
OVERVIEW

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This Report contains 35 Audit Paragraphs (including 10 general paragraphs) and 5 Audit Reviews apart from comments on the Finance and Appropriation Accounts. As per existing arrangement, copies of the draft Audit Paragraphs and draft Audit Reviews are sent to the concerned Secretary to the State Government by the Principal Accountant General, demi-officially with a request to furnish replies within 6 weeks. The Secretaries are also reminded demi-officially by the Principal Accountant General for replies. However despite such efforts, in respect of 33 Audit Paragraphs and 4 Reviews included in this Report, no response was received from the concerned Secretary to the State Government.

1. Financial position of the State

- ◆ The revenue expenditure (Rs 25488 crore) during the year exceeded the revenue receipts (Rs 21845 crore) resulting in a revenue deficit of Rs 3643 crore.

[Paragraph 1.3]

- ◆ The main sources of funds included revenue receipts (Rs 21845 crore), recoveries of loans and advances (Rs 947 crore), public debt (Rs 5376 crore), and the net receipts in the Public account (Rs 1558 crore). These were applied mainly for revenue expenditure (Rs 25488 crore), for capital expenditure (Rs 2329 crore), lending for developmental purposes (Rs 1698 crore) and the balance remained as cash balance (Rs 208 crore)

[Paragraph 1.4]

- ◆ The revenue receipts during the year increased by 12 per cent over the previous year whereas the average growth rate for the last 5 years was 14 per cent. Revenue receipts during the year comprised tax revenue of Rs 11551 crore (53 per cent), non-tax revenue of Rs 2918 crore (13 per cent) and GOI transfers of Rs 7376 crore (34 per cent)

[Paragraph 1.5]

- ◆ In violation of the Rules made by President of India the State Government exhibited Grants-in-aid to local bodies of Rs 761.59 crore under Capital Section instead of Revenue Section of the Accounts. This led to understatement of revenue deficit in the Finance Accounts. Further, subsidy of Rs 1807 crore to energy sector was classified as Plan expenditure. These misclassifications affected transparency in the financial data of the Government.

[Paragraph 1.6]

- ◆ Revenue expenditure accounted for 86 per cent of the total expenditure (Rs 29515 crore) of the State Government. During 2001-02 there was 8 per cent increase in Revenue expenditure

over the previous year mainly due to increased interest payments, increase in expenditure on 'Rural Development', and 'Welfare of Scheduled Castes, Scheduled Tribes and other Backward Classes'. The expenditure was mainly on non-plan (77 per cent). While 36 per cent of the revenue expenditure related to General Services, 34 per cent related to Social Services, 29 per cent to Economics Services and 1 per cent related to Grants in aid and contributions.

[Paragraphs 1.7.1 and 1.7.2]

- ◆ Interest payments increased by 21 per cent over the previous year and grew at a faster pace (28 per cent average annual growth) during 1997-2002 compared to average growth of revenue receipts (14 per cent).

[Paragraph 1.7.3]

- ◆ While outstanding loans increased by 156 per cent during 1997-2002 the recoveries during 2001-02 were at the same level as 1997-98. Out of the outstanding loans and advances of Rs 8405 crore, recovery of Rs 4424 crore was in arrears for over 3 years.

[Paragraph 1.7.5]

- ◆ While the Government was borrowing at 8 to 13 per cent, its investments in government companies, corporations, etc., fetched return of less than one per cent during 1997-2002.

[Paragraph 1.10.1]

- ◆ There were 25 incomplete major and medium irrigation projects, some dating back to 1955, involving investment of Rs 8104 crore.

[Paragraph 1.10.2]

- ◆ The Government continued to be heavily dependent on ways and means advances and overdraft and obtained ways and means advances on 336 days amounting to Rs 11268 crore.

[Paragraph 1.10.4]

- ◆ More than half (54 per cent) of the borrowed funds were applied to meet revenue expenditure.

