

### 3.1 Introduction

Sound internal controls and compliance with rules and procedures contribute significantly to good governance. These also facilitate relevant, reliable and timely financial reporting and thereby assist the State Government in meeting its basic stewardship responsibilities, including strategic planning and appropriate decision making. This Chapter provides an overview of the State Government's compliance with various financial rules, procedures and directives during the current year.

### 3.2 Utilisation Certificates

Utilisation Certificates (UCs) should be furnished by the State Government to the GoI with regard to the funds provided by the latter for implementation of various socio-economic development programmes. State Government rules<sup>1</sup> also provide for submission of UCs by the grantees to the departmental officers where specific grants are provided, and forwarding them to the AG (A&E) after verification.

Non-submission/delay in submission of UCs reflects the lackadaisical attitude in adhering to the prescribed procedures and results in hampering the scheme objectives and gives scope for mis-utilisation/mis-appropriation/diversion of funds.

Eight UCs aggregating ₹ 1.70 crore in respect of grants released by the State Government during 1992-93 to 2012-13 were outstanding as of 31 March 2014. The delay in this regard ranged from one to 21 years, as summarized in *Appendix 3.1*.

Significant irregularities observed during test check of few departments are given below:

- i. An amount of ₹ 50.86 crore was released (1999-2012) towards Pre-Integrated Watershed Management Programme (IWMP) and ₹ 2.09 crore was released (2012-13) towards IWMP to various organizations relating to department of Animal Husbandry in three<sup>2</sup> test checked districts. However, relevant utilization certificates along with vouchers for the above amounts were not obtained by the implementing agencies of IWMP as of May 2014.
- ii. Funds were provided by the Commissioner of Intermediate Education to five<sup>3</sup> Government Vocational Junior Colleges during 2012-13 towards 'up-gradation of vocational laboratories'. UCs for an expenditure of ₹ 70.05 lakh were not furnished to the Commissioner (June 2014).
- iii. Three<sup>4</sup> Government Junior Colleges had not submitted UCs for an amount of ₹ 93.78 lakh out of Scholarship amounts to the Welfare Department.

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<sup>1</sup> Note 1 below Article 211 A (2) of Andhra Pradesh Financial Code

<sup>2</sup> Ananthapur, Chittoor and Rangareddy

<sup>3</sup> Government Vocational Junior College (GVJC) Madakasira, GVJC, Maddilapalem, Visakhapatnam, GVJC, Bazarghat, Nampally, Hyderabad, GVJC, Mahabubnagar and GVJC, Hanumakonda

<sup>4</sup> Government Junior College (GJC), Peddadornala ₹ 1.96 lakh, GJC Yerragondapalem ₹ 1.83 lakh and KVR GJC (G) Kurnool ₹ 89.99 lakh

- iv. For preparatory phase of 'Rajiv Awaas Yojana', a total amount of ₹ 14.82 crore towards central share was released during 2010-13. However, UC was furnished only for ₹ 11.38 crore as of May 2014.
- v. SJSRY scheme is being implemented with GoI and State sharing funds in the ratio of 75:25 respectively. As against the total amount of ₹ 132.67 crore (OB ₹ 39.29 crore + funds released during 2013-14 ₹ 93.38 crore), UCs only for ₹ 52.71 crore were furnished.
- vi. Out of ₹ 64.08 crore released (2004-14) to the Commissioner, Department of AYUSH for implementation of different schemes (establishment of AYUSH hospitals & dispensaries, procurement & supply of essential drugs and drug quality control etc), UCs to the extent of ₹ 42.08 crore were furnished to GoI.

Further, GoI released (February 2007) ₹ 12.60 crore as Grants-in-aid towards re-location of 128 AYUSH units established under NRHM. Out of the funds released an amount of ₹ 7.35 crore was utilized (2010-12) leaving an unspent balance of ₹ 5.25 crore. UC for the expenditure incurred was not submitted.

- vii. An amount of ₹ 84.29 crore was released (2007-08 to 2012-13) by Government of India towards Conservation Cum Development Plan (CCDP). Out of this, ₹ 23.12 crore was released to ITDA by the State Government through the implementing agency TRICOR. Out of which, UCs were submitted by ITDAs for ₹ 14.19 crore. Though ₹ 70.10 crore amount is yet to be utilized, the State Government furnished UCs for ₹ 84.29 crore to Government of India.

*Government stated (November 2014) that the Heads of Departments send the Utilisation Certificates to Government of India directly and it is a self-regulating mechanism which is the obligation of the concerned Department. The reply is not acceptable, as the state is losing out on central funds due to non-submission of Utilisation Certificates on time by the departments. Where UCs are to be furnished by Implementing Agencies to the State Government for specific grants, absence of a monitoring mechanism gives scope for mis-utilisation/mis-appropriation/diversion of funds.*

### **3.3 Submission of accounts/Audit Reports of Autonomous bodies**

Several autonomous bodies have been set up by the State Government in the fields of Medical Education, Urban Development, Tribal Welfare etc. Audit of accounts of 20 such bodies has been entrusted to the CAG of India. The delay in submission of accounts of these bodies for audit ranged from three to 198 months as of August 2014. Details of the periods upto which accounts were due and rendered are given in **Appendix 3.2**.

State Government needs to take appropriate measures to ensure that these accounts are compiled and submitted for audit within a fixed timeframe, so as to ensure that financial irregularities, if any, do not go undetected.

Further, in order to identify the institutions which attract audit under Sections 14 and 15 of the CAG's (DPC) Act, 1971, the Government/Heads of Department are required to furnish to Audit every year, detailed information about the financial assistance given to various institutions, the purpose of such assistance and the total expenditure of the institutions.

Annual accounts of 385 such assisted bodies/authorities due from 1993-94 to 2013-14 (total number of accounts 2,030) were not submitted to audit as of August 2014. Details of these accounts are given in **Appendix 3.3**.

### 3.4 Un-reconciled expenditure and receipts

To enable the Chief Controlling Officers (CCOs) of Departments to exercise effective control over budget and expenditure, and to ensure accuracy of their accounts, Financial Rules<sup>5</sup> stipulate that expenditure recorded in their books be reconciled by them every month during the financial year with that recorded in the books of the AG (A&E). Despite flagging this issue every year in Audit Reports, this trend continued during 2013-14 also.

