

### 3.1 Introduction

Sound internal financial reporting with relevant and reliable information significantly contributes to efficient and effective governance. Compliance with financial rules, procedures and directives as well as the timelines and quality of reporting on the status of such compliances is one of the attributes of good governance. Such reports assist the State Government in meeting its basic stewardship responsibilities, including strategic planning and decision making. This Chapter provides an overview and status of the State Government's compliance with various financial rules, procedures and directives during the financial year 2016-17.

### 3.2 Utilisation Certificates

Budget controls are effective before payments are released but not after the release when the expenditure is actually committed or incurred. Utilisation Certificates (UCs) should be furnished by the State Government to GoI with regard to the funds provided by the latter for implementation of various Socio-Economic Development Programmes. Where specific grants are provided, State Government Rules and Instructions<sup>1</sup> also affirm the responsibility of the authority drawing the funds for submission of UCs to Departmental Officer and forwarding them to the Accountant General (A&E) after verification. No further amount for a particular scheme can be drawn unless proof of expenditure in respect of the amounts earlier drawn is provided.

During the year 2016-17, Government of Andhra Pradesh released Grants-in-Aid of ₹ 53,978.53 crore, of which, ₹ 42,404.83 crore were released under 312-Other Grants-in-Aid and ₹ 2,121.87 crore under 319-Grants for creation of Capital Assets.

As observed from Vouchers, in certain cases, statements of expenditure for the earlier releases were not furnished to Treasury Authorities. Instead, UCs were enclosed for the subsequent claim stating that funds were utilized in full for the intended purpose without enclosing the details of actual utilisation. Mere furnishing of UCs without details of expenditure indicates deficiencies in Financial Reporting as detailed below in **Table 3.1:**

**Table 3.1: Instances noticed during the audit of Grants-in-Aid vouchers**

(₹ in crore)				
Sl. No	Name of the DDO	Name of the Scheme	Amount drawn (Total Amount Drawn during the year)	Remarks
1	AO, BC Welfare Department, Vijayawada	Welfare of Kapus	250 (1000)	As per the certificate of expenditure against the total amount of ₹ 750 crore credited earlier, an amount of ₹265 crore only was utilized leaving a balance of ₹485 crore. However UC was furnished for ₹ 750 Crore and 4 <sup>th</sup> quarter (₹ 250 Crore) funds were drawn.

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

Sl. No	Name of the DDO	Name of the Scheme	Amount drawn (Total Amount Drawn during the year)	Remarks
2	AO, BC Welfare Department, Vijayawada	Community services (Construction of Dhobighats)	5 (15)	Against the funds of ₹ 15 crore credited during the year, no amount was utilized. However, UC was furnished for entire amount.
3	AAO, Director of Social Welfare, Vijayawada	Economic Support Scheme	115 (814)	Despite the availability of funds to the tune of ₹ 469 crore as on 01 April 2016, further funds of ₹ 345 crore were released during 2016-17 (up to December 2016). Of these, ₹ 208 crore only was utilized leaving a balance of ₹ 606 crore. Though the fact was certified by the DDO, ₹ 115 crore was credited again in February 2017 to avoid lapse of funds.

Other instances noticed during local audit are as under:

1. While drawing an amount of ₹ 665.79 crore for implementation of various activities in December 2016 DDO, AP SSA Society enclosed UC for an amount of ₹ 267.24 crore drawn earlier. However, Statement of Expenditure was not appended.
2. DDO, Rural Development enclosed UC for an amount of ₹ 2769.97 crore towards earlier releases for drawing further amounts (₹ 511.39 crore) in December 2016. However, Statement of Expenditure was not enclosed.

Non-submission/incorrect submission of UCs adversely impact the achievement of the objectives and purpose of the funds released and may also lead to Mis-utilisation/diversion of funds.

*Government assured that all the departments would be directed to address these issues.*

### 3.3 Submission of Accounts/Audit Reports of Authorities/Bodies

Several autonomous bodies were set up by the State Government in the fields of Education, Urban Development, Tribal Welfare, etc. where audit of accounts of 29 such bodies had been entrusted to the CAG of India. Audit observed that the delay in submission of accounts by such entities to audit ranged from one to 10 years as of September 2017. Details of the periods upto which accounts were due and rendered are given in **Appendix 3.1**. Age-wise details are shown in **Table 3.2**.

**Table 3.2: Age-wise arrears of Annual Accounts**

Sl.No	Delay in Number of Years	No. of Bodies / Authorities
1	0-1	13
2	2-3	12
3	4-5	2
4	6-7	1
5	8-9	0
6	10 & above	1
<b>Total</b>		<b>29</b>

Further, in order to identify the institutions<sup>2</sup> which attract audit under Sections 14 of the CAG's (DPC) Act 1971, the Government/Heads of Department are required to furnish to Audit every year, detailed information about the financial assistance given to various institutions, the purpose of such assistance and the total expenditure of the institutions. However, the same was not being furnished by the State Government/HoDs. In the absence of such information, the number of bodies/authorities which attract audit of C&AG under Section 14 and 15 of DPC act could not be evaluated. Apart from these authorities/bodies, Public Sector Undertakings established by the State are also to be audited by the C&AG<sup>3</sup>. Annual accounts of 309 such authorities/bodies (1738 Accounts) and 49 PSUs (120 Accounts) were not submitted to audit as of September 2017. Details of the periods upto which accounts were due and rendered, based on the previous accounts received, are given in *Appendix 3.2* and *Appendix 3.3*.