[Paragraph 1.10.5.3]

- ◆ Government guarantees increased by 79 per cent during the last 5 years and the outstanding guarantees increased from Rs 6286 crore in 1997-98 to Rs 10325 crore at the end of 2001-02 indicating increased risk exposure for the finances of the State Government.
- ◆ Government extended unconditional guarantee to 8 cooperative sugar factories whose net worth was negative for raising loans of Rs 148 crore. Further 12 Co-operative units for whom the

Government stood guarantee for loans of Rs 49.34 crore were closed thus imposing avoidable financial burden, including interest, of Rs 99.36 crore on the Government. Financial institutions like IDBI, IFCI and ICICI invoked guarantees in respect of 14 institutions for Rs 39.36 crore.

[Paragraph 1.10.6]

- ◆ There was significant increase (17 per cent) over the previous year in the total liabilities of the government. These had grown by 104 per cent during the last 5 years on account of 173 per cent growth in internal debt, 58 per cent growth in loans and advances from GOI and 131 per cent growth in other liabilities.

[Paragraph 1.11]

2. Appropriation Audit and Control Over Expenditure

- ◆ Expenditure of Rs 43161.10 crore was incurred against total grants and appropriations of Rs 46338.44 crore. The net saving of Rs 3177.34 crore was the result of saving of Rs 3605.03 crore in 109 items of grants and appropriations partly offset by the excess of Rs 427.69 crore in 22 items of grants and appropriations. The excess requires regularization under Article 205 of the Constitution of India.

[Paragraphs 2.2 and 2.3.1]

- ◆ Supplementary provision of Rs 10300.89 crore obtained during the year constituted 29 per cent of the original budget provision. Supplementary provision of Rs 221.69 crore made in 27 cases during the year proved unnecessary in view of final saving of Rs 1209 crore. In 13 cases, the supplementary provision proved to be excessive by Rs 150.65 crore while in 12 cases it was insufficient by more than Rs 10 lakh each resulting in excess expenditure aggregating to Rs 372.88 crore.

[Paragraphs 2.3.2, 2.3.3, 2.3.4 and 2.3.6]

- ◆ Anticipated savings in 55 grants/appropriations totalling Rs 811.03 crore had not been surrendered. In 51 cases, Rs 2768.62 crore (77 per cent of the total saving) were surrendered on the last day of the financial year.

[Paragraphs 2.3.11 (a) and (b)]

- ◆ 39 per cent of the total expenditure was spent in the last quarter and 22 per cent was spent in March 2002 alone.

[Paragraph 2.3.16]

- ◆ Expenditure of Rs 8265.44 crore, constituting 30 per cent of the total expenditure was not reconciled (June 2002) by controlling officers in 14 departments.

[Paragraph 2.3.17]

- ◆ Out of Rs 153.50 crore drawn in advance of requirement during the period from April 1993 to March 2002, unutilised amount of Rs 27.61 crore were retained in PD Accounts, Savings Bank Accounts, demand drafts, fixed deposits, etc.

[Paragraph 2.3.18]

- ◆ As of 30 June 2002, 1,24,509 AC bills for Rs 597.10 crore pertaining to the years 1975 to 2002 were pending for want of DC bills by the concerned departments. Of these, Medical and General Administration (Elections) Departments alone accounted for Rs 57.83 crore. This indicated lack of financial discipline and accountability in the concerned departments.

[Paragraph 2.3.20]

Performance review of schemes/department

3. Implementation of Externally aided projects

The State Government implemented three State plan Projects namely AHRDP¹, STEP² and APHM&ECRP³ with financial assistance from the International Development Association (IDA). The implementation of the AHRDP and STEP was marked by unplanned release of funds, delay in selection of sites, abnormal delay in entrustment of civil works and tardy progress. APHM&ECRP was not completed even after two extensions, which necessitated further extension up to the end July 2003. Resultantly, the estimated cost of the project had increased from Rs 800.79 crore to Rs 897.10 crore. World Bank rated the implementation as unsatisfactory and the project belonged to 'problem project' category. The State lost the benefit of external aid of Rs 40.36 crore due to diversions, unauthorised expenditure, etc.

