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

Government of Telangana
Report No. 3 of 2016

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Appendix

PREFACE

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

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

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

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

Chapter - 1
Overview of Economic Sector

Chapter-1

Overview of Economic Sector

1.1 Introduction

Telangana State has a population of 3.50 crore and a geographical area of 1,12,077 sq.kms. For purpose of Administration there are 32 Departments at the Secretariat level headed by Principal Secretaries/Secretaries who are assisted by Directors/Commissioners and Subordinate officers under them. This Report covers the functioning of 11 Departments of Economic Sector listed in Table 1.1. This is the first Audit Report on Economic Sector of the Telangana State after its formation. The Audit Report in respect of the Economic Sector of Andhra Pradesh State is being presented separately.

1.2 Expenditure of Economic Sector Departments

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

Table-1.1 - Table showing the expenditure during 2010-15*

(₹ in crore)

Sl. No.	Name of the Department	2010-11	2011-12	2012-13	2013-14	2014-15
1	Agriculture & Co-operation	2270.40	3334.54	3633.36	2874.65	5380.31
2	Rain Shadow Areas Development[1]					
3	Animal Husbandry & Fisheries	567.70	729.58	830.61	839.18	325.17
4	Energy	3696.98	4367.68	6249.03	7553.28	3504.49
5	Environment, Forests, Science and Technology	277.56	343.01	391.25	399.56	211.75
6	Industries & Commerce	448.45	380.74	760.53	705.66	670.96
7	Information Technology, Electronics & Communications	24.53	57.72	199.37	155.10	136.40
8	Irrigation and Command Area Development	15710.87	17787.39	19704.27	18760.67	8052.87
9	Public Enterprises	1.28	1.46	1.40	1.44	0.54
10	Roads and Buildings	2272.95	3043.04	4188.66	4948.75	2598.97
11	Infrastructure & Investment[2]					
Total		**25270.72**	**30045.16**	**35958.48**	**36238.29**	**20881.46**

** These figures represent the expenditure figures of the erstwhile composite AP State from 01 April 2010 to 31 March 2014 and expenditure figures of Telangana State from 02 June 2014 to 31 March 2015. Expenditure figures from 01 April 2014 to 01 June 2014 were depicted in Audit Report on Economic Sector Departments of Andhra Pradesh State*

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

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[1] Expenditure of this Department is covered under Grant No. XXVII – Agriculture

[2] Expenditure of Infrastructure & Investment is covered under Grant No.XI – Roads, Buildings and Ports

Of the 11 Departments, with a total expenditure of ₹ 20881.46 crore, covered in this Report, a major portion of the expenditure was incurred by Irrigation and Command Area Development Department (38.56 *per cent)*, Agriculture & Co-operation Department (25.77 *per cent),* and Energy Department (16.78 *per cent)* during 2014-15.

1.3 About this Report

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

1.4 Authority for audit

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). CAG conducts audit of expenditure of the economic sector Departments of the Government of Telangana under Section 13[3] of the DPC Act. CAG is the sole auditor in respect of four[4] autonomous bodies which are audited under Sections 19(2)[5], 19(3)[6] and 20(1)[7] of the DPC Act. In addition, CAG also conducts audit of other autonomous bodies under Section 14[8] of DPC Act which are substantially funded by the Government. Principles and methodologies for

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

[4] Telangana State Electricity Regulatory Commission (TSERC) under Section 19(2), Telangana Khadi and Village Industries Board (TKVIB) under Section 19(3), Environment Protection Training and Research Institute (EPTRI) under Section 20(1) and Telangana State Compensatory Afforestation Fund Management and Planning Authority (TSCAMPA) under Section 20(1) of DPC Act

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

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

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

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

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

1.5 Planning and conduct of audit

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

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

After completion of Audit, Inspection Reports containing Audit findings are issued to the heads of Departments, who are requested to furnish replies to the Audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, Audit findings are either settled or further action for compliance is advised. Important Audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports which are submitted to the Governor of the State under Article 151 of the Constitution of India. During 2014-15, audit of various Departments/ Organisations under Economic Sector were audited and 134 Inspection Reports containing 811 Paragraphs were issued.

1.6 Response to Audit

1.6.1 Performance Audit and Compliance Audit observations

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

1.6.2 Follow-up on Audit Reports

Finance and Planning Department issued (May 1995) instructions to all Administrative Departments to submit Action Taken Notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) relating to the paragraphs contained in Audit Reports within six months. Audit reviewed the outstanding ATNs as of 31 December 2015 on the paragraphs pertaining to Economic Sector Departments included in the Reports of the Comptroller and Auditor General of India, Government of Andhra Pradesh (paragraphs pertaining to the present Telangana State) and found that two[9] Departments did not submit ATNs for the recommendations pertaining to seven audit paragraphs discussed by PAC.

1.6.3 Outstanding replies to Inspection Reports

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

1835 IRs containing 6335 paragraphs issued upto March 2015 were pending settlement as of 30 September 2015. The Department wise details are given in ***Appendix-1.1.*** This large pendency of IRs, due to non-receipt of replies, was indicative of the fact that heads of offices and heads of Departments did not initiate appropriate and adequate action to rectify the defects, omissions and irregularities pointed out by audit in the IRs.