Appropriate measures for compilation and submission of accounts by these institutions/ entities within the fixed timeframe to audit need to be ensured by the State Government, so as to ensure that financial irregularities, if any, do not go undetected.

*Government assured that all the departments/bodies/authorities would be directed to address these issues.*

### **3.4 Un-reconciled expenditure and receipts**

Generally Accepted Accounting Principles (GAAP) state that the purpose of 'account reconciliation' is to provide accuracy and consistency in financial accounts for which it is necessary to carry out periodic and regular reconciliation of accounts. Hence, Financial Rules/ instructions<sup>4</sup> stipulate that expenditure and receipts recorded in the books of Chief Controlling Officers (CCOs) should be reconciled with Treasury by 4<sup>th</sup> of every month and every quarter during a financial year with those recorded in the books of the AG (A&E) to exercise effective control over budget and expenditure.

As of September 2017, expenditure amounting to ₹ 73,992.02 crore relating to the financial year 2016-17 was not reconciled, which constituted 56.09 *per cent* of total expenditure<sup>5</sup> of the year. Further, receipts amounting to ₹ 52,277.60 crore (51.75 *per cent* of total receipts<sup>6</sup>) were not reconciled during 2016-17. Despite flagging this issue every year in Audit Reports the percentage of non-reconciliation increased from previous year by 27.87 and 3.92 in respect of expenditure and receipts respectively.

Instances where expenditure of ₹ 500 crore and above was not reconciled pertaining to 21 CCOs for the year 2016-17 are given in *Appendix 3.4*. Of these, the highest amounts pertain to CCOs of (i) Secretary, Finance Department (₹ 14,737 crore), (ii) HoD, Rural Development (₹ 8,407 crore) and (iii) HoD, Agriculture (₹ 5,157 crore).

<sup>2</sup> Educational Institutions, Government Organisations, Autonomous bodies etc.,

<sup>3</sup> As per Section 19 and 20 of CAG's DPC act 1971

<sup>4</sup> Article 9 of Andhra Pradesh Financial Code and GO.Ms No. 42 of Finance Department Dated 13 April 2015

<sup>5</sup> Includes Revenue, Capital and Loans & Advances (₹ 1,31,923 crore)

<sup>6</sup> Include Revenue, Capital and Loans & Advances (₹ 1,01,014 crore)

### 3.5 Personal Deposit Accounts

As per Andhra Pradesh Financial Code<sup>7</sup>, Personal Deposit (PD) Accounts are created for discharging the liabilities of the Government arising out of special enactment. The amounts credited to these accounts will be debited to the Consolidated Fund of the State and booked as expenditure of the year.

The details of PD accounts operated during 2016-17 are given in **Table 3.3:**

**Table 3.3: Details of PD Accounts**

Details	Number	Amount (₹ in crore)
No. of PD accounts existing as on 01 <sup>st</sup> April 2016	58,418	22,465.96
Existing PD accounts to which transfers were made during the year	30,838	53,039.11
New PD accounts opened during the year	230	2,457.31
PD accounts from which funds were withdrawn during the year	38,989	51,448.40
PD accounts closed during the year	109	0
<b>PD accounts existing to the end of March 2017</b>	<b>58,539</b>	<b>26,513.98</b>

Thus, 47.78 per cent of total credit (₹ 55496.42 crore) was lying in PD accounts at the end of FY 2016-17 indicating that the amounts were drawn in advance without requirement. Cases noticed in test check of accounts where huge amounts are lying in PD accounts (₹ 100 crore and above) are listed in *Appendix 3.5*. Further, 33 per cent of accounts (19,320) were not at all operated. Though 14,529 accounts existed with zero balance as on 31 March 2016 as reported in previous year, 109 accounts only were closed during 2016-17.

Paying interest at higher rates (6.31 per cent) on borrowings while keeping huge amounts in PD Account which did not bear any interest showed poor cash and financial management of the State Government.

Scrutiny of records/information relating to PD accounts revealed the following:

#### 3.5.1 Comparative position of PD Accounts with other States

The position of PD Accounts in other States of General Category is shown in the **Table 3.4:**

**Table 3.4: Number of PD Accounts in different States**

Sl. No	State	Number of PD Accounts	Amounts lying to the end of 2016-17 (₹ in crore)
1	West Bengal	153	5,140
2	Gujarat	478	395
3	Odisha	827	1,097
4	Andhra Pradesh	58,539	26,514

It can be seen that the number of PD Accounts is very large in Andhra Pradesh involving huge amount of funds when compared to other General Category States. This reduced the possibility of tracking the expenditure in those accounts.

<sup>7</sup> Article 271(4) of Andhra Pradesh Financial Code

### 3.5.2 Access to Web Portal

Access was given to Audit to the following information in Web Portal of PD accounts:

- Head of Account
- Name of the PD Administrator
- Receipts and Payments
- Challan/Cheque number through which the receipt/payment was effected
- Opening and Closing balances available in account.

Thus, access to details regarding accounts newly opened, accounts closed during the year, Account Number, list of beneficiaries/third parties to whom the payments were made etc. was not given to audit by the Finance Department. Hence audit could not vouch the payments made from PD accounts.