AHRDP

- ◆ The unspent balances aggregating to Rs 2.44 crore were not refunded by the implementing authorities (ANGRAU⁴), consultant (APIIC⁵) and suppliers to Government.

¹ Agricultural Human Resource Development Project

² Second Technician Education Project

³ AP Hazard Mitigation and Emergency Cyclone Recovery Project

⁴ Acharya NG Ranga Agricultural University

⁵ AP Industrial Infrastructure Corporation

- ◆ Rupees 1.41 crore were diverted by ANGRAU/Line departments for purposes not connected with the project.
- ◆ The girls hostel building at AG College, Mahanandi constructed by ANGRAU in October 1997 was not occupied even as of May 2002 due to defective design and faulty construction rendering Rs 76.87 lakh incurred thereon infructuous.
- ◆ Delay and improper selection of sites coupled with the delay in entrustment of civil works led to cost overrun of Rs 66.34 lakh and time overrun of one year to 3 years.
- ◆ Goods, machinery and equipment valuing Rs 2.86 crore were lying idle for up to 4 years in ANGRAU and Line departments.

STEP

- ◆ The unspent balances aggregating to Rs 1.13 crore were not refunded by the Central Organisation for Modernisation of Workshops (Rs 96 lakh) and State Board of Technical Education and Training (Rs 16.73 lakh).
- ◆ Delayed and improper selection of sites coupled with the delay in entrustment of civil works led to cost overrun of Rs 20.25 crore and time overrun of 3 to 6 years.

APHM&ECRP

- ◆ Failure to finalise the bids for procurement of Doppler Weather Radar Systems within reasonable time, led to the cancellation of credit facility of Rs 31.95 crore by World Bank.
- ◆ The project sustained an interest loss of Rs 1.38 crore due to the failure to incorporate a suitable clause in the tender documents as well as in agreements for recovery of interest on advances.
- ◆ Incorporation of escalation clause in the contracts for works not eligible resulted in undue benefit of Rs 1.09 crore to contractors.

[Paragraph 3.1]

4. Information Technology Audit of eSeva – an e-Governance initiative by Government

Though Government launched a unique and conceptually a good project to put e-governance into action to provide a large number of services to citizens on one-stop-shop basis, the project suffered from lack of transparency, inefficient and ineffective implementation largely due to unpreparedness of the participating departments and inadequate coordination. The network was exposed to serious risks of physical access controls and logical controls. The key data and huge volumes of cash pertaining to various departments had been left to the administration of private operator without adequate internal controls. Data integrity, reliability, and safety across the project were also inadequate.

- ◆ The eSeva project, a New Service, was started without formal budget provision and without conducting feasibility study. Financial rules were largely neglected by the Director, eSeva project in implementing the programme. The project was rushed through even when the participating departments were not ready.
- ◆ The bid evaluation adopted in selecting the operator lacked transparency, and only one operator was selected instead of two in violation of the Government orders.
- ◆ Adequate documentation did not exist for any of the aspects relating to software, hardware, network, error handling, etc. Complete technical documentation including the source code specified in the tender was also not obtained. This had resulted in a situation where the Director was completely dependent on the operator. Adequate business continuity plan also did not exist.
- ◆ The essential controls in computerised environment such as logical access controls, physical access controls, etc. were found inadequate. The network security of the project was also lacking.
- ◆ The transactions in eSeva were not reconciled with the data in the respective departments and scrutiny revealed many inadequacies and inconsistencies in the data.
- ◆ Government assets worth Rs 90 lakh relating to the TWINS pilot project were handed over to the operator free of cost though not provided in the agreement.