As of June 2014 expenditure amounting to ₹ 47,548 crore (36.76 per cent of total expenditure<sup>6</sup>) was not reconciled by 191 CCOs. During the period from 2010-11 to 2013-14, un-reconciled expenditure increased significantly from ₹ 14,789 crore (2010-11) to ₹ 47,548 crore (2013-14). Extent of un-reconciled expenditure with reference to total expenditure also increased from 15.90 per cent (2010-11) to 36.76 per cent (2013-14) (**Appendix 3.4**). High percentage of un-reconciled expenditure results in non-detection of misuse, if any, and indicates lack of effective internal controls.

During 2013-14, out of 191 CCOs, details of 23 CCOs who did not reconcile expenditure of ₹ 500 crore and above are given in **Appendix 3.5**. This number increased from 14 in 2012-13 to 23 in 2013-14. Of these, in respect of two CCOs, the amount of un-reconciled expenditure was ₹ 2,370 crore (HoD Panchayat Raj-Other Rural Development programmes) and ₹ 13,682 crore (HoD-Finance-Contributions and Recoveries towards Pension and Retirement benefits).

Further, every Controlling Officer should obtain regular accounts and returns from subordinates for amounts released by them and paid into the Treasury, compare the figures with the accounts maintained in the office of the AG (A&E) and reconcile any differences as early as possible before the accounts of the year are closed. However, receipts amounting to ₹ 58,205 crore (52.29 per cent of total receipts<sup>7</sup>) under 30 heads were not reconciled by the concerned CCOs during 2013-14. Un-reconciled receipts were consistently above ₹ 50,000 crore during 2010-14. More than 48 per cent of receipts were never reconciled during the last four years. High percentage of un-reconciled receipts leads to non-detection of leakages in revenue.

### 3.5 Personal Deposit Accounts

As per Andhra Pradesh Financial Code (APFC), Personal Deposit (PD) Accounts are created for discharging the liabilities of the Government arising out of special enactment, by debit to the Consolidated Fund. As per Government orders,<sup>8</sup> funds released during a particular financial year shall lapse by 31 March of next financial year (lapsable deposits under category 'C') and the administrators of PD accounts are required to close such accounts and transfer the unspent balances back to the Government account. Further, the PD account

<sup>5</sup> Article 9 of Andhra Pradesh Financial Code

<sup>6</sup> Includes Revenue, Capital and Loans and Advances (₹ 1,29,344 crore)

<sup>7</sup> Includes Revenue, Capital and Loans and Advances (₹ 1,11,303 crore)

<sup>8</sup> G.O.Ms.No.43, Finance and Planning (W&M) Department dated 22 April 2000

administrators are required to reconcile their balances with those of Treasury and Bank and issue Certificate of Acceptance of Balances (CABs) to Treasuries within a fortnight of end of each quarter, failing which, the Treasury Officer may direct the Bank to stop further payments until reconciliation is completed and CAB furnished to Treasury. Also every DDO has to verify the monthly receipt and expenditure figures with reference to records maintained by him and a signed confirmation has to be sent to Treasury with remarks by 20<sup>th</sup> of succeeding month, failing which, the figures reported by Treasury would be deemed to have been accepted by DDO<sup>9</sup>.

Due to non-rendering of administrator-wise PD accounts details to the Office of AG (A&E), the details of expenditure met from the funds transferred to PD Account and transfer of unspent balances back to Government Account could not be verified in Audit. The number of PD accounts in operation as of 31 March 2014 were 72,652<sup>10</sup> and the amount lying in these accounts was ₹ 13,951.38<sup>11</sup> crore as per Government order dated 24 May 2014. Government informed (November 2014) that the Treasury can render administrator-wise details, if required.

Audit has been commenting about huge variation in closing balances of PD accounts with reference to opening balances of current year<sup>12</sup>. However, the variation continued during the current year also. The opening balance of 2013-14 differed from closing balance of 2012-13 by 4,168 PD accounts (increased) and by ₹ 1,855.86 crore (increased).

*Government attributed (November 2014) the variations to problems in the compilation of PD accounts transactions in the IMPACT package that is being used in the Treasury and stated that it would be resolved once they switch over to the alternative software that is currently being tested.*

Audit review of maintenance of PD accounts on a sample basis revealed numerous irregularities as detailed below:

### 3.5.1 Chief Planning Officer, Guntur

- i. Government released<sup>13</sup> ₹ 16.01 crore towards (a) construction of kitchen sheds for Mid Day Meal programme (₹ 13.53 crore) and (b) providing drinking water in rural areas of the district under State Disaster Response Fund (SDF) (₹ 2.48 crore) which remained un-adjusted. Instead, an amount of ₹ 7.71 crore pertaining to Constituency Development Programme (CDP) was released from the PD account for implementing the said schemes<sup>14</sup>. UCs were not obtained from implementing agencies and submitted to fund releasing authority in contravention of Government orders.

<sup>9</sup> G.O.Ms.No.12, Finance, (TFR.II) Department dated 13 January 2014

<sup>10</sup> G.O.Ms No.125 dated 24 May 2014

<sup>11</sup> Govt. Departments-35 accounts for ₹ 1,216.56 crore, 9<sup>th</sup> Schedule PD accounts-42 for ₹ 1,483.06 crore, 10<sup>th</sup> Schedule PD accounts-28 for ₹339.55 crore, District Treasuries PD accounts-72,547 for ₹ 10,912.21 crore

<sup>12</sup> (i) CAG Report on State Finances for the year ended March 2013: Variation of 14,030 PD accounts and ₹ 9,212 crore, (ii) CAG Report on State Finances for the year ended March 2012: Variation of 4,355 PD accounts and ₹ 11,121 crore

<sup>13</sup> June 2012 - ₹ 3,90,55,000; March 2013 - ₹ 9,62,00,000 and January 2014 - ₹ 2,47,96,000

<sup>14</sup> i) construction of kitchen sheds under Mid Day Meal programme (₹ 5.40 crore) and ii) to mitigate drinking water scarcity in rural areas in the district (₹ 2.31 crore)

- ii. Out of ₹ 10.50 crore released from the PD Account pertaining to Constituency Development Programme, only ₹ 2.29 crore was utilized and for the balance ₹ 8.21 crore UC was not furnished to Government (31 March 2014).
- iii. Reconciliation of expenditure figures of DDO with those booked by District Treasury Officer, Guntur was not conducted during 2012-14 for an expenditure of ₹ 10.76 crore. Further, discrepancy of ₹ 6.67 crore as per Treasury (₹ 54.52 crore) and PD account Cash Book (₹ 61.19 crore) was not reconciled and rectified.
- iv. Certificates for Acceptance of Balances confirming the balances (quarterly) were not issued by the Chief Planning Officer to the DTO, Guntur during 2013-14.

