

# Chapter - 3

## Compliance Audit



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#### Finance (Works and Projects) Department

### 3.1 Finance Control Mechanism in Pay & Accounts Offices

#### 3.1.1 Introduction

Public works departments like Forest, Irrigation and Command Area Development (I&CAD), Panchayat Raj and Rural Development (PR&RD), Public Health (PH) and Roads & Buildings (R&B) etc., execute works and submit work bills, for payment, to the concerned Pay and Accounts Officers (PAOs)/Assistant Pay and Accounts Officers (APAOs). The PAOs/APAOs had to conduct pre check of all the bills thus received, make payments, compile monthly accounts and render the accounts to Accountant General (A&E). In the State, 709 Drawing and Disbursing Officers (DDOs) draw work bills through 14 PAOs/APAOs<sup>1</sup>. I&CAD Department draws the pay and allowances bills also through the PAO, while other Departments draw the same from Treasuries. 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 etc.

The Principal Secretary to Government (Works & Projects) exercises overall administrative control on the Pay & Accounts Organisation. The Director of Works Accounts (DWA) is the Head of the Organisation, who is assisted by two Joint Directors (JD) and 14 PAO/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, two JDs<sup>2</sup> and four<sup>3</sup> out of 14 PAOs selected on the basis of simple random statistical sampling method with reference to amount involved in works bills was conducted (August 2014 to March 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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<sup>1</sup> 14 PAO/APAOs at Gadwal, Gandhamvari gudem (Nalgonda), Hanamkonda (PAO + APAO), Hill Colony (Nalgonda distret), Hyderabad, Karimnagar, Khammam, LMD Colony, Mahabubnagar, Medak, Nirmal, Nizamabad and Rangareddy

<sup>2</sup> Hyderabad and Karimnagar

<sup>3</sup> PAOs at Hanamkonda, Khammam, Nirmal and APAO at Nizamabad

## Audit Findings

### 3.1.3 Financial control frame work

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

#### 3.1.3.1 Expenditure in excess of Letter of Credit

In order to regulate expenditure against the budget estimates of the departments, the Heads of Departments (HODs) concerned issue Letter of Credit (LOC) periodically (for quarter) allocating the budget between Plan/Non-Plan, detailed and sub-head wise/drawing officer wise and communicate the same to PAOs/APAOs as well as to DDOs. The PAOs/APAOs are required to watch the availability of funds as per LOC before making payment. In case the DDOs submit any bill in excess of LOC, the PAOs/APAOs are required not to admit the bill.

The amount of LOCs received from HODs is fed into a computerized 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 quantum of LOC while passing the bills, resulting in expenditure exceeding the LOC limits. This indicates that the BMS software did not reject payments in excess of LOC. The amount of bills admitted by PAOs/APAOs against the LOC available in BMS from 2010-11 to 2014-15 are detailed below:

*Table 3.1 – Details of LOC received and payments made by PAOs*

(₹ in crore)				
Sl No	Name of the PAO	Amount of LOC	Amount of bills paid by PAO	Excess expenditure beyond LOC
1	PAO, Hanamkonda	18.62	24.54	5.91
2	PAO, Khammam	106.55	153.22	46.68
3	APAO, Nizamabad	20.50	38.50	18.00
4	PAO, Nirmal	17.84	28.32	10.48
<b>Total</b>		<b>163.51</b>	<b>244.58</b>	<b>81.07</b>

(Source: Bill Monitoring System in DWA office)

The above excess expenditure of ₹ 81.07 crore was incurred mainly on pay and allowances of work charged establishment<sup>4</sup> and other items like hire

<sup>4</sup> Work charged establishment is that establishment whose pay, allowances etc., are all directly chargeable to works. Work charged staff are employed for execution of specific work or sub-work of a specific work or on the custody, maintenance and accounting of stock.

charges of vehicles, maintenance of office vehicles, allowances of other staff, office expenses etc.

Even though a 'Register of LOC' was maintained manually by PAOs/APAOs, the amounts of LOC released by HODs from time to time were not entered fully in the register, only actual expenditure was recorded. Thus, neither was the BMS software developed in a manner to disallow the bill when the expenditure exceeded the LOC nor was the register properly maintained by PAOs/APAOs to restrict the expenditure up to the amount of LOC.

