

Overview

This Report contains 28 Audit Paragraphs (including six general paragraphs) and 9 performance reviews/long paragraphs (including one on Internal Control Mechanism of a department) apart from comments on the Finance and Appropriation Accounts. As per the 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 six weeks. The Secretaries are also reminded demi-officially by the Principal Accountant General for replies. However, despite such efforts, in respect of 14 Audit Paragraphs and 5 Reviews/long paragraphs included in this Report, no response was received from the concerned Secretary to the State Government.

1. Finances of the State Government

- ◆ The revenue receipts of the Government during 2003-04 increased by 17 per cent over those of the previous year. Revenue receipts comprised tax revenue of Rs 13806 crore (51 per cent), non-tax revenue of Rs 3605 crore (14 per cent) and GOI transfers of Rs 9458 crore (35 per cent).

(Paragraph 1.5.1)

- ◆ The revenue expenditure (Rs 30640 crore) during the year exceeded the revenue receipts (Rs 26869 crore) resulting in a revenue deficit of Rs 3771 crore. The revenue expenditure accounted for 86 per cent of the total expenditure (Rs 35575 crore) as against 82 per cent in 1999-2000. During 2003-04, nearly 75 per cent of revenue receipts were expended on salaries, interest payments, pensions and subsidies.

(Paragraph 1.6.3)

- ◆ Though the Eleventh Finance Commission recommended to restrict the interest payments to 18 per cent of the revenue receipts, they ranged between 19 and 27 per cent of the revenue receipts during the period 1999-2004.

(Paragraph 1.6.6)

- ◆ Both the assets and liabilities increased by 18 per cent during 2003-04 compared to the previous year. The assets – liabilities ratio remained at 0.62 indicating that 38 per cent of the liabilities did not have an asset backup.

(Paragraph 1.8)

- ◆ Negligible return from Government's investment in its Statutory Corporations, Government companies resulted in an implicit subsidy of Rs 2264 crore.

(Paragraph 1.8.2)

- ◆ The total outstanding loans as on 31 March 2004 stood at Rs 9418 crore. Interest received on such loans varied from 3.2 per cent to 6.1 per cent during 1999-2004. However, interest paid by Government on borrowings ranged from 10 to 12 per cent resulting in an implicit subsidy of Rs 480 crore during the period.

(Paragraph 1.8.3)

- ◆ The fiscal liabilities (Rs 64545 crore) stood at 2.4 times the revenue receipts and 3.7 times the State's own resources as at the end of 2003-04.

(Paragraph 1.8.7)

- ◆ State Government resorted to extra budgetary resources (off budget borrowings) of Rs 568 crore during 2003-04 and the outstanding balance of all such borrowings as on 31 March 2004 was Rs 3310 crore.

(Paragraph 1.8.9)

2. Allocative priorities and appropriation

- ◆ Expenditure of Rs 49406.59 crore was incurred against total grants and appropriations of Rs 43736.63 crore. The excess was Rs 9303.24 crore, partly offset by saving of Rs 3633.28 crore. The excess requires regularisation under Article 205 of the Constitution of India.

(Paragraph 2.2)

- ◆ The excess expenditure of Rs 2950.29 crore incurred during the years 1997-98 to 2002-03 was yet to be regularised.

(Paragraph 2.3.2)

- ◆ Out of total anticipated savings of Rs 1848.78 crore in 25 grants/appropriations, savings of Rs 571.46 crore were not surrendered. In 51 grants/appropriations Rs 3396.92 crore (93 per cent of total savings) were surrendered on the last day of the financial year.

(Paragraphs 2.3.4 and 2.3.5)

- ◆ An amount of Rs 240.85 crore was incurred on New service/New instrument of service without budget provision or an advance from Contingency Fund of the State.

(Paragraph 2.3.7)

- ◆ 41 per cent of the total expenditure was spent in the last quarter of the year and 22 per cent was spent in the month of March 2004 indicating rush of expenditure.