### **3.5.2 Chief Planning Officer, Srikakulam**

- i. In violation of Government orders<sup>15</sup>, an amount of ₹ 34.55 lakh pertaining to closed schemes and other programmes (Rachabanda-I - ₹ 4,90,307; Rachabanda-II - ₹ 16,397; Prajapatham - ₹ 11,23,976; Special Development Fund (SDF) - ₹ 5,00,000; Mid Day Meal programme - ₹ 13,24,000) was not lapsed to Government (31 March 2014) by the DTO, Srikakulam despite requests (March & August 2014) by the CPO.
- ii. Contrary to Government orders<sup>16</sup>, the District Collector did not monitor the progress of works on a regular basis and furnish UCs on completion of works to Planning Department in respect of funds released under CDP (₹ 10.07 crore) and SDF (₹ 29.73 crore) programmes respectively (31 March 2014).
- iii. Discrepancy between balances as per the Treasury and PD account balances as per the Administrator's account was not reconciled and rectified.

### **3.5.3 Power Subsidy for Industrial promotion**

As per the Industrial Investment Promotion Policy 2010-15, reimbursement of power charges at ₹ 0.75 per unit is provided to industrial units. Government provided ₹ 135.88 crore in the budget for 2013-14. An amount of ₹ 131 crore was released under general category entrepreneurs and expenditure of ₹ 128.57 crore was incurred leaving a balance of ₹ 2.43 crore which was lying in the PD account of the Commissioner of Industries.

### **3.5.4 Other significant irregularities and procedural lapses**

#### **3.5.4.1 Drawal of self cheques or issue of cheques in the name of the Bank manager**

Government issued orders<sup>17</sup> prohibiting issue of self cheques or cheques in the name of manager of any bank. However, 177 cheques amounting to ₹ 1,276.53 crore were issued as 'self' or in the name of 'Bank Manager' by 62 PD account administrators.

#### **3.5.4.2 Adverse Balances under Deposits Accounts**

Adverse Balances under PD accounts amounting to ₹ 147 crore have been noticed in 3 DTOs and 15 STOs during 2013-14.

<sup>15</sup> G.O.Ms.No.43, Finance and Planning (W&M) Department dated 22-04-2000

<sup>16</sup> G.O.Rt. No.627, Planning (XVIII) Department dated 31-05-2012

<sup>17</sup> G.O.Ms.No.43, Finance & Planning (W&M) Department dated 22-04-2000

### 3.5.4.3 Variations between Ledger and System Balances

There were variations between Ledger and System balances with regard to various PD accounts in 4 DTOs and 5 STOs to the extent of ₹ 102.04 crore.

### 3.5.4.4 Municipal Administration and Urban Development department

**Non-Reconciliation of PD account Cash Book with Treasury Pass Book:** The following are the cash balances outstanding in PD account Cash Book and Pass Book as on 31 March 2014.

**Table 3.1: Reconciliation**

	Amount (in ₹)
As per Cash Book	95,58,27,414
As per Bank Statement	159,32,77,292
As per Treasury Pass Book	117,84,16,693

### 3.5.4.5 Parking of funds in commercial banks

Contrary to G.O.Ms.143 dated 15-7-2008 and G.O.Ms. 140 Finance (BG) department dated 2 June 2005, PD accounts were opened for payment of scholarships and ₹ 12 crore was drawn and credited to Corporate Internet Banking (CINB) Account. The amount however, remained undisbursed to the beneficiaries

Considering the variation among the three sets of figures, there is an urgent need to reconcile these balances and reflect the correct position.

*Government replied (November 2014) that variations between ledger and system figures are due to problems in the IMPACT system and is being attended to. With reference to self-cheques, Government stated that the PD administrators are permitted to draw self cheques towards office/administrative expenses. It was further stated that even in respect of third party payments by way of NEFT or RTGS, the bank requires the administrator to issue a self or pay yourself cheque along with the details of the beneficiary in a soft copy and all such transactions get reflected as drawals by way of self cheque and in the name of Bank manager. Audit is of the view that such a system carries the risk of misappropriation and a better system needs to be devised for the transferring approved funds to beneficiaries.*

## 3.6 Pendency of Detailed Contingent bills

As per Government orders<sup>18</sup>, amount drawn on Abstract Contingent (AC) bills should be adjusted by submitting Detailed Contingent (DC) bills for the expenditure incurred, to the AG (A&E) with supporting vouchers within one month of drawal of such amounts. In any event, a third AC bill is not to be admitted until the first AC bill is settled.

However, despite flagging this issue at regular intervals, DC bills (92,701) were yet to be submitted as of 31 March 2014 for ₹ 1,147 crore drawn on AC bills. The year-wise details in this regard are given below.

<sup>18</sup> G.O.Ms.No.285 Finance (TFR-II) Department dated 15-10-2005, Andhra Pradesh Treasury Code, Rule 16, sub rule 18 (d) and G.O. No.s 391 and 507 of April/May 2002 of Finance Department



**Table 3.2: Amount drawn on Abstract Contingent Bills**

(₹in crore)

Year	AC bills drawn		DC bills Submitted		DC bills pending	
	Number	Amount	Number	Amount	Number	Amount
Upto 2002-03*	82,130	222	...	...	82,130	222
2003-04** to 2007-08	90,293	805	84,181	722	6,112	83
2008-09	7,471	168	6,858	154	613	14
2009-10	4,506	464	4,245	446	261	18
2010-11	3,302	790	2,933	697	369	93
2011-12	2,833	977	2,567	940	266	37
2012-13	2,570	768	1,987	588	583	180
2013-14	4,252	1,354	1,885	854	2,367	500
<b>Total</b>	<b>1,97,357</b>	<b>5,548</b>	<b>1,04,656</b>	<b>4,401</b>	<b>92,701</b>	<b>1,147</b>

Source: Information from office of AG(A&E), RAO, O/o.PAG(G&SSA)

\*Details are not available.

\*\* Data for 2003-04 in respect of PAO, Hyderabad is not available

As of March 2014, Agriculture department with ₹ 399 crore, followed by Revenue department with ₹ 310 crore and Panchayat Raj & Rural Development department with ₹ 84 crore were leading the list in non-submission of DC bills. Further, Health, Medical and Family Welfare department had 5,544 AC bills and Revenue department had 3,101 AC bills against them to be adjusted. The department-wise details of AC bills for which DC bills are pending is given in **Appendix 3.6**.

