 16.04 *per cent*. Para 176 (e) of AP Public Works Department (APPWD) Code read with Preliminary Specification-63 of AP Detailed Standard Specifications (APDSS) stipulates that the rates for excess quantities shall be as per the original agreement rates and in case of new items, it should be standard schedule of rates (SSRs), with which the original estimate was prepared plus or minus overall tender percentage quoted by the contractor. However, though the original estimate was prepared with 2006-07 rates, Government accepted the contractor's request and ordered (September 2007) entrustment of revised work to same agency on 2007-08 rates at a tender discount of 16.04 *per cent* on the ground that these additional works are contingent to the main work which was already in progress and the tender discount offered by contractor was advantageous to Government.

In February 2008, Government issued orders for entrustment of the four-lane road work of Reach-A (Km 0/000 to 6/200 which was left out earlier) and two major bridges at Km 10/100 and Km 14/100 to the same agency at estimate

[16] In August 1998, Government dispensed with the system of contractors quoting item wise rates while bidding for works. It was decided the bidders need to quote only the overall tender percentage on the estimate rates indicated in the tender schedule. The overall tender percentage quoted by bidders forms the basis of tender evaluation

rates of relevant period (to be revised quarterly as per actual work done), instead of applying the original agreement rates with tender discount.

Contractor again represented (April 2008) to the Government (i) to waive the tender discount and also to pay relevant SSRs as per actual work done for entire work and (ii) to pay cost of soils and actual lead charges for soils brought from distant places. Government accepted (July 2008) both the requests of the contractor and accorded (February 2009) another revised administrative approval for ₹ 149.90 crore. The Department concluded six supplemental agreements with the contractor for the above changes. In addition, four more supplemental agreements were concluded for additional works like construction of culverts, two more bridges, changes in specification, increase in road width, etc. The contractor completed (March 2009) the entire work and a total amount of ₹ 120.42 crore was paid (October 2009).

Audit observed that the justification given by the Government for post tender entrustment of high value additional works was to take advantage of the discount offered by the contractor. Thus, the subsequent waiver of tender discount for both the additional works as well as the original work was not correct and tantamount to vitiation of the spirit of competitive bidding process and undue favour to contractor. This resulted in extra expenditure of ₹ 19.26[17] crore.

The above audit observation was communicated to Government in December 2014 and October 2015 (reminded in January 2015, October 2015 and January 2016), reply is still awaited.

[17] Tender discount in Reach-C agreement : ₹ 110,48,50,092 X 16.04% = ₹ 17,72,17,955/- or say ₹ 17.72 crore; Tender discount in Reach-B agreement : ₹ 9,93,01,212 X 15.50% = ₹ 1,53,91,688/- or say ₹ 1.54 crore; Total discount foregone: ₹ 19.26 crore

Water Resources Department

3.4 Excess reimbursement of Value Added Tax ₹ 9.32 crore

Government accorded (November 2007) administrative approval for ₹ 4573 crore for 'Modernisation of Krishna Delta Irrigation and Drainage System'. The modernisation works were divided into several packages. After call of tenders (November 2009), the Superintending Engineer, Irrigation Circle, Guntur (SE) awarded the modernisation works in Guntur district to the lowest bidders and concluded (June 2010) agreements with a stipulation to complete by September 2014. The works were in progress as on August 2015.

Audit scrutiny of records pertaining to 11 works of Modernisation of Krishna Delta System executed under the Krishna Western Division, Tenali; Drainage Divison, Repalle and Drainage Division, Chirala revealed that the tender conditions and the agreement clauses (clauses 11.6 and 45) of the above works stipulated that the bidder's quoted price shall be inclusive of all duties, taxes and other levies payable to State/Central Government. The tender/agreement clauses (clause 18.1 read with clause 105) also stipulated that Value Added Tax (VAT) would be recovered at 2.8 *per cent* (applicable rate at the time of agreement) on gross bills of the contractor. In case of revision of tax structure by Government from time to time, tax would be recovered at such revised rates and the differential amount would be reimbursed to contractor.