1.7 Significant Audit Findings

Performance Audit

Implementation of Schemes in Animal Husbandry Department

The Animal Husbandry (AH) Department implements several schemes for development of livestock and providing veterinary healthcare. The activities of the Department are oriented towards improving the production potential of cattle and buffaloes by way of breed upgradation, providing preventive and

[9] Irrigation and Command Area Development Department: 5 ATNs and Animal Husbandry and Fisheries Department: 2 ATNs

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

Major Audit findings on implementation of schemes are as follows:

- ***Adequate publicity was not given for generating awareness among potential beneficiaries about the schemes despite availability of funds and display centres were not set up to reduce travel cost to beneficiaries. As a result, some of the animal development schemes did not attract adequate response from potential beneficiaries.***
- ***Despite good response from beneficiaries, schemes like 'Supply of 1+1 Milch Animals' and 'Supply of two Milch Animals' aimed at providing sustainable income to BPL families, and 'Mini Dairy Units Scheme' and promoting entrepreneurship in rural youth and augmenting milk production were discontinued after 2013-14 without any recorded reasons, indicating lack of long term planning/vision on part of the Department in implementation of these schemes.***
- ***In 'Supply of 1+1 Milch Animals' scheme, the Department supplied only one animal to 6702 (94 per cent) beneficiaries and the objective of providing sustainable income generation to the BPL beneficiaries by supplying two animals was not fulfilled.***
- ***In Mini Dairy Units (MDUs) scheme, 65 per cent of the targets were not achieved due to non-sanction of loans to the selected beneficiaries by banks.***
- ***In implementation of MDUs scheme, deficiencies like short supply of cattle feed to the inducted animals and non-enrolment of female calves of the beneficiaries were noticed.***
- ***The Medium Dairy Units scheme, which was aimed at developing model dairy farms/ commercial dairy enterprises and increasing milk production in the State, was largely a failure due to high investment required of the beneficiaries coupled with failure of the Department to facilitate bank loans to the selected beneficiaries. As a result, only seven units were established in test checked districts against a target of 50 and the scheme was discontinued while unutilised funds were diverted to other schemes.***
- ***The Department introduced 'Calf Rearing (Sunandini) Programme' in 2013-14 with a view to increase the number of lactations and milk production by bringing early maturity in female calves through supply of nutritional feed. Only nine per cent of the calves born from artificial***

insemination were covered under the scheme and no fresh enrolments were made thereafter to cover the remaining 91 per cent calves, indicating lack of long term planning to achieve the intended objective.

- ***Though timely supply of the stipulated quantities of nutritional feed to the calves was the key for achievement of the objective under the 'Calf Rearing (Sunandini) Programme', Audit noticed deficiencies like delayed/short supply of feed, non-recording of growth pattern of enrolled calves, etc., due to which the objective of the scheme was defeated.***
- ***There was shortage of veterinary staff which was adversely affecting the functioning of the Department and implementation of livestock schemes at ground level.***

[Paragraph 2.1]

Compliance Audit

Finance Control Mechanism in Pay & Accounts Office

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

Major Audit findings are summarised below:

- ***Though one of the important functions of PAOs was to see that no payment is made in excess of the funds released, the test checked PAOs paid bills amounting to ₹ 81.07 crore in excess of the Letters of Credit issued by the Heads of Departments.***
- ***The PAOs accepted Bank Guarantees (BGs) instead of Demand Drafts for works costing less than ₹ 50 lakh in 147 works valuing ₹ 0.99 crore contrary to Government orders.***
- ***Contrary to the rules, PAOs, Hanamkonda and Nizamabad admitted 18 bills amounting to ₹ 36.44 crore without appropriate quality control certificate.***
- ***PAO, Nirmal admitted and paid work bills amounting to ₹ 91.25 lakh without obtaining labour amenities certificate.***
- ***In the test checked PAOs, Miscellaneous Public Works Advances of ₹ 4.72 crore, Land Acquisition advances of ₹ 9 crore and PWD Deposits***

of ₹ 135.72 crore were pending clearance and there was no monitoring/pursuance by the PAOs with the respective Departments in this regard.

- ***Building and other Construction Workers' Welfare Cess of ₹ 14.29 crore recovered from work bills was not remitted to Building and Other Construction Workers Welfare Board.***
- ***Internal control in the PAO system was deficient as there were shortfalls in inspections of subordinate offices by the Director and Joint Directors of Works Accounts and inspection of DDOs by the PAOs, and 1103 Audit Notes issued by the Accountant General involving ₹ 66.56 crore were pending for want of remedial action/replies by the PAOs.***

[Paragraph 3.1]

- ***Failure of Telangana State Cooperative Marketing Federation Limited to formulate marketing plan even two years after commissioning the Feed Mixing Plant, Karimnagar resulted in the plant remaining underutilised and the objective of supplying nutritionally qualitative feed remained largely unachieved.***

[Paragraph 3.2]

- ***Procurement of 23933 MTs of maize by Telangana State Cooperative Marketing Federation Limited not conforming to Fair Average Quality resulted in a loss of ₹18.88 crore as the same was not reimbursable by Government of India under Minimum Support Price scheme.***

[Paragraph 3.3]

Chapter - 2
Performance Audit

Chapter-2

Performance Audit

Animal Husbandry and Fisheries Department

2.1 Implementation of schemes in Animal Husbandry Department

2.1.1 Introduction

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

2.1.2 Organisational set up

The AH Department is headed by Principal Secretary at Secretariat level. Activities of the Department are overseen by the Director, who is assisted by one Additional Director and 12 Joint Directors (JDs) (two in Directorate and 10 at district level). The JDs in the districts are supported by Deputy Directors (DDs)/Assistant Directors (ADs), Veterinary Assistant Surgeons (VAS) and other veterinary/livestock officers to carry out the various activities of the Department at ground level.

2.1.3 Audit objectives

The Performance Audit was aimed to assess whether:

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

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

2.1.4 Audit criteria

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

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

2.1.5 Scope and methodology of audit

The Performance Audit was conducted on the implementation of (i) Supply of milch animal schemes, (ii) Calf feed/rearing programmes and (iii) Sheep and goat development schemes covering the five year period 2010-15. During the period 2010-15, total expenditure of ₹ 195.01 crore was incurred on the above schemes.