*Government assured that access to the web portal to view other details viz., beneficiaries, closed accounts etc. would be provided shortly.*

### 3.5.3 Variations in Nomenclature and Amounts of PD accounts

Amounts available in PD accounts were being watched based on Plus and Minus Memoranda sent every month to the Accountant General (A&E) by the District Treasury Officers. Test check of PD accounts revealed that the names/amounts of some PD account Administrators given against respective Heads of Account in the books of A.G.(A&E) were different from the names/amounts given by Finance Department (Director of Treasuries and Accounts) in their Web Portal on PD Accounts as shown in **Table 3.5**.

**Table 3.5: Variations in the nomenclature and amounts of PD administrators as per Web Portal and Accounts of A.G. (A&E)**

Sl.	Head of account	Nomenclature		Closing balance to the end of 2016-17	
		As per Web portal	As per AG(A&E) records	As per Web portal	As per AG(A&E) records
1	8449-00-120-(50)	AP Swatchh Andhra Corporation	AP Industrial Development Corporation	330.68	328.20
2	8449-00-120-(24)-000	Brahmin Welfare Corporation	AP Scooters Ltd.	0	126.75
3	8449-00-120-(34)-000	AP Fiber Net Ltd	Leather Industries Development Corporation of A.P. Ltd.	0	1.82
4	8448-00-120-(33)-000	National Rural Drinking Water Programme (NRDWP)	National Rural Drinking Water Programme (NRDWP)	0	62.64
5	8443-00-106-(01)-000	Personal Deposits	Personal Deposits	314.61	560.76
6	8449-00-120-(01)-000	Industries	Chief Minister Cyclone Relief Fund 1996	233.91	244.17
7	8449-00-120-(45)-000	Christian Minority Finance Corporation	Telugu Samacharam	59.08	56.45
8	8449-00-120-(05)-000	Grants from the UNICEF	Grants from the UNICEF	263.57	287.16

The above details indicated that the Sub Heads once used by earlier PD Administrators were continued for new Heads/PD Administrators without closing the old accounts, which could not be traced out as the Government/Department dispensed with the procedure<sup>8</sup> of “prior concurrence from Accountant General to open a new PD account”. Further, the opening and closing balances were also not tallied with those given in Website. Exhibition of receipts and payments pertaining to different institutions under a single Head of account do not give scope for fair and correct distribution of funds. The issue was brought to the notice of Finance Department in January 2017. However, the Government did not take any action to reconcile the facts and figures in PD accounts till date (September 2017).

### **3.5.4 Non-compliance to Government Order**

During the year 2016-17, Government issued an order<sup>9</sup> directing to remit back the amounts kept in fixed/savings/current accounts with banks to PD Accounts. In the order *ibid*, it was stated that various Government Departments and agencies were operating 70,924 bank accounts outside the Government account in 12 banks with an amount of ₹ 19,610.76 crore which is roughly equal to the borrowing of the State Government in a year at higher interest rates. During the year 2016-17 this amount constituted 63.74 *per cent* of total borrowings<sup>10</sup>. However, no instances of remitting such amounts to PD accounts were noticed. Despite non-compliance to the Government Order, an amount of ₹ 55,496.42 crore was credited to PD accounts during the year 2016-17.

### **3.5.5 Self Cheques issued by PD Administrators**

As per Article 3 of AP Financial Code, unless the amount is immediately required to be paid for the goods and services received/works done, no amount shall be withdrawn. It is stipulated that no self cheque from Deposit Account shall be permitted except for the payment of salaries and petty office expenses. No cheque in favour of the Manager of any bank shall also be allowed so as to eliminate the practice of depositing the amounts in the bank to avoid lapse of funds. In case of any deviations to these stipulations, the Deposit Administrator and the Treasury Officer shall be held personally responsible.

Test-check of cheques relating to the month of March, 2017 revealed the following in respect of 416 cheques:

- 63 Cheques amounting to ₹ 257.89 crore were issued by DDOs as self cheques.
- 353 cheques for ₹ 1325.88 crore were issued in favour of Branch Managers of various banks.

Details of parties, to whom the payments were made, were not enclosed with these cheques, in the absence of which the transaction from PD accounts could not be verified.

<sup>8</sup> GO Ms No.140 of Finance Department dated 20 May 2005.

<sup>9</sup> GO Ms No.196 Finance (CM) Department dated 14 October 2016

<sup>10</sup> Internal Debt(MH 6003): ₹ 29,955 crore (excluding Ways and Means Advances) and Loans from GoI(MH 6004): ₹ 814 crore.



### 3.5.6 Audit on payments from PD accounts

Test check of audit on payments made from PD accounts revealed the following:

**a) Project Director, Andhra Pradesh State Water & Sanitation Mission:** The Project Director maintains PD Account (No.89/APSHQT) under the Head of Account 8448-00-120-00-33. During the year 2016-17, ₹ 312.64 crore was credited to the account and payments of ₹ 250 crore were made leaving a balance of ₹ 62.64 crore as on 31 March 2017. Scrutiny of the records revealed that the amounts were stated to be paid to the beneficiaries through 'eFMS'<sup>11</sup> account, i.e., amounts from PD account were transferred to another bank account before final payment to beneficiaries. Proceeds for payment were given to the bank directly through 'yourself' cheques to transfer the amount from PD account to another bank account. This was in contravention to the instructions/guidelines issued vide GO Ms No.131 dated 30 May 2014 and mis-utilisation of funds cannot be ruled out.

