

Chapter - 3

Compliance Audit

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Compliance Audit

Finance (Works & Projects) Department

3.1 Finance Control Mechanism in Pay & Accounts Offices

3.1.1 Introduction

Public Works Departments like Water Resources¹ (WRD), Roads and Buildings (R&B), Panchayat Raj and Rural Development (PR&RD), Municipal Administration and Urban Development (MA&UD), Environment, Forests, Science and Technology (EFS&T), etc. execute works, prepare and submit work bills to the concerned Pay and Accounts Officer (PAO)/Assistant PAO (APAO) in the district for making payments. The PAOs/APAOs conduct pre check of all bills received by them, make payments, compile monthly accounts and render the same to the Accountant General (A&E). In the State, 648 Drawing and Disbursing Officers (DDOs) of the above mentioned Departments draw work bills through the PAOs/APAOs. In addition to the work bills of the above Departments, bills relating to pay and allowances of WRD are also drawn through PAOs, while other Departments draw the pay and allowances from respective Treasury Offices. The PAO system was supposed to enforce financial discipline in Government expenditure through adherence to financial rules, budgetary controls, and by ensuring that the expenditure is incurred in accordance with the sanctions of Legislature.

Principal Secretary to Government, Finance (Works & Projects) Department exercises overall administrative control over the Pay and Accounts Organisation. The Director of Works Accounts (DWA) is the Head of the Organisation, who is assisted by three² Joint Directors of Works Accounts (JDWAs) and 19 PAOs/APAOs.

3.1.2 Scope and objectives of Audit

Audit of records for the period from 2010-11 to 2014-15 in the offices of DWA, all the three JDWAs and six³ out of 19 PAOs/APAOs selected on the basis of simple random sampling method with reference to amounts involved in work bills was conducted (May 2015 to August 2015) to assess:

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

¹ Formerly Irrigation and Command Area Development (I&CAD) Department

² Dowlaiswaram, Kadapa and Ongole

³ PAO, Ananthapuramu; APAO, Chittoor; PAO, Kadapa; APAO, Narasaraopet; PAO, Ongole; and PAO, Visakhapatnam

Audit findings

3.1.3 Financial control framework

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

3.1.3.1 Payments made in excess of Letter of Credit

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

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

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

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

(Source: Data as per Bill Monitoring System)

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

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

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

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

3.1.3.2 Acceptance of bank guarantees

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

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

Audit observations in respect of BGs are as follows:

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

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

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

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

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

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

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

3.1.3.3 Passing of Bills without prescribed checks

Passing of bills without labour certificates: Standard Schedule of Rates of PW Departments provide for addition of 13 *per cent* of labour component (10 *per cent* for labour importation and 3 *per cent* for labour amenities) in the rates of individual work items in the departmental estimates towards labour importation and labour amenities in respect of works executed in municipal areas, when local labour is not sufficient to execute the work. Government orders⁷ (June 2005) stipulate that for passing bills in respect of such works, a certificate obtained from Labour Department should be enclosed to the work bills and when such certificate is not enclosed with the bill, payment towards labour amenities should not be allowed. Audit observed that APAO, Kadapa admitted 37 bills amounting to ₹ 230.54 crore in respect of 'Package No. LI-01/2006 of Gandikota Lift Irrigation Scheme (which included an amount of ₹ 4.92 lakh towards labour amenities), even though certificates from Labour Department were not enclosed with the bills.

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

3.1.4 Accounting Controls

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

(i) **Miscellaneous Public Works Advances:** Paras 424 and 426 of AP Public Works Accounts (APPWA) Code prescribe that certain items⁸ of expenditure whose allocation is not known at the time of payment or cannot be adjusted to final head are initially debited to the suspense head 'Miscellaneous

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

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

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

Audit observed that in the test-checked PAOs, MPW Advances aggregating ₹ 43.61 crore⁹ were lying unadjusted under their jurisdiction as of March 2015. However, the PAOs neither maintained any register of MPWAs nor produced the list of advances pending adjustment. As a result, Audit could not conduct age analysis of the outstanding advances.

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

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

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

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

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

noticed that in three of the test checked PAOs¹⁰, advances amounting to ₹ 18.80 crore paid to LA authorities were pending adjustment. The earliest advance pending pertained to the year 2004-05 in PAO, Kadapa indicating lack of effective pursuance with the LA authorities to obtain the accounts for pending amounts. Though, the advances were required to be adjusted within three months, the PAO had not pursued with LAOs for adjustment of these advances.

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

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

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

As of March 2015, deposits amounting to ₹ 97.28 crore were pending in the PWD Deposits account in five test checked PAOs¹¹. Audit noticed the

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

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

following deficiencies:

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

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

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

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

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

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

3.1.5 Internal Control Mechanism

3.1.5.1 Annual inspections

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

(ii) As per Para 3.16.1 of PAO manual, the Joint Directors of Works Accounts¹² (JDWA) shall inspect the PAO offices under their control once in a year and issue suitable instructions as deemed fit and send their reports to Government regularly. Audit noticed that JD, Dowlaiswaram inspected the six PAOs under his control only once (2012-13) in the last five years. JD, Ongole did not inspect any of the six PAO offices under his control in the year 2014-15. The JDWAs of Dowlaiswaram and Kadapa did not furnish their Inspection Reports to Audit. Therefore, Audit could not verify the issues raised in their reports and whether the PAOs had taken remedial action thereon.

