3.1. Introduction

A Sound internal financial reporting with relevant and reliable information significantly contributes to efficient and effective governance. 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

As per Article 3 of Telangana Financial Code, unless the amount is immediately required to be paid for the goods or services received/work done, no amount shall be withdrawn. 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[1] also affirmed the responsibility on the authority drawing the funds, for submission of UCs to the Departmental officers and forwarding them to the Accountant General (Accounts & Entitlements) after verification. However, non-submission/delay in submission of the UCs hampers the objectives of allocation of funds and provides scope for mis-utilisation/mis-appropriation/diversion of funds.

Significant irregularities observed during test check of a few Departments are given below:

3.2.1. Wrong Utilisation Certificates: Deepam Scheme

Government of Telangana sanctioned (January 2015) ₹97.92 crore towards implementation of 'Deepam Scheme'. The Commissioner of Civil Supplies (CCS) was to furnish Utilisation Certificate while sending proposal for next instalments. Government released (March 2015) ₹95.20 crore by allocating 5.95 lakh LPG connections. The CCS drew this amount and transferred (March 2015) to the respective bank accounts of the Public Sector Undertaking Oil companies towards Security Deposit for LPG Connections. Against this, ₹79.18 crore was utilized by releasing 4.95 lakh connections to the beneficiaries at ₹1,600 per connection (from March 2015 to October 2017). Balance of ₹16.02 crore was lying unutilized (October 2017) with the oil companies.

Scrutiny revealed that, though an amount of ₹79.18 crore (out of ₹95.20 crore received) was utilized for 4.95 lakh LPG connections, Utilisation Certificates were submitted by the CCS for the total sanctioned amount of ₹97.92 crore. Based on these wrong UCs, Government released (March 2017) another instalment of ₹1.55 crore and CCS had transferred the same to oil companies as advance despite availability of ₹16.02 crore with oil companies. In reply, CCS stated (November 2017) that the amount available in PD account was released to concerned Oil Companies and shown as funds utilized. As per procedure in vogue

[1] Note 1 below Article 211A(2) of Telangana State Financial Code

for preferring PD account bills, advance stamp receipts and UCs were furnished to Treasury.

Reply is not acceptable, as Utilisation Certificates shall be submitted only after actual utilisation of the funds.

3.2.2. Funds lying unutilized

The University Grants Commission (UGC) and Government of Telangana sanctioned rupees five crore to Jawaharlal Nehru Architecture and Fine Arts University. The sanction was for construction of 5th floor over School of Planning and Architecture (SPA) Building at Masab tank, Hyderabad. The UGC sanction was for ₹ 2.50 crore (March 2012) and that of Government of Telangana was ₹ 2.50 crore (May 2015). After completion of the construction (August 2015), the unspent balance of ₹ 77.65 lakh was lying in University account (November 2017).

In reply, the department stated (November 2017) that unspent balance will be utilized very shortly.

3.3. Accounts and Audit Reports of bodies/authorities

Audit of the accounts of autonomous bodies set up by the State Government under General, Social and Economic Sectors are regulated under "Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act 1971" (CAG's DPC Act). The annual accounts of bodies and authorities auditable by CAG of India under Sections 19 and 20 of CAG's DPC Act, are required to be made available to audit before 30 June of every year. However, as of September 2017, there was delay in submission of accounts of 22 bodies, which ranged from three months (four cases) to 111 months (one case). Age-wise details on delay in submission of annual accounts of bodies and authorities are shown in the **Table 3.1.** Status of entrustment of audit, rendering of accounts to audit, issue of Audit Reports and their placement in Legislature by the autonomous bodies are given in ***Appendix* 3.1.**

Further, bodies/authorities receiving financial assistance from State Government are auditable under section 14 of CAG's DPC Act. Annual accounts for the period from 1993-94 to 2016-17 (total number of accounts 914) of 159 such bodies/authorities were not submitted to audit as of September 2017. Details are given in ***Appendix 3.2***.

Appropriate measures for compilation and submission of accounts by these 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.