[Paragraph 3.2]

5. Functioning of Roads and Buildings department

A review of the functioning of the Roads and Buildings Department revealed that budgetary and expenditure control was deficient resulting in persistent savings, lack of monitoring of the expenditure and lapse of budget at the end of each year. Abnormal deviations during execution, changes in the design of the bridges due to selection unsuitable sites, etc. led to increased cost. Some of the other major findings are:

- ◆ Rupees 28.80 crore provided in the last 6 years for Sugar Cane Area Development lapsed as no expenditure was incurred.
- ◆ Rupees 70.79 crore due from Ministry of Road Transport and Highways remained unrealised for periods upto 20 years
- ◆ Government did not avail Central assistance of Rs 23.74 crore due to short releases of funds for NH works.
- ◆ Government short availed Rs 3.10 crore of Central assistance due to incorrect calculation of agency charges towards establishment, tools and plants on NH works.

- ◆ Expenditure of Rs 2.40 crore, incurred on pay and allowances of superfluous staff after transfer of work, was avoidable.
- ◆ Belated verification of stores in Penukonda sub-division, Dharmavaram obliterated the chances of recovery of Rs 56.24 lakh being the cost of materials found short.
- ◆ Due to the abnormal delays in reporting the shortages of material in Yelamanchili sub-division of R&B Division, Visakhapatnam, Rs 27.01 lakh being the value of material, remained unrecovered. Material valued Rs 44.50 lakh remained unaccounted for.
- ◆ Error in the preparation of tender schedules for a work resulted in the cancellation of tenders already finalised. The work had to be ultimately awarded afresh at an extra cost of Rs 1.06 crore.
- ◆ Recoveries of Rs 5.66 crore pointed out by Inspection and Quality Control Wing remained unrecovered.

[Paragraph 4.1]

6. Rural Housing schemes including Indira Awaas Yojana

Rural Housing Schemes (including Indira Awaas Yojana) were launched with a view to providing accommodation to rural poor below poverty line. Though the scheme was to be implemented by the DRDAs, it was implemented by AP State Housing Corporation (APSHC) and suffered due to non-release of State's share of funds and diversion to State sponsored Rural Permanent Housing Scheme (RPHS). A significant number of houses sanctioned during 1998-2002 were not even started. The upgradation of kutcha into pucca houses envisaged under IAY (Upgradation) was totally neglected. The funds allocated under IAY (UP), Pradhan Mantri Gramodaya Yojana and Credit-cum-Subsidy Scheme were diverted to a State housing scheme – RPHS and thereby the implementation of all the Central housing schemes suffered. The extent of achievement made under the programme was not assessed.

- ◆ Out of Rs 809.41 crore made available Rs 734.75 crore were utilised. However, the actual amount fruitfully utilised was much less because of the diversions, unauthorised expenditure, and misappropriation, etc.
- ◆ There were delays ranging from one to 8 months in transferring the funds at the level of DRDAs to District Managers (DM), APSHC.
- ◆ Based on the allocations, 4.53 lakh houses were taken up during 1997-2002 and only 3.52 lakh (78 per cent) were completed.
- ◆ Houses earlier constructed under a State Housing scheme, were treated as constructed under the IAY, Pradhan Mantri Gramodaya

Yojana and Credit-cum-Subsidy Scheme resulting in diversion of Rs 127.27 crore of Central assistance.

- ◆ IAY funds of Rs 56.10 lakh were misappropriated in Chittoor and Khammam Districts.
- ◆ Rupees 6.23 crore was applied towards administrative charges for the year 1997-99 though guidelines did not provide such charges.
- ◆ Monitoring both at district and State level was poor.