After concluding the agreements, the Department issued (April 2011) an amendment to the above clause in these 11 agreements to the effect that the entire amount of VAT deducted from work bills (instead of only the differential amount) would be reimbursed to contractors. This was done keeping in view the recommendation of the IBM Committee[18] that VAT was not loaded in the departmental estimates and to be reimbursed as per actuals. The total value of work done and bills paid under these agreements so far (August 2015) was ₹ 332.95 crore. The Department recovered VAT amounting to ₹ 15.99 crore (at four *per cent* upto September 2011 and at five *per cent* thereafter) from work bills and reimbursed the entire amount to the contractor (the same agency in all the 11 contracts) as per the modified agreement conditions.

Audit observed that since, as per the tender and original agreement conditions, the prices quoted by the bidders were inclusive of VAT at the rate of 2.8 *per cent*, post tender alteration to the agreement clauses resulted in unwarranted financial commitment of ₹ 12.12 crore (i.e. 2.8 *per cent* on the total agreements value of ₹ 433 crore). Out of this, an amount of ₹ 9.32

[18] The committee constituted for examining and finalizing the Internal Benchmark (IBM) estimates for the irrigation works taken up under Engineering, Procurement and Construction (EPC) Turnkey contract system

crore[19] had already been passed on (as of August 2015) to the contracting agency, resulting in undue benefit to it.

The Executive Engineer, Krishna Western Division, Tenali replied that VAT was not loaded in the departmental estimates for these works, original clause stipulating recovery of VAT at 2.8 *per cent* was included in bid/agreement conditions by oversight and the agreement conditions were later corrected based on the decision of IBM Committee to reimburse the entire VAT recovery.

The reply is not tenable, since the bid prices quoted by the agency were based on the tender conditions as per which 2.8 *per cent* VAT was to be borne by the contractor and only the differential amount recovered over and above 2.8 *per cent* was to be reimbursed. 100 *per cent* VAT reimbursement was neither discussed in the pre-bid meeting nor were the tender conditions modified before the last date of submission of bids though IBM estimates were finalised. Thus, post tender modification to agreement conditions allowing full reimbursement of VAT was vitiation of tender conditions and resulted in undue benefit to the agency.

The audit observation was issued to Government in November 2015 (reminded in December 2015 and January 2016); reply is awaited.

3.5 Undue benefit to contractor in violation of contract conditions

Under Handri Niva Sujala Sravanthi (HNSS) project[20], the work of "Excavation of HNSS Main Canal from Km 440.000 to Km 463.000 including Distributary system, etc. (Phase-II Package No. 17)" was awarded (January 2007) after call of tenders to a contractor for ₹ 58.77 crore at a tender discount of 18.0335 *per cent* on estimate value for completion in 36 months, i.e. by January 2010. The work was in progress and the value of work done and paid was ₹ 43.14 crore (March 2015).

The agreement was an Engineering, Procurement and Construction (EPC) turnkey contract under which the agency was to conduct detailed survey and investigation, prepare and submit designs and drawings to the Department in line with the basic project parameters broadly defined in the agreement and execute the entire work including all ancillary and incidental items of work and deliver the project in complete shape. The agreement conditions stipulated that the contractor was bound to execute all supplemental works that are found

[19] i.e. 2.8 *per cent* VAT to be borne by the agency in the work bills paid so far

[20] HNSS is a new major irrigation project taken up with an objective of providing irrigation to 6.03 lakh acres of land in Anantapuramu, Chittoor, YSR Kadapa and Kurnool districts. The project is under construction

essential, incidental and inevitable during execution of main work at no extra cost to the employer and the cost due to such supplemental items of work shall be borne by the contractor.