(Paragraph 2.3.9)

- ◆ As of 31 March 2004, advances drawn on 1.07 lakh AC bills for Rs 419.72 crore during the period 1977-78 to 2002-03 were not adjusted for want of DC bills.

(Paragraph 2.3.11)

- ◆ The Executive Engineer, Public Health Special Division, Khammam irregularly utilised departmental receipts of Rs 1.02 crore for departmental expenditure.

(Paragraph 2.3.14)

Performance Reviews

3. Implementation of Child Labour (Prohibition and Regulation) Act, 1986

The Child Labour (Prohibition and Regulation) Act, 1986 seeks to achieve the basic objective of banning employment of all children below the age of 14 years in factories, mines and hazardous occupations and processes and to regulate the working conditions of children in other employments. The Act does not envisage complete elimination of child labour. Government has not geared up adequately to address the problem though it aimed at complete elimination of child labour by the year 2004. There was no systematic survey for identification of child labour and no annual action plans were drawn up for rehabilitation. All 'out of school' children were treated alike for enrollment in special schools under National Child Labour Project (NCLP). Monitoring at State level was absent.

- ◆ Though Ministry of Labour, GOI provided funds to Project Societies for implementation of NCLP, no separate budget allocation was made by the State Government during 1999-2004.
- ◆ Baseline surveys were not conducted to identify and rehabilitate the child labour except for the one in 1997 in pursuance of the Supreme Court judgement. Annual action plans were not drawn up for rehabilitation of identified child labour.
- ◆ Out of 1.88 lakh child labour enrolled in special schools, 1.08 lakh children (58 per cent) were mainstreamed into formal education. The enrolment was low at 58 to 60 per cent of the capacity in Guntur. In Anantapur, it was only 34 per cent during 2003-04.

- ◆ All 'out of school' children were treated alike and there was no focus on the child labour employed in hazardous occupations. There was no correlation between the incidence of child labour and the concentration of special schools.
- ◆ Project Societies and an NGO diverted Rs 7.57 crore intended for stipend and nutrition for children in special schools towards running of special schools, construction of buildings.
- ◆ Compliance with the Supreme Court judgement (December 1996) directing collection of Rs 20000 from the employer, prosecution and providing alternative employment to one of the family members was not ensured.
- ◆ Not a single project was rated successful on all the parameters as per the Evaluation study report (2001) of the V. V. Giri National Labour Institute.

(Paragraph 3.1)

4. Primary Healthcare in rural areas

Primary healthcare is provided to rural people through the network of sub-centres, Primary Health Centres (PHCs) and Community Health Centres (CHCs). Primary healthcare in rural areas was inadequate. Only 22 per cent of the doctors were in place in rural areas to serve 73 per cent of the population. There was a large number of vacancies of medical officers and paramedical staff. Mother and Child health services were not provided in the Round the Clock PHCs. Most of the sub-centres were functioning without health workers. National Filaria Control Programme was altogether neglected in rural areas. The incidence of malaria in tribal areas continued to be very high. Infant mortality rate was quite alarming.

- ◆ There were savings of Rs 60.41 crore (12 per cent) under 'Family Welfare' during 1999-2004.
- ◆ There were only 48 CHCs (nine per cent) against 554 required in the State. Shortfall in number of PHCs was 26 per cent. Position was worst in Anantapur, Karimnagar and Khammam Districts.
- ◆ PHCs were located in dilapidated buildings, without sufficient accommodation and basic amenities.
- ◆ Only 22 per cent of the doctors were in place in rural areas with 73 per cent of the total population, leading to wide disparity between urban and rural areas. There was a large number of vacancies in the posts of medical officers and paramedical staff.

- ◆ Against 25000 health workers required, only 32 per cent (8050 workers) were provided in the sub-centres at village level. All the 1954 additional sub-centres created in March 2003 were functioning without Male Health workers.
- ◆ National Filaria Control Programme was altogether neglected in rural areas. The incidence of malaria also continued to be very high in tribal areas.
- ◆ Infant Mortality Rate (IMR) was alarmingly high at 71 per thousand live births as against the target of 45 in rural areas.
- ◆ Inspection of CHCs and PHCs was not at all conducted by the District Medical and Health Officers. Monitoring was poor both at DMHO level and Director level.