Table 3.1: Age-wise details of delay in submission of Annual Accounts of Autonomous Bodies

Sl. No	Delay in Number of Years	No. of Bodies/ Authorities
1	0-1	4
2	1-3	9
3	3-5	2
4	5-7	4
5	7-9	2
6	>9	1
Total		**22**

3.4. Un-reconciled expenditure and receipts

To enable Chief Controlling Officers (CCOs) of Departments to exercise effective control over budget and expenditure and to ensure accuracy of their accounts, Government Orders and Financial Rules[2] stipulate that expenditure recorded in their books are to be reconciled by them every month during the financial year with the books of the Accountant General (Accounts & Entitlements).

During 2016-17, expenditure amounting to ₹73,783 crore (67 *per cent* of total expenditure[3]) was not reconciled by 100 CCOs (as of August 2017). Cases where 32 CCOs who did not reconcile expenditure of ₹500 crore and above in each case are given in ***Appendix 3.3***. Out of these, three major defaulters were Energy Secretariat Department (₹15,251 crore), Finance HOD (₹9,258 crore) and Chief Engineer (Projects), Mahaboobnagar (₹7,149 crore). Un-reconciled expenditure involved risk of non-detection of misuse of public funds and indicated lack of effective internal controls.

Every Controlling Officer is required to:

- obtain regular accounts and returns from subordinate entities for amounts released by them and paid into the treasury;
- compare the figures with the accounts maintained in the Office of the Principal Accountant General (Accounts and Entitlements); and
- reconcile any differences as early as possible before the accounts for the year are closed. However, receipts amounting to ₹55,116.54 crore (77 *per cent* of total receipts[4]) under 49 heads were not reconciled by the concerned CCOs during 2016-17.

3.5. Personal Deposit Accounts

As per Telangana Financial Code, Personal Deposit (PD) Accounts are created for discharging the liabilities of the Government arising out of special enactment, by debit to the Consolidated Fund.

Amount lying unspent after the purpose is met, is required to be transferred to Government Account. Details of Administrator-wise PD accounts were not rendered to the office of Accountant General (Accounts & Entitlements). Hence, the details of expenditure met from the funds transferred to PD Accounts and transfer of unspent balances back to Government Account could not be verified in Audit.

As of 31 March 2017, number of PD accounts in operation in Telangana State was 28,087 and the balances lying in these accounts were ₹10,873 crore. During 2016-17, an amount of ₹8,545 crore was transferred from the Consolidated Fund to the PD Accounts.

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[2] GO Ms. No. 507 of Finance(TFR) Department dated 10 April 2002 and Article 9 of Telangana State Financial Code

[3] Total expenditure (₹1,09,493 crore) includes Revenue, Capital and Loans and Advances excludes Interest Payments and Loans to Government Servants

[4] Total Receipts (₹71,358 crore), exclude Grants-in-aid from Central Government, Interest Receipts and Loans to Government Servants

Paying interest at higher rates (7.40 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.

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 3.2**:

Table 3.2: 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	Tamilnadu	201	(-) 442
5	Haryana	124	235
6	Telangana	28,087	10,873

Source: Finance Accounts

It can be seen that the number of PD Accounts is very large in Telangana involving huge amount of funds when compared to other General Category States. This showed poor cash and financial management by the State and reduced the possibility of tracking the expenditure in those accounts.

Audit of PD accounts showed irregularities as detailed below:

3.5.2 Non lapsing of Category 'B' and Category 'C' Deposits

As per the provisions[5] of Telangana Financial Code (Volume-I), category 'B' Deposits (Lapsable Deposits as per the codal provisions) unclaimed for more than three complete financial years should be lapsed and credited to Government Account. Scrutiny revealed that, an amount of ₹ 12.34 crore relating to revenue and other deposits falling under Category 'B' and unclaimed for more than three years was not lapsed in 25 DTOs and 30 STOs. Details are shown in ***Appendix 3.4***.

All funds deposited into Category 'C' deposits (Lapsable Deposits as per Government Orders[6]) during a particular financial year for execution of various schemes and works which remained unspent up to 31 March of next financial year, shall lapse.

In three DTOs[7] and one STO[8], an amount of ₹ 51.58 crore pertaining to revenue and other deposits, due for lapse on 31 March 2016 falling under Category 'C', was not lapsed.

