

## Overview

This Report includes two Chapters containing observations on Finance and Appropriation Accounts of the Government of Andhra Pradesh for the year 2006-07 and three others comprising seven reviews/long paragraphs and 33 paragraphs (other than four general paragraphs) dealing with the results of performance audit of selected schemes/programmes, internal control system as well as audit of the financial transactions of the Government and Autonomous Bodies under Government.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples have been drawn based on statistical sampling methods as well as on judgmental basis. Audit conclusions have been drawn and recommendations made, taking into consideration the views of the Government.

A summary of the financial position of the State and the audit comments on the performance of the Government in implementation of certain programmes and schemes, as well as internal control mechanism in Medical Education Department and transaction audit findings is given below:

### 1. Financial position of the State Government

During 2006-07, Revenue receipts were Rs 44245 crore while the Revenue expenditure was Rs 41438 crore. As a result the revenue deficit was eliminated during the year and surplus of Rs 2807 crore was built up. The fiscal deficit was also contained at a sustainable level. The fiscal deficit created primary surplus of Rs 1636 crore. Capital expenditure (Rs 9904 crore) increased by Rs 2564 crore over previous year and lion's share of Capital expenditure was absorbed by Irrigation and Flood Control. The outstanding Fiscal liabilities were Rs 86622 crore which was 33.22 *per cent* of GSDP.

As against total budget provision of Rs 68349.67 crore, the expenditure was Rs 57387.05 crore. However, there was excess expenditure of Rs 198.71 crore under seven grants and one appropriation requiring regularisation by the State Legislature.

### 2. Schemes for Development of Education for SC/ST

One of the main objectives of the departments of Social Welfare (SW) and Tribal Welfare (TW) is to encourage the Scheduled Castes (SC) and Scheduled Tribes (ST) students studying in schools, colleges and universities to pursue their education through various schemes sponsored by Central and State Governments. The implementation of the schemes suffered in the State due to improper planning, inefficient budgeting, poor supervision and lack of effective monitoring. Neither was any survey conducted nor did the departments have any reliable database to assess and identify the number of eligible SC/ST

students. This left a large number of students outside the coverage of the schemes. Financial resources were not managed effectively. Substantial funds under the scheme of pre-matric Scholarships were not utilised for the intended purpose denying payment of scholarships to students. The benefits of the Book Bank scheme did not reach the beneficiaries. There was belated supply of books and supply of books not related to courses. Hostels were constructed without assessing the requirement resulting in either overcrowding or underutilisation of hostels and an amount of Rs 15.84 crore was locked up with executive engineers. Basic amenities were not provided in the hostels. The State Government failed to implement the scheme of upgradation of merit despite the availability of Central assistance. In all, the implementation of various schemes failed to have the desired impact on educational development of the students belonging to SCs and STs.

*[Paragraph 3.1]*

### **3. Godavari Water Utilisation Authority**

Godavari Water Utilisation Authority was constituted (April 1999) to plan, promote and operationalise schemes/projects for expeditious utilisation of allocated water of river Godavari. Government prioritised (August 2004) six projects on the river under a concept called “Jalayagnam” to complete them in two to five years for providing water to 16.32 lakh acres in Telangana region and drinking water to the habitations enroute by lifting 135.68 tmc water from river Godavari. The schemes were undertaken without proper care in finalising the ayacut, source and availability of assured power supply. There were delays in acquisition of land and implementation of Rehabilitation and Resettlement packages severely hampering the progress of works. The projects prioritised for completion before March 2007 were not completed and consequently, the objectives of utilising allocated water of river Godavari and creating irrigation potential to 2.16 lakh acres in the Telangana region were not achieved. There was no suitable provision in the agreements to safeguard the Government interest wherein the deviations are more than the prescribed limit, resulting in substantial reduction in quantity of material and the agreements were one sided in favour of the contractors. The consultants were not made responsible for any deviations in quantities, designs and drawings during execution. On the other hand the contractors enjoyed huge unintended and undue benefits amounting to Rs 539 crore due to incorrect projection of materials required, boosting of unrealistic estimates, etc. Liquidated damages amounting to Rs 36.36 crore were not recovered from the contractors. Despite being monitored at all levels, the rate of progress in the works under Sripada Sagar Project and J Chokka Rao Devadula Lift Irrigation Scheme was not as per the milestones fixed.