(Paragraph 3.2)

5. Indian Systems of Medicine and Homoeopathy

Medical services in rural and urban areas under Ayurveda, Unani and Homoeopathy are delivered to public through hospitals and dispensaries under the control of the Commissioner of Indian Systems of Medicine and Homoeopathy (ISMH). Delivery of medical services under all the three systems was inadequate. About 51 per cent of the plan funds, although provided in the budget, were not spent. The prescribed student – bed strength ratio of 1:5 in hospitals was not maintained for any of the systems. There were huge shortages of manpower in key posts. Scant attention was paid to enforcement of quality of drugs. The objectives of the department largely remained unachieved.

- ◆ Major portion (51 per cent) of the plan funds was not spent although budgeted. Salaries constituted 86 per cent of the non-Plan expenditure (Rs 237.90 crore).
- ◆ Hospitals were established only in 10 (out of 23) districts in the State. As against the stipulated student-bed strength ratio of 1:5 in the hospitals, the actual bed strength operated gave ratios of 1:1.74 (Ayurveda), 1:1.57 (Unani) and 1:1.44 (Homoeo) during 1999-2004. Thus, the medical students were deprived of adequate exposure to clinical problems.
- ◆ The Drug Testing Laboratory (DTL) at Kattedan (Hyderabad) had not been strengthened though proposed in 2001. The DTL was not functioning at the optimum level and spurious drugs continued to be sold to the public.
- ◆ Good Manufacturing Practices (GMP) were not followed in the Ayurveda and Unani pharmacies. There was no quality control wing in the department.

- ◆ The herbal garden at Himayatsagar (RangaReddy District) proposed in 1994 had not been established as envisaged.
- ◆ Expenditure on medicines constituted only two per cent of the total expenditure of the department. The per capita expenditure on medicines was very low and ranged from 63 paise to Rs 1.25 during the period 1999-2004 as against the norm of Rs 2.
- ◆ There were huge vacancies in the key posts of Professors (39 per cent) in the colleges and Medical Officers (MOs) (17 per cent) and Compounders (15 per cent) in dispensaries/hospitals. Ten per cent (38 out of the 366) of dispensaries, in eight districts, were functioning without MOs.
- ◆ Research activity was not pursued under any of the three systems.

(Paragraph 3.3)

6. Functioning of the Forest Department

Forest Department is primarily responsible for conservation of the existing forests and regeneration of the degraded forests. Audit review of the functioning of the Department revealed that Financial management was deficient. Manpower deployed was not commensurate with the increase in its activities. The initial records in the divisions were not maintained with due care. There was gross neglect of procedures for measurement of works etc, which contributed to concealment of frauds. The Department also failed to arrest encroachments in forest land.

- ◆ Budget and expenditure control was deficient. Budget estimates were not assessed realistically. Large portion of plan funds were not spent. During 2001-04 Rs 191.00 crore were surrendered under plan.
- ◆ Despite incurring huge expenditure on forest protection each year, the encroachments as of March 2004 in forest areas still stood at 2,76,852 ha.
- ◆ Department also failed to arrest encroachments in Kolleru wild life sanctuary. Continued increase in pisciculture activity led to deterioration in the quality of water in the lake and decline in the population of fish and birds.
- ◆ Deposits of Rs 4.61 crore received by four DFOs from the APSEB between February 1998 and November 2003 for development of a sanctuary area remained unspent for no valid reasons.
- ◆ Failure to conduct prescribed check, while admitting vouchers of the sub-ordinates for advances paid, led to misappropriation remaining undetected.

- ◆ There was no increase in the staff corresponding to the increase in the activities taken up with external financial assistance, leading to dilution in controls.

(Paragraph 3.4)

7. Information Technology Audit of eCops – an e-Governance initiative by Government

The e-Governance project of e-Cops to improve the efficiency and transparency in policing suffered from serious security lapses, improper input validations, and failure to elicit cooperation and acceptance at various levels within the department. The department is dependent heavily on Computer Maintenance Corporation for maintenance of the package and administration of data.