Table 2.1 – Expenditure incurred on schemes during 2010-15

(₹ in crore)

Year	*Supply of Milch Animals*			*Calf Feed Programme*			*Sheep and Goat Development*			*Grand Total*		
	Budget released	*Budget utilised*	*Balance*	*Budget released*	*Budget utilised*	*Balance*	*Budget released*	*Budget utilised*	*Balance*	*Budget released*	*Budget utilised*	*Balance*
2010-11	36.89	34.32	2.57	0.23	0.14	0.09	1.96	1.86	0.10	39.08	36.32	2.76
2011-12	78.38	39.91	38.47	0.59	0.32	0.27	8.37	8.02	0.35	87.34	48.25	39.09
2012-13	49.71	46.35	3.36	0.30	0.22	0.08	9.71	3.52	6.19	59.72	50.09	9.63
2013-14	26.64	26.22	0.42	25.33	20.07	5.26	0.63	0.47	0.16	52.60	46.76	5.84
2014-15	1.01	0.73	0.28	8.90	7.46	1.44	7.42	5.40	2.02	17.33	13.59	3.74
Total	**192.63**	**147.53**	**45.1**	**35.35**	**28.21**	**7.14**	**28.09**	**19.27**	**8.82**	**256.07**	**195.01**	**61.06**

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

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

Records of the Directorate, three[2] out of 10 district offices (JDs) of each selected district, selected through random sampling method (on the basis of district wise expenditure), were audited during April to July 2015. In each district, two offices of Assistant Director and 25 *per cent* of Veterinary Institutions were also test checked. An 'Entry Conference' was held (March 2015) with the Department, wherein the objectives, scope, and methodology of Performance Audit were discussed. An Exit Conference was held in December 2015 with Principal Secretary, DAH and other officers of the Department, wherein the audit observations and recommendations were

[2] Medak, Nalgonda and Nizamabad

discussed. The replies given during the Exit Conference have been taken into account while arriving at the audit conclusions.

2.1.6 Audit constraints

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

Audit findings

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

2.1.7 Supply of milch animals[3]

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

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

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

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

2.1.7.1 Inadequate Publicity

As per the scheme Guidelines, the AH Department is the implementing agency and a District Level Committee under the chairmanship of District Collector oversees the scheme implementation at district level. Adequate publicity was to be given by the Department regarding the schemes, eligibility criteria, method of submitting applications, etc., for awareness of the potential/ interested beneficiaries. Beneficiaries were to be selected by Mandal Level Committees (headed by Mandal Parishad Development Officer) by conducting Gram Sabhas in the selected villages. The District Level Committee under the chairmanship of District Collector finally approves the list of beneficiaries selected by Mandal Level Committees. During 2010-15, animals were supplied to 8740 beneficiaries in the test checked districts under different milch animal schemes and subsidy of ₹ 20.83 crore was utilised.

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

2.1.7.2 Selection of beneficiaries

Though the guidelines of milch animal schemes stipulated selection of beneficiaries in Gram Sabhas, in Nalgonda, Nizamabad and Medak districts no records/information about conducting Gram Sabhas for selection of beneficiaries was available, either with the JDs or with the test checked ADs/DDs/veterinary institutions.

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

The JD, Nizamabad district stated that Gram Sabhas were not conducted but beneficiaries were selected through collection of applications from farmers by departmental officials. The JDs of Medak and Nalgonda districts stated that Gram Sabhas were conducted, though the details thereof or any evidence in support of the claim were not furnished.

2.1.7.3 Procurement and supply of milch animals

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

(i) Procurement of over-aged animals: The Scheme guidelines, prescribed that age of the milch animals, at the time of supply, should not be more than 60 months in case of buffaloes and 48 months in case of cows. A condition to this effect was also included in the RCs concluded with animal supply agencies. This was to ensure that the inducted animals give assured yield of milk for longer duration. Audit noticed that 105[4] out of 255 buffaloes supplied in test checked districts during 2010-14 were over aged, age of these buffaloes ranging from 61 to 78 months. Thus, the guidelines in this regard were not followed and assured milk yield for maximum period was not ensured.

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

(ii) Transportation of animals**:** As per guidelines and the terms and conditions of RCs concluded with the suppliers, it is the responsibility of the supplying agencies to arrange transportation of animals from source point to the beneficiary village by train/trucks. The Department pays transportation charges to the suppliers at the rates stipulated in the guidelines/RCs from time to time. The charges payable depends on the type of animal[5], actual distance and mode of transport (train or truck). As per the RC for the period 2010-12, the rates fixed for transportation of a milch animal, by rail was ₹ 2.80/Km and by road was ₹ 3.50/Km. RCs concluded with supply firms stipulated that in case of transportation of animals by trucks the firm should submit way bills, a route map, details of truck number and meter readings along with invoice as proof of transportation. In case of transportation by rail, the firm should submit copies of railway receipts.

During 2010-15, the Department inducted 13670 animals in three test checked districts and paid ₹ 5.02 crore towards their transportation. A test check of 255 invoices/delivery challans (selected randomly) revealed that in all these

[4] Nizamabad-20, Nalgonda-33 and Medak-52

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

delivery challans, transportation charges were claimed and paid at rates applicable for transportation by trucks, but way bills were not enclosed in any of them. Truck numbers were noted in only 100 (39 *per cent*) delivery challans and meter readings were not noted in any of them. Despite non-submission of way bills/railway receipts, bills were passed and transportation charges paid based on road transportation rates, without verifying the actual mode of transportation used and distance covered.

The Government replied that transportation charges were paid based on the distance as per Google maps. The reply is not acceptable since Google maps show only the distance but cannot be taken as proof of actual transportation or for the mode of transport. Payment of transportation charges without proof of transportation indicates lack of transparency and possibility of fraud.