*[Paragraph 3.2]*

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#### **4. Functioning of Andhra University**

The Andhra University, established in the year 1926, manages 12 Faculties with 74 Departments, five Campus colleges, four Post Graduate centres and 594 affiliated colleges besides the School of Distance Education. Financial management was deficient. Preparation of annual accounts was delayed. Colleges had either not maintained cashbooks or were not properly maintained. Advances of Rs 6.57 crore given to various colleges and other departmental officers remained unadjusted. Mess charges amounting to Rs 2.04 crore collectable from students were not recovered. Of this Rs 1.72 crore was irrecoverable. The University failed to obtain from Government, reimbursement of tuition fee/scholarships amounting to Rs 8.44 crore in respect of SC/ST students. Annual Reports were perfunctory and did not include essential information that could be useful to the Academic Senate. Academic programmes were not managed effectively. A huge shortfall in teaching hours of the academic staff coupled with a very high teacher-student ratio was noticed. Research projects were not efficiently managed. Physical verification of library books was not conducted since inception. Estate and other assets were poorly managed. There was very little supervision and monitoring. Internal audit was absent in the University.

*[Paragraph 3.3]*

#### **5. Modernisation of Police Force**

The scheme of Modernisation of Police Force was launched to augment the operational efficiency of the State police to effectively face the emerging challenges to internal security. The implementation of the scheme in the State suffered mainly due to deficient planning and poor monitoring at both department and Government level. Annual Action Plans were not need based and their delayed approval necessitated several deviations from the approved plans. While there was short release of the Central share, the State Government did not release its matching share (Rs 99 crore) for the years 2002-03 to 2005-06. The percentage of utilisation of funds in the year of sanction was precariously low. The various components of the scheme were not implemented economically and efficiently and the targets fixed for each component were not achieved. Despite availability of sufficient funds, significant number of staff quarters and non-residential buildings including the police station buildings remained incomplete, resulting in locking up of Rs 80 crore transferred to the AP State Police Housing Corporation. There was no significant increase in the mobility of police force as vehicles purchased were mainly used for replacement of old vehicles. A large number of the police stations were not provided with four wheelers adversely affecting the field policing activities. Procurement of sophisticated weapons was inadequate and police stations and Battalions continued to depend on outdated weaponry. Funds intended for upgradation of facilities for training were diverted for other purposes. Forensic Science Laboratories were underutilised. The expenditure of Rs 4.35 crore incurred on POLNET was redundant. Computerisation of police stations was also ineffective rendering the expenditure of Rs 30.47 crore unfruitful. Overall, the objectives of the scheme were not fully achieved.

*[Paragraph 3.4]*

## **6. Information Technology Audit of Computerisation in Hyderabad Metropolitan Water Supply and Sewerage Board**

Board had made pioneering efforts in IT especially in the areas like Revenue billing and Customer care, etc. The Board failed to use its database effectively for enhancing its revenues. The policies, standards and procedures of the data processing functions were not adhered to while the security of the database was inadequate. This resulted in loss of revenue of Rs 60.86 crore to the Board. The Metro customer care module was poorly designed and the complaints of the consumers were not given adequate attention.