Audit also observed that the opening balance as on 01 April 2016 was Nil and ₹ 312.64 crore was credited to the PD account in March 2017. However, payments of ₹ 100 crore were shown in April 2016 which indicated that the DDO was maintaining multiple accounts and funds were being diverted as required.

**b) MD, Andhra Pradesh State Civil Supplies Corporation:** The Managing Director maintained PD Account (No.20/APSHQT) under the Head of Account 8449-00-120-00-53. During the year 2016-17, the account was credited with ₹ 2,596.50 crore and payments of ₹ 2,373.51 crore were made. Payments from PD account were initially being made to a current account<sup>12</sup> maintained in SBI, Kompally, Hyderabad. Thereafter the payments were made to clear six over draft/cash credit facility accounts<sup>13</sup> for payments to the beneficiaries. Further, it was stated by the Corporation that payment of ₹ 7,638.73 crore was still pending as on 31 March 2017. Apart from paying the principal amount the Corporation was utilising the amounts credited to PD account to pay huge interest on the overdraft/cash credit accounts for which details were not furnished. All payments were made in the name of MD, Andhra Pradesh State Civil Supplies Corporation to transfer the amounts from PD account to other bank accounts.

**c) MD, AP State Housing Corporation, Vijayawada:** The Corporation was maintaining a PD account bearing (No.21/APSHQT) under the Head of Account 8443-00-800-01. While the account was having an opening balance of ₹ 2,016.00 crore as on 01 April 2016, an amount of ₹ 555.10 crore was credited and payments of ₹ 2,414.95 crore were made leaving a balance of ₹ 156.15 crore as on 31 March 2017. Scrutiny of the records revealed that ₹1,670 crore was remitted to Government account in March 2017 as per the orders of Finance department under the 'Major Head 6216 – Loans for Housing' towards repayment of loan taken from Government. Thus, 64.95 per cent of funds available in PD account to implement various Housing schemes were diverted.

Therefore, it is evident that proper control mechanism over the payments made from PD accounts was not established.

<sup>11</sup> electronic Fund Management System

<sup>12</sup> No.35729661680

<sup>13</sup> Maintained for payment to farmers in cash crunch situation.

### **3.5.7 Non-lapsing of Civil Deposits**

As per Article 271(iii) of AP Financial Code Vol-I and other instructions<sup>14</sup> issued by the Government, all Deposits which fall under category 'B' - unclaimed for more than three financial years and Category 'C' – funds remaining unspent up to 31 March of next financial year should be lapsed and credited to Government Account.

Test check of records in four DTOs and 80 Sub Treasury Officers revealed that an amount of ₹ 33.09 crore pertaining to revenue and other deposits lying unclaimed for more than three financial years under different Heads of Account falling under B category were not allowed to lapse. Consequently, the non-lapsed deposits continued to be in these PD accounts without any utilisation by the Government.

Similarly, records of three DTOs and 36 STOs revealed that deposits to the tune of ₹ 2.18 crore in respect of works sanctioned under four schemes which remained unutilized even at the end of next financial year (Category C) were also not allowed to lapse as on 31 March 2017.

Thus, non-lapsing of deposits as per codal provisions resulted in parking of the Government funds outside the Consolidated Fund thereby increasing Revenue Deficit of the State.

### **3.5.8 Non submission of Certificate of Acceptance of Balances**

As per Article 126 of Account Code Volume I read with GO.Ms.No.45 Finance & Planning Department, dated 25 February 1987, the Administrators operating PD accounts under the control of Treasury are required to verify the balances in the deposit accounts each quarter and furnish a Certificate of Acceptance of Balances (CAB) after reconciling the differences between the administrator's account balance with those of treasury in order to streamline the flow of funds, to prevent fraudulent drawals and any misclassification of transactions

During audit of four DTOs (Out of 13 DTOs) and 29 STOs (158 STOs) it was noticed that 3,932 CABs were pending from various PD Administrators.

Non-reconciliation of balances in PD accounts /non-receipt of CABs are fraught with the risk of fraudulent drawals from PD accounts.

### **3.5.9 Minus Balances under PD Accounts**

General principles of Accounting state that the amounts can be drawn to the extent available in the account. Thus, "Personal Deposit (PD) Account" can have a positive balance or nil balance but not minus balance. A negative balance indicates that the drawal from the fund is more than the amount deposited. The DTO has to check the balance available before making payment.

A review of Ledger balances in seven DTOs and 28 STOs revealed that there were negative balances to the tune of ₹ 8,385.64 crore under different PD Accounts indicating drawal of funds over and above the balances available at the credit of the PD Administrator. Negative balances in these PD accounts are of serious concern which need to be investigated for fixing of responsibility.

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<sup>14</sup> GO Ms No.43 dated 22 April 2000.



### 3.6 Pendency of Detailed Contingent bills

In case of contingent expenditure that requires the countersignature of the controlling authority after payment, the drawing officer is to present abstract contingent bills in Form 57 at the Treasury for payment, and send monthly detailed contingent bills to the controlling authority for countersignature and transmit the same to the Accountant General within one month of drawl of such amounts<sup>15</sup>. In any event, a third AC bill is not to be admitted until the first AC bill is settled. Further, according to various instructions<sup>16</sup> issued, details of expenditure incurred from the amounts drawn on AC bills are to be submitted to HOD by the DDOs on monthly/quarterly basis.

