Chapter 1 - Introduction

1.1 Overview of this Report

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from performance audit of selected programmes and departments of the Government of Andhra Pradesh, compliance audit of transactions of its various departments, Central and State plan schemes and audit of autonomous bodies of the State.

Performance audit, besides including compliance audit, also examines whether the objectives of the programme/activity/department are achieved economically, efficiently and effectively. On the other hand, Compliance audit refers to 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 the competent authorities are being complied with.

The primary purpose of this Report is to bring to the notice of the State Legislature, significant results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective action, to frame appropriate policies as well as to issue directives that will lead to improved financial management of the organisations and contribute to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant achievements and deficiencies in implementation of selected schemes, significant audit observations made during the audit of transactions and follow-up on previous Audit Reports.

1.2 Profile of Audited entities

Government of Andhra Pradesh comprises of 34 departments at the Secretariat level headed by Chief Secretary/Special Chief Secretaries/ Principal Secretaries/Secretaries, who are assisted by Deputy Secretaries/Commissioners/ Engineers-in-Chief/ Chief Engineer/Principal Chief Conservator of Forest/Chief Conservator of Forest and subordinate officers under them which are audited by the Office of the Accountant General (Civil Audit), Andhra Pradesh.

Andhra Pradesh Secretariat

1.3 Office of the Accountant General (Civil Audit), Andhra Pradesh

Under the directions of the CAG, the Office of the Accountant General (Civil Audit), Andhra Pradesh conducts the audit of civil and works departments of Government of Andhra Pradesh and autonomous bodies thereunder. It also conducts audit of civil offices and autonomous institutions of Central Government located in the State.

Offices of the Accountants General, Andhra Pradesh

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. Accountant General (Civil Audit) conducts audit of expenditure of the civil and works departments under Section 13[1] of the CAG's (DPC) Act and that of 17 Central autonomous bodies and 45 State autonomous bodies, under Sections 19[2] and 20[3] of that Act. In addition, there are 345 State autonomous bodies (SABs) which are substantially funded by the Government attracting audit under Section 14[4] of the CAG's (DPC) Act. For the conduct of superimposed audit under Section 14, the audited entities are required to submit their certified annual accounts to the Accountant General (Civil Audit).

During 2010-11, only 68 of the 345 SABs had submitted their certified accounts. Again, out of 68 autonomous bodies which had submitted their accounts, 13 autonomous bodies had not submitted the primary auditor’s reports and, hence, their audit could not be taken up by the Accountant General (Civil Audit). The audits were conducted in accordance with the principles and methodologies as prescribed in the Auditing Standards and Regulations on Audit and Accounts, 2007.

1.5 Planning and conduct of audit

The sectoral expenditure of the State Government during the current year (2010-11) and the previous year was as shown in the Chart 1.1.

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[1] Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to Contingency Fund and Public Account and (iii) all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts

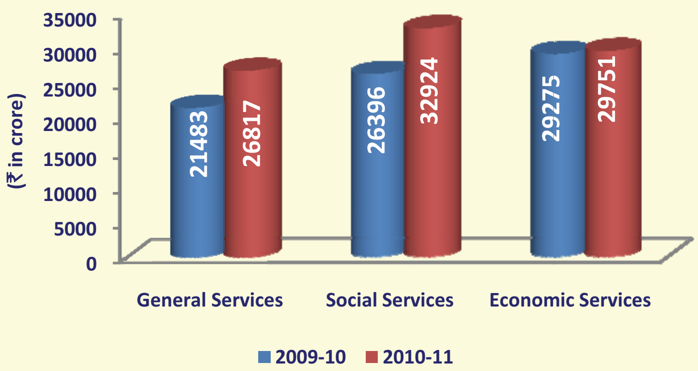
[2] Audit of the accounts of Corporations (not being Companies) established by or under law made by the State Legislature in accordance with the provisions of the respective legislations

[3] 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

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

Chart-1.1

Sectoral expenditure of the State Government



Audit process commences with the assessment of risk of the department/organisation/ autonomous body/scheme, etc. based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of 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 and an annual audit plan is formulated to conduct audit on the basis of such risk assessment. During 2010-11, 14,814 party-days were utilised to audit 1,427 units falling under 23 departments[5]/organisations.

After completion of audit of each unit, Inspection Reports (IRs) containing audit findings are issued to the head of the unit with a request to furnish replies within one month of receipt of the IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in the Government, are processed for inclusion in the Audit Reports which are submitted to the Governor of Andhra Pradesh under Article 151 of the Constitution of India for causing them to be laid on the Table of the State Legislature.