*[Paragraph 3.5]*

## **7. Implementation of Fashion Designing Project**

The implementation of the project 'Economic Generation through Fashion Designing and Garment Manufacture by Women Self Help Groups in East Godavari District, Andhra Pradesh' under 'Swarnajayanthi Gram Swarozgar Yojana' (SGSY), failed. There was little evidence of any planning having been done or of feasibility studies having been conducted. Project guidelines were violated and services of National Institute of Fashion Technology had not been utilised. Marketing tie-ups contemplated under the scheme were not provided. Monitoring was poor. Only six *per cent* (821) of the targeted units were commissioned. This rendered the entire expenditure of Rs 7.87 crore incurred so far unproductive.

*[Paragraph 3.6]*

## **8. Internal Controls in Medical Education Department**

A system of effective internal controls is a critical component of an organisation and by which the organisation directs its activities to effectively achieve its objectives. An evaluation of internal controls in the Medical Education Department has shown that there was lack of discipline in Budget preparation, weak expenditure controls, poor implementation of Central/State financed schemes and disregard for the Codal provisions as well as the instructions issued by Government/Director of Medical Education (DME), involving money value of Rs 64.15 crore. Issue of orders by the Government in contravention of the Treasury Rules resulted in appropriation of departmental receipts by the Corporation and the medical institutions as well. There was no watch by the DME over the release of funds, services provided and drugs supplied to the AP Health and Medical Housing and Infrastructure Development Corporation (nodal agency) and sub-unit offices. Inspection of Teaching Hospitals/Medical colleges was altogether neglected by the DME and Internal Audit was ineffective. Thus, there was no assurance to the management on the adequacy of the internal controls in the Department. Overall, this adversely affected the quality of medical education to students and medical care to public.

*[Paragraph 5.1]*

## Transaction Audit Findings

The audit of financial transactions, subjected to test-check, in various departments of the Government and their field formations revealed instances of losses, overpayments and wasteful expenditure, etc. of Rs 374.38 crore as mentioned below:

- Payment of fraudulent claims/excess/irregular/inadmissible payments/loss amounted to Rs 3.13 crore in Finance/Tribal Welfare/Women Development, Child and Disabled Welfare (Rs 3 crore), Health, Medical and Family Welfare (Rs 0.13 crore).
- Excess payments; wasteful/infructuous expenditure amounting to Rs 34.01 crore in Agriculture and Co-operation (Rs 0.65 crore), Finance (Rs 0.11 crore), Irrigation and Command Area Development (Rs 7.39 crore), Municipal Administration and Urban Development (Rs 4.48 crore), Panchayat Raj and Rural Development (Rs 16.99 crore) and Transport, Roads and Buildings (Rs 4.39 crore) Departments.
- Violations of contractual obligations and undue favour to contractors amounting to Rs 172 crore in Irrigation and Command Area Development/Transport, Roads and Buildings (Rs 149.22 crore), Municipal Administration and Urban Development (Rs 1.18 crore) and Youth Advancement, Tourism and Culture (Rs 21.60 crore) Departments.
- Idle investments/Idle establishments/blocking up of funds, etc., amounting to Rs 27.01 crore in Animal Husbandry and Fisheries/Transport, Roads and Buildings (Rs 4.75 crore), Higher Education (Rs 4.34 crore), Irrigation and Command Area Development (Rs 6.17 crore), Revenue (Rs 2.76 crore), Tribal Welfare (Rs 7.20 crore), Women Development, Child and Disabled Welfare (Rs 0.50 crore) and Youth Advancement, Tourism and Culture (Rs 1.29 crore) Departments.
- Loss due to non-collection of Net Present Value by Forest Department (Rs 33.68 crore), irregularities in implementation of MPLAD Scheme (Rs 77.63 crore) by Planning/Panchayat Raj and Rural Development Department, Release of Grant-in-Aid to ineligible schools by School Education Department (Rs 2.18 crore).
- Non-realisation of arrears of rentals in Housing Department (Rs 6.98 crore), non-commissioning of a drinking water supply scheme by Panchayat Raj and Rural Development Department (Rs 17.76 crore) despite being pointed out in the Audit Report 2004-05.