Audit observed that while inviting bids, the Department prepared an estimate for the work considering the length of canal to be excavated under this package as 23 Km. The scope of work as mentioned in the 'Basic Project Parameters' in the agreement also stipulated excavation of canal from Km 440.000 to Km 463.000 (i.e. 23 Km). However, after award of work, the agency conducted detailed survey and investigations and proposed an alternative alignment for the main canal for a total length of 18.975 Km by avoiding some curves in the alignment initially considered by the Department. The agency's proposal was approved (September 2007) by the Department and the canal work was being executed accordingly. Thus, there was a post tender reduction in the length of canal by 4.025 Km, the value of which works out to ₹ 8.24 crore. However, the Department did not reduce the agreement value as the contract did not provide for adjustment of contract price for either increase or decrease in quantities/items of work within the project requirements.

On the other hand, during execution of contract, the agency represented (April 2010) that the canal alignment was passing near two villages where blasting operations were required and sought additional payments towards control blasting (instead of open blasting), so as to avoid damages to the villages. Though this claim was contrary to the terms and conditions of contract, based on the recommendations of an Expert Committee and the State Level Standing Committee, Government accepted (December 2013) the proposal for additional payment of ₹ 5.19 crore to contractor towards controlled blasting over and above the original agreement value. Accordingly, the Department concluded (December 2013) a supplemental agreement with the agency and an amount of ₹ 5.12 crore was paid towards controlled blasting (March 2015).

Thus, not considering the saving of ₹ 8.24 crore due to post tender reduction in canal length and allowing additional payment of ₹ 5.19 crore for controlled blasting is an undue benefit to the agency and extra expenditure on the Department.

As regards the savings due to reduction in canal length, the Department replied (November 2015) that there was no change in the 'Basic Project Parameters' under the agreement and that there was no specific agreement condition to recover the savings. As regards additional payments for controlled blasting, the Department replied that there was no provision in the agreement for controlled blasting except for excavation of canal in 300 mm rock as per clause 3.1.13(t) of Technical Specifications appended to the Agreement. Since controlled blasting was not provided in the estimate, additional payment was allowed for controlled blasting as this was outside the scope of the agreement.

The reply is not acceptable since the agreement conditions clearly stipulated that the contractor had to execute all supplemental works that were found essential, incidental and inevitable during execution of main work at no extra cost to the Department. The fact of canal alignment, passing near two villages where blasting operations were required, was known at the time of bidding itself. Besides, Department's reply does not explain the contradiction in non-accrual of savings due to reduction in canal length and allowing additional payment for controlled blasting, whereas in both cases, there was no change in the Basic Project Parameters stipulated in the agreement.

(LATA MALLIKARJUNA)
Accountant General
(Economic & Revenue Sector Audit)
Andhra Pradesh and Telangana

Hyderabad
The

Countersigned

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

New Delhi
The

Appendices

Appendix 1.1

(Reference to paragraph 1.6.3, page 4)

Department-wise break-up of outstanding Inspection Reports and Paragraphs

Department	Number of IRs/Paragraphs issued up to 31 March 2015 and pending as of 30 September 2015	
	IRs	**Paragraphs**
Agriculture	283	1221
Agriculture Marketing and Cooperation	147	401
Animal Husbandry, Dairy Development and Fisheries	115	469
Environment, Forests, Science and Technology	203	507
Industries and Commerce	122	352
Information Technology, Electronics and Communication	1	5
Infrastructure and Investment	11	63
Water Resources	1021	3040
Works & Projects wing of Finance Department	10	15
Roads and Buildings	259	781
Total	**2172**	**6854**

Appendix-2.1

(Reference to paragraph 2.1.12.2, page 24)

Details of short supply of feed in the first quarter due to non-consideration of age of the enrolled calves