Apart from LOC register, the PAOs/APAOs are also required to maintain fly leaves<sup>5</sup> to watch the correctness of the claims. Audit noticed that these were not maintained in any of the test-checked PAOs/APAOs during 2010-13 which left room for making payments for non-enrolled persons, retired persons or expired persons etc. The office of the Executive Engineer (EE), Nagarjuna Sagar Left Bank Canal Monitoring Division, Tekulapally remitted (May 2013) ₹ 15 lakh into government account after noticing that pay and allowances were drawn in excess of the amount actually payable. Government, on noticing that pay and allowances of work charged staff were being drawn for retired employees/deceased employees, ordered (May 2014) an enquiry by the Crime Branch of the Crime Investigation Department. Their report was awaited.

It was noticed that even though the selected PAOs/APAOs maintained fly leaves from 2013-14 onwards, continued to admit bills in excess of LOC in subsequent years (i.e. 2013-15), due to deficiencies in maintenance of Register of LOC, and had paid ₹ 84.07 crore against the LOC of ₹ 64.54 crore, thus exceeding the LOC by ₹ 19.53 crore.

### 3.1.3.2 Acceptance of bank guarantees

As per Government orders<sup>6</sup> (December 2004), earnest money deposit (EMD) collected at the time of tendering and concluding agreement shall be in the shape of demand draft (DD) for works costing less than ₹ 50 lakh and in the shape of bank guarantee (BG) for works costing more than ₹ 50 lakh. The EMD is required to be returned to contractors on successful completion of work and liability period. In case of contractors abandoning the work or violating contract terms etc., the EMD is required to be forfeited. The executive Department after collecting the EMD, will forward the DD/BG to PAO for acceptance and crediting into government account for safe custody as the case may be.

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<sup>5</sup> The details of post, incumbents, their pay, special pay and personal pay and allowances, death, retirement, resignation and permanent transfer out of the establishment and also events occurring during the year which affect the increments (e.g. confirmation, suspension, leave without pay, withholding of increments) are maintained in a Fly leaf

<sup>6</sup> GO Ms.No142 of Irrigation and CAD (PW-Reforms) Department dated 20-12-2004

Contrary to the above Government Orders, the executive Department in the jurisdiction of four test checked PAOs/APAO, collected EMD, between 2010-11 and 2014-15, in the shape of BGs for works costing less than ₹ 50 lakh in 147 instances amounting to ₹ 0.99 crore and forwarded to PAOs/APAO for scrutiny and safe custody. The PAOs/APAO, however, had not objected to the furnishing BGs in place of DDs. Audit noticed that 97 BGs were not renewed by the contractors on their expiry.

Thus, acceptance of BGs in place of DDs by PAOs/APAO and non-renewal of BGs after expiry were in violation of Government Orders/rules and against the interest of Government.

### **3.1.3.3 Passing of bills without prescribed checks**

**Admitting of bills without proper Quality Control Certificate:** While paying work bills the EEs are required to enclose a certificate obtained from Quality Control (QC) wing regarding execution of work as per the norms of agreement and certifying that quality of work was satisfactory. I&CAD Department also issued (December 2005) instructions to affix the satisfactory certificates while passing these bills. Audit noticed that the selected PAOs/APAO had admitted 18 bills of ₹ 36.44 crore during the period 2010-15 without certifying the quality of material, etc.

Thus, acceptance of bills without ensuring appropriate quality certificate defeated the purpose of these certificates.

**Payment of bills without labour certificate:** In a work of "Formation of new tank across local stream near Pippaldhari (Village), Boath (Mandal), Adilabad district" the irrigation department added 13 *per cent* to the rates of works towards labour component such as labour amenities and labour importation. The labour component was admissible only when the local labour was not sufficient to execute the work in a municipal area. Government orders stipulated that, in such cases, the EE should obtain a certificate from Labour Department that labour amenities as prescribed were actually provided on site by contractor and submit the same to PAO for admitting work bills. However, without receiving such certificate, PAO, Nirmal paid work bills from June 2008 to May 2014 for ₹ 91.25 lakh which included ₹ 2.11 lakh towards labour component.