1.6 Response of the departments to Audit findings

The Heads of offices and the next higher authorities are required to respond to the observations contained in the IRs and take appropriate corrective action. The audit observations communicated in the IRs are also discussed in the meetings at district level by the officers of the departments with the officers of the AG's office.

As of 30 June 2011, 5,432 IRs containing 29,689 paragraphs pertaining to the years 2007-08 to 2010-11 were pending settlement. Of these, first replies had not been received in respect of 447 IRs (4,096 paragraphs). The year-wise details are given in *Appendix-1.1*.

[5] Agriculture & Cooperation, Animal Husbandry, Dairy Development & Fisheries, Backward Classes Welfare, Consumer Affairs, Food and Civil Supplies, Finance, General Administration, Health, Medical and Family Welfare, Higher Education, Home, Industries and Commerce, Infrastructure and Investment, Irrigation and Command Area Development, Labour, Employment, Training & Factories, Law, Municipal Administration and Urban Development, Planning, Revenue, Roads and Buildings, School Education, Social Welfare, Tribal Welfare, Women Development, Child Welfare and Disabled Welfare and Youth Advancement Tourism and Culture

Lack of action on audit IRs and paragraphs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports, dilution of internal controls in the process of governance, inefficient and ineffective delivery of public goods, fraud, corruption and loss to public exchequer.

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

However, as of November 2011, 16 departments had not submitted Explanatory Notes in respect of 36 paragraphs/reviews which featured in the Audit Reports for the years 2007-08 to 2009-10. The details are given in *Appendix-1.2*. This, again, reflects on the weakness of legislative financial control in the State.

As per the Finance Department's Handbook of Instructions and their U.O. dated 3 November 1993, all departments are required to send their response to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India, within six weeks of their receipt. During 2011-12, sixteen thematic/draft paragraphs and two draft performance audit reviews were forwarded to the Special Chief Secretaries/ Principal Secretaries/Secretaries of the departments concerned, drawing their attention to the audit findings and requesting them to send their response within six weeks. It was brought to their personal attention that in view of the likely inclusion of these paragraphs in the Audit Report of the Comptroller and Auditor General of India, which would be placed before the State Legislature, it would be desirable to include their comments/responses to the audit findings. Despite this, two departments[6] did not furnish replies to thematic/draft paragraphs. This was also brought (October 2011) to the notice of the Chief Secretary to the Government. The responses of the departments, where received, have been appropriately incorporated in the Report.

1.7 Significant Audit observations

This Report contains the findings of audit from a test-check of the accounts and transactions of 12 departments of the Government of Andhra Pradesh during 2010-11. Our focus during the year has been primarily on evaluating the implementation of specific Government programmes and initiatives in social sector so as to aid the Government in taking necessary corrective action to improve service delivery levels to the citizens. Towards this end, significant results of audit are summarised below.

Agriculture Department

The performance of Agriculture department with regard to interventions for increasing the productivity and income of farmers was not effective and did not achieve the envisaged objectives. Implementation of schemes was marked by inefficiencies in utilisation of funds, inadequate production of foundation and certified seed, failure in

[6] Health, Medical and Family Welfare and Consumer Affairs, Food and Civil Supplies

strengthening seed testing laboratories and inability to spend funds for improving seed farms. Lack of transparency in disbursement of relief assistance for the calamity-affected farmers and absence of adequate proof of disbursement to farmers underlined strong likelihood of vested interests indulging in corrupt practices in passing such benefits to the intended beneficiaries. Implementation of National Agricultural Insurance Scheme was characterised by poor coverage of non-loanee farmers, delayed disbursement of claims and their credit to loan accounts held by banks and Primary Agricultural Cooperative Societies, providing no relief to calamity stricken farmers. Abnormal delays were noticed in implementation of Pavalavaddi scheme as it reached only 8 per cent of the eligible farmers as of March 2011.

Extension services, which are a critical factor that impact the delivery of various schemes of the Government, received inadequate attention. Coverage of female farmers in Rythu Chaitanya Yatras (RCYs) remained stagnant at 16 - 17 per cent while the coverage of habitations declined from a maximum of 70 per cent in 2008-09 to 51 per cent in 2010-11. Impact assessment of the RCY was neither carried out nor guidelines were in place for their conduct. Adarsha Rythu scheme could not deliver the assigned tasks and failed to bridge the gap between the farmers and the Government. The objective of strengthening research and extension linkages was not achieved due to non-functional Rythu Mitra and other farmers groups and lack of control mechanism in formulating and implementing schemes of similar nature. Subsidy released by the Government for procurement of combine rice harvesters was captured by ineligible/dubious groups of farmers. Huge vacancies in the cadre of Agricultural Officer and Agricultural Extension Officer are adversely affecting the effective functioning of the Department of Agriculture (DoA) besides increasing the dependence of the farmers on input dealers and others for their information needs and procurement of inputs. Internal controls within the DoA were inadequate in most cases and where adequate, were not functioning as envisaged. The performance of the DoA in terms of achieving its Mission of 5 per cent growth rate as well as increasing returns on agricultural investment and developing farmers as seed entrepreneurs is far from satisfactory.