[5] Article 271(iii) of Financial Code
[6] G.O.Ms.No.43, Finance & Planning (W&M) department, dated 22 April 2000
[7] DTO Hyderabad- ₹ 5,156.33lakh, DTO Karimnagar- ₹ 0.07 lakh, DTO Sircilla- ₹ 0.59 lakh
[8] STO Vemulawada- ₹ 1.35 lakh

3.5.3 PD accounts showing negative balances

Drawal of funds from PD Accounts should be permitted to the extent of receipts available in the Deposit Account. Scrutiny revealed that there were 40 PD accounts in Treasuries of eight districts[9] showing an aggregate negative balance of ₹ 18.29 crore at the end of March 2017. Details are shown in ***Appendix 3.5***. This reflected drawal of funds over and above the balances available at the credit of the Deposit Administrator or misclassification.

3.5.4 Drawal of amount through self cheques

As per Article 3 of Telangana Financial Code, unless the amount is immediately required to be paid for the goods or services received/work done, no amount shall be withdrawn. Accordingly, it was stipulated that no self-cheque from Deposit Account shall be permitted except for the salaries and petty office expenses.

Scrutiny of PD account cheques in respect of DTO, Hyderabad (Urban) for the month of March 2017 revealed that, an amount of ₹ 953.69 crore was drawn through 48 self-cheques by four PD accounts' administrators[10]. This is fraught with the risk of mis-utilisation and misappropriation of public funds kept in deposit account.

3.5.5 Loss of interest

Consequent on re-organisation of Andhra Pradesh and formation of separate State of Telangana on 2 June 2014, the Telangana Building & Other Construction Workers Welfare Board (Board) was formed[11] with effect from 17 September 2014. The Board was tasked to formulate and implement various welfare schemes for the benefit of the building and other construction workers in the State. An amount of ₹ 191.11 crore was accounted for as the share of Telangana on bifurcation. Government authorized (August 2014) the Board to utilize up to 50 *per cent* of its share. Accordingly, ₹ 95.56 crore was credited (December 2014) to the PD Account of the Board. As per Section 33E of the Telangana Building and Other Construction Workers Rules 1999, the Board may open Savings Account in Nationalised Bank to operate the transactions pertaining to the Welfare Fund. At the end of every quarter, the Board shall prepare an estimated cash inflow and outflow statement for the next quarter and accordingly invest the amounts lying to the credit of Savings Bank account in fixed deposit for appropriate period which yield higher rate of interest.

Audit scrutiny revealed that no investment was made by the Board since the release of funds of ₹ 95.56 crore in December 2014. As of December 2016, an amount of ₹ 33.67 crore was lying in the PD Account of the Board without investment. This deprived the benefit of accrued interest for better implementation of welfare schemes to the targeted beneficiaries.

[9] Adilabad- ₹ 1,724.53lakh, Karimnagar- ₹ 1.10 lakh, Nagarkurnool- ₹ 48.22 lakh, Sircilla- ₹ 3.47 lakh, Jayashakar- ₹ 6.68 lakh, Nirmal- ₹ 41.58 lakh, Mancherial- ₹ 2.66 lakh and Rangareddy- ₹ 1.06 lakh

[10] PD A/c Nos. 278, 341, 238 and 10 for an amount of ₹ 942.28 crore, ₹ 1.32 crore, ₹ 2.62 crore and ₹ 7.47 crore respectively.

[11] GO Ms.No.6 Labour Employment Training and Factories(Labour)Department dated 17.09.2014

3.5.6 Variations in balances between web portal and ledger

All the transactions of PD Accounts in Treasuries in the State are processed online through a web portal with effect from 16 November 2015. The accounts are also maintained manually and the manual ledger is taken as authentic. The balances in web portal and ledger should agree and the variations, if any, should be reconciled.

It was observed in audit that there were variations in balances shown at web portal and ledger, amounting to ₹ 1.36 crore in respect of 22 PD accounts in one DTO[12] and 13 STOs[13]. These variations had not been reconciled.

3.5.7 Non-obtaining of Certificates of Acceptance of Balance

As per Government Orders[14], the administrators operating PD Accounts in the Treasury were required to verify the balances in their deposit accounts and furnish Certificate of Acceptance of Balances (CABs) every quarter to the treasuries concerned. This has to be done after reconciling the differences between the administrator's figures and the treasury figures in order to streamline the flow of funds and to avoid over drawal.