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

The Government stated (January 2016) that the supply firms were instructed to open display centres at procurement points of respective States. The action of the Department was not in accordance with the Government orders to establish the display centres in the State to enable the beneficiaries selecting the milch animals without incurring travel expenses. The Department had not explored the methods to facilitate beneficiaries selecting the animals without going to other States duly incurring travel expenses. It is pertinent to note that only 53; 30 and 58 *per cent* of the targets were achieved in 'supply of 1+1 milch animals; Mini Dairy Units and Medium diary Unit schemes respectively as discussed in subsequent Paragraphs 2.1.8; 2.1.10 and 2.1.11.

(iv) Acknowledgements from beneficiaries**:** Test check of 255 delivery challans revealed that in 89 cases, though the animals were shown as handed over to beneficiaries, acknowledgement (signatures/thumb impression) of beneficiaries in token of receipt of the animal were not obtained, in the absence of which actual delivery of animals to the selected beneficiaries could not be established.

***(v) Lack of follow-up on inducted animals*:** As per the guidelines of milch animal schemes, the Department shall give technical guidance required by the beneficiaries on the follow-up measures to be taken after induction of animals to ensure that all the inducted milch animals conceive within three-four months by making frequent visits to beneficiaries. Guidelines prescribed maintenance of a 'follow up register' for recording details of follow up action taken in respect of each inducted animal. However, no follow-up registers were maintained in any of the 15 Veterinary Institutions test checked in Medak district. In Nalgonda and Nizamabad districts the registers maintained did not contain information such as dates of artificial insemination, stage of pregnancy, treatment given, milk yield etc.

2.1.8 Supply of 1+1 Milch Animals Scheme

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

In the three selected districts, as against a total target of 14299 milch animals, the Department had supplied 7598 animals during 2010-15.

Audit noticed the following deficiencies in implementation of this scheme:

2.1.8.1 Non supply of second animal

The scheme guidelines stipulated supply of two animals to each beneficiary since maintenance of one milch animal was not considered economically viable. Thus, supply of two animals was key to provide sustainable income generation to beneficiaries. From the '45 column register of inducted animals' maintained by the Department, Audit noticed that though the Department supplied 7598 animals under 1+1 milch animals scheme during 2010-15, out of the 7150 beneficiaries covered under the scheme, second animal was not supplied to 6702 (94 *per cent*) beneficiaries. There was no monitoring over this issue, either at the Directorate level or at the District Office level, as no returns/reports were prescribed/ maintained to watch the supply of second animal. The reasons for non-supply of second animal were not forthcoming from the records of the Department. Instead of supplying second animal to the enrolled beneficiaries, the Department identified new beneficiaries and supplied a single animal to them.

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

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

2.1.8.2 Supply of feed and medicines to inducted animals

Feeding the animal with concentrated feed and nutritional items from the day of induction is essential, apart from health care for achieving the objective of high milk yield. The guidelines of PM package stipulated that (i) concentrated feed worth ₹ 9125 should be supplied in respect of each inducted animal for a period of one year from the date of induction and (ii) nutritional items and required medicines costing ₹ 300 up to 2011-12 and ₹ 1000 thereafter for each animal are to be given at the time of supply of milch animals. CM Package and RKVY guidelines also prescribed supply of feed at the rate of four kg per day for 250 days from the date of induction.

The Department had not planned for timely supply of feed as per the above guidelines and audit noticed the following deficiencies:

(i) Belated/non-supply of feed**:** In Nalgonda district[6] feed was belatedly supplied (2012) to 1002 milch animals, inducted during 2007-09 under PM Package, due to belated release of funds (₹ 29.88 lakh). Feed was also not supplied to 53 milch animals inducted during 2010-11, as of June 2015, due to non-release of funds by the Director despite the availability of funds under the scheme.

(ii) Short supply of feed: As per the guidelines of CM package and RKVY, each inducted animal requires four Kg feed per day for a period of 250 days from the date of induction for required milk yield. Of this, two kgs were to be supplied from government funds, the subsidy being 50 *per cent,* and balance two kgs were to be supplied by collecting beneficiary contribution.

In three districts 7125 animals were inducted during 2010-14 under these two schemes, thus, requiring supply of 3562 tons feed over a period of 250 days from government funds. Against this, the Department supplied only 2018 tons and the shortfall was 1544 tons. Thus, the quantum to be supplied from government funds was not supplied in full. Audit noticed that when there was an increase in cost of the animal (August 2011) and feed (2012-13 and

[6] Gundala and Choutapal VDs

2013-14) in open market, the Government reduced quantum of feed instead of increasing the unit cost. Also, the beneficiaries did not pay their contribution resulting in short feeding of animals. The required milk yield was, therefore, not ensured.

(iii) Non supply of medicines: In Medak district medicines were not supplied to 1779 animals, out of 2601 inducted during 2010-14, despite availability of funds with Joint Director (JD). Audit noticed that the Assistant Directors (AD) did not submit indents to JD for the above items and the JD also did not make efforts to obtain the indents and to supply the items. In Nalgonda district also, medicines were not supplied to the milch animals inducted from 2010-11 to 2013-14.

Supply of nutritious feed after inducting animals was essential to achieve high milk yield, but due to its non-supply there was no assurance that the desired milk yield was achieved.

2.1.9 Supply of two Milch Animals Scheme

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

The Department initially set a target of 215 units for the three test checked districts and released funds accordingly. It later set additional targets of 130 units (March 2013) and 1180 units (February 2014), totaling to 1525 units, by diverting unutilised funds under other schemes. As against this, the three districts supplied 835 units by the end of 2013-14. The achievement was 92, 38 and 99 *per cent* in Medak, Nalgonda and Nizamabad districts respectively indicating that demand was there. Despite this, the scheme was not implemented after 2013-14 as seen from the fact that neither targets were fixed nor funds were released thereafter, for reasons not on record. Thus, the Department was devising and implementing schemes on ad hoc basis without any long term objective.