The position of pending DC bills pertaining to the State of Andhra Pradesh as of September 2017 is shown in **Table 3.6**:

**Table 3.6: Pendency in submission of DC Bills**

(₹ in crore)

Year	AC bills drawn		DC bills submitted		DC bills pending	
	Number	Amount	Number	Amount	Number	Amount
Upto 2002-03	82,130	222.00	0	0	82,130	222.00
2003-04 to 2007-08	88,154	774.27	88,085	766.72	69	7.55
2008-09	7,313	155.48	7,302	155.44	11	0.04
2009-10	4,389	452.18	4,374	451.36	15	0.82
2010-11	2,946	736.30	2,926	732.23	20	4.07
2011-12	2,365	926.02	2,339	921.60	26	4.42
2012-13	1,945	591.95	1,912	590.98	33	0.97
2013-14	3,132	1,165.14	3,048	1,130.19	84	34.95
2014-15	2,662	794.04	2,468	771.54	194	22.50
2015-16	734	202.98	438	140.58	296	62.40
2016-17	1018	187.90	240	45.77	778	142.13
<b>Total</b>	<b>1,96,788</b>	<b>6,208.26</b>	<b>1,13,132</b>	<b>5,706.41</b>	<b>83,656</b>	<b>501.85</b>

Source: Information from office of AG(A&E) and O/o PAG(Audit)

Out of 83,656 DC bills pending, no details were available in respect of 82,130 AC bills drawn for an amount of ₹222 crore prior to 2002-03 which was also reported in previous years. In respect of the balance 1,526 bills, Revenue Department with ₹120 crore had the highest pendency in submission of DC bills (**Appendix 3.6**). Further, more than 100 DC bills were pending from Departments of Revenue (520), Education (318) and Youth Advancement Tourism and Culture (117) (**Appendix 3.7**).

Thus, it is evident that (i) no mechanism at HoD level existed to watch the details of expenditure incurred from the amount drawn on AC bills by the DDOs on monthly/quarterly

<sup>15</sup> SR 18(d) under TR 16 of the Andhra Pradesh Treasury Code read with Articles 102, 108 and Appendix 8 of Andhra Pradesh Financial Code

<sup>16</sup> GOAP Finance (TFR) Department Memo No.268/15154-A/TFR/2002, dated 18/05/2002 read with GO Ms No.507 Finance (TFR) dept dated 10/04/2002 and GO Ms No.391 Finance (TFR) dept dated 22/03/2002; GO Ms No.285 Finance (TFR-II) Department dated 15/10/2005.

basis and (ii) the third AC bill was allowed even though earlier bills were not settled by submitting DC bills, despite clear instructions.

A large number (83,656) of Abstract Contingent (AC)/Detailed contingent (DC) bills involving an amount of ₹ 501.85 crore were lying pending and most of them for many years. In the absence of DC bills, it is not possible to ascertain whether expenditure has taken place or not.

Increasing number of pending DC Bills was fraught with the risk of embezzlement and corruption.

Government assured that all the departments would be advised to address this issue.

### 3.7 Operation of omnibus Minor Head 800

The omnibus Minor Head 800 (other receipts/other expenditure) accommodates receipts/ expenditure which cannot be classified under the available 'programme- Minor Heads'. The amounts booked under this Minor Head are given in **Table 3.7**:

**Table 3.7: Receipts and Expenditure under MiH 800**

Year	Expenditure under Minor Head 800 (₹ in crore)	Percentage of total expenditure	Receipts under Minor Head 800 (₹ in crore)	Percentage of total Receipts
2015-16	17,741	16.11	5,146	5.80
2016-17	29,933	22.79	3,695	3.73

Source: Finance Accounts

Expenditure aggregating ₹ 29,933 crore constituting 22.79 per cent of Revenue and Capital Expenditure (₹ 1,31,359 crore) was classified under Minor Head 800 – Other expenditure. Instances where substantial portion (50 per cent or more) of expenditure were classified under Minor Head 800 are indicated in **Appendix 3.8**.

Revenue receipts aggregating ₹ 3,695 crore constituting 3.73 per cent of total Revenue receipts (₹ 98,984 crore) were classified under Minor Head 800 – Other receipts. Instances where substantial portion (50 per cent or more) of receipts were classified under Minor Head 800 are indicated in **Appendix 3.9**. Classification of substantial amounts under Omnibus Head affects transparency in financial reporting.

#### 3.7.1 Other Remittances

Remittances of ₹ 16,347 crore (16.51 per cent of total receipts) and payments of ₹ 17,922 crore (13.64 per cent of total expenditure) under the Major Head 8443-Civil Deposits were shown under Minor Head 800 during the year 2016-17.

Classification of substantial amounts under this omnibus head adversely affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

### 3.8 Debt, Deposit and Remittance heads

Review of Debt, Deposit and Remittance (DDR) heads for the year during 2016-17 disclosed the following:

### 3.8.1 Adverse Balances under MH 6003-Internal Debt

Adverse balances (Minus balances) under Loan heads indicate that repayment was more than the loans availed of. The Government Departments which directly avail the loan have been classifying such loan amounts as their receipts, while in respect of Special Purpose Vehicles and Companies/Corporations, these amounts do not enter Government accounts. In such cases, loan repayments are being booked as debit under MH-6003-Internal Debt in Government Accounts which resulted in adverse balances.