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

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

3.1.5.2 Response to audit objections

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

¹² Formerly called as Director of Accounts

Audit Notes (ANs) containing objection to the PAOs concerned. The PAOs are required to rectify the defects pointed out by audit and submit replies within 30 days for settlement of the objections. During 2010-15, the Audit Office issued 1549 ANs on the 19 PAOs involving a total amount of ₹ 226.17 crore, which included audit observations relating to short recovery of Value Added Tax, Income Tax, labour cess, seigniorage charges; excess payments to contractors in work bills; short deduction of AP Group Life Insurance premium, professional tax, etc. from pay bills; irregular reimbursement of medical claims; etc. As of March 2015, as many as 1318 ANs involving ₹ 130.12 crore were still pending for want of remedial action/replies by the PAOs (Out of these, 411 ANs were on the test checked PAOs¹³). The age analysis of the pending ANs is as follows:

Table 3.2 – Details of audit notes pending

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

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

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

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

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

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

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

Audit examined the records of four¹⁵ districts offices of APMARKFED and two Primary Agriculture Cooperative Societies in each district with respect to distribution of zinc. During 2010-14, APMARKFED supplied the following quantities of zinc in the four test-checked districts:

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

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

(Source: Sales ledger from SAP data of APMARKFED)

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

¹⁵ Ananthapuramu, Krishna, Nellore and Srikakulam

Following are the audit observations in this respect:

3.2.1 Non-maintenance of details of beneficiaries

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

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

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

3.2.2 Non compliance of guidelines in distribution of zinc to farmers

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

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

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

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

3.2.3 Issue of Utilisation Certificates without actual distribution of zinc

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

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

Transport, Roads and Buildings Department

3.3 Extra Expenditure due to waiver of tender discount

Government of Andhra Pradesh accorded administrative sanction (November 2004) for the work on “Providing a Two-lane road connectivity from Venkatachalam to Krishnapatnam Port from Km 0/000 to Km 23/325” for ₹ 29.02 crore. The work was divided into three reaches, i.e. from Km 0/000 to 6/200 (Reach-A), Km 6/200 to 10/850 (Reach-B) and Km 10/850 to 21/850 (Reach-C). The Department sanctioned (August 2006) an estimate for ₹ 31.9 crore for reaches ‘B’ and ‘C’. Estimate for Reach-A was not sanctioned as this reach passes through forest area and forest clearance was yet to be obtained. Tenders were invited (September 2006) for reaches ‘B’ and ‘C’ and agreements concluded (January 2007) with lowest bidder (same contractor for both works) for ₹ 6.24 crore (Reach-B) and ₹ 17.77 crore (Reach-C) at a tender discount¹⁶ of 15.50 *per cent* and 16.04 *per cent* respectively.

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

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

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

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

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

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

Audit observed that the justification given by the Government for post tender entrustment of high value additional works was to take advantage of the discount offered by the contractor. Thus, the subsequent waiver of tender discount for both the additional works as well as the original work was not correct and tantamount to vitiation of the spirit of competitive bidding process and undue favour to contractor. This resulted in extra expenditure of ₹ 19.26¹⁷ crore.

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

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

Water Resources Department

3.4 Excess reimbursement of Value Added Tax ₹ 9.32 crore

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

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

After concluding the agreements, the Department issued (April 2011) an amendment to the above clause in these 11 agreements to the effect that the entire amount of VAT deducted from work bills (instead of only the differential amount) would be reimbursed to contractors. This was done keeping in view the recommendation of the IBM Committee¹⁸ that VAT was not loaded in the departmental estimates and to be reimbursed as per actuals. The total value of work done and bills paid under these agreements so far (August 2015) was ₹ 332.95 crore. The Department recovered VAT amounting to ₹ 15.99 crore (at four *per cent* upto September 2011 and at five *per cent* thereafter) from work bills and reimbursed the entire amount to the contractor (the same agency in all the 11 contracts) as per the modified agreement conditions.

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

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

crore¹⁹ had already been passed on (as of August 2015) to the contracting agency, resulting in undue benefit to it.

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

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

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

3.5 Undue benefit to contractor in violation of contract conditions

Under Handri Niva Sujala Sravanthi (HNSS) project²⁰, the work of “Excavation of HNSS Main Canal from Km 440.000 to Km 463.000 including Distributary system, etc. (Phase-II Package No. 17)” was awarded (January 2007) after call of tenders to a contractor for ₹ 58.77 crore at a tender discount of 18.0335 *per cent* on estimate value for completion in 36 months, i.e. by January 2010. The work was in progress and the value of work done and paid was ₹ 43.14 crore (March 2015).

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

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

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

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

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

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


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

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

additional payment was allowed for controlled blasting as this was outside the scope of the agreement.

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

Hyderabad
The


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(Economic & Revenue Sector Audit)
Andhra Pradesh and Telangana

Countersigned

New Delhi
The


(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

Appendices

Appendix 1.1
(Reference to paragraph 1.6.3, page 4)

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

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

Appendix-2.1

(Reference to paragraph 2.1.12.2, page 24)

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

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

Appendix – 2.2

(Reference to paragraph 2.1.12.2, page 24)

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

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

Glossary

Glossary

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

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

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