In eight DTOs and twenty one STOs, it was noticed that there were 2035 CABs pending to the end of 31 December 2016. This is fraught with the risk of over payments and unauthorised withdrawals from the PD accounts.

3.5.8 Funds lying unutilized in PD account

Handlooms and Textiles department received a total of ₹ 3.15 crore (GoI: ₹ 2.52 crore in March 2014; State Government ₹ 0.63 crore in October 2015) for Integrated Skill Development Scheme. As of March 2017 the department incurred only ₹ 0.47 crore. An amount of ₹ 2.96 crore (including accrued interest of ₹ 0.28 crore) was lying in the PD Account of Director of Handlooms and Textiles. This was kept unutilized since March 2014. UCs for the entire amount of ₹ 2.52 crore are yet to be submitted to GoI.

In reply, department stated (December 2017) that since the placement details were not submitted by the training partners, the release of balance funds was delayed. After placement details are received the amount will be utilized and the Utilisation certificate will be submitted to Government of India.

3.6. Pendency in submission of Detailed Contingent bills

As per the orders[15] of Government, Abstract Contingent (AC) Bills are required to be adjusted within one month from the drawal of funds on the AC Bills. Drawing and Disbursing Officers (DDOs) should ensure that Detailed Contingent (DC) Bills are submitted to the Treasury Officer concerned against the earlier AC Bills drawn failing

[12] DTO Nagarkurnol

[13] STOs Parkal, Achampet, Khagaznagar, Boath, Chennur, Narsampet, Utnoor, Laxettipet, Siripur, Cherial, Gudur, Alampur and Makthal

[14] GO.Ms.No.43 Finance & Planning Department, dated 22 April 2000

[15] G.O.Ms.No.507 of Finance (TFR) Department dated 10 April 2002

which further drawal of funds on AC Bill shall not be permitted. In any case, all the AC Bills shall be settled within three months of their drawal and latest by the month of June for the Bills drawn during March. This provides an assurance that the moneys were utilized for the purpose they were sanctioned. Counter signature of the higher authority was dispensed with and DDO is made liable for the submission of DC Bills.

However, there were 3,485 un-adjusted AC bills due to non-submission of DC bills for an amount of ₹ 474.83 crore as of March 2017. The details are in **Table 3.3**:

Table 3.3: Un-adjusted Abstract Contingent Bills

(₹ in crore)

Year	AC bills drawn		DC bills Submitted		Un-adjusted AC Bills	
	Number	Amount	Number	Amount	Number	Amount
Upto 2007-08	2,118	29.76	2,010	23.71	108	6.05
2008-09	154	12.21	136	8.36	18	3.85
2009-10	103	12.12	70	4.50	33	7.62
2010-11	318	41.81	91	5.39	227	36.43
2011-12	297	34.97	117	18.80	180	16.17
2012-13	487	142.54	183	33.39	304	109.14
2013-14	1,089	176.54	498	113.35	593	63.46
2014-15	1,957	337.24	1,426	229.93	531	107.32
2015-16	2,792	150.82	2,105	99.40	688	51.52
2016-17	2,891	126.47	2,088	53.20	803	73.27
Total	**12,206***	**1,064.49**	**8,724**	**590.03**	**3,485**	**474.83**

Source: As per the information received from PAG (A&E).
*Includes DC bills pertaining to the period prior to bifurcation dealt by PAO, Hyderabad, Telangana

The major defaulters in submission of DC bills were Revenue Department (₹ 260 crore drawn on 1,821 AC bills) followed by Home Department (₹ 50 crore drawn on 406 AC bills), Agriculture and Cooperation Department (₹ 41 crore drawn on 94 AC bills) and Youth Advancement, Tourism and Culture Department (₹ 33 crore drawn on 118 AC bills). Department-wise details of un-adjusted AC bills are given in ***Appendix 3.6.***

In the absence of DC bills it is not possible to ascertain whether expenditure has taken place or not. Un-adjustment of AC Bills for long periods in violation of prescribed rules and regulations was fraught with the risk of embezzlement and corruption.