[Paragraph 7.5]

7. Swarnjayanti Gram Swarozgar Yojana

The Centrally sponsored scheme of Swarnjayanti Gram Swarozgar Yojana (SGSY) was launched with effect from 1 April 1999 to bring the assisted poor families (swarozgaris) above poverty line in three years by providing them with income-generating assets through a mix of bank credit and subsidy. The implementation of the programme suffered from inefficient utilisation of funds and lack of monitoring. Substantial programme funds were either diverted or were parked in banks. Consequently only 43 per cent of targeted families (7.53 lakh) were assisted. Only 18 per cent (0.29 lakh) of the swarozgaris formed into SHGs received revolving fund and 0.19 lakh started economic activity. Funds allocated for Training and Technology Development Centres were misused. There were cases of incorrect selection of swarozgaris, failure in identification of key activities, release of subsidy to ineligible groups, etc. Inspections were not conducted resulting in the crucial aspects of the programme such as creation of asset, its continued existence as well as the sustainable income generation not watched. No follow-up action was taken to ascertain the number of assisted BPL families crossing the poverty line.

- ◆ Though the DRDAs had reported spending Rs 226.83 crore during 1999-2002, the actual expenditure was much less considering the diversions, mis-utilisation, parking of funds, etc. Rupees 5.62 crore paid to sectoral officers/line departments remained unspent in the six districts alone.
- ◆ Thirty (30) per cent of the allocated funds for training of swarozgaris was not spent. The shortfall was very high in Anantapur (70 per cent) and Chittoor (41 per cent).
- ◆ Only 43 per cent of targeted families (7.53 lakh) were assisted. Out of 4.28 lakh swarozgaris formed into SHGs, 0.29 lakh (18 per cent) received revolving fund and 0.19 lakh (4 per cent) started economic activity.
- ◆ 3436 swarozgaris in Adilabad and Karimnagar districts did not have irrigation facilities for lands distributed to them. Rupees 2.01 crore spent on purchase of land was unfruitful.

- ◆ Due to ineffective monitoring special project for improved agricultural technology, taken up in March 2001 to benefit 8000 farmers in Kuppam, Chittoor District did not make much headway even after the release of Rs 14.25 crore.
- ◆ Out of 22 DWCRA Bazaars proposed, 8 were not taken up and the 3 taken up in 2000-01 were still incomplete. The DWCRA bazaar, in Hyderabad, completed in March 2001 at a cost of Rs 1.53 crore had not been taken over even as of August 2002.
- ◆ Coir production project taken up in East Godavari District at a cost of Rs 14.52 crore had not been completed thereby denying infrastructural support to women swarozgaris.
- ◆ There were abnormal delays ranging from 3 months to 18 months in commencement of micro-enterprises already sanctioned.
- ◆ In the 6 test-checked districts Rs 12.82 crore was diverted to other programmes/purposes. Further, Rs 3.12 crore released to a Society were misspent.

[Paragraph 7.6]

8. Adarana scheme

The State Government launched 'Adarana' scheme in November 1998 with a view to minimising human drudgery, enhancing productivity and standard of living of backward class artisans by providing modern and improved hand/power tools, etc. The scheme suffered from inadequate and inefficient utilisation of funds and complex categorisation of beneficiaries coupled with equally complex funding pattern. The procurement procedure lacked transparency. There were large-scale irregularities in selection of beneficiaries, supply of tools, prices paid and distribution of tools.

- ◆ Of 5.44 lakh potential artisans identified in December 1998, 5.38 lakh were covered by July 2002 at an outlay of Rs 143.95 crore. 12064 tools valuing Rs 2.02 crore remained undistributed due to unsuitability of tools procured.
- ◆ Though cycle is not an artisan tool the cost of cycles supplied as a tool constituted 42 per cent of the total outlay on tools.
- ◆ Complimentary tools viz., push carts, flat rickshaws, manual trolleys etc., valuing Rs 3.61 crore (11478 tools) were also supplied even though these were not artisan tools.
- ◆ The coverage under category III and IV artisans was a measly 2 per cent against the norms of 25 and 12.5 per cent respectively.
- ◆ Monitoring at the district level was poor.