2.1.10 Mini Dairy Units Scheme

To encourage rural unemployed youth to take up dairying activities on fulltime basis and augment milk production in the State, Government accorded (May 2010) administrative approval for ₹ 23.45 crore for implementation of a new scheme of ‘Mini Dairy Units’ (MDU) with funds received from GoI under RKVY. The scheme targeted 4400 MDUs of three sizes viz., six (3+3), 10 (5+5) and 20 (10+10) milch animals by providing 75 *per cent* ‘interest subsidy'[7] to beneficiaries. The Department did not furnish any records/details of interest subsidy paid to the beneficiaries.

Later, the structure of the scheme was revised (June 2011) and it was decided to establish MDUs (each unit consisting of five milch animals)[8] by providing 25 *per cent* of the unit cost as front end subsidy. The balance 75 *per cent* was to be borne by beneficiaries as cash contribution/bank loan.

2.1.10.1 Non-achievement of objectives of MDUs Scheme

Under the scheme, the Department proposed to sanction 8945 MDUs in 22 districts in the erstwhile State of AP with RKVY funds and 704 MDUs with funds received under National Mission on Protein Supplements (NMPS) Scheme, totalling to 9649 MDUs. During 2011-13, the Director released ₹ 34.84 crore to 22 districts.

As against 9649 MDUs targeted, despite availability of funds, the Department was able to sanction only 2979 units (30.87 *per cent*) by utilizing a subsidy amount of ₹ 15 crore. In test checked districts, targets and achievements during 2010-14 are as shown below:

Table 2.2 – Targets and achievement of Mini Dairy Units

(No. of units)

Year	Nalgonda		Nizamabad		Medak		Total	
	Target	Achieve-ment	Target	Achieve-ment	Target	Achieve-ment	Target	Achieve-ment
2011-12	468	362	285	72	365	105	1118	539
2012-13	555	51	197	21	365	63	1117	135
2013-14	NA	26	136	85	460	51	596	162
Total	**1023**	**439**	**618**	**178**	**1190**	**219**	**2831**	**836**

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

As against the total target of 2831 MDUs stipulated by Director for the three test checked districts, only 836 units (i.e. only 35 *per cent*) were sanctioned. Of this, 539 units were sanctioned in 2011-12. The number of units sanctioned declined to 135 in 2012-13 and 162 units in 2013-14.

The Government attributed the reasons for shortfall due to low subsidy rate and non-sanctioning of loans by banks. No correspondence with the banks was available in the records of test checked districts indicating that the JDs

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

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

had not made efforts to facilitate bank linkages to selected beneficiaries and to convince/encourage the bankers to sanction loans to them for establishment of units.

The MDUs scheme was launched for experienced farmers, unemployed rural youth and members of women SHGs to take up dairying as full time activity and to augment milk production in the State. While the MDUs scheme was a partial success (2979 units sanctioned in the State during 2011-14), the Department did not set further targets after 2013-14 and no further funds were released.

2.1.10.2 Health and nutritional support for calves

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

Audit noticed that while allocating funds to district offices, the Director had released the funds based on the physical targets of MDUs and cost per unit. However, the cost towards health and nutritional support to female calves was neither included in the unit cost nor sanctioned separately to district offices. A total of 4180 milch animals along with their calves were supplied to the beneficiaries of 836 MDUs set up in the test checked districts. Out of these, 1450 were female calves. However, none of these female calves were enrolled and health and nutritional support was not provided to them as stipulated in the scheme guidelines, as no funds were sanctioned/released for implementation of this component of the scheme.

The Department accepted the audit observation and stated that due to non-receipt of budget the calves were not enrolled.

2.1.10.3 Supply of cattle feed

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

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

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

The Government replied that the beneficiaries did not come forward due to their financial constraints in paying non-subsidy portion of 75 *per cent*. The reply is not acceptable. At the time of sanctioning the units, the Department should have selected beneficiaries having adequate financial capacity and supplied animals after generating awareness about the benefits of concentrated feed and duly collecting the non-subsidy portion for supply of feed to achieve the objectives of the scheme.

2.1.10.4 Non-utilisation of funds

For supply of hand/power operated milking machines to dairy farmers on 50 *per cent* subsidy under RKVY, the Department released (September 2012) ₹ 1.90 crore to nine districts. Of this, the district offices utilised ₹ 32.64 lakh and supplied 79 machines leaving the balance amount in the bank accounts due to lack of demand from farmers for the machines as assured power supply was not available in rural areas for operating machines.

However, neither the Director called back the amount nor did district officials remit the same back for fruitful utilisation of the unspent amount as of June 2015 resulting in blocking of ₹ 1.57 crore.

2.1.11 Medium Dairy Units Scheme

To develop model dairy farms/commercial dairy enterprises and to increase milk production in the State, the Department introduced (November 2012) another scheme of 'Medium Dairy Units' with RKVY funds. Under this scheme, 20 animals in two spells (10+10) were to be supplied to each selected beneficiary (educated unemployed youth/women self-help groups). Unit cost[9] was fixed at ₹ 11.41 lakh for cows and ₹ 13.50 lakh for buffaloes out of which ₹ 2.5 lakh per unit would be given as subsidy. Out of the non-subsidy portion, 10 *per cent* was to be contributed by beneficiary and balance amount from bank loan. The Department had targeted establishment of 400 Medium Dairy Units across the State and ₹ 10 crore was allocated towards subsidy.

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

For nine districts of present Telangana State, the Department had initially set a target of 164 units with a total subsidy of ₹ 4.12 crore. There was poor response to the scheme and the Department reduced (March 2013) the target to only 48 units and allotted ₹ 1.2 crore towards subsidy while converting the remaining 116 Medium Units to 409 units of '2-milch animal' units at 50 *per cent* subsidy to utilise the remaining subsidy amount of ₹ 2.90 crore.