During the year 2016-17, there were adverse balances amounting to ₹ 22.29 crore and ₹ 88.20 crore under “MH 6003-108-Loans from National Co-operative Development Corporation (NCDC)” and “MH 6003-109-Loans from other Institutions”, respectively, due to accounting of repayments of loans under MH 6003 without corresponding credits. Further, there was an adverse balance of ₹ 1.12 crore under “MH 6003-101-Market loans”.

These adverse balances resulted in understatement of liabilities of the Government affecting financial reporting to that extent.

### 3.8.2 Adverse Balances under ‘Loans and Advances’ and Deposits

Adverse balances under the heads “Loans & Advances” and “Deposits” indicate that the repayments are more than the amounts specified or misclassified. As of 31 March 2017, adverse/negative balance of ₹ 355.55 crore and ₹ 728.76 crore were noticed under “Loans and Advances” and “Deposits” respectively. Thus, there is a need to reconcile these balances.

### 3.8.3 Loans and Advances rolling for a long Period

As per GO MS No.507 Finance (TFR) Dept dt.10 April 2002 (vide Para 11), all the loans and dues payable to the Government are to be recovered at the amount/rate of installments as agreed upon along with interest due before any further drawls are made against such Head. However, loans and advances (both principal and interest) disbursed to Corporations, Companies and Co-operative Societies for an amount of ₹ 3,282.22 crore remained in arrears from 2011-12 onwards. Even the agreements for these loans were not furnished by the Government to Audit.

### 3.8.4 Deposits and Advances

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

Deposits are broadly categorized into two categories; the balances outstanding against them as of 31 March 2017 are given below:

- (i) Deposits bearing Interest: ₹ 6,246 crore
- (ii) Deposits not bearing Interest: ₹ 29,064 crore.

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

### **3.8.4.1 Inoperative Deposit Accounts**

As per Para (iii) of Chapter IX of APFC Vol.I, if any Deposit Account is not operated for a considerable period and there is reason to believe that the need for the Deposit Account has ceased, the same should be closed in consultation with the officer in whose favour the Deposit Account has been operated.

As seen from the Accounts, 19 Deposit Accounts under the head 8443-Civil Deposits amounting to ₹316.83 crore and 29 Deposit Accounts worth ₹37.68 crore under 8449-Other Deposits were inoperative for over three years. Inoperative Deposit Accounts under the Major Head 8443 inter alia included Trust Interest Funds (₹240.41 crore), Civil deposits-Other Funds (₹32.64 crore), Deposits of Rajiv Udyogsri (₹25.54 crore), Deposits of Weights and Measures (₹16.30 crore). Similarly, Deposits under 8449 included Deposits for payment of honorarium to the Enumerators connected with 1981 Census (₹9.34 crore), Deposits of A.P States SC's Co-operative Finance Corporation – Engineering Fund (₹10.33 crore), Deposits of A.P. Vaidya Vidhana Parishad under the scheme of AP Health System project assisted by the World Bank (₹9.94 crore) etc.

### **3.8.4.2 Inoperative Reserve Funds**

“Reserve Funds” are created for specific purposes by the Government out of their own balances with sub divisions - one for the Funds bearing interest and the other for the Funds not bearing interest.

A test-check of Ledger on these funds showed that as of 31 March 2017, an amount of ₹17.82 crore under Reserve Fund bearing interest and ₹372.09 crore under Reserve Fund not bearing interest, were lying inoperative. No reserve funds have been closed during the year by the State Government.

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

Suspense heads are operated in Government accounts to reflect transactions that cannot be booked initially to their final head of account for some reason or the other. Based on information furnished by the State Government, these are finally cleared by minus debit or minus credit and the amount is taken to its final head of account. If the amounts under suspense heads remain unadjusted, the balances under these heads get accumulated which results in understatement of Government's receipts and payments. Transactions and net balances in Minor Heads 101-PAO Suspense, 102-Suspense Account (Civil), 110-Reserve Bank Suspense-Central Accounts Office and 112-Tax Deducted at Source Suspense under Major head 8658-Suspense Account are detailed below.

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

This Minor Head is intended for the initial record of inter-Governmental transactions arising in the books of a Central PAO, Separate Accounts Officers of Union Territories and Accountants General where the other party involved is a PAO. Separate sub-heads are opened under this minor head for each Accounts Officer with whom transactions are to be settled. This Minor head is operated for settlement of amounts received by State from the Central Ministries/other Union Territories through Reserve Bank of India. Outstanding debit balances under this head

indicates that payments have been made by the PAO on behalf of others which are yet to be recovered and credit balances represent the amounts yet to be paid.

The outstanding debit balance in this account to the end of March 2017 was ₹ 80.66 crore and the credit balance was ₹ 13.05 crore. The outstanding debit balance mainly relates to Regional PAO, Hyderabad (₹ 56.53 crore) and PAO, Central Pensions, New Delhi (₹ 19.43 crore) whereas the credit balance is mainly in respect of PAO, Department of Economic Affairs, New Delhi (₹ 12.65 crore).