3.6.1. Funds drawn under Capital account on AC Bills for Revenue nature of Expenditure

Government allotted (February 2016) ₹ 13.30 crore to Tribal Welfare department towards meeting the expenditure in connection with Medaram Jathara[16] held during 17-20 February 2016. Government permitted to draw the amount on AC bill procedure under the capital head of account (4225-02-800-11-05-500/503). The budget provision was

[16] Jathara means festival of a village goddess. Medaram Jathara festival is held every two years at Medaram Village of Tadvai Mandal in the thick forests of Jayashankar Bhupalpally district in Telangana

re-distributed among 11 departments and State Road Transport Corporation. The entire amount allocated was drawn (February 2016).

Audit conducted test-check of the DC bills submitted by nine departments for an amount of ₹ 6.98 crore against AC bills drawn for celebration of Medaram Jathara. It was found that the amount incurred was contingent expenditure[17] on items which were of the nature of Revenue Expenditure. Booking of expenditure under capital account without creation of capital assets affects the correctness of the statement of assets and liabilities of Government to that extent.

3.7. Operation of Omnibus Minor Head – 800

Omnibus Minor Head - 800 (other expenditure/other receipts/other deposits) accommodates expenditure/receipts which could not be classified under the available programme Minor Heads. Transactions under this Minor Head during the current year are detailed below:

3.7.1. Expenditure booked under Minor Head 800

During 2016-17, expenditure aggregating ₹ 14,156 crore was classified under Minor Head 800-Other Expenditure in respect of 45 Major Heads involving both Revenue and Capital sections. This was 12 *per cent* of the total expenditure[18] (₹ 1,14,803 crore) during the year. Of this, ₹ 13,287 crore (11.57 *per cent*) pertained to 12 Major Heads alone. The entire expenditure under capital outlay on Roads and Bridges and Capital Outlay on Other Administrative Services, was classified under the omnibus minor head 800- Other Expenditure. This has to be depicted under the relevant minor heads below their functional major heads. Details are in ***Appendix 3.7***.

Voucher data for the year 2016-17 relating to Major Heads 2202-General Education and 2403-Animal Husbandry were test-checked in audit. Scrutiny revealed that expenditure of ₹ 21.13 crore was booked under the Omnibus Minor Head 800-Other Expenditure, though specific Minor Heads existed for accommodating these items of expenditure. Cases of ₹ 1 lakh and above are detailed in ***Appendix 3.7(a).***

3.7.2. Receipts booked under Minor Head 800

Revenue Receipts aggregating to ₹ 3,287 crore and constituting 4 *per cent* of total Revenue Receipts (₹ 82,818 crore) were classified under Minor Head 800-Other Receipts involving 45 Major Heads. Of this, ₹ 2,890 crore (3.49 *per cent* of total Revenue Receipts) pertained to seven Major Heads alone. The entire receipts under Housing and Other Rural Development Programmes were classified under the omnibus minor head 800- Other Receipts, as indicated in ***Appendix 3.7(b).***

[17] TA Bills, Vehicle hiring charges, Propaganda/chatimpu, diet charges, stationery etc.
[18] Revenue: ₹ 81,432 crore, Capital: ₹ 33,371 crore

3.7.3. Balances under Minor Head 800 – Other Deposits

An amount of ₹ 1,519 crore was lying under the Major Head 8443-Civil Deposits, Minor Head 800-Other Deposits under various items of deposits.

Classification of substantial amounts under omnibus head 800-Other Expenditure/ Receipts/Other deposits affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

3.8. Debt, Deposit and Remittance Heads

Transactions relating to Debt, Deposit and Advances comprise receipts and payments in respect of which Government becomes liable to repay the moneys received or has a claim to recover amounts paid. Remittances embrace all transactions which are taken to merely adjusting heads of accounts, the debits or credits under which are eventually cleared by a corresponding contra entries.

A review of Debt, Deposit and Remittance heads conducted during 2016-17 revealed the following:

3.8.1. Adverse Balances under MH 6003- Internal Debt

Article 293 of the Constitution of India empowers the State Government to borrow funds within the territory of India, upon the security of the Consolidated Fund of the State within such limits as may vary from time to time, to be fixed by an Act of the State Legislature.