No details are available in respect of 82,130 AC bills drawn for an amount of ₹ 222 crore up to 2002-03. Non-submission of DC bills for 10 years defeats the very purpose of rules ensuring authenticity of expenditure and prevention of fraudulent drawals. Non-submission of account for drawal of amounts for long periods are a matter of concern as such drawal can be fraudulent.

A test check of the records of five Offices<sup>19</sup> in Srikakulam and Guntur districts revealed the following.

- AC bills (48) amounting to ₹ 35.74 crore were drawn during 2013-14. Of these, 32 DC Bills<sup>20</sup> of ₹ 18.28 crore were submitted to respective Treasuries with a delay ranging from 53 to 306 days. The balance 16 bills<sup>21</sup> amounting to ₹ 17.23 crore are yet to be submitted. Contrary to Government orders, third AC bill was drawn without settling the first AC bill by the DDOs.

<sup>19</sup> AO, O/o The District Collector, Srikakulam (17bills- ₹ 7,43,29,985), O/o DEO, Srikakulam (9 bills- ₹ 1,18,48,700), Jt. Director of Agriculture, Srikakulam (1 bill- ₹ 23,39,55,000), O/o CEO, Zilla Parishad, Guntur (8 bills- ₹ 2,18,55,500) and DEO, Guntur(13 bills- ₹ 1,53,64,220).

<sup>20</sup> AO, SKLM-13(₹ 4,52,60,815), DEO,SKLM-09(₹ 1,17,36,898), CEO, GNT-08(₹ 2,18,55,500), DEO,GNT-02 (₹ 2,06,100), JDA, SKLM-0(₹ 10,37,68,383)

<sup>21</sup> AO, SKLM-4(₹ 2,70,15,000), JDA, SKLM-1(₹ 13,01,86,607), DEO, GNT-11(₹ 1,51,58,120)

- ii. Interest accrued on the balances in bank accounts<sup>22</sup> amounting to ₹ 2,69,191 was not refunded to the fund releasing authorities.
- iii. Due to non-maintenance of separate Cash Book for AC bills drawn, adjustment of AC bills by submission of DC bills and remittance/refund of unspent amount could not be verified (DEO, Guntur).
- iv. An amount of rupees two crore<sup>23</sup> was drawn on AC bill (April 2013) for utilization by RWS&S Department to mitigate drinking water scarcity in rural areas of Srikakulam district. An amount of ₹ 0.84 crore was spent leaving a balance of ₹ 1.16 crore. However, neither was the unspent balance remitted to Government account nor was the DC bill submitted (August 2014).

*Government replied (November 2014) that efforts have been made to reduce pendency of DC bills through constant persuasion with the Drawing Officers and the pendency has been reduced to ₹ 342.26 crore as on October 2014. It was also informed that the Government had ordered stoppage of salaries for the month of November 2014, in respect of the DDOs who failed to submit DC bills.*

### **3.7 Operation of omnibus Minor Head - 800**

Omnibus Minor Head - 800 (other expenditure/other receipts/other deposits) accommodates expenditure/receipts which could not be classified under the available programme Minor Heads. The transactions under this Minor Head during the current year are given below:

Expenditure aggregating ₹ 20,066 crore, constituting 15.97 per cent of the total expenditure was classified under Minor Head 800-Other Expenditure in respect of over 48 Major Heads involving both Revenue and Capital sections. Of these, ₹ 15,911.35 crore pertained to 14 Major Heads which includes 100 per cent expenditure under seven Major Heads<sup>24</sup> and over 95 per cent under two Major Heads<sup>25</sup>.

Revenue receipts aggregating ₹ 2,718.36 crore (2.46 per cent of total Revenue receipts) were classified under Minor Head 800-Other Receipts involving 46 Major Heads which includes 100 per cent receipts under 12 Major Heads<sup>26</sup> and over 96 per cent under three<sup>27</sup> Major heads. Instances where a substantial proportion (50 per cent and above) of receipts and expenditure are classified under Minor Head 800 are listed in **Appendix 3.7 and 3.7 (a)** respectively.

**800-Other Deposits:** An amount of ₹ 1,053.54 crore was lying under the Major Head 8443-Civil Deposits, Minor head 800-Other Deposits under various items of deposits.

The classification of Receipts and Expenditure under Minor Head 800 continued as detailed below despite the assurances of the Government to curtail it.

<sup>22</sup> DEO, SKLM(₹ 1,51,937), CEO, ZP, GNT(₹ 1,17,254)

<sup>23</sup> G.O.Rt. No. 96, Revenue(DM.II) department, dated 21.3.2013

<sup>24</sup> MH 2810, MH 4070, MH 4401, MH 4875, MH 4852, MH 5053 and MH 5054

<sup>25</sup> MH 2801 and MH 2875

<sup>26</sup> MH 0515, MH 1051, MH 1456, MH 0701, MH 0211, MH 0235, MH 0056, MH 1452, MH 0506, MH 0217, MH 0875 and MH 1056

<sup>27</sup> MH 0700, MH 0702 and MH 1054



**Table 3.3: Trends in receipts and expenditure under MiH 800**

(₹in crore)				
Year	Expenditure under Minor Head 800	Percentage of total expenditure	Receipts under Minor Head 800	Percentage of total Receipts
2009-10	10,832	14.00	2,116	3.00
2010-11	11,046	12.00	4,699	6.00
2011-12	14,165	13.60	3,447	3.68
2012-13	18,206	15.45	4,123	3.97
2013-14	20,066	15.97	2,718	2.46

Expenditure classified under Minor head 800 increased from 12 *per cent* in 2010-11 to 15.97 *per cent* in 2013-14. Classification of huge amounts under this omnibus head affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

*Government promised (November 2014) to take necessary action while formulating the Budget for 2015-16.*

### **3.8 Debt, Deposit and Remittance heads**

A review of Debt, Deposit and Remittance (DDR) heads conducted during 2013-14 revealed the following.

#### **3.8.1 Public Debt**

Article 293 of the Constitution of India empowers the State Government to borrow funds within the territory of India, upon the security of the Consolidated Fund of the State within such limits as may vary from time to time, to be fixed by an Act of the State Legislature.