### **3.1.4 Accounting controls**

The PAO is required to maintain 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 expenditure to final heads of account. PAO is also required to compile the monthly account, prepare and enclose the required schedules for intermediary payments etc to the account and render the

account along with enclosures to Accountant General (A&E). The deficiencies in discharging these responsibilities are discussed below:

#### 3.1.4.1 Non-adjustment of expenditure to final heads of account

**Miscellaneous Public Works Advances:** Para 424 and 426 of Andhra Pradesh Public Works Accounts (APPW‘A’) code prescribe that the expenditure on works, whose allocation is not known at the time of payment or cannot be adjusted to final head until recovery or settlement is effected or write-off, shall be charged initially to a suspense head ‘Miscellaneous 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 furnish the details of pending items to EEs in January and July each year for review and proposing transfer entry orders to the final head of account. Audit noticed that an amount of ₹ 4.72 crore, relating to 1983-84 to 1995-96, was lying unadjusted in MPWA, in three test-checked PAOs/APAO (Khammam, Nirmal and Nizamabad), as of March 2015. However the PAOs/APAO neither communicated the details to EEs nor initiated action to clear the long pending adjustment during 2010-15.

**Land Acquisition advances:** For making payment of land compensation to land owners, PAOs place advances with Land Acquisition Officers (LAOs). After disbursement, the LAOs are required to render account to PAO 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 noticed that an advance of ₹ 9 crore was lying un-adjusted (June 2015) in two PAOs<sup>7</sup> relating to 2010-12. Though, the advances were required to be adjusted within three months, PAOs had not pursued with LAOs for adjustment of these advances.

Further, Paragraph 7.8.10 of PAO manual prescribed maintenance of ‘register of awards’ indicating complete details of compensation paid to avoid double payment. Audit noticed that though ₹ 232.99 crore was adjusted to final head of account during 2010-15, none of the test checked PAOs/APAO had maintained the register.

**Forest Advances:** An amount of ₹ 20 lakh, which was passed by PAO Hanamkonda and APAO Nizamabad between 1999-2000 and 2005-06 as advance to DDOs of Forest Department for implementation of schemes/developmental works under Rural Infrastructure Development Fund (RIDF), Andhra Pradesh Community Forest Management Project (APCFM), beedi leaves etc., was lying un-adjusted as of March 2015. PAO/APAO did not pursue the matter with the DDOs of the Forest Department for adjustment of advances to their final head of accounts.

<sup>7</sup> PAO Hanamkonda- ₹ 0.08 crore; PAO Khammam- ₹ 8.93 crore

**Deposits:** Para 7.11.7 of PAO Manual read with Para 463 of APPW 'A' code prescribed that deposits of contractors, lying unclaimed for more than three financial years after they become due for re-payment, are to be lapsed and credited to government account as revenue. PAOs are also required to maintain a 'register of deposits' and communicate the list of outstanding deposits to EEs in January and July every year for identifying the deposits to be lapsed. On receipt of the list from EEs, the PAOs are required to credit the same to government as revenue.

Contractors' deposits of ₹ 135.72 crore were pending in deposits head of account with three PAOs<sup>8</sup> as of March 2015. The oldest amount dates back to 1995-96. Audit noticed the following deficiencies:

- Though the PAOs/APAO were maintaining the register, it did not contain prescribed details such as name of the contractor, name of work, reference to estimate, agreement, scheduled date of completion etc., thus making it difficult to clear.
- PAOs/APAO were not communicating the list of outstanding deposits to EEs, though prescribed in PAO manual, as a result the deposits, if any, due for lapsing remained un-credited to revenue account.
- PAOs at Hanamkonda, Khammam and Nirmal received ₹ 1.31 crore, ₹ 1.59 crore and ₹ 0.50 crore respectively from R&B divisions towards road cutting charges between 2011-12 and 2014-15. The same were misclassified as 'deposits' instead of 'revenue' of R&B department.
- Building and other Construction Workers' Welfare Cess of ₹ 14.29 crore recovered (between February 2012 and May 2014) from work bills by APAO, Nizamabad on behalf of Building and Other Construction Workers Welfare Board was not transmitted to the Board but retained in deposits (June 2015).