Adverse balances (Minus balances) under loan heads indicate that repayment was more than the loans availed. To end of March 2017, there were adverse balances amounting to (-)₹ 291.48 crore under Internal Debt. These adverse balances were registered under the classification 'MH 6003-108-08-for Other Co-operatives'[(-)₹ 4.50 crore], 'MH 6003-109-12-Loans from Telangana Transco Bonds' [(-)₹ 130.37 crore], 'MH 6003-109-13-Loans from Power Finance Corporation' [(-)₹ 148.90 crore] and '6003-109-22-Loans from REC for villages, Hamlets and Dalit Basties' [(-)₹ 7.71 crore]. This indicated debt taken by the Government was not accounted but repayments made by Government were accounted. These adverse balances under MH-6003-Internal debt in Government accounts understates the liabilities of the Government.

3.8.2. Adverse Balances under Loans and Advances

There were adverse balances in respect of 25 Heads of accounts aggregating ₹ 160.94 crore to the end of March, 2017. Non-apportionment of outstanding balances under institutional loans as on 01 June 2014 between Andhra Pradesh and Telangana and non-inclusion of opening balances under loan heads resulted in these adverse balances. These adverse balances affect the correctness of status of financial position of Government.

3.8.2.1 Deposits and Advances

Government receives deposits for various purposes by or on behalf of various public bodies and members of the public. Government sometimes decides to set aside sums from the revenues of a year or a series of years, to be accumulated in 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; balances outstanding against them as of 31 March 2017 are given below:

(i) Deposits bearing Interest: ₹ 602.78 crore.

(ii) Deposits not bearing Interest: ₹ 5,674.76 crore.

Some of the irregularities noticed in operation/accounting of these deposits are given below:

3.8.2.2 Adverse Ledger Balances under Deposit Accounts

A deposit account depicts a positive balance or nil balance. A negative balance indicates that the expenditure is more than the amount deposited which mainly arises due to misclassification of expenditure.

There were adverse balances aggregating ₹ 1,076.92 crore under Major Heads 8342, 8443, 8448 and 8449 as on 31 March 2017. This was due to non-apportionment of balances between AP and Telangana States. Adverse balances affect the correctness of status of assets and liabilities of the State.

3.8.2.3 Civil Advances

As per paragraph 10.7.3 of Budget Manual, the Minor Head 'Civil Advances' is meant for recording Departmental advances, objection book advances, service fund advances, etc. "Civil Advances" include Forest & Revenue advances, other Departmental advances and other advances. There should normally be a debit balance under advance heads. However, during 2016-17, a credit balance of ₹ 20.68 crore was reflected in the accounts, due to non-apportionment of certain balances between AP and Telangana States. This affects the correctness of status of assets and liabilities of the State.

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. These are finally cleared by minus debit or minus credit when 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 and result in understatement of Government receipts and payments. Outstanding credit balance under suspense head means receipts could not be credited to final receipt head of account for want of details and outstanding debit balance means payment made could not be debited to the final head of expenditure for want of certain particulars.

The Suspense balances (Debit/Credit) under the Minor heads 101-PAO Suspense, 102-Suspense Account (Civil), 109-Reserve Bank Suspense-Headquarters and 110-Reserve Bank Suspense-Central Accounts Office under Major Head 8658-Suspense Account appearing in the Finance Accounts for the year 2016-17 are detailed below:

3.9.1. Pay and Accounts Office – Suspense (Minor Head 101)

This Minor Head is operated for the settlement of transactions with PAOs of Union/Union Territory Government by State Accountant General. Outstanding credit balance under this Minor Head means that amount is received by the State Government on behalf of Union /Union Territory Government, which is yet to be paid. Similarly, Debit balance means payment has been made by the State Government on behalf of Union /Union Territory Government, which is yet to be received.

The outstanding debit balance (31 March 2017) under this Minor Head was ₹ 100.16 crore and the credit balance was ₹ 6.63 crore. Major outstanding debit balances were in respect of PAO, Central Pensions, New Delhi (₹ 65.30 crore) and Regional PAO Hyderabad (₹ 34.46 crore). Major outstanding credit balances were in respect of Ministry of Shipping and Transport (₹ 4.44 crore), and PAO Shipping and Transport, Bangalore (₹ 1.66 crore). The outstanding balances under PAO Suspense need to be adjusted.