##### **3.8.1.1 Adverse Balances under MH 6003-Internal Debt**

Adverse balances (Minus balances) under Loan heads indicate that repayment was more than the loans availed. Government departments that directly avail of loan have been classifying such loan amounts as their receipts, while in respect of Special Purpose Vehicles and Companies/Corporations, these amounts do not enter Government accounts. In some cases, loan repayments are however, booked as debit under MH-6003-Internal debt in Government accounts which result in adverse balances and understate liabilities of Government and affects financial reporting.

During 2013-14, adverse balances of ₹ 4,244.44 crore and ₹ 13.68 crore appeared under “MH 6003-109-Loans from other Institutions” and “MH 6003-108- Loans from National Co-operative Development Corporation due to accounting for payments without corresponding credits. These balances pertain to AP State Irrigation Development Corporation, AP Road Development Corporation, AP Power Finance Corporation Limited, and AP TRANSCO Bonds etc. State Government initiated action by issuing orders<sup>28</sup> (May 2014) for adjustment of ₹ 4,113.24 crore (AP TRANSCO bonds: ₹ 2,646.32 crore and AP power Finance Corporation Limited: ₹ 1,466.92 crore) under “MH 6003-109-Loans from other Institutions” by obtaining supplementary Grant in 2014-15.

<sup>28</sup> G.O.Ms.No.22, Energy (Power.III) Department dated 21-05-2014

During the year an amount of ₹ 346 crore of discharges were made under public debt towards repayment of loans (APPFC and APTRANSCO).

*Government informed (November 2014) that adverse balances in respect of APTRANSCO & APPFC have been adjusted as per the orders issued in May 2014 and with regard to others, action is being taken for regularizing the adverse balances.*

### **3.8.2 Deposits and Advances**

#### **3.8.2.1 Deposits**

Government receives deposits for various purposes by or on behalf of various public bodies and members of the public, which are accounted for by repayment or otherwise. Government sometimes decides to set aside sums from the revenues of a year or a series of years, to be accumulated as a “fund”. The balance at the credit of such a “fund” is held as a deposit and expended on specified objects.

Deposits are broadly categorized into two categories, the balances outstanding against them as of 31 March 2014 are given below:

- (i) Deposits bearing Interest: ₹ 4,421.86 crore.
- (ii) Deposits not bearing Interest: ₹ 12,370.28 crore.

Some of the irregularities noticed during the current year under this head are given below:

#### **(i) Adverse Ledger Balances under Deposit Accounts**

A deposit account can either be a positive balance or nil balance. Adverse/negative balance indicates that the disbursement is more than the amount deposited. This can be due to misclassification or over-payment in the Pay and Accounts Office/District Treasury Offices. As of 31 March 2014, an adverse/negative balance of ₹ 2,407.08 crore was noticed under Deposits.

*Government replied (November 2014) that the problem pertained to Pay and Accounts Offices and the reason for the same was non-updation of the ledger by the bank and it would not affect the RBD in any way. This reply is not acceptable, as unless all such deposits are scrutinized and reconciliation is carried out the correct picture will not be available.*

#### **(ii) Unclaimed deposits of General Provident Fund (GPF)**

Non-remittance of unclaimed General Provident Fund deposits (₹ 1.27 crore) into Consolidated Fund of the State was commented in the CAGs Audit Report on State Finances (2012-13). However, the amount is yet to be remitted to Consolidated Fund (as of March 2014).

#### **3.8.2.2 Civil Advances**

As per para 10.7.3 of Budget Manual, the Minor Head ‘Civil Advances’ is meant for recording departmental advances, objection book advances, service fund advances, etc. “Civil Advances” embrace Forest & Revenue advances, other departmental advances and other advances. There should be a debit balance under advance heads. During the current year, an outstanding debit balance of ₹ 27.94 crore was reflected in the Accounts.

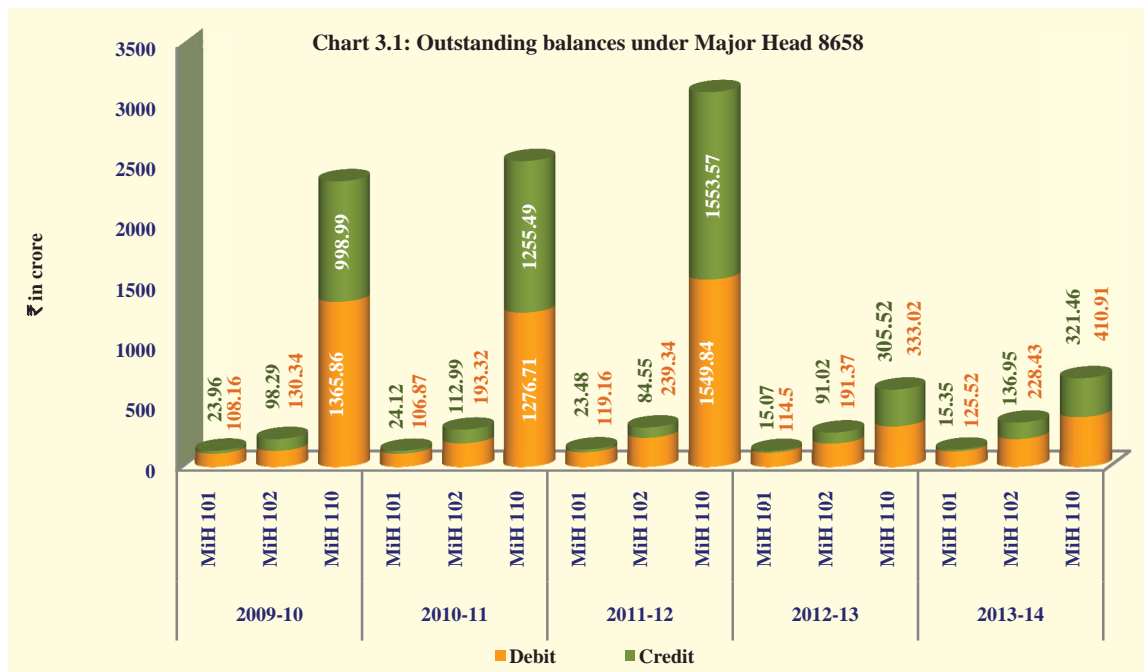
As per the provisions of APFC<sup>29</sup>, the functioning of Government often necessitates placing of funds at the disposal of Government servants as temporary cash advance for public purposes. These are to be adjusted as expenditure under the appropriate heads of account or recovered from the parties concerned.

