

CHAPTER I

INTRODUCTION

1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from Performance audit of selected programmes and activities and Compliance audit of Government departments and autonomous bodies.

Compliance audit refers to examination of the transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with. On the other hand, Performance audit, besides conducting a Compliance audit, also examines whether the objectives of the programme/activity/department are achieved economically and efficiently.

The primary purpose of the Report is to bring to the notice of the State Legislature, important results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant deficiencies and achievements in implementation of selected schemes, significant audit observations made during the audit of transactions and follow-up on previous Audit Reports. Chapter-II of this report contains findings arising out of Performance audit of selected programmes/activities/departments. Chapter-III contains observations on audit of transactions in Government departments and autonomous bodies.

1.2 Auditee profile

There are 30 departments in the State at the Secretariat level, headed by Chief Secretary, Special Chief Secretaries/Principal Secretaries/Secretaries, who are assisted by Deputy Secretaries/Commissioners/Engineers-in-Chief/Chief Engineer/Principal Chief Conservator of Forest/Chief Conservator of Forest and subordinate officers under them and 57 autonomous bodies which are audited by the civil wing of the Principal Accountant General (Civil Audit), Andhra Pradesh. The comparative position of expenditure incurred by the Government during the year 2009-10 and in the preceding two years is given in Table-1.

Table-1

(Rupees in crore)

	2007-08			2008-09			2009-10		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Revenue Expenditure									
General Services	1058	17112	18170	152	18578	18730	181	21211	21392
Social Services	8041	10619	18660	12303	12701	25004	10699	15058	25757
Economic Services	4802	12103	16905	6538	11269	17807	4562	11651	16213
Grants-in-aid	-	249	249	-	313	313	-	86	86
Total	13901	40083	53984	18993	42861	61854	15442	48006	63448
Capital Expenditure									
Capital outlay	12866	(-)92	12774	10611	(-)244	10367	13955	(-)162	13793
Loans and Advances disbursed	2221	700	2921	3098	316	3414	1514	76	1590
Payment of Public Debt*	-	-	4993	-	-	4833	-	-	6277
Contingency Fund*	-	-	1	-	-	7	-	-	0
Public Accounts disbursement*	-	-	55126	-	-	74149	-	-	70243
Closing Cash balance*	-	-	8512	-	-	4973	-	-	5983
Total			84328			97743			97886
Grand Total			138311			159597			161334

* Plan and Non-plan classification is not applicable

1.3 Authority for audit

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (CAG's (DPC) Act). CAG conducts audit of expenditure of the departments of Government of Andhra Pradesh under Section 13¹ of the CAG's (DPC) Act. Principal Accountant General (Civil Audit), Andhra Pradesh is the Principal Auditor in respect of 12 Central autonomous bodies and the Sole Auditor in respect of 45 State autonomous bodies which are audited under Sections 19² and 20³ of the CAG's (DPC) Act. In addition, CAG also conducts audit of 330 autonomous bodies under Section 14⁴ of CAG's (DPC) Act, which are substantially funded by the Government.

¹ Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts

² Audit of the accounts of Corporations (not being Companies) established by or under law made by the State Legislature in accordance with the provisions of the respective legislations

³ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the CAG and the Government

⁴ Audit of all receipts and expenditure of a body/authority substantially financed by grants or loans from the Consolidated Fund of the State and all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of the State in a financial year is not less than ₹ one crore

Principles and methodologies for various audits are prescribed in the Auditing Standards, Regulations on Audit and Accounts, 2007 and the Manual of instructions for Autonomous Bodies issued by the CAG. Manual of Inspection (Civil) is followed for audit under Section 13 of CAG's (DPC) Act.

1.4 Planning and conduct of audit

Audit process starts with the assessment of risk of the Department/Organisation as a whole and each unit based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. Focus is given on schematic/thematic audits. An annual audit plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Inspection Reports (IRs) containing audit findings are issued to the head of the unit. The units are requested to furnish replies to the audit findings within one month of receipt of the IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. The important audit observations pointed out in these IRs are processed for inclusion in the Audit Reports which are submitted to the Governor of Andhra Pradesh under Article 151 of the Constitution of India.