[Paragraph 7.7]

9. National Scheme of Liberation and Rehabilitation of Scavengers

The Centrally sponsored National Scheme of Liberation and Rehabilitation of Scavengers (NSLRS), was launched in 1980-81 to liberate scavengers and their dependents from the prevalent hereditary occupation and to provide alternative and dignified occupations. The scheme is being implemented in the State since 1992-93. The scheme was not implemented effectively in the State. The stages viz., identification, training and rehabilitation of scavengers were not suitably dovetailed. Survey of scavengers for identification and conversion of dry latrines into wet latrines to prevent accretion to scavengers were poorly implemented.

- ◆ Due to faulty identification, the number of scavengers increased from survey to survey despite rehabilitation.
- ◆ Training of scavengers in the identified trades was neglected despite availability of Central assistance.
- ◆ The targets fixed for rehabilitation of scavengers were *ab initio* low compared to the resources available. As against the target of 25161 scavengers, only 19521 were rehabilitated during 1997-2002.
- ◆ Women oriented schemes were not formulated.
- ◆ The Sanitary Mart Scheme failed as the sanitary material component provided was too meagre.
- ◆ Monitoring committees were not formed in East Godavari and Kurnool Districts and in the other 5 test-checked districts, though formed, did not meet at all.

[Paragraph 7.12]

10. Unfruitful/Infructuous/Wasteful expenditure

(i) Hasty and injudicious construction of 68 onion storage godowns by the Commissioner and Director of Marketing without studying the prospects of onion procurement by the AP State Civil Supplies Corporation, rendered the expenditure of Rs 8.50 crore wasteful.

[Paragraph 3.3]

(ii) Injudicious decision of the Commissioner of Civil Supplies to print 1.75 crore new ration cards and subsequent deferment of their issue rendered the expenditure of Rs 4.84 crore unfruitful.

[Paragraph 3.8]

(iii) Staff of the 10 Multipurpose Health (MPH) Workers Basic Training Schools were being continued even after the abandonment of the training activity since 1995-96, rendered the expenditure of Rs 9.64 crore on their salaries, etc. unfruitful.

[Paragraph 3.9]

(iv) Training-cum-Production-Centres at Anantapur and Warangal, were starved of funds and training to the disabled ceased but Rs 77.84 lakh were spent on salaries of staff, and contingencies of the centres.

[Paragraph 3.12]

(v) Out of 600 LIG houses constructed by the AP Housing Board, at Kanteshwar (Nizamabad district), 181 have not been handed over to the allottees and another 135 houses not completed resulting in blockade of Rs 1.73 crore and avoidable payment of interest of Rs 1.07 crore.

[Paragraph 7.9]

(vi) Lift Irrigation Scheme on Tungabhadra river in Kurnool District to provide irrigation facility to 600 acres of ayacut to benefit 233 families was not completed even after eight years due to failure to release Special Central Assistance (SCA) loan of Rs 25.50 lakh by the AP Scheduled Caste Co-operative Finance Corporation rendering Rs 48.74 lakh already incurred unfruitful.

[Paragraph 7.13]

11. Excess payments

(i) Wrong interpretation of agreement condition by Administrator-cum-Chief Engineer, Sriramsagar Project, in respect of two World Bank package works, higher rates for earth excavation work led to excess payment of Rs 90.82 lakh to contractors.

[Paragraph 4.6]

(ii) Construction of 14 residential bungalows in Shaikpet village of Hyderabad District for Hon'ble Judges of the High Court has been stalled since March 2000 rendering the expenditure of Rs 5.12 crore unfruitful.

[Paragraph 4.8]

12. Other points of interest

(i) The District Education Officers, Krishna and Mahboobnagar, irregularly released grant-in-aid of Rs 2.21 crore to two unrecognised private schools.

[Paragraph 3.5]

(ii) The hasty decision of the Executive Engineer, Buildings and Roads Division, Nagarjunasagar Project, in depositing Rs 1.34 crore with APTRANSCO, for renovation of power supply system in the Project, resulted in locking up of the funds for over two years.

[Paragraph 4.5]