#### **3.1.4.2 Regularisation of provisional payments**

Paras 7.5.1 to 7.5.3 of PAO Manual permit PAO to make provisional payments in case of emergency, pending Administrative Approval of Government to the estimate/revised estimate and conclusion of supplemental agreement. These payments are to be regularised subsequently by way of sanction to estimates etc. Para 7.5.4 of the PAO Manual prescribes that a separate register be maintained by PAO for this purpose for each division and they should note serially, therein, every payment made for further action till the item is regularised.

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<sup>8</sup> PAO Hanamkonda - ₹ 36.58 crore; PAO Khammam - ₹ 19.03 crore;  
APAO Nizamabad - ₹ 80.11 crore



PAO, Nirmal made provisional payments of ₹ 3.67 crore during 2012-15 and the same were not regularised by Government as of September 2015. Audit noticed that the PAO did not maintain the 'register of provisional payments'. As a result, the prescribed action viz. addressing the departmental officers demi officially for items outstanding for more than one month could not be initiated and there was no progress in obtaining regularisation orders.

### 3.1.5 Internal Control Mechanism

#### 3.1.5.1 Annual inspections

(i) Government stipulated that DWA (W&P) shall conduct inspection of all the offices of PAOs/APAOs from time to time. Audit noticed that DWA (W&P) did not conduct inspection of five PAOs/APAO (Hanamkonda, Karimnagar, LMD Colony, Nalgonda and Nirmal) since 2010.

(ii) Similarly as per Para 3.16.1 of PAO Manual, the JD (erstwhile Director of Accounts) shall inspect the PAO offices under his control once in a year and issue suitable instructions as he deems fit and send his reports to the Government regularly. JD, Hyderabad, under whose control 8 PAOs were functioning, did not inspect any of the PAOs offices during 2010-15; while JD, Karimnagar, under whose control 6 PAOs were functioning, inspected one PAO each in 2011-12 and 2013-14, three PAOs during 2014-15. During the years 2010-11 and 2012-13 inspection was not conducted in any PAO.

(iii) Further, Paras 14.1.1; 14.2.1 and 14.7.2 of PAO Manual stipulated that the PAOs shall conduct annual inspection of the offices of DDOs whose claims are paid by him, to satisfy himself about the accuracy of the records based on which the claims were prepared and to see that initial accounts and records are properly maintained and that financial rules and regulations are observed.

The position of number of DDOs under four PAOs/APAO, number of offices inspected and shortfall was as follows:

*Table 3.2 – Details of shortfall in conducting inspection by PAOs*

Name of the PAO/APAO	No of DDOs under the PAO	No of divisions inspected during the year					Total	No of DDOs not inspected
		2010-11	2011-12	2012-13	2013-14	2014-15		
Hanamkonda	51	0	0	0	8	0	8	43
Khammam	66	0	0	0	8	0	8	58
Nirmal	66	0	0	0	25	0	25	41
Nizamabad	45	0	0	0	0	0	0	45

(Source: Information furnished by PAOs)

During 2010-15 the PAO, Khammam, under whose jurisdiction 66 DDOs were functioning, inspected only eight DDOs; PAO, Hanamkonda inspected only eight DDOs, out of 51; PAO, Nirmal inspected 25 DDOs out of 66 and APAO, Nizamabad did not inspect any of the 45 DDOs under his jurisdiction.

### **3.1.5.2 Response to audit objections**

On receipt of monthly account and related vouchers, the Office of the Accountant General conducts audit of vouchers and communicate Audit Notes containing objection to the PAOs concerned. The PAOs are required to comply with the objection and submit replies within four weeks for settlement of the objections. During 2010-15, audit office issued 1103 Audit Notes for 14 PAOs involving ₹ 66.56 crore objecting to short recovery of value added tax, income tax, labour cess, segniorage charges, excess payments to contractors in work bills, short deduction of AP Group Life Insurance premium, professional tax from pay bills, irregular reimbursement of medical claims etc. Replies were pending for 1076 Audit Notes as of March 2015 involving ₹ 54.89 crore.

### **3.1.6 Conclusion**

PAOs/APAO did not comply with the provisions of PAO Manual/Government instructions relating to financial control resulting in inadmissible payments; lapsing of Bank Guarantees for EMD and making of payments without exercising prescribed checks. There were lapses in exercising accounting controls as well, including deficiencies in discharge of responsibilities relating to clearance of suspense heads. There were various shortcomings in the internal control mechanism as well.