### Some of the major findings are summarised below:

- (i) Inclusion of a clause in works agreements, that cess as specified in Building and Other Construction Workers' Welfare Cess Act, 1996 is required to be paid by contractors when the Act has yet to be implemented in the State, has resulted in unintended benefit of Rs 131.19 crore to the contractors.

*[Paragraph 4.3.1]*

- (ii) Failure of the Forests Department in collecting Net Present Value of 431.85 ha of forest land diverted for non-forest purposes as stipulated by GOI resulted in loss of Rs 33.68 crore.

*[Paragraph 4.5.1]*

- (iii) Implementation of MPLAD scheme in six DRDAs, showed several irregularities like non-completion/commencement of works, diversions, parking of funds in fixed deposits, irregular payments, etc. involving Rs 77.63 crore in the implementation of MPLAD Scheme.

*[Paragraph 4.5.2]*

- (iv) Government/Sports Authority of Andhra Pradesh/AP Industrial Infrastructure Corporation Ltd., ignored contract conditions to give undue favour of Rs 21.60 crore to a firm, in Games Village project at Hyderabad.

*[Paragraph 4.3.9]*

- (v) Due to inept planning in laying the Hyderabad - Srisailam road, and later an alternate road, the end gates of the Neelam Sanjeeva Reddy Sagar dam could not be operated resulting in continued scouring of the foundations of toe of the dam, as well as unfruitful expenditure of Rs 6.56 crore on incomplete alternate road.

*[Paragraph 4.2.3]*

- (vi) The High Density Polyethylene liner material imported in August 2005 for a pilot project on Wazeerabad major canal remained unutilised as the civil works contractors did not commence the lining work due to improper planning by the department. This had resulted in blocking up of Rs 5.55 crore and the larger objective of increased agricultural productivity at lesser financial and environmental costs remains unachieved.

*[Paragraph 4.4.3]*

- (vii) Lack of proper supervision in the initial stages and acceptance of defective work, resulted in a bridge on Yanamadurru drain remaining incomplete even after four years of its scheduled date of completion, rendering the entire expenditure of Rs 3.56 crore unfruitful besides non-recovery of Rs 83.12 lakh from the contractor.

*[Paragraph 4.2.11]*

- (viii) Non-observance of codal provisions while procuring motorised ratts for distribution to Swarozgaris, by the DRDA, East Godavari, led to extra expenditure of Rs 1.02 crore. Besides, expenditure of Rs 2.14 crore incurred on 2324 motorised ratts remains unproductive, as they have been non-functional.

*[Paragraph 4.2.9]*

- (ix) Project Directors, DRDA, Warangal, showed undue favour to three firms and paid inflated rates in implementation of 'Computer in Education Project', resulting in loss/extra burden of Rs 1.97 crore.

*[Paragraph 4.2.10]*

- (x) Improper planning in the implementation of a Comprehensive Protected Water Supply Scheme by the Executive Engineer, Rural Water Supply, Nellore, resulted in failure to provide drinking water to the targeted habitations besides unfruitful expenditure of Rs 8 crore.

*[Paragraph 4.2.7]*

- (xi) Buildings constructed for a men's Hostel and department of publications of Potti Sreeramulu Telugu University, remained unutilised since December 2004, rendering the expenditure of Rs 1.34 crore unfruitful. Besides, Rs 3 crore provided by Government was lying unutilised in bank account.

*[Paragraph 4.4.2]*

- (xii) Treasury officers failed in their duty to exercise adequate checks while admitting bills and to protect the financial interests of the Government, resulting in excess/inadmissible drawal of Rs 3 crore in a few test-checked cases alone.

*[Paragraph 4.1.1]*

- (xiii) Non-deployment of idle staff of District Gazetteers Department resulted in nugatory expenditure of Rs 2.76 crore towards their pay and allowances.

*[Paragraph 4.4.5]*