3.9.2. Suspense Account - Civil (Minor Head 102)

The outstanding balances under this head as of 31 March 2017 were ₹ 13.83 crore (debit) and ₹ 0.35 crore (credit). Entire outstanding debit balance pertains to Financial Advisor and Chief Accounts Officer (FA&CAO), South Central Railway. Major credit balance outstanding was in respect of unclassified suspense (₹ 0.34 crore).

3.9.3. Reserve Bank Suspense - Central Accounts Office (Minor Head 110)

This Minor Head is operated for transfer of funds between Central and State Governments. It is operated to record the transactions of loans and grants-in-aid before taking them to their final Head of Account. In case of receipt of sanction from the PAO of the Ministry concerned, the State Accountant General concerned gives credit to MH 6004 – Loans and Advances from Central Government duly debiting MH 8658 – Suspense Accounts, 110-RBS (CAO) and awaits adjustment memo from Central Accounts Section, Reserve Bank of India, Nagpur. On receipt of the adjustment memo from CAS, RBI, Nagpur the Suspense Account (Minor Head 110-RBS (CAO) is cleared by minus debit duly debiting MH 8675–RBD–Minor Head 106-States.

At the time of issue of an advice for repayment of loan and payment of interest thereon to the Reserve Bank of India, the State Accountant General debits the relevant State head of Account by credit to this suspense head. This suspense head will be cleared by means of minus credit on receipt of clearance memo from the Reserve Bank by credit to "8675 - Deposits with Reserve Bank - States - CAS Reserve Bank".

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 was not adjusted. The outstanding balances under this head as of 31 March 2017 were ₹ 133.67 crore (Debit) and ₹ 102.15 crore (Credit).

3.9.4. 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 balances shown under this head are cleared. Payment (Debit) of ₹ 1,426 crore was lying un-adjusted in respect of Government of Andhra Pradesh as on 31 March 2017.

3.10. Functioning of Treasuries

Significant irregularities in functioning of Treasuries during the year 2016-17 are detailed under:

3.10.1. Excess payment of pension/family pension

A test check of records relating to payment of pension and family pension in 18 DTOs, 81 STOs and nine APPOs, during 2016-17 showed that there was an excess payment of ₹ 83.11 lakh. Details are shown in ***Appendix 3.8.***

Despite computerization of pension package at Treasuries, excess payments of pensionary benefits were noticed. The matter was brought to the notice of Director of Treasuries & Accounts, Hyderabad through Inspection Reports and also to Government through Annual Review Report on the working of Treasuries by Accountant General (A&E). Government needs to strengthen internal controls at treasuries in order to avoid excess payment of pension.

3.10.2. Non-receipt of vouchers from Treasuries/PAO

As per Codal Provisions[19], all payments are to be supported by vouchers/cheques containing full details of the corresponding transactions. During 2016-17, vouchers numbering 5,017 were not submitted to Principal Accountant General (Accounts &

19 SR18(e) under TR18 of Treasury Code

Entitlements). Of this, 2,569 vouchers were due from PAO, Hyderabad and 2,448 vouchers were due from the Treasuries. Expenditure in these cases aggregated to ₹ 901.28 crore (PAO: ₹ 683.40 crore and Treasuries: ₹ 217.88 crore). Compliance to rules and regulations in these cases could not be vouched in the absence of requisite supporting vouchers.

3.10.3. Non-receipt of cheques in support of payments

As per Codal provisions[20], payments have to be supported by vouchers/ cheques with full particulars of payments made from Deposit accounts. During 2016-17, Treasuries have not furnished vouchers/cheques to Principal Accountant General (Accounts & Entitlements) in 1,128 cases. In these cases, payments amounting to ₹ 322.43 crore were made from deposit accounts. The highest number of cases of pending vouchers/cheques was from DTO, Karimnagar (279 cases for ₹ 76.04 crore).

3.10.4. Drawal of cheques exceeding ₹ 10 lakh each without countersignature of Finance Secretary

As per Government orders[21], cheques for drawal of funds exceeding ₹ 10 lakh each from Personal Deposit Accounts should be countersigned by the Secretary to Government, Finance Department. Cheques drawn under DTO (Urban), Hyderabad for March 2017 were test-checked in audit. Scrutiny revealed that, the DTO allowed drawal of ₹ 4,022 crore through 464 cheques exceeding ₹ 10 lakh each, without counter signature of the Secretary, Finance Department. This indicated that the delegated powers of competent authority was surpassed. This is fraught with the risk of embezzlement and corruption.