(Chapter 2)

Animal Husbandry and Fisheries Department

Animal vaccines were being produced in Veterinary Biological Research Institutes (VBRIs) at Hyderabad and Samalkot without valid licence and released for field distribution without complying with quality assurance (GMP & GLP) standards prescribed by the Central Drug Control Authority. Failure to comply with regulatory provisions by Government agencies, especially in the domain of pharmaceutical production, would set a poor example and pose serious risk to the livestock health.

(Chapter 3)

Consumer Affairs, Food and Civil Supplies Department

State Government issues kerosene to families below poverty line (BPL) at subsidised prices through fair price shops (FPSs). Audit of Deepam scheme in Ranga Reddy district revealed that failure in compliance with departmental instructions by District Supply Officer coupled with lack of due care within the Commissionerate of Civil Supplies in the allotment of kerosene to BPL card holders covered under the Deepam scheme, had resulted in extra financial burden of ₹ 23.93 crore on the State exchequer. Possibility of excess allotment of kerosene in similar fashion in other districts cannot be ruled out and in that eventuality the total loss to public exchequer over a prolonged period could work out to be enormous.

(Chapter 4)

Health, Medical and Family Welfare Department

During the year 2010-11, we have reviewed the functioning of (i) Blood banks and (ii) Trauma Care Centres. We have also brought out cases of (iii) Fraudulent drawal of pay and allowances and advances in a few Primary Health Centres and (iv) Utilisation of equipment in two Government Medical colleges.

(Paragraph 5.1)

Functioning of Blood banks

Blood banks are governed by Drugs and Cosmetics Act, 1940 (Act) and relevant rules made thereunder. Government of India formulated the National Blood Policy (NBP) in April 2002 to bring about a "comprehensive, efficient and a total quality management approach" throughout the country to ensure easy access to adequate and safe blood. Audit review revealed that the functioning of blood banks in the State is far from satisfactory. Although specific rules were framed for ensuring the safety of blood donors, a majority of the blood banks verified in Audit flouted these rules. Non-compliance with the rules and ineffective monitoring by the Drug Inspectors had resulted in several deficiencies, endangering the safety of both the donor and the needy patients.

(Paragraph 5.2)

Functioning of Trauma Care Centres

As part of its scheme for developing a network of Trauma Care Centres (TCCs) along the Golden Quadrilateral to provide emergency treatment to accident victims, Government of India (GoI) extended financial assistance for upgradation and strengthening of emergency facilities in State hospitals located on National Highways.

Our review of the status and functioning of the TCCs in Andhra Pradesh revealed that they have either not been set up or are yet to become fully operational as of August 2011, either due to the civil works not being completed, or where completed, due to delay in procurement of equipment and absence of requisite manpower. Thus, the objective of providing basic life support and emergency care in the golden hour i.e., first hour of

injury to accident victims in the Golden Quadrangle within the State remains unachieved even after the lapse of over two to five years of necessary sanctions having been accorded by GoI.

(Paragraph 5.3)

Functioning of equipment in Medical colleges

Lack of synchronization of all the three activities of construction of bunker, installation of the equipment and deployment of technical staff, coupled with failure of the Director of Medical Education (DME) to deploy Oncologist to man the equipment in Government Medical College, Anantapur led to the equipment procured way back in 2006 remaining idle even after the lapse of five years. Similarly, in the case of Siddhartha Medical college, Vijayawada, failure of DME in not taking up the matter for provision of funds with the Government immediately after receiving the requirement from the college, coupled with non-filling up of the vacancy of Medical Physicist resulted in the Radio Therapy Unit at Vijayawada lying idle for over one and half years, and thereby depriving the cancer patients of these areas of the benefit of advanced treatment.