During 2009-10, 11,767 party-days were used to carry out audit of 1,095 units (Compliance audits and Performance audits) of the various departments/organisations. The audit plan covered those units/entities which were vulnerable to significant risk, as per our assessment.

1.5 Organisational structure of the Office of the Principal Accountant General (Civil Audit), Andhra Pradesh

Under the directions of the CAG, the Office of the Principal Accountant General (Civil Audit), Andhra Pradesh conducts the audit of the Civil Departments/Offices of Government of Andhra Pradesh and Autonomous Bodies/Institutions thereunder. It also conducts audit of civil offices and autonomous institutions of Central Government located in the State. For carrying out these functions in respect of Civil, Works, Projects and Forest Wings, Principal Accountant General is assisted by five Group officers.



1.6 Significant observations of Performance audit

Performance audit is undertaken to ensure whether Government programmes have achieved the desired objectives at the minimum cost and given the intended benefits. The focus has been on auditing the specific programmes/schemes and offering suitable recommendations, with the intention of providing an aid to the Executive in taking corrective action, and improving service delivery to the citizens. 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 judgemental basis. Audit conclusions have been drawn and recommendations made, taking into consideration the views of the Government.

In the last few years, audit has reported on several significant deficiencies in implementation of various programmes/activities through performance audits, as well as on the quality of Internal Controls in selected departments which impact the success of programmes and functioning of the departments.

A summary of the audit comments on the performance of the Government in implementation of certain programmes and schemes included in this Report is given below:

1.6.1 Integrated Child Development Services

The 'Integrated Child Development Services' (ICDS) Scheme is a Centrally sponsored scheme launched in 1975, designed to promote holistic development of children in the age group of 0 - 6 years, expectant and lactating mothers and adolescent girls of 11 - 18 years. The objectives of ICDS are to be achieved through a package of services comprising Supplementary Nutrition, Immunisation, Health Check-ups, Nutrition and Health Education and Non-formal Pre-school Education of children of 3 - 6 years.

The implementation of the Scheme suffered as the State failed to cover the whole targeted population under the scheme despite availability of Central assistance. The department has not complied with the audit observations included in the Audit Report for the year ended 31 March 1999 and the deficiencies persisted during the five year period 2005-10. Augmentation of Anganwadi centres was not given adequate priority. Majority of Anganwadi centres (67 per cent) were functioning in rented buildings which lacked basic facilities such as safe drinking water, toilets, non-provision of utensils. Adolescent girls who were to be covered under Supplementary Nutrition Programme as contemplated by Government of India way back in 2004 were not even identified in the State. Audit also noticed deficiencies such as erratic supply of Ready to Eat (RTE) food/Hot Food Mixes (by AP Foods), supply of substandard/time expired food to children, huge shortfalls in visits of Medical Officers to Anganwadi centres, etc. The objective of ensuring micronutrients in diet as per Recommended Dietary Allowance norm remains unachieved. Underweight children is an indicator of inadequate nutrition. Weighment of children assumes significance as it gives a good feedback on the impact of

nutrition programme. This important aspect was ignored. No mechanism was in place to watch proper distribution of medicines to the beneficiaries. There were huge shortages in deployment of Child Development Project Officers (CDPOs) and Supervisors. Monitoring of the functioning of Anganwadi centres by CDPOs/ Supervisors was inadequate.

1.6.2 Mahatma Gandhi (Kalwakurthy) Lift Irrigation Scheme

Mahatma Gandhi (Kalwakurthy) Lift Irrigation Scheme was taken up with the objective of providing irrigation facilities to 3.40 lakh acres and drinking water facility for a population of 4.36 lakh in 303 villages of chronically drought prone areas in Mahbubnagar District.

Since irrigation projects involve huge financial outlays, 'cash flow management' and 'cost control' are vital for achieving the objective of value for money. Lack of proper planning and sequencing/synchronization of various activities/works under the project resulted in premature consumption of funds in non-critical activities. Abnormal delay in land acquisition, a critical activity, prolonged the gestation period and the same resulted in denial of any benefit to the targeted beneficiaries. Even though the stipulated execution period is already over, the department has not provided irrigation facility to a single acre of land. Serious flaws in cost control resulted in excessive spending without any commensurate benefit. Reduction in the quantities of works executed did not result in commensurate reduction in project cost. Thus, bad planning and flawed contracts only benefited the contractors.