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

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

District	Original target	Revised target	Achievement
Nalgonda	21	5	3
Nizamabad	13	4	3
Medak	16	4	1
Total	**50**	**13**	**7**

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

Audit noticed the following:

- The scheme was launched at a time when the Department was finding it difficult to implement even the Mini Dairy Units scheme which involved lower investment by beneficiaries (discussed in paragraph 2.1.10.1).
- To set up a Medium Dairy Unit under this scheme, the beneficiary was to bring in substantial investment of his own (including loan) ranging from ₹ 8.9 lakh to ₹ 11 lakh, which could possibly lead to lack of adequate response from beneficiaries.

The Government attributed poor achievement to non-sanctioning of loans to beneficiaries by banks and to the non-subsidy portion being high. No record was available in the test checked districts to show that the JDs had pursued with banks to sanction loans to selected beneficiaries for establishment of units, though sanctioning of loans by banks to the selected beneficiaries was vital for success of the scheme.

As a result, the Medium Dairy Units scheme was largely a failure. Non-achievement of targets and utilisation of funds by diverting to '2-milch animals' scheme led to non-achievement of the intended objective of encouraging model dairy farms and commercial dairy enterprises in the State.

2.1.12 Calf Rearing (Sunandini) Programme

To increase number of lactations and milk production by bringing early maturity in female calves through supply of nutritional feed, the Department launched (June 2013) 'Calf Rearing Programme', also known as 'Sunandini'. The scheme contemplated enrolling cross breed and graded murrah female calves (up to two calves per each BPL family) born out of artificial insemination (AI) at the age of three-four months and supply feed to them up to 24 months and 28 months of age respectively with 75 *per cent* subsidy, besides providing healthcare and insurance with 100 *per cent* subsidy. The scheme was being implemented with State Government funds[10] as well as RKVY funds.

Under this scheme, 260 kgs of feed (worth ₹ 3900), mineral supplementation and healthcare (worth ₹ 500) and insurance (premium: ₹ 600) was to be provided in the first year to each calf at a total cost of ₹ 5000 (Government subsidy: ₹ 4025 and beneficiary contribution: ₹ 975). In the second year, 612 kgs of feed worth ₹ 10000 (Government subsidy: ₹ 7500 and beneficiary contribution: ₹ 2500) was to be given to each calf. The feed was to be supplied on quarterly basis and medicines and insurance immediately on enrolment. The deficiencies noticed in implementation of Sunanadini scheme are discussed below.

2.1.12.1 Targets and achievement:

On launching of the scheme, the Department fixed a target of covering 28380 calves in the nine districts of the State during 2013-14. The targets were fixed based on the district wise data of number of calves born out of artificial insemination (2.94 lakh in nine districts) during the previous year.

The targets fixed consisted of only nine *per cent* of total calves born from artificial insemination and the Department successfully achieved the target in the same year. Despite the success in enrolment in 2013-14, no further targets were fixed for 2014-15 made to cover the remaining 91 *per cent* calves born from artificial insemination in the State. The reasons for discontinuation of fresh enrolments were not forthcoming from the Department's records.

In the test checked districts, 9953 calves were enrolled under Sunandini scheme. As per the scheme Guidelines, a selection committee consisting local Veterinary Assistant Surgeon (VAS) and Divisional Assistant Director (AD) would select the beneficiaries in Gram Sabhas. Audit noticed that Gram Sabhas were not conducted in any of the test checked districts for selection of beneficiaries. VAS and AD visited the villages and enrolled the calves. However, selection of beneficiaries through Gram Sabhas would have ensured

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

transparency in selection process and accrual of scheme benefits to the deserving BPL beneficiaries.

2.1.12.2 Supply of feed to enrolled calves

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

As per the guidelines, the quantum of feed to be supplied in each quarter depends on the age of the enrolled calf. While the feed to be supplied in the first year was 2588 MTs to 9953 calves, the Department supplied only 861 MTs (34 *per cent*). During second year while the Department was required to supply 6091 MTs both from Department and beneficiaries' contribution. The beneficiaries did not contribute their non-subsidy portion. The Department also did not supply their portion of feed fully. As against 3046 MTs required, the Department supplied 1336 MTs only (44 *per cent*).

Audit noticed that funds were not released to districts for supply of required quantity of feed. As against the requirement of ₹ 8.86 crore for feed, the Department released only ₹ 4.58 crore which leads to short supply of feed.

2.1.12.3 Non Supply of calf card to the beneficiaries

Scheme guidelines stipulated maintenance of two calf cards in the prescribed format for each enrolled female calf. One card should be with the beneficiary and the other one with the Veterinary Assistant Surgeon (VAS) concerned. These cards were to contain the details of beneficiary, details and dates of supply of feed and medicines/vaccinations and also acknowledgements of the beneficiary in token of receipt of the supplies. However, Audit noticed that in Medak district, the Department did not maintain the calf cards for all the 1274 calves enrolled to note the supply details.

While accepting the facts the Department attributed belated supply of cards for non-maintenance and assured compliance in future.

2.1.12.4 Evaluation of scheme outcomes

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

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

Further, the scheme guidelines stipulated that growth pattern of the enrolled calves shall be recorded periodically by assessing their body weight, coat, texture and health. The Department also instructed the district offices to upload the growth pattern in a dedicated website. Though the details at the time of enrolment were uploaded, subsequent growth was not collected by the officials.

Due to non-recording/monitoring of growth pattern and the details of maturity/ first calving, there was no assurance about the outcomes of the scheme.