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

This Minor Head is operated by the Accountants General to accommodate provisionally the differences noticed in the transactions which cannot be taken to the final head of expenditure/receipt accounts for want of certain information/documents viz., challans, vouchers etc. Receipts are credited and expenditure is debited to this account and cleared on receipt of required information by minus credit and minus debit respectively. Outstanding debit balance under this head implies 'payment made' but could not be debited to the final head of expenditure for want of certain particulars and outstanding credit balance represents the 'receipts' which could not be credited to final receipt head of account for want of details.

Major debit balances outstanding to the end of March 2017 under this head were in respect of Tungabhadra Project (₹ 157.96 crore) and FA & CAO, South Central Railway (₹ 66.61 crore). Major Credit balance was shown towards Tungabhadra Project (₹ 114.89 crore) followed by Unclassified receipts of ₹ 102.39 crore.

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

Whenever transfer of substantial balances take place between Central and State Governments on account of sanction of loan, Grants-in-aid etc., this minor head is operated to record the transactions before taking them to their final Head of Account. In case of sanction of loan to the State Government, on receipt of sanction from the PAO of the Ministry concerned, the State Accountant General concerned gives credit to MH 6004 – Loans and Advances from the Central Government by debiting MH 8658 Suspense Account 110 RBS (CAO) and awaits adjustment memo from CAS, RBI, Nagpur. After receiving the adjustment memo from CAS, RBI, Nagpur the Suspense Account (MiH 110 – RBS (CAO) is cleared by minus debit to MH 8675-RBD-MiH 106 of the State concerned. A credit balance under this minor head would mean that repayment of loan has not been taken to its final head and a debit balance means loan received from GoI and not booked under the concerned loan head (MH 6004).

There were balances of ₹ 82.87 crore (credit) and ₹ 520.85 crore (debit) in this account which are required to be cleared expeditiously.

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

This Minor Head is intended to accommodate receipts on account of Income tax deducted at source. TDS will be deducted from salary bills of State Government employees and pension bills etc., by State Treasury officers/State Pay and Accounts Officers/ other Departmental officers who render compiled accounts. Similarly, on interest payments on State Government Securities made at Public Debt Offices of the RBI, TDS will be adjusted in the books of State

Accountant General to enable the Zonal Accounts Officers of Central Board of Direct Taxes by means of Cheques/Bank Drafts. Receipts on account of TDS are credited to Major Head 8658 – Suspense accounts under Minor Head 112 – TDS Suspense. These credits are to be cleared by the end of each financial year and credited to the Income Tax Department.

However, there was outstanding credit balance of ₹ 232.78 crore under this head as on 31 March 2017 yet to be credited to IT department. Though the head is meant for accommodating the credit balances, a debit balance of ₹ 30.75 crore was also reflected in the accounts.

### 3.9.5 Inter – State Suspense – MH 8793

Transactions arising in State Treasury relating to another State Government are classified under this category. On receipt of monthly accounts from Treasury and on completion of booking, transactions are verified and advice is issued to the RBI for effecting necessary transfer of balances from one State to another. On receipt of intimation of adjustment by RBI through “Clearance Memos”, the accounts shown under this head are cleared.

An amount of ₹ 1,267.43 crore was lying un-adjusted as on 31 March 2017 for want of Clearance Memos from RBI. The major portion of this amount was in respect of Telangana State (₹ 1,245.14 crore) as a consequence of bifurcation issues.

### 3.10 Miscellaneous - Diversion of Funds

Financial rules provide that the Heads of the administrative departments should exercise effective control over expenditure. The amounts given for implementation of various schemes should be utilized for prescribed purposes and not to be diverted. Test check of records pertaining to DRDA, RWS and ITDA revealed that an amount of ₹ 42.92 crore was diverted for other purposes as shown in **Table 3.8:**

**Table 3.8: Amounts diverted**

(₹ in crore)				
S.No.	Department	Name of the scheme for which the funds released	Purpose of diversion	Amount
1	PD, DRDA, Anantapur	Dairy funds	To meet the expenditure on the eve of Hon`ble CM’s visit to Anantapuram	0.22
2	EE, RWS, Podili, Prakasam	Deposit amounts of contractors	Towards contingencies and other office expenditure	0.04
3	EE, RWS Division, Chittoor	EMD/FSD deposited by contractors	Towards office charges and rentals for departmental sim cards	0.01
4	PD, ITDA, Paderu, Visakapatnam	Integrated Action Plan(IAP) funds	Construction of Staff rooms, Meeting hall and Godowns	1.50
5	PD, ITDA, Paderu, Visakapatnam	Various schemes	Kept as fixed deposits	41.15
<b>Total</b>				<b>42.92</b>

### 3.11 Functioning of Treasuries

During the year 2016-17, 13 District Treasuries and 158 Sub-Treasuries were audited and the results thereof are detailed under:



### **3.11.1 Undisbursed amounts of ₹ 254.76 crore lying idle in CINB Account of Treasuries**

The e-payment system was implemented in Treasury and Accounts Department with effect from 1 April 2014 which covers all types of payments. The DDOs submit the bills online along with the bank account numbers of beneficiaries, transaction identification numbers etc. Once the bill is passed, the amount is initially credited by the bank to Corporate Internet Banking (CINB) account which is operated by DTO/STO. The CINB account invariably exhibits 'Nil' balance after completion of all transactions/payments. If the transaction failed due to various reasons, viz., incorrect account number or IFSC Code etc. the amount is reverted back to CINB account as 'Failed' transaction, thereby, balances will be available in CINB account, which needs to be re-authorized and paid to the beneficiaries. The Treasury Officer is personally responsible for all the transfers of moneys from CINB account to the beneficiary account.