Age of calves at the time of feed supply	No. of calves in the age group	Rate at which feed requirement was to be calculated for the 1st quarter	Total requirement for 1st quarter (in Kg)	Qty. supplied @ 500 Gm/day (in Kg)	Quantity short supplied (in Kg)
10 months	42	@ 1.5 Kg/day for 3 months	5670	1890	3780
9 months	207	@ 1 Kg/day for 1 month and 1.5 Kg/day for 2 months	24840	9315	15525
8 months	349	@ 1 Kg/day for 2 months and 1.5 Kg/day for 1 month	36645	15705	20940
7 months	9691	@ 1 Kg/day for 3 months	872190	436095	436095
6 months	7082	@ 500 Gm/day for 1 month and 1 Kg/day for 2 months	531150	318690	212460
5 months	10491	@ 500 Gm/day for 2 months and 1 Kg/day for 1 month	629460	472095	157365
4 months	8408	@ 500 Gm/day for 3 months	378360	378360	0
	36270	**Total**	**2478315**	**1632150**	**846165**

Appendix – 2.2

(Reference to paragraph 2.1.12.2, page 24)

Details of delayed supply of the third quarter feed to enrolled calves

District	No. of calves enrolled	Month in which 1st quarter feed was supplied	Due date for supply of 3rd quarter feed	Actual month in which 3rd quarter feed was supplied	Delay range
Anantha--puramu	2982	February 2014	August 2014	December 2014 (partially supplied)	4 months
Chittoor	11551	October 2013	April 2014	July, October, November and December 2014	3 to 8 months
	6295	January/ February 2014	July/August 2014	November and December 2014	3 to 5 months
Guntur	4185	October to December 2013	April to June 2014	August to October 2014	4 months
	7699	January/March 2014	July/September 2014	September/October 2014	1 to 2 months
Kurnool	3558	January 2014	July 2014	October and December 2014	3 to 5 months

Glossary

Glossary

ADs	:	Assistant Directors
AH	:	Animal Husbandry
AI	:	Artificial Insemination
ANs	:	Audit Notes
APAO	:	Assistant Pay and Accounts Officer
APMARKFED	:	Andhra Pradesh State Co-operative Marketing Federation Limited
APPWA Code	:	Andhra Pradesh Public Works Accounts Code
APPWD Code	:	Andhra Pradesh Public Works Department Code
BGs	:	Bank Guarantees
BMS	:	Bill Monitoring System
BPL	:	Below Poverty Line
CDA	:	Commissioner & Director of Agriculture
CE	:	Chief Engineer
CM	:	Chief Minister
DAH	:	Director of Animal Husbandry
DD	:	Demand Draft
DDOs	:	Drawing and Disbursing Officers
DMs	:	District Managers
DWA	:	Director of Works Accounts
EE	:	Executive Engineer
EFS&T	:	Environment, Forests, Science and Technology
EMD	:	Earnest Money Deposit
GoAP	:	Government of Andhra Pradesh
GoI	:	Government of India
HNSS	:	Handri Niva Sujala Sravanthi
HODs	:	Head of Departments
IA	:	Internal Audit
IBM	:	Internal Bench Mark
JDA	:	Joint Director of Agriculture
JDs	:	Joint Directors
JDWAs	:	Joint Director of Works Accounts
LA	:	Land Acquisition
LOC	:	Letter of Credit
MA&UD	:	Municipal Administration and Urban Development
MAOs	:	Mandal Agricultural Officers

MD	:	Managing Director
MDU	:	Mini Dairy Unit
MPWA	:	Miscellaneous Public Works Advances
MTs	:	Metric Tonnes
NMPS	:	National Mission on Protein Supplements
NSP	:	Normal State Plan
PAO	:	Pay and Accounts Officer
PM	:	Prime Minister
PR&RD	:	Panchayat Raj and Rural Development
PWD	:	Public Works Department
R&B	:	Roads and Buildings
RC	:	Rate Contract
RKVY	:	Rashtriya Krishi Vikas Yojana
SCP	:	Special Component Plan for Scheduled Castes
SE	:	Superintending Engineer
SHGs	:	Self Help Groups
SLSC	:	State Level Sanctioning Committee
SSRs	:	Standard Schedule of Rates
UCs	:	Utilisation Certificates
VAS	:	Veterinary Assistant Surgeon
VAT	:	Value Added Tax
WCE	:	Work Charged Establishment
WRD	:	Water Resource Department

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