(Paragraph 5.4)

Fraudulent drawal of pay and allowances and advances

Audit of two Primary Health Centres (PHCs) viz., Duppalapalem and Chavitidibbalu (East Godavari district) on a sample basis revealed fraudulent drawal of pay and allowances, house building, motor cycle and GPF advances aggregating ₹17.73 lakh in the name of transferred staff, in whose cases Last Pay Certificates (LPCs) have already been issued. Fraudulent drawals were rendered possible because before passing the claims, the Treasury Officer (STO, Addatheegala) had not exercised the prescribed checks viz., surrender of LPC, receipt of communication regarding issue of LPC and recording the fact of issue of LPC in the flyleaf of the employee maintained by the treasury.

(Paragraph 5.5)

Home Department

Six Marine Police Stations (MPSs) in the State, setting up of which at a cost of ₹32.67 crore had been approved by GoI under 'Coastal Security Scheme' in November 2005 and provided 100 per cent Central assistance, have remained virtually defunct for several reasons. Audit scrutiny revealed that adequate attention was not paid by either the State or Central Government in implementation of this important scheme concerning national security. Fulfillment of basic requirements like adequate arrangements for maintenance of boats, provision of jetties in the vicinity of the MPS, recruitment of adequate and skilled manpower and imparting appropriate training to them was not ensured. No evidence was available on the actual operation of monitoring mechanism to ensure foolproof coastal security in the State. The main objective of strengthening coastal security against infiltration, intrusion and other illegal activities had, thus, remained unachieved.

(Chapter 6)

Industries and Commerce (Handlooms and Textiles) Department

GoI introduced the Centrally sponsored Integrated Handloom Development Scheme (IHDS) during 2007-08 and sanctioned 52 clusters in five phases with a proposed outlay of ₹ 29.80 crore for coverage of 21,588 weaver beneficiaries and 262 Groups with a proposed outlay of ₹ 8.81 crore for coverage of 3,978 beneficiaries. Audit review revealed that although IHDS is at present the only major intervention by both Central and the State Governments in the handloom sector, its implementation in the State had been less than effective despite availability of Central assistance. Proposals for funding of the scheme were submitted to GoI without ensuring the availability of land for clusters or preparing the Detailed Project Reports. Tardy implementation coupled with non-furnishing of UCs to GoI resulted in freeze on release of further funds (₹ 16.13 crore) by the latter. Even the Common Facility Centres/Dye Houses, which are critical for the clusters have not been established fully, depriving the weavers of the benefit of having suitable workplace for pre and post loom weaving activities. Working capital needs of weavers were not met. The department also could not sort out with the banks the issues adversely impacting better credit linkages. As a result, none of the 35 clusters and 262 groups which were due for completion by 2010-11, were operational as of August 2011.

(Chapter 7)

Labour, Employment, Training and Factories Department

Rajiv Udyogasri Society (RUS) was set up by the State Government in July 2007 with the objective of generating 10 lakh jobs during 2008-10 through training in emerging sectors of economy. Audit review revealed that, although Rajiv Udyogasri Society was well conceived, it failed to achieve the envisaged objectives due to flaws in implementation. Funds were released without instructions relating to their utilisation and there were no internal controls with regard to release and accountal of funds. UCs were not obtained for funds released and in some cases, advances recouped were not accounted for in the cash book. The crucial aspect of survey of job-potential in rural sector was ignored completely. Selection of candidates lacked transparency as no criteria was fixed and industry partners/employers were not associated in the selection process. Data relating to number of applications received, processed and rejected was not maintained. The Society could not ensure placement of the trained candidates, as it had not instituted adequate linkages between training and placement. Thus, despite expending ₹ 112 crore, RUS failed to achieve the desired results in the State.

(Chapter 8)

Municipal Administration and Urban Development Department

Vijayawada, Guntur, Tenali and Mangalagiri Urban Development Authority (Authority) was constituted for planned development of the area under its jurisdiction and to improve the quality of life of its inhabitants. Performance Audit of functioning of the Authority during 2006-11 revealed that it could not achieve its objectives to a very large extent. Sectoral developments proposed in Master Plan/Zonal Development Plans were not

implemented, as the Authority did not prioritise its activities and coordinate effectively with the related departments/agencies (including local bodies) for their successful and timely completion. The Authority had utilised only a fraction of the funds already at its disposal. Consequently, none of the townships/ projects taken up by the Authority could be completed.