Civil Advances of ₹ 9.18 crore (as of 31 March 2014) were lying in in-operative heads of account (MH 8550-00-102 – Revenue Advances: ₹ 1.65 crore and MH 8550-00-103-Other Departmental Advances: ₹ 7.53 crore) for over four years.

### 3.9 Outstanding balances under Suspense Account (Major Head 8658)

Suspense heads are operated in Government accounts to reflect transactions that cannot be booked initially to their final head of account for some reason or the other. These are finally cleared by minus debit or minus credit when the amount is taken to its final head of account. If the amounts under suspense heads remain unadjusted, the balances under these heads get accumulated resulting in understatement of Government's receipts and payments.

The Suspense balances (Debit/Credit) under Minor heads 101-PAO Suspense, 102-Suspense Account (Civil) and 110-Reserve Bank Suspense-Central Accounts Office under Major head 8658-Suspense Account as per the Finance Accounts for the last five years is presented in Chart given below:



The transactions and the net balances under the above mentioned suspense heads are detailed below:

#### 3.9.1 Pay and Accounts Office – Suspense (MiH 101)

This Minor Head is operated for the settlement of inter-departmental and inter-governmental transactions arising in the books of PAOs under the Union Government, PAOs of the Union

<sup>29</sup> Article 236 of AP Financial Code

Territories and the Accountants General. Transactions under this Minor Head represent either recoveries effected (Credit) or payments made (Debit) by the PAO on behalf of PAO against whom the Minor Head PAO Suspense has been operated. Credit under this head is cleared by 'minus credit' when cheque is issued by the PAO in whose books initial recovery was accounted for. Outstanding credit balance under this head means that payments are received by the PAO on behalf of other PAO, which are yet to be paid. Similarly, Debit is cleared by 'minus debit' on receipt and realization of cheque from the PAO on whose behalf payment was made. Outstanding debit balance under this head means that payments have been made by the PAO on behalf of other PAO, which is yet to be recovered.

The outstanding debit balance (31 March 2014) under this head was ₹ 125.52 crore (increased by ₹ 11.02 crore over previous year) and the credit balance was ₹ 15.35 crore. The outstanding debit balances were mainly in respect of PAO, Central Pensions, New Delhi (₹ 61.55 crore), interests on stock warrants (₹ 18.74 crore), PAO, Shipping and Transport, Bangalore (₹ 8.74 crore) and Regional PAO, Hyderabad (₹ 35.23 crore) and the outstanding credit balances were mainly in respect of PAO, Department of Economic Affairs, New Delhi (₹ 12.65 crore), Pay Roll Saving Scheme (₹ 1.69 crore). The debit balances increased from ₹ 108.16 crore to ₹ 125.52 crore and the credit balances recorded a decrease from ₹ 23.96 crore to ₹ 15.35 crore during 2009-14. The outstanding balances under PAO Suspense need to be adjusted in a time bound manner.

### **3.9.2 Suspense Account - Civil (MiH 102)**

The transactions which cannot be taken to final head of expenditure/receipt accounts for want of certain information/documents (challans, vouchers etc.) are initially booked under this suspense head. Receipts are credited and expenditure is debited to this account and cleared on receipt of required information by minus credit and minus debit respectively. Outstanding credit balance under this head means receipts could not be credited to final receipt head of account for want of details and outstanding debit balance means payment made could not be debited to the final head of expenditure for want of certain particulars.

The outstanding balance as of 31 March 2014 was ₹ 228.43 crore (debit) and ₹ 136.95 crore (credit) which increased by ₹ 37.06 crore (debit) and by ₹ 45.93 crore (credit) over previous year respectively. Major debit balances outstanding were in respect of FA&CAO, South Central Railway (₹ 73.10 crore), Charges Adjusted (₹ 44.76 crore), General Suspense (₹ 30.90 crore) and Remittances in Treasuries in other accounting system (₹ 61.91 crore) and major credit balances outstanding were in respect of Cheques drawn on treasuries in other accounting circles (₹ 71.99 crore), Unclassified suspense (₹ 36.32 crore), Tungabhadra Project Suspense- Remittances (₹ 12.67 crore) and Tungabhadra Project Suspense (₹ 7.18 crore).

### **3.9.3 Reserve Bank Suspense - Central Accounts Office (MiH-110)**

Whenever transfer of huge balances between Central and State Governments take place on account of sanction of loan, grants-in-aid etc., this minor head is operated to record the transactions before taking them to their final Head of Account. In case of sanction of loan to State Government, on receipt of sanction from the PAO of the Ministry concerned, the State Accountant General concerned gives credit to MH 6004 – Loans and Advances from Central Government duly debiting MH 8658 – Suspense Accounts, 110-RBS(CAO) and awaits

adjustment memo from CAS, RBI, Nagpur. After receiving the adjustment memo from CAS, RBI, Nagpur the Suspense Account (Mh 110-RBS (CAO) is cleared by minus debit duly debiting MH 8675-RBD-Mh 106 State concerned. A debit balance under this minor head would mean that repayment of loan has not been taken to its final head and a credit balance means loan received from GoI was not booked under the concerned loan head (MH 6004).

The outstanding balances under this head as of 31 March 2014 were ₹ 410.91 crore –Debit (increased by ₹ 77.89 crore over previous year) and ₹ 321.46 crore - Credit (increased by ₹ 15.94 crore over previous year) indicating that, an amount of ₹ 732.37 crore needs to be adjusted (both debit and credit) under this head.

*Government replied (November 2014) that there was an increase in the suspense amount due to non-receipt of Government of India sanction letters.*

### **3.9.4 Tax Deducted at Source (TDS) Suspense – (MiH 112)**

This Minor Head is intended to accommodate receipts on account of Income tax deducted at source viz., interest payments on State Government securities, salary bills of State Government employees and pension bills etc., by State Treasury officers/State Pay and Accounts Officers/ other Departmental Officers who render compiled accounts of State Government as well as from interest payments on State Government securities made at Public Debt offices of the RBI in the books of State Accountant General to enable them to settle transactions with Zonal Accounts Officers concerned of CBDT by means of Cheques/Bank Drafts.

Receipts on account of TDS are credited to Major Head 8658 – Suspense Accounts under Minor Head 112 –TDS Suspense. These credits are to be cleared by the end of each financial year and credited to the IT Department. However, there was an outstanding credit balance of ₹ 231.50 crore under this Minor Head as of 31 March 2014. Though this head is meant to accommodate credit balances, a debit balance of ₹ 159.22 crore was reflected in the accounts.