1.6.3 Functioning of Visakhapatnam Urban Development Authority (VUDA)

Visakhapatnam Urban Development Authority (VUDA) was constituted (June 1978), under AP Urban Areas (Development) Act, 1975 (Act). Its jurisdiction extends to Visakhapatnam Municipal Corporation and four municipal towns comprising an area of 1,721 sq. km. One of the important functions of VUDA is to prepare the master plan and its implementation.

The Authority, which was established for planned development of the city and to improve the quality of life of its inhabitants, failed to achieve its objectives to a large extent. Audit noticed huge shortfalls (64 to 100 *per cent*) in the achievement of the First Master Plan. VUDA did not also effectively coordinate with the departments/agencies concerned for implementation of the master plan. Approvals for change of land use were given on a case to case basis in violation of the master plan conferring undue benefits to the land owners thus vitiating the sanctity of the master plan. Contract management was deficient. Preparation of Annual Accounts was in arrears. Maintenance of cashbook was deficient and reconciliation of cashbook balances was not done with the Bank statements. Internal Audit was also absent. Thus, there was no assurance to VUDA that the Rules and Procedures were being complied with by various wings of VUDA. Non-existence of a public grievance redressal mechanism was indicative of the lack of seriousness of the Authority in handling its mandate.

1.6.4 Rajiv Yuva Sakthi

The State Government launched (November 2004) Rajiv Yuva Sakthi (RYS) Programme with the objective of making the unemployed employable. The Scheme on which an expenditure of ₹ 106 crore was incurred, was implemented in a shoddy and unprofessional manner. Publicity regarding eligibility criteria, permissible activities, etc. was not given and the whole process of selection of beneficiaries was deficient. There was no authenticated centralised database of assistance given to beneficiaries under other scheme(s)/programmes. Audit also noticed non-insisting of project reports from the applicants/assessment reports from banks while arriving at project cost, sanctions to non-asset based activities, sanction of subsidy to already existing units and ineligible applicants, huge delays in release of loans by banks, deficiencies in Utilisation Certificates furnished by banks, etc. Due to major flaws in the operation of the Scheme, such as non-assessment of viability of the business being financed, non-verification of premises from which the new units would operate, there were large scale defaults (65 per cent) in payments by the beneficiaries. Large scale defaults indicates that the scheme was not so successful and it also resulted in losses for the public sector banks.

1.7 Significant audit observations during Compliance audit

Audit observed several significant deficiencies in critical areas which impact the effective functioning of the Government departments/organisations. Some important findings of compliance audit (20 paragraphs having financial implications of ₹1,480.08 crore) have also been reported. The major observations relate to:

- (i) Fraud and detection of fraud
- (ii) Audit against propriety and cases of expenditure without adequate justification
- (iii) Persistent and pervasive irregularities
- (iv) Failure of oversight/governance

1.7.1 Fraud and detection of fraud

- Audit detected payment of fraudulent medical reimbursement claims amounting to ₹ 2.29 crore in 162 cases of School Education Department in nine districts⁵.

[Paragraph 3.1.1]

- Audit detected payment of fraudulent LTC claims in 994 cases of School Education and Tribal Welfare Departments in Adilabad District. The DDOs/ Treasury Officers failed to exercise the required checks which resulted in payment of fraudulent claims amounting to ₹ 84.91 lakh (School Education: 942 cases/₹ 80.50 lakh; Tribal Welfare: 52 cases/₹ 4.41 lakh).

[Paragraph 3.1.2]

⁵ Adilabad, Khammam, Mahbubnagar, Medak, Nalgonda, Nizamabad, Ranga Reddy, Vizianagaram and Warangal

1.7.2 Audit against propriety and cases of expenditure without adequate justification

Authorisation of expenditure from public funds has to be guided by the principles of propriety and efficiency of public expenditure. Authorities empowered to incur expenditure are expected to enforce the same vigilance as a person of ordinary prudence would exercise in respect of his own money. Audit scrutiny revealed instances of impropriety and extra expenditure involving ₹ 17.60 crore.