The Authority had not assessed its requirement of land for various infrastructure and other development related works nor drawn up any specific plan in this regard. There was no perspective plan with the Authority for acquiring land for development purposes and no land was acquired by it during the five year period 2006-11. Approvals for change of land use were given in violation of Master Plan/ZDPs, vitiating the sanctity of the approved plans. Contract management in the few projects taken up was ineffective and led to financial loss to the Authority. The Authority also did not pay adequate attention to provision of basic amenities in the already established townships. Financial management was poor and record maintenance was abysmal. Internal controls were inadequate and lax especially in cash book maintenance, collection of fees/development charges, disposal of applications for land regularisation and building penalisation schemes, accountal of demand drafts, etc.

(Chapter 9)

Planning Department

The State Government launched "Assembly Constituency Development Programme (ACDP)" in April 2005 to enable the Members of Legislative Assembly (MLAs) to initiate developmental works within their constituencies. The scheme was implemented in the State during 2005-08 and was revived in 2010-11 after a gap of two years, as "Constituency Development Programme (CDP)" extending it to Members of Legislative Council (MLCs) also. The annual allocation under the scheme was ₹ 50 lakh per constituency during 2005-06 which was enhanced to ₹ 1 crore per constituency with effect from 2006-07. The Chief Planning Officers (CPOs) had exercised no control over actual expenditure and were thereby not in a position to monitor actual utilisation of funds and ensure remittance of unspent balances by the executing agencies. This also led to financial misreporting. There was inordinate delay (up to 36 months) in sanction of works after recommendation by the MLAs. As against 75,474 works sanctioned under ACDP (2005-08) and CDP (2010-11), only 53,457 were completed and about 15 per cent of works under ACDP, which were due for completion within nine months of sanction, remained incomplete as of March 2011. Consequently, huge funds were locked up for long periods with the executing agencies. Sanction of inadmissible works and overlapping works under different schemes were also noticed. Asset registers were not being maintained and assets created were not being handed over to the user agencies. Inspection of works, which is crucial to assess compliance with rules and procedures and ensure quality, was neglected in three out of the four sampled districts. Several lacunae in the implementation of the scheme involving ₹ 118 crore thus denied the envisaged benefits to the public at large.

(Chapter 10)

School Education Department

The 'Information and Communication Technology' (ICT) policy of GoI aims to devise, catalyse, support and sustain ICT and ICT enabled activities and processes in order to improve access, quality and efficiency in the schooling system. The State Government initially implemented (June 2002 – June 2007) a project for computer education in '1000 schools' for imparting computer education to children of classes VI to X. In accordance with the ICT policy of GoI, the State Government also took up (June 2008 and November 2009) implementation of two Centrally sponsored projects viz., 'ICT-5000' (project period: 2008-13) and 'ICT-1300' (project period: 2009-14). Out of the total 10,331 high schools under its control, the State Government envisaged coverage of 7,300 schools as part of these three projects. While the initiatives taken by the State Government in the area of Computer Education to School children are laudable, implementation of the projects suffered due to poor planning, lack of compliance with tendering procedures, non- synchronization of implementation schedule with academic years, failure to ensure continued computer education after closure of the project, poor monitoring, etc. The envisaged objective of the ICT policy of GoI to bridge the digital divide in the country and to prepare the youth for greater participation in the socio-economic development and creation of a knowledge based society in the country by imparting computer training to students early on, remained largely unachieved.

(Chapter 11)

Tribal Welfare Department

State Government took up 45 road works in tribal areas at an outlay of ₹ 42 crore with NABARD assistance. Audit review of these roads revealed that commencement of road works by EEs, TW engineering divisions, without obtaining mandatory forest and other requisite clearances led to closure of the works midway and the works remained incomplete even after the lapse of over four years. This resulted in denial of the intended benefit of all weather road connectivity in the tribal areas. Further, the Government had to forego funding from NABARD due to delay in completion of these works.

(Chapter 12)

Youth Advancement, Tourism and Culture (Sports) Department

GoI entrusted the conduct of Military World Games 2007 to Andhra Pradesh and Sports Authority of Andhra Pradesh (SAAP) was tasked (June 2005) to provide the required infrastructure, especially sports hostel at Gachibowli. Considering that it was the first time that Military World Games were being held outside Europe and the State Government had consented to host the games in Hyderabad, the decision of the State Government not to fund the construction of the hostel and to leave SAAP in a situation where it had to obtain loan from Punjab National Bank on unfavourable terms, pushed SAAP into financial crisis saddled, as it is, with a debt burden of ₹ 58.14 crore (principal: ₹ 39.29 crore and interest: ₹ 18.85 crore) as of end of March 2011. The additional portion (six floors) of the building, which was scheduled for completion by January 2008, was not completed even after the lapse of four years. Inexplicably, even the built up space is lying unused thus, further accentuating the financial burden of SAAP.

(Chapter 13)