3.10.5. Drawal of funds on Form-58 Fully Vouched Contingent Bills without enclosing vouchers

As per SR 2 of Treasury Code, Fully Vouched Contingent Bill Form 58 is used for payment of services already availed or goods received. Vouchers along with stock entry and quantity verification, etc., are required to be enclosed with the bill. Vouchers in respect of DTO (Urban) Hyderabad for the year 2016-17 were test-checked in audit. Scrutiny revealed that in 91 cases, 12 departments[22] had drawn ₹ 1,102.27 crore on Fully Vouched Contingent Bill Form 58 without enclosing vouchers with requisite details. This was in contravention to the provisions of the Treasury Code.

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[20] Para 197 (i)(a) of Manual of Treasury Accounts Department (Volume-I) and SR18(e) under TR 16 of Treasury Code

[21] Memo No.351/81/DCM-II/2012 (Finance Department), dated 04 August 2012

[22] BC Welfare ₹ 2.68 crore, CPO, Hyderabad, ₹ 1.97 crore, Civil Supplies ₹ 4.16 crore, Health and Family Welfare ₹ 35.46 crore, MA&UD ₹ 2.52 crore, Medical and Health ₹ 296.16 crore, Medical Education ₹ 360.86 crore, Rural Water Supply and Sanitation ₹ 376.56 crore, Tribal Welfare ₹ 4.22 crore, MCR Human Resource Development Institute ₹ 3.01 crore, Collegiate Education ₹ 3.42 crore and Youth Services ₹ 11.25 crore

In reply, i) Project Director, Project Support Unit, Telangana State Rural Water Supply and Sanitation Project stated (October 2017) that the Form-58 is being used since 2012 onwards without enclosing payment voucher as per the advice of the Treasury department; ii) Joint Director General, Dr. MCR Human Resource Development Institute stated that the amount was drawn and adjusted to the PD Account as there was no mention of drawal of funds on AC Bill or Grants-in-Aid bill, the amount was drawn on Bill Form-58. The replies are not acceptable since the drawal of funds on Fully Vouched Contingent Bill without vouchers is in violation of the provisions of Treasury Code.

3.11. 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 re-organized into two states i.e., Andhra Pradesh and Telangana with effect from 2 June 2014. Explanatory Notes for Audit Reports on State Finances for the years 2014-15 and 2015-16 have not been received (December 2017) from the Finance Department of the State of Telangana.

3.12. Significant Findings

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

There were variations in Personal Deposit account balances shown at web portal and ledger at the end of the year. An amount of ₹10,873 crore was lying in 28,087 Personal Deposit accounts to end of the year. Paying interest at higher rates (7.40 per cent) on borrowings while keeping huge amounts in PD Accounts which did not bear any interest showed poor cash and financial management of the State Government.

Detailed Contingent bills were not submitted for an amount of ₹475 crore drawn on 3,485 Abstract Contingent bills. In the absence of DC bills it is not possible to ascertain whether expenditure has taken place or not. Un-adjustment of AC Bills for long periods in violation of prescribed rules and regulations was fraught with the risk of embezzlement and corruption.

Utilisation Certificates were not furnished or were furnished without actual utilisation for the funds drawn for execution of schemes. There were delays in submission of annual accounts by 181 bodies/ authorities which diluted accountability and defeats the very purpose of preparation of accounts.

Omnibus Minor Head 800 continued to be operated for recording expenditure of ₹14,156 crore and receipts of ₹3,287 crore affecting transparency in financial reporting *and distorting analysis of allocative priorities and quality of expenditure. This was done in several cases even where there were earmarked heads of accounts.*

Incidence of Non-reconciliation was 67 per cent (₹73,783 crore) of total expenditure and 77 per cent (₹55,116 crore) of total receipts during the year. This leads to the risk of non-detection of leakages in revenue and irregularities in expenditure.

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Telangana

Hyderabad

The

Countersigned

(RAJIV MEHRISHI)
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New Delhi

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