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

2.1.12.5 Non settlement of insurance claims

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

Out of the 1017 insurance claims made (November 2013 to July 2015) across the State, 293 claims were pending with the Insurance Company/Department as of July 2015. Of these, 154 claims were pending due to non-endorsement of claims by VASs and the remaining claims were pending for other reasons like incorrect bank account details, improper filling of claim documents, etc. The oldest pending claim pertained to December 2013.

Abnormal delays in endorsing the insurance claims and in rectifying the defects in the claims by the Department were leading to delayed settlements, thereby putting the beneficiaries to hardship.

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

2.1.13 Sheep and Goat development schemes

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

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

The non-subsidy portion was to be met from beneficiary's contribution/bank loan. As per the information furnished by DAH, an amount of ₹ 14.38 crore was released for the above schemes during 2010-15 out of which an expenditure of ₹ 11.76 crore was incurred so far. The following deficiencies in implementation were noticed in Audit.

2.1.13.1 Selection of beneficiaries

As per the guidelines issued by the Department for the above schemes, the beneficiaries were to be selected in Gram Sabhas, after giving adequate publicity about the schemes. No records/information about conducting of Gram Sabhas, dates of conducting Gram Sabhas, number of applications received/rejected/accepted and copies of resolutions of Gram Sabhas were available with the test checked district JDs.

AD, Banswada of Nizamabad district had accepted the audit point, whereas, AD, Nizamabad and ADs of Medak district stated that Gram Sabhas were conducted in all mandals of their district but no evidence in support of their reply, such as resolutions of sabha, were produced to audit.

2.1.13.2 Promoting Intensive Goat Production

The Department introduced (2012-13) 'Promoting Intensive Goat Production' scheme with funds received from GoI under NMPS component of RKVY. Under the scheme, SC/ST/BPL goat rearers who already had ten or more goats, would be selected and supplied with 47 female and 3 male goats as a unit, costing ₹ 1.19 lakh with 100 *per cent* subsidy. This would be followed up by providing feed, medicines/vaccines, construction of shed, silage pit, metal feeders and insurance. The objective was to inculcate the habit of intensive system of rearing among goat rearers and to showcase these units as demonstration units for other goat rearers.

The scheme was implemented in the State during 2012-13 and 73 units (cost: ₹ 80.11 lakh) were supplied as against a target of 84 units. In three test checked districts 26 units costing ₹ 31.16 lakh were supplied. Guidelines of RKVY stipulated that feed and medicine costing ₹11,000 was to be supplied to each unit for two months to gain body weight for sale purpose in market. The scheme was also extended for construction of silage pit and shed (₹ 40000) and insurance for the units (₹ 1230). The short comings noticed in implementation of the scheme are discussed below:

- In Medak district 10 units were established (September 2013 to May 2014). However, feed and medicines was not supplied to any of these units. Non-supply of these items defeated the objective of extending 100 per cent subsidy as the feed and medicines are essential for healthy growth of the goats and to attain marketable weight. The JD stated (July 2015) that non-supply of feed and medicines were due to non agreement of rate contract. However, the rate contract was already concluded by Director with the supply firm during August 2013 itself.

- Guidelines prescribed establishing goat units after ensuring construction of silage pit and shed by beneficiary. However, in Medak and Nalgonda districts without ensuring constructions of silage pits and shed, ₹ 7.20 lakh was disbursed to 18 goat units (₹ 0.40 lakh per unit)

- Guidelines stipulated that goat units are to be insured of government funds. However, only seven units out of 26 goat units were insured in test checked districts.

2.1.14 Internal Control and Monitoring

2.1.14.1 Internal Audit System

The Department had an Internal Audit (IA) wing, consisting of three officers headed by a Senior Accounts Officer. Out of 56 field offices in the nine districts of the State, the IA wing audited only eight units in 2012-13 and nil there after due to shortage of man-power.

The Government replied that the shortfall was due to staff shortage.

2.1.14.2 Submission of incorrect Utilisation Certificates

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

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

(₹ in crore)

Year	UC details		Actual expenditure	Difference between UC amounts and Expenditure
	Date	Amount certified as spent		
2010-11	04-08-2011	40.58	36.82	3.76
2011-12	26-11-2011	35.35	21.19	14.16
2012-13	02-05-2013	46.75	4.94	41.81

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

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

2.1.14.3 Non-remittance of unspent balances to GoI

GoAP received ₹ 242.16 crore from GoI during the period 2006-11 under PM package for implementation of livestock development schemes for vulnerable farmer families or families where a suicide had taken place. The scheme was closed by September 2011 requiring the unspent funds to be remitted back to GoI. However, an amount of ₹ 3.10 crore[11] available with the Directorate was yet to be remitted to GoI as of June 2015. Of this, ₹ 0.95 crore was transferred to State of Telangana consequent on re-organisation of the State, which is not yet remitted to GoI. In three test checked district offices another ₹ 1.05[12] crore was lying in bank accounts as on 31 March 2015.

2.1.14.4 Stock accounts

Rules prescribed that soon after receipt of material such as feed, medicines etc, the same should be accounted for in a stock register. When the material is issued the details such as date of issue, to whom issued, quantity, acknowledgement etc., are to be noted in the register.

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

[12] Medak - ₹ 0.54 crore; Nalgonda - ₹ 0.39 crore and Nizamabad - ₹ 0.12 crore

- As per the records of AD, Siddipet (Medak district) mineral supplementation and medicines were shown as issued under Sunandini scheme to three VAS of Chinnakoduru, Pregnapur and Thoguta in March/April 2014. The VAS, however, did not account for the same in their registers for ultimate distribution to beneficiaries and stated to Audit that the same were not received by them. The AD accepted that the same were not received by the VAS, but however, could not explain as to how they were shown as issued to these VAS.
- In Wargal mandal of Medak district 17.56 MTs of feed was stated to have been distributed under Sunandini scheme to 111 calves during 2013-14. However, without indicating quantity supplied to each beneficiary their acknowledgements were obtained in the distribution register.