- Construction of 70 out of 112 backward class welfare hostel buildings sanctioned during 2003-08 under the Centrally sponsored scheme was delayed beyond stipulated time of two years (September 2010) depriving the benefit of improved facilities in hostels to the backward class students for whom the facilities were contemplated, besides cost escalation of ₹ 16.72 crore. Similarly, 31 hostel buildings sanctioned under 'Food for Work' programme also remained incomplete.

[Paragraph 3.2.1]

1.7.3 Persistent and pervasive irregularities

An irregularity is considered persistent if it occurs year after year. It is deemed pervasive when prevalent in the entire system. Recurrence of irregularities, despite being pointed out in earlier audits, is indicative of slackness on the part of the executive and lack of effective monitoring. This in turn encourages wilful deviations from observance of rules/regulations and results in weakening of administrative structure. Audit observed instances of persistent and pervasive irregularities of ₹ 50.60 crore which are as follows:

- Deficiencies *inter alia* absence of fairness and transparency in selection of beneficiaries, non-ensuring supply of quality animals, defective regulation of payments to supplying agencies (amount involved ₹ 1.68 crore), etc. were found in the implementation of the scheme 'Induction of high yield milch animals'. Selection of beneficiaries suffered from lack of fairness and transparency. Monitoring by the department of the implementation of the scheme was poor.

[Paragraph 3.3.1]

- Deficiencies like non-completion of works, execution of inadmissible works, non-transfer of assets to user agencies, non-remittance of unspent balances of completed works, etc. involving ₹ 48.92 crore in implementation of Member of Parliament Local Area Development (MPLAD) Scheme denied the envisaged benefits to the public at large.

[Paragraph 3.3.2]

- Audit scrutiny of functioning of selected schools revealed shortages in provision of classrooms, library rooms, laboratories; lack of basic infrastructure facilities/amenities like benches, black boards, toilets, drinking water, etc. and non-functioning of audio visual equipment in majority of the schools. The shortages in inspection of schools by DEOs/Dy. DEOs ranged from 72 to 93 *per cent* during 2007-08 to 2009-10.

[Paragraph 3.3.3]

1.7.4 Failure of oversight/governance

Government has an obligation to improve the quality of life of the people in the area of health, education, development and upgradation of infrastructure, public services, etc. Audit noticed instances where the funds released by the Government for creating public assets remained unutilised/blocked or proved unfruitful/unproductive due to indecisiveness, lack of administrative oversight and concerted action at various levels. The amount involved in these cases is ₹ 1,408.74 crore. Some of the important observations are as follows:

- Incorrect sequencing/synchronization of various activities/works under the Flood Flow Canal of Sriram Sagar Project led to incurring of huge expenditure of ₹ 1,476.30 crore on project works earlier than required and blocked in an incomplete asset without any benefit till reservoirs are completed.

[Paragraph 3.4.4]

- Failure to incorporate requisite safeguards in the agreements relating to (i) Dr. K.L. Rao Sagar (Pulichintala) Project, (ii) Rajiv Bhima Lift Irrigation Scheme and (iii) Kandula Obula Reddy Gundlakamma Project, resulted in Government not getting the benefit of post tender reduction in quantities and undue benefit of ₹ 100.20 crore accruing to the contractor due to payments being higher than the value payable. Further, defective formulation and implementation of contract clauses relating to three⁶ projects resulted in avoidable expenditure/undue benefit to contractors to the extent of ₹ 77.67 crore.

[Paragraphs 3.4.3 to 3.4.6]

- Undue favours at every stage to M/s Emmar MGF Land Limited by Tirupati Urban Development Authority (TUDA) in the Satellite Township Project taken up for development of Integrated Temple Tourism Township under Public Private Partnership Mode, resulted in entering into a revised agreement which assures revenue of ₹ 580 crore less than the initial offer.