### **3.9.5 Inter- State Suspense – MH 8793**

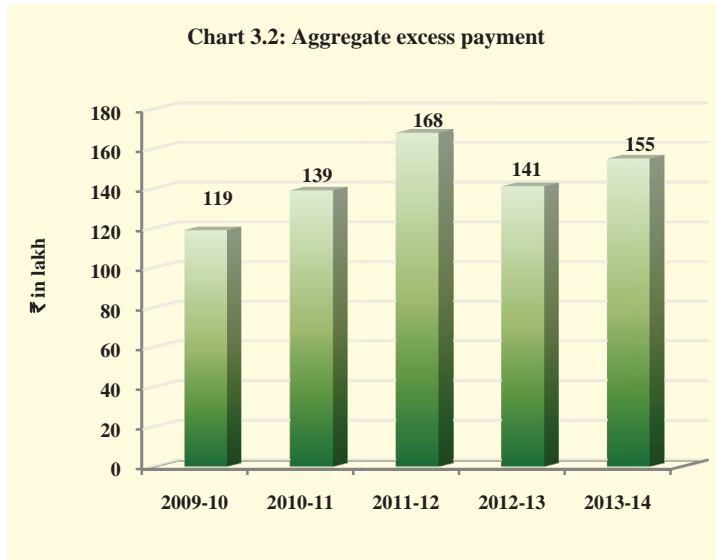
Transactions arising in State Treasury relating to another State Government are classified under this category. On receipt of monthly accounts from Treasury and on completion of booking, transactions are verified and advice is issued to the RBI for effecting necessary transfer of balances from one State to another. On receipt of intimation of adjustment by RBI through ‘Clearance Memos’, the accounts shown under this head are cleared. An amount of ₹35.29 crore was lying un-adjusted as on 31 March 2014 for want of clearance memos from RBI.

## **3.10 Functioning of Treasuries**

There were significant irregularities in functioning of Treasuries during the year 2013-14 as detailed under.

### **3.10.1 Excess payment of pension/family pension**

A test check of records relating to payment of pension and family pension in 10 District Treasuries, 131 Sub Treasuries and 9 Assistant Pension Payment Offices during 2013-14 revealed excess payment of ₹ 1.55 crore in 312 cases as detailed in **Appendix 3.8**. Excess payment of pensionary benefits during the last 5 years is given in **Chart 3.2** below.



Source: Annual Reports on Treasuries

Despite computerization of pension package at Treasuries, excess payment of pensionary benefits continued to increase year after year (except in 2012-13). The matter is being brought to the notice of DTA, Hyderabad and Government every year through Annual Review Report on working of Treasuries by Accountant General (A&E). Government needs to strengthen internal controls at the level of treasuries in order to avoid excess payment of pension.

### 3.10.2 Pensions undrawn for more than 3 years

As per SR.87 (a) (b) and (c) under Rule 16 of APTC Vol-I, pension not drawn for three years and arrears of pension due on account of a deceased pensioner not claimed within one year of the pensioner’s death, shall cease to be payable. The Treasury Officer is required to examine the Pension Payment Orders (PPOs) and return the Disbursers’ halves of the PPOs to the Accountant General or Local Fund Authorities as the case may be, along with a half yearly statement of such cases of undrawn pensions for information. During inspection of 5 District Treasuries, 18 Sub-Treasuries and 9 Assistant Pension Payment Offices, 2,253 cases of pensions undrawn for more than 3 years and Disbursers’ halves of the PPOs not returned to the AG were noticed. Non-return of PPOs to AG carries the risk of payment of arrears of pension to legal heirs without sanction from the AG.

*Government stated (November 2014) that recovery of excess paid pension was being monitored through a watch register. This reply does not address the concern regarding lack of internal controls that is the cause for excess payments in the first place.*

### 3.10.3 Multiple DDO codes for the same DDO

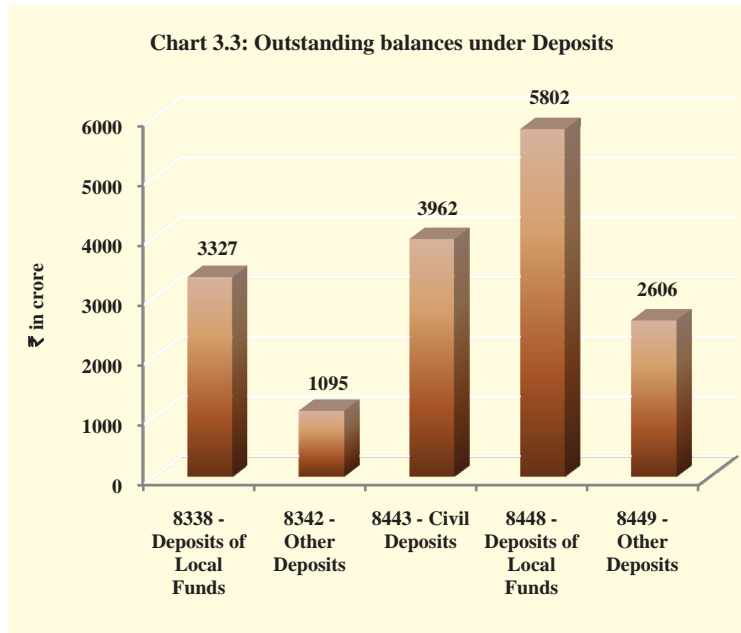
Uniqueness of DDO code is essential to prevent fraudulent payment, particularly in view of the large number of DDOs and the fact that they are submitting claims online. Inspection of Treasuries revealed that several DDOs were allotted more than one code and some of them operated both the codes. Assigning multiple codes to the same DDO in Integrated Management of Pay and Accounts and Treasuries (IMPACT) Package can lead to the risk of booking expenditure of the same DDO against different DDO codes, impacting transparency in financial reporting.



### 3.11 Non-availability of data on Lapsed Deposits

As on 31 March 2014 outstanding balances under various deposit heads were as follows:

Due to non-availability of administrator-wise data on funds spent and balance available from lapsable heads, audit could not verify the actual amounts due to be lapsed. However, an un-spent balance of ₹ 39.80 crore under Major Head 8443-Civil Deposits was lapsed and credited to Major Head 0075 - Miscellaneous General Services – 101 - Unclaimed Deposits – 01 - Unclaimed Deposits. Data on lapsed deposits from other Major Heads was not reported.