A test check of records of CINB accounts in ten district treasuries and seventy sub treasuries during 2016-17 revealed that an amount of ₹ 254.76 crore was lying idle in CINB accounts due to failure of transactions and lack of re-authorization of amounts to beneficiaries from CINB account. Due to which the beneficiaries were deprived of the benefit and at the same time the amount was kept outside the Consolidated fund of the State.

Keeping the amounts in CINB account for longer duration without reauthorizing to the beneficiaries is fraught with the risk of reauthorization to fictitious beneficiaries and indicated deficiency in CINB with regard to reconciliation of failed transactions.

Government replied that instructions were issued to verify failed transactions of the current period and not to keep the amounts lying in CINB accounts for more than 90 days.

### **3.11.2 Excess payment of pensionary benefits**

Test check of audit in respect of 54 Sub-Treasuries under 13 Districts of Andhra Pradesh revealed that an amount of ₹ 63.58 lakh was excess paid towards pension and family pension mainly due to the following reasons:

- Excess payment of Enhanced Family pension due to non-observance of prescribed time limit : ₹ 29.81 lakh
- Short/Non recovery of Commuted portion of Pension/Premature restoration of CVP : ₹ 18.23 lakh
- Inadmissible Dearness Relief : ₹ 14.80 lakh

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

Manual of Treasury Accounts Department stipulates that payments have to be supported by cheques/vouchers containing full details of payments made. However, in violation of these provisions, various supporting documents had not been received from Treasuries as discussed under:

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

Significant quantum of wanting vouchers in respect of all treasuries was observed. During the

year 2016-17, 5,517 vouchers for an amount of ₹ 2062.26 crore were kept under objection for want of physical vouchers, of which 1,552 vouchers for ₹ 1,569.80 crore related to PAO only. The recurrence of missing vouchers every year indicates laxity at the level of Account Rendering Units to forward complete accounts to the office of the Principal Accountant General (A&E).

### **3.12.2 Non-receipt of cheques from DTOs**

Treasuries had not furnished 753 cheques to PAG (A&E) in support of payments of ₹ 30.26 crore by the end of March, 2017. Major portion of cheques were pending from DTOs Visakhapatnam (224 Cheques valued at ₹ 5.72 crore) and Kadapa (110 cheques valued at ₹ 9.06 crore). In the absence of physical cheques, audit could not assess the correctness of payments to that extent.

### **3.12.3 Non-submission of GPF schedules**

The GPF recovery schedules which contains the names of the subscribers, GPF account numbers and amount of subscriptions for the month along with a Consolidated Abstract showing Transaction Id and date are transmitted by the DTO to the office of A.G (A&E) every month. However, 6,906 schedules for an amount of ₹ 8.45 crore were not submitted by the Treasuries during 2016-17.

## **3.13 Follow up action on Audit Reports**

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

The erstwhile composite State of Andhra Pradesh was reorganized into two states i.e. Andhra Pradesh and Telangana with effect from 02 June 2014. As on 31 December 2017, Explanatory Notes have not been received for the Audit Report 2014-15 from the Finance Department of the State. Explanatory Notes in respect of Audit Report for the year 2015-16 have been received (December 2017).

## **3.14 Significant Findings**

*Audit observed various instances of non-observance of financial rules and procedures and absence of financial controls.*

*Personal Deposit accounts were an area of serious concern. Huge amounts were credited purportedly for ensuring uninterrupted progress in respect of various schemes implemented by the Government. Unutilized sums were not allowed to lapse to the Government. Tracking of funds lying in PD accounts becomes difficult over a period of time which may lead to loss and embezzlement.*

*Interest paid at higher rates (6.31 per cent), on borrowings, while huge amounts were kept in PD Account, demonstrated poor cash and financial management by the State Government.*

*A large number (83,656) of Abstract Contingent (AC)/Detailed contingent (DC) bills involving an amount of ₹ 501.85 crore were lying pending and most of them for many years. In the*

*absence of DC bills it is not possible to ascertain whether expenditure has taken place or not. Increasing number of pending DC Bills was fraught with the risk of embezzlement and corruption.*

*Utilisation Certificates (UCs) were incomplete without statement of expenditure.*

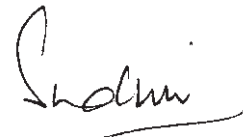
*Some institutions, including Public Sector Undertakings that were in receipt of grants/loans from Government failed to adhere to the timelines for submitting annual accounts.*

*Government had no mechanism to ensure submission of detailed information in respect of quantum of financial assistance provided to various institutions/bodies/authorities and the purpose of such assistance.*

*The omnibus Minor Head 800 continued to be operated for recording expenditure/receipts relating to several items affecting the transparency in financial reporting.*

*Non-reconciliation of both Expenditure and Receipts, increased by 27.87 per cent and 3.92 per cent respectively over the figures of previous year. This would affect reliability of financial information.*


**Hyderabad  
The**



**(L V SUBHIR KUMAR)  
Principal Accountant General (AUDIT)  
Andhra Pradesh**

**Countersigned**

**New Delhi  
The**



**(RAJIV MEHRISHI)  
Comptroller and Auditor General of India**