[Paragraph 3.4.12]

- Audit scrutiny of Mobilisation Advances paid to contractors in eight irrigation projects revealed many deficiencies including incorrect payment of advances of ₹ 111.84 crore; and loss of revenue of ₹ 33.07 crore due to incorrect stipulation of interest rate. Due to starting of civil works without addressing the issues such as (a) statutory clearances like Forest and Environmental clearances (b) land acquisition and (c) rehabilitation and resettlement (R&R), the progress of works was hampered and also resulted in blocking-up of huge amount of ₹ 702.70 crore with the contractors.

[Paragraph 3.4.7]

⁶ (i) Flood Flow Canal of Sriram Sagar Project (₹ 67.56 crore), (ii) Rajiv Bhima Lift Irrigation Scheme (₹ 7.88 crore) and (iii) Kandula Obula Reddy Gundlakamma Project (₹ 2.23 crore)

- Non-adherence to the tender conditions by the Hyderabad Metropolitan Development Authority in auctioning the land for development of land in the adjoining area of Hyderabad city resulted in undue benefit of ₹ 239.88 crore to the bidders.

[Paragraph 3.4.9]

- Despite facing serious power shortage, Government failed to cancel the allotment of land (in Visakhapatnam District) to a private party (M/s Hinduja National Power Corporation Limited) which failed to set up power plant and allot it to other parties who were willing to supply power at competitive rates.

[Paragraph 3.4.14]

- Scrutiny of 50 (out of 77) transactions in four districts (Chittoor, East Godavari, Karimnagar, Visakhapatnam) relating to cases of land transferred by Government to various parties revealed that undue benefit of ₹ 101.43 crore was passed on to the parties and there was lack of transparency and fairness in allotment of lands.

[Paragraph 3.4.13]

- Due to non-incorporation of the safeguards in the agreements the benefit of post tender reduction in quantities did not accrue to Government in the construction work of PVNR Elevated Expressway Corridor. This resulted in an undue benefit of ₹ 86.67 crore to the contractor.

[Paragraph 3.4.8]

- Deficient bidding procedure by the Hyderabad Metropolitan Development Authority led to award of work for a value higher than the lowest quoted value by ₹ 23.68 crore in Package-II of Phase-I of Outer Ring Road project in Hyderabad.

[Paragraph 3.4.10]

- Effective functioning of Anti Corruption Bureau (ACB) has the potential to yield substantial benefits to Government several times the budget (₹ 19.27 crore) of ACB. The constraints faced by the ACB at various stages of its operations have seriously impaired the achievement of objective of promoting honest and transparent functioning of public servants. Also, this has adverse implications of diluting the effectiveness of functioning of the ACB.

[Paragraph 3.4.2]

1.8 Response of the Departments to the draft paragraphs and Performance reviews

As per the Para 4.7 of Finance Department's Handbook of Instructions and their U.O. No. 23810-C/200/Public Accounts Committee/93-2, dated 3 November 1993, all departments are required to send their response to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India, within six weeks.

Accordingly, draft paragraphs/draft Performance audit reviews are forwarded to the Special Chief Secretaries/Principal Secretaries/Secretaries of the departments concerned, drawing their attention to the audit findings and requesting them to send their response within six weeks. It is brought to their personal attention that in view of likely inclusion of such paragraphs in the Audit Reports of the Comptroller and Auditor General of India, which are placed before State Legislature, it would be desirable to include their remarks in the matters. They are also advised to have meetings with the Principal Accountant General to discuss the reviews/draft audit paragraphs, which are proposed for inclusion in Audit Reports.

Despite this, nine departments⁷ did not furnish replies to nine draft paragraphs and two draft Performance Audit review/long paragraph⁸ and this position was also intimated (November 2010) to the Chief Secretary to the Government. The responses of the Departments, received in respect of nine paragraphs/four Performance reviews/long paragraphs, have been appropriately incorporated in the Report.

⁷ Energy; Finance; Irrigation and Command Area Development (Irrigation & Projects Wings); Municipal Administration and Urban Development; Planning; Revenue; School Education; Women Development, Child Welfare and Disabled Welfare; and Youth Advancement, Tourism and Culture (Youth Services)

⁸ Integrated Child Development Services and Rajiv Yuva Sakthi