2.1.14.5 Non/ improper maintenance of Cash Book

Para 7.1.5 of RKVY guidelines stipulated that accounts records such as cash books, vouchers, ledgers etc are to be maintained for the funds received from GoI under RKVY.

In Nizamabad district the cash book and ledgers were not maintained. In Nalgonda district even though scheme cash book was maintained, it did not contain details of payments such as purpose and to whom the cash was paid.

The JDs confirmed the fact of non-maintenance of cash book and did not furnish any reason for the same. Non maintenance of cash book is a serious lapse on the part of the Department.

2.1.15 Shortage of manpower

Audit noticed that there were 35 and 31 *per cent* vacancies in the technical and non technical field staff as shown below:

Table-2.5: Cadre wise vacancy position in test checked districts

Name of the District	Name of the post	Sanctioned strength	Persons in position	Vacant	Percentage of vacancy
Medak	Technical	355	190	165	46
	Non-technical	234	156	78	33
Nizamabad	Technical	218	133	85	39
	Non-technical	153	118	35	23
Nalgonda	Technical	431	326	105	24
	Non-technical	300	197	103	34
Grand Total (Technical)		**1004**	**649**	**355**	**35**
Grand Total (Non-technical)		**687**	**471**	**216**	**31**

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

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

2.1.16 Conclusion

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

2.1.17 Recommendations

Audit recommends that:

- ***Department should give adequate publicity about the schemes to bring in awareness among the potential/interested beneficiaries and it should maintain proper documentation on selection of beneficiaries to ensure transparency.***
- ***Department should ensure timely and adequate release of funds to field offices since timely supply of feed, medicines, etc., to enrolled animals is vital for the success of livestock development schemes.***
- ***In 'Sunandini Calf Rearing Programme', Department should supply feed to the enrolled calves, duly considering their age and ensure timely and adequate supply of feed so as to achieve the intended objective of the scheme, and also ensure monitoring of growth pattern of enrolled calves to assess the outcomes of the scheme implementation.***
- ***The vacant posts in field staff be filled at the earliest to improve efficiency in implementation of schemes.***

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

Chapter - 3
Compliance Audit

Chapter-3

Compliance Audit

Finance (Woks 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[1]. 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[2] and four[3] 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.

[1] 14 PAO/APAOs at Gadwal, Gandhamvari gudem (Nalgonda), Hanamkonda (PAO + APAO), Hill Colony (Nalgonda distrct), Hyderabad, Karimnagar, Khammam, LMD Colony, Mahabubnagar, Medak, Nirmal, Nizamabad and Rangareddy

[2] Hyderabad and Karimnagar

[3] 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
Total		**163.51**	**244.58**	**81.07**

*(**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[4] and other items like hire

[4] 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[5] 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[6] (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.

[5] 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

[6] 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[7] 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.

[7] 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[8] 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.

[8] 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 jurisdication.

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[9] 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.

[9] Economic cost includes MSP, labour/handling charges, transportation charges, storage charges, interest charges, cost of gunny bags, market cess, driage 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

Appendix

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 & Cooperation	390	1607
Animal Husbandry & Fisheries	135	653
Energy	5	20
Environment, Forests, Science and Technology	246	710
Industries & Commerce	129	503
Information Technology, Electronics & Communications	8	70
Infrastructure & Investment	4	27
Irrigation and Command Area Development	680	2007
Rain Shadow Areas Development	4	13
Transport, Roads and Buildings	214	654
Works and Projects wing of Finance Department	20	71
Total	**1835**	**6335**

Glossary

Glossary

ADs	:	Assistant Directors
AH	:	Animal Husbandry
AI	:	Artificial Insemination
ANs	:	Audit Notes
APAO	:	Assistant Pay and Accounts Officer
APCFM		Andhra Pradesh Community Forest Management Project
APITCO		Andhra Pradesh Industrial and Technical Consultancy Organisation
APMARKFED	:	Andhra Pradesh State Cooperative 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
DD	:	Deputy Director
DDOs	:	Drawing and Disbursing Officers
DMs	:	District Managers
DWA (W&P)	:	Director of Works Accounts (Works & Projects)
EE	:	Executive Engineer
EFS&T	:	Environment, Forests, Science and Technology
EMD	:	Earnest Money Deposit
FAQ	:	Fair Average Quality
FCI	:	Food Corporation of India
GoAP	:	Government of Andhra Pradesh
GoI	:	Government of India
HODs	:	Heads of Departments
IA	:	Internal Audit
I&CAD	:	Irrigation and Command Area Development

JDA	:	Joint Director of Agriculture
JDs	:	Joint Directors
JDWAs	:	Joint Director of Works Accounts
LAO	:	Land Acquisition Officer
LOC	:	Letter of Credit
MAOs	:	Mandal Agricultural Officers
MARKFED	:	State cooperative Marketing Federation Limited
MD	:	Managing Director
MDU	:	Mini Dairy Unit
MPWA	:	Miscellaneous Public Works Advances
MSP	:	Minimum Support Price
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
QC	:	Quality Control
R&B	:	Roads and Buildings
RC	:	Rate Contract
RIDF	:	Rural Infrastructure Development Fund
RKVY	:	Rashtriya Krishi Vikas Yojana
SCP	:	Special Component Plan for Scheduled Castes
SE	:	Superintending Engineer
SHGs	:	Self Help Groups
SLSC	:	State Level Sanctioning Committee
TSMARKFED	:	Telangana State Cooperative Marketing Federation Limited
UCs	:	Utilization Certificates
VAS	:	Veterinary Assistant Surgeon
WCE	:	Work Charged Establishment