**Agriculture and Cooperation Department**  
**(Telangana State Cooperative Marketing Federation Limited)**

**3.2 Lack of planning resulting in under-utilisation of feed mixing plant**

In order to set-up a feed mixing plant at Karimnagar to supply nutritionally qualitative feed to farmers for getting high milk yield, MARKFED entrusted (April 2007) to the Andhra Pradesh Industrial and Technical Consultancy Organisation (APITCO) the work of conducting techno-economic viability study.

As per the report of APITCO (May 2007), nutritionally qualitative feed had a potential market in Karimnagar and adjoining districts, where farmers were using conventional feed. The report also stated that the market potential in this area was 62000 MTs per year, considering 20 *per cent* of the cattle population, provided farmers can be convinced to use one kg per day per animal. However, a marketing plan, such as marketing staff, publicity for the product, logistics, dealer network, demand and supply assessment, estimate of market share that can be targeted, etc., was essential to convince the farmers to switch over from conventional feed to nutritional feed as the feed, being a perishable item, was to be produced against supply orders.

On the basis of this viability report, a feed mixing plant with an installed capacity of 36000 MTs per year was constructed (December 2010) and commissioned in May 2013 at a total cost of ₹ 4.46 crore.

Audit noticed that MARKFED did not formulate and adopt any marketing plan to popularise the product among farmers. As a result, the plant could secure supply orders and produced a meagre quantity of 1423 MTs (1.98 *per cent*) of feed during two years (2013-15) against the installed capacity of 36000 MTs per year.

Thus, failure to formulate marketing plan even two years after commissioning the plant resulted in the plant, constructed with ₹ 4.46 crore, remaining underutilised and the objective of supplying nutritionally qualitative feed remained largely unachieved.

MARKFED replied (December 2015) that two Marketing Executives were outsourced from December 2014. MARKFED participated in dairy exhibitions and secured empanelment with the Animal Husbandry Department, thereby sales increased to an average 225 MT per month during the last six months, which was still far short of the installed capacity. However, no reply was given regarding formulation of proper marketing plan commensurate with the installed capacity of the plant so far.

The matter was communicated to Government (October 2015) and their reply is awaited.

### **3.3 Loss due to procurement of substandard maize**

To prevent distress sales of coarse-grains by farmers, Government of India (GoI) has been implementing Minimum Support Price (MSP) scheme from time to time. Food Corporation of India (FCI) was nodal agency for GoI. Under this scheme, State Government shall prepare a plan of procurement and procure Fair Average Quality (FAQ) grains from farmers at MSP and supply the indented quantity to FCI. The balance quantity shall be disposed of in open market through tenders. The difference between economic cost<sup>9</sup> fixed by GoI and disposal price (loss sustained by State Government) in respect of FAQ grains disposed of in open market is paid as subsidy to State Government. Loss sustained on procurement and disposal of non-FAQ grains shall be borne by State Government.

State Government appointed (September 2013) APMARKFED as nodal agency for procurement of maize during 2013-14 under MSP and procured 2.34 lakh MTs (value ₹ 426.91 crore) of maize during 2013-14 kharif season in Telangana region of erstwhile AP State. Audit noticed, from the reports (July 2014) of joint inspection team consisting of FCI and APMARKFED, that 23933 MTs of procured maize did not conform to FAQ standards as the grains were immature/damaged/partly damaged/discoloured. Thereby it was not taken over by FCI. The procurement cost of this substandard maize was ₹ 43.55 crore and the amount realised on its disposal in open market through tender was only ₹ 24.67 crore. The State Government, therefore, sustained a loss of ₹ 18.88 crore, which is not reimbursable by GoI.

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<sup>9</sup> Economic cost includes MSP, labour/handling charges, transportation charges, storage charges, interest charges, cost of gunny bags, market cess, drriage charges and administrative charges

MARKFED accepted (December 2015) the fact of procurement of substandard maize and stated that action was being taken against erring officials.

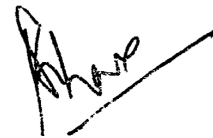
The matter was communicated to Government (October 2015) and their reply is awaited.



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

**Hyderabad**  
**The 14 March 2016**

**Countersigned**



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

**New Delhi**  
**The 15 March 2016**