- ◆ The department did not assess and identify the personnel required for the project, clearly defining roles and responsibilities.
- ◆ The training imparted to the users was inadequate and trained personnel were transferred to posts not requiring computer operations.
- ◆ Police stations, where functional data is actually generated and stored, do not have technically competent personnel to administer data.

(Paragraph 3.5)

8. Implementation of Computer Education project in secondary schools

State Government launched (November 2001) a project to impart computer education from classes VI to X in 1000 schools in the State. The implementation of the project suffered from lack of planning and monitoring, defective tendering/agreements with the firms and defective selection of schools. State Project Director, District Primary Education Project failed to enforce the agreement conditions and passed on several unintended benefits to the firms. Overall, the students did not derive the benefit as envisaged.

- ◆ Due to award of contract to second lowest bidder there was an avoidable extra cost of Rs 2.04 crore on the project.
- ◆ Selection of schools was left to the bidders; schools without adequate infrastructure were selected. There was an undue benefit of Rs 57.31 lakh to a firm.
- ◆ Websites were not developed by the firms though envisaged. Undue benefit conferred on the three firms was Rs 46 lakh.

(Paragraph 3.6)

9. Implementation of Neeru-Meeru

State Government launched Neeru-Meeru in May 2000 to promote water conservation by recharge of ground water and to create awareness amongst people for ensuring their participation. Eight phases were implemented during the period April 2000 – May 2004. Neeru-Meeru was overloaded with a large number of petty works, some costing as low as Rs 400. As a result, monitoring of execution of works was almost absent. The objective to recharge ground water was not achieved due to injudicious selection of sites, unscientific selection of works and poor maintenance after completion.

- ◆ Expenditure of Rs 245.36 crore on other works/services such as laying of roads, lift irrigation and raising of nurseries were debited to Neeru-Meeru though not related to it.
- ◆ Though desilting of tanks was not effective for increasing recharge of ground water, 34696 tanks were desilted at a cost of Rs 156.27 crore.
- ◆ Executive Engineers of Panchayat Raj, Anantapur and Warangal did not conduct quality control inspections of the works valued at Rs 19.67 crore.
- ◆ Joint inspection by Audit and departmental engineers revealed several irregularities. Most of the works executed under 'Neeru-Meeru' were either missing or were in poor condition mainly due to heavy silt formation, damages caused to structures and pilferage of stones.
- ◆ Engineers of Irrigation Division, Khammam unauthorisedly retained Rs 1.08 crore for over two years without rendering detailed accounts for the advances drawn. This amounted to temporary misappropriation.
- ◆ The primary objective of recharging ground water was not achieved; the ground water levels actually fell during 2003-04 in eight districts.

(Paragraph 3.7)

10. Srisailam Right Branch Canal Scheme

Srisailam Right Branch Canal scheme intended to give protection to the drought affected areas of Kurnool and Kadapa Districts envisaged utilisation of 19 thousand million cubic feet of Krishna water to benefit 76,890 ha. Though the works of the scheme commenced in 1984, the pace of execution of works was poor. The intended ayacut could not be developed to its full extent owing to non-completion of the scheme even after incurring expenditure of Rs 1254.86 crore to the end of January 2005.

- ◆ The work on Gorakallu Balancing Reservoir was still under investigation stage rendering the expenditure of Rs 2.68 crore incurred so far on the scheme, unfruitful.
- ◆ Faulty design coupled with defective work in the construction of Gorakallu Bypass canal structure necessitated additional expenditure of Rs 48.99 lakh on rectification works.
- ◆ Waiver of the recovery of dues of Rs 95.71 lakh from a defaulting contractor by Government without justification resulted in undue benefit to him.

(Paragraph 3.8)

Audit of Transactions

11. Infructuous/wasteful expenditure and overpayment

(i) Defective agreement with the firm and negligence of Special Officer (Infrastructure) led to wasteful expenditure of Rs 72.11 lakh on computerisation of Osmania University Administration.