Source: Finance Accounts

#### 3.11.1 Non-Lapsing of Deposits unclaimed for more than three years

As per the provisions of Article 271 of A.P. Financial Code Volume-I, certain classes of Civil Deposits like Revenue Deposits, Election Deposits etc., unclaimed for more than 3 complete financial years should be credited to Government Account at the close of March each year. During the year 2013-14, Civil Deposits unclaimed for more than three years were not remitted to Government account in respect of 278 cases involving an amount of ₹ 80.43 crore. Huge amounts of such deposits exceeding ₹ 1 crore were found in District Treasuries of Adilabad, Chittoor, Kadapa, Krishna, Warangal, Kurnool, Ananthapur and Srikakulam.

Further, as per G.O.Ms. No.43, Finance & Planning (W&M) Dept., dated 22-04-2000, Category-B and C are lapsable deposits after a period of one to three years as the case may be. However, deposits amounting to ₹ 39.93 crore were lying un-utilized for over three years under Deposit heads without lapsing to Government Account.

*Government replied that B category deposits are to be watched by treasuries and C category deposits by administrator for lapsing after due dates. However, both treasuries and administrators did not comply with the respective codal provisions.*

### 3.12 Misappropriations, losses, defalcations, etc.

Financial Rules lay down the responsibilities of Government servants in dealing with Government money, the procedure for fixing responsibility for any loss sustained by the Government and action to be initiated for recovery of such losses. There were 468 cases of misappropriation, defalcation, etc, involving Government money amounting to ₹ 93.61 crore on which final action was pending as of March 2014. The department-wise break up of pending cases and year-wise analysis is given in **Appendix 3.9**.

There was a loss of ₹ 59.01 crore sustained by AP State Minorities Finance Corporation, as stated (October 2013) by the Corporation. It was further stated that action has been initiated against the erring officials.

### **3.13 Non-receipt of supporting documents**

#### **3.13.1 Non-receipt of vouchers from PAO/Treasuries**

Apart from the numerous accounts and amounts figuring under Suspense heads as detailed above, as per Manual of Treasury Accounts Department<sup>30</sup>, payments have to be supported by vouchers/cheques containing full details of transactions made. However, during 2013-14 vouchers numbering 29,689 were not submitted by the PAO, Hyderabad (6,850 vouchers) and the Treasuries (22,839 vouchers) to the AG (A&E) in support of an expenditure of ₹ 3,392.23 crore (PAO: ₹ 2,064.88 crore and Treasuries: ₹ 1,327.35 crore).

The above included 2,682 vouchers in respect of Employees Advance bills (₹ 165.04 crore) and Pension bills (₹ 399.49 crore), 'Detailed pay bills' (9,701 vouchers for ₹ 173.56 crore) and 'Fully Vouched Contingent Bills' (6,592 vouchers for ₹ 49.90 crore). Non-submission of Detailed pay bills raises doubt about the authenticity of the payment of pay & allowances and the availability of staff actually on rolls as per sanctioned strength. The possibility of fraudulent drawals cannot be ruled out in the absence of vouchers for Fully Vouched Contingent Bills.

#### **3.13.2 Non-receipt of Cheques in support of payments**

Manual of Treasury Accounts Department stipulates that, payments have to be supported by vouchers/cheques containing full details of payments made. However, in violation of this provision, Treasuries have not furnished 6,184 cheques to AG (A&E) in support of payments valuing ₹ 2,214 crore to the end of March 2014. These cheques are pending for a period ranging from one month to over a decade (*Appendix 3.10*).

### **3.14 Conclusion**

*There were delays in submission of annual accounts by several autonomous bodies/authorities which dilutes accountability and defeats the purpose of preparation of accounts.*

*UCs were not furnished on time or not furnished at all for large amounts both by the State and the implementing agencies for the funds drawn for execution of schemes. DC bills were not submitted (₹1,147 crore) for periods ranging upto a decade (₹222 crore drawn up to 2002-03) in violation of prescribed rules and regulations which are indicative of lack of internal controls, besides raising apprehensions about proper end use of funds.*

*Though the Government, at the instance of Audit, has reduced the number of PD accounts operated, an unspent balance of ₹13,951 crore still exists under 72,652 PD accounts. Further, the discrepancies between previous year's closing balance and current year's opening balance (₹1,855.86 crore) have not been reconciled and rectified. There were huge variations in PD account balances as per Treasury Pass Book, Administrator's Cash Book and Bank Statements at the end of the year. There were also variations between ledger and system with regard to PD*

<sup>30</sup> Para 197 (i)(a) of Manual of Treasury Accounts Department (Volume-I)

accounts within Treasuries itself (₹ 102.04 crore), adverse balances in PD accounts (₹ 147 crore). Self cheques were issued (₹ 1,276.53 crore) in violation of Government orders by several PD account Administrators. All these point to need for improvement in monitoring and control over PD accounts.

Omnibus Minor Head 800 continued to be operated during the year for recording expenditure and receipts relating to several items even where there were earmarked heads of accounts, with the expenditure in this head having increased by 4 per cent over the past four years. This affects transparency in financial reporting and distorts any meaningful analysis of allocative priorities and quality of expenditure.

Large adverse balances under Debt, Deposit heads and outstanding balances under Suspense heads affect the quality of financial reporting. Non-lapsing of Deposits and Advances lying in inoperative heads of account and excess payment of pension/family pension indicate ineffective internal controls.

Non-reconciliation of 36.76 per cent (₹ 47,548 crore) of total expenditure and 52.29 per cent (₹ 58,205 crore) of total receipts during the year despite being highlighted in earlier years in the Audit Report indicates disregard for codal provisions and financial rules by the controlling officers; this facilitates non-detection of leakages in revenue and irregularities in expenditure. Similarly, non-receipt of 29,689 vouchers in support of payments made for an amount of ₹ 3,392.23 crore and 6,184 cheques for an amount of ₹ 2,214 crore from the PAO/Treasuries exposes the system to the risk of non-detection of cases of misappropriation and fraud.

**Hyderabad  
The**

**(VANI SRIRAM)  
Principal Accountant General (G&SSA)  
Andhra Pradesh and Telangana**

**Countersigned**

**New Delhi  
The**

**(SHASHI KANT SHARMA)  
Comptroller and Auditor General of India**