(Paragraph 4.1.1)

(ii) Expenditure of Rs 54.43 lakh incurred on pay and allowances of the staff of three Health Equipment Repair Units in Hyderabad was largely infructuous, as there was no outturn during 1997-2004.

(Paragraph 4.1.3)

12. Violation of contractual obligations/undue favour to contractors

(i) Entrustment of additional items of an ongoing work to the same contractor on nomination at estimate rates without applying the tender discount resulted in excess payment of Rs 43.69 lakh

(Paragraph 4.2.2)

13. Avoidable/Excess/Unfruitful expenditure

(i) Lack of clarity in the Government orders regarding incentives to industrial units led to extra financial burden of Rs 7.43 crore, besides foregoing of revenue of Rs 5.75 crore. The Commissioner of Industries continued to sanction/release the incentives to ineligible

industries even after receipt of specific clarification from the Government.

(Paragraph 4.3.4)

(ii) Two high-speed patrol boats procured (July 2000) by the Director of Fisheries at a cost of Rs 1.89 crore for carrying out surveillance were not put to intended use till March 2004.

(Paragraph 4.3.1)

(iii) Registrar of the Andhra University failed to obtain separate power connection for staff quarters, leading to an avoidable extra financial burden of Rs 61.45 lakh during 1998-2004.

(Paragraph 4.3.2)

(iv) Failure of the Managing Director, Sports Authority of Andhra Pradesh and the District Sports Authorities (DSAs) to ensure availability of sufficient funds before embarking on the construction of sports complexes/stadia led to non-completion of the stadia for periods ranging upto 10 years rendering the whole outlay of Rs 10.05 crore unfruitful. DSAs were yet to take over the infrastructure created for the stadia at Gudivada and Chirala.

(Paragraph 4.3.9)

14. Regularity issues and other points

(i) District Collectors and District Supply officers utilised the sale proceeds (Rs 25.11 crore) of rice/kerosene coupons for printing and distribution of coupons, purchase of vehicles, computers, furniture and fixtures, hire charges, telephone charges contrary to Financial Rules, besides keeping the money outside the Government account.

(Paragraph 4.5.2)

(ii) Floating of tenders for a work by the Engineer-in-Chief, Public Health Engineering only to the principal manufacturers of pipes resulted in extra financial commitment of Rs 1.30 crore.

(Paragraph 4.5.3)

(iii) Director of Ports made an obvious error in a clause of the lease deeds in respect of lease of port lands. As a result, enhanced rates, as ordered by Government, to the extent of Rs 53.35 lakh could not be collected.

(Paragraph 4.5.5)

Internal Control Mechanism and Internal Audit
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15. Evaluation of Internal Control Mechanism and Internal Audit System

Internal Control system is an integral process by which an organisation governs its activities to effectively achieve its objectives. A built-in Internal Control system and strict adherence to Statutes, Codes and Manuals minimise the risk of errors and irregularities, and helps to protect resources against loss due to waste, abuse and mismanagement. An evaluation of the internal controls and internal audit system in Animal Husbandry Department revealed the weakness of the internal controls in vogue in the department, non-compliance with rules, manuals and codes in the areas of budget preparation, expenditure control, procurement of medicines and equipment.

- ◆ Budget proposals were not submitted in time and estimates were not assessed correctly resulting in substantial plan funds remaining unutilised. Expenditure control was not also exercised.
- ◆ Controls on manpower management were ineffective. A large number of vacancies in key posts, especially of Veterinary Assistant Surgeons adversely affected the functioning of the veterinary polyclinics, dispensaries and hospitals.
- ◆ There were shortfalls upto 90 per cent in departmental inspections. Timely rectification of the deficiencies was not ensured.
- ◆ No standards were set for conduct of internal audit and no annual plans were drawn up. Internal audit was conducted only in 26 offices in a year, as against 2274.
- ◆ Large number of internal audit paras were outstanding and proper controls were absent for timely rectification of the deficiencies pointed out in internal audit reports.

(Paragraph 5.1)