

**Strategy and Performance Innovation Unit
Department of Health, Medical & Family Welfare
Government of Andhra Pradesh**

Fiduciary Risk Assessment

A supplementary study



December 2006

About CGG

The Centre for Good Governance (CGG) was established by the Government of Andhra Pradesh (GoAP) in October 2001 to help it achieve the goal of 'Transforming Governance'. CGG supports the design and implementation of GoAP's Governance Reform Programme. CGG undertakes action research, renders professional advice to, and conducts Change Management and Management Development Programmes for Government departments and public agencies to help them implement their reform agenda.

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Acknowledgments

We would like to thank Dr. P.K. Mohanty, IAS, Director General & Executive Director, CGG, Dr I.V. Subba Rao, IAS, Principal Secretary, DOHMFV and Shailaja Ramaiyer, IAS, Joint Secretary, DOHMFV & Director SPIU Health, GoAP and Jaydeep Biswas, Governance Adviser, DFID India who have provided key technical inputs and guidance throughout the process of assessment.

We thank ATOS who have prepared the first frame with the support from United Kingdom's Department for International Development (DFID) for the Health Sector Budget Support to GoAP.

We also thank the Health, Medical and Family Welfare Department, Government of Andhra Pradesh and all its functionaries for their cooperation and critical inputs provided in preparing this report. Special mention needs to be made of the Health SPIU, Finance and Accounts staff, District and PHC level functionaries who have contributed greatly to the report and provided insights into the issues at the field level.

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Abbreviations

AC bill	Abstract Contingent Bills
AFF	Annual Fiscal Framework
AP	Andhra Pradesh
AP HSRP	AP Health Sector Reform Programme
APERP	Andhra Pradesh Economic Restructuring Programme
APVVP	Andhra Pradesh Vaidya Vidhana Parishad
APHMHIDC	Andhra Pradesh Health, Medical and Housing, Infrastructure Development Corporation
AYUSH	Ayurveda, Yoga, Unani, Siddha and Homeopathy
CCO	Chief Controlling Officer
CSS	Centrally Sponsored Schemes
CO	Controlling officer
CFW	Commissionerate for Family Welfare
C&AG	Comptroller and Auditor General
CHC	Community Health Centre
CMS	Centre for Media Studies
CPAR	Country Procurement Assessment Report
DDO	Drawing and Disbursement Officer
DFID	Department for International Development
DME	Department for Medical Education
DHS	Directorate of Health Services
DM&HO	District Medical and Health Officer
DOHMFW	Department of Health, Medical and Family Welfare
FMU	Financial Management Unit
FP	Family Planning
FRA	Fiduciary Risk Assessment
GO	Government Order
GoAP	Government of Andhra Pradesh
GoI	Government of India
GDP	Gross Domestic Product
GFS	Government Financial Statistics
HoD	Head of Department
IFI	International Financial Institution
IMR	Infant Mortality Rate
INTOSAI	International Organisation of Supreme Audit Institution
MMR	Maternal Mortality Rate
MO	Medical Officer
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTSEF	Medium Term Strategy and Expenditure Framework
NGO	Non-Governmental Organisation
PD	Public Deposit
PFMA	Public Financial Management and Accountability
PHC	Primary Health Centre
RCH	Reproductive and Child Health
RTI	Right to Information
SBD	Standard Bidding Documents
SFAA	State Financial Accountability Assessment
SPIU	Strategy Performance and Innovation Unit
TA	Technical Assistance
TFR	Total Fertility Rate
VC	Vigilance Commissioner

Summary

GoAP has a strong financial management framework in place with a coherent reform programme. The State is on a sound fiscal footing and is progressing well on the fiscal targets set according to the State Fiscal Responsibility Budget Management Act (FRBMA) and the Fiscal Correction Path signed with Gol. The health FRA is set within this wider Public Financial Management (PFM) reforms pursued by GoAP – also flowing from the State Financial Accountability Assessment (SFAA) work – supported earlier, jointly by DFID and the World Bank.

Linking budgeting and policy in the health sector remains a central challenge that will take some time and effort to address. GoAP spends around 75% of the health budget on salaries and other establishment expenditure. Budgeting has been largely incremental in nature and not clearly linked to a stated health policy. This is being addressed by GoAP by developing a Health Sector Reform Strategy. An MTEF has been prepared with GoAP ownership especially from the finance department which developed the overall resource envelope for the health sector. Adequate institutional mechanisms are being put in place through SPIU and a new Financial Management Unit (FMU) to ensure that MTEF links to the annual budgeting process of the health department. The FMU is headed by a Financial Adviser (a new post created) for the Health department. GoAP has also agreed to staff more experts on accounting and financial management in the health department through the FMU.

One of the risks relate to under spending of funds in the health department. This happens because of excessive controls in the treasury system which leads to late release of funds and also because of lack of planning and monitoring of expenditure by the health department as well as due to unspent balances under CSS schemes of Gol. To reduce under spending, the health department has committed to more rigorous monitoring and reporting of expenditure at all levels. The leadership have included in their personal objectives that expenditure monitoring will be given high priority. The department is also developing an integrated financial information system for better budget management including that of funds flowing from Gol.

Weak financial accountability in the autonomous 'Societies' is an issue. GoAP has already taken steps to improve the financial accountability of Societies through a comprehensive government order under SFAA led reforms. Gol too has initiated a process to achieve a common financial procedure in all the Societies. Systems for internal audit within the health department are weak. The finance department is in the process of strengthening internal audit capacity within the health department.

Public Procurement in DoHMFV is centralised in APHMIDC while other sub departments deal with 15% to 25% of their budget (decentralised procurement). This is an area for significant improvements, as internal control, staff capacity, documentation and financial management practices at APHMIDC are not in tune with international best practices. These are being immediately addressed by APHMIDC and plans have been approved to recruit specialists in internal audit, drugs purchase and procurement management. DFID is providing TA support to strengthen human

resource capacity for procurement. APHMIDC has also put together a procurement reform plan. GoAP is in the process of enacting a Procurement Law for standardizing procurement processes and establishing a regulatory authority. This is being supported through the governance programme in AP and also in partnership with the World Bank.

AP is ranked as the 4th least corrupt state out of 20 states in India on petty corruption in public services (Transparency International India-CMS study 2005). A quick preliminary press scan for the period January to December 2005 reveals that there was no major corruption story associated with the health sector in the state. There is however indication of petty corruption at the grassroots level pertaining to health providers engaged in service delivery, reimbursements for institutional deliveries to beneficiaries and drug distribution. GoAP's strategy to tackle corruption prominently includes revamping the internal vigilance function of the health department with support from anti-corruption bodies of the state and effective implementation of Right to Information Act (RTI Act 2005) and Citizens Charters.

DFID funds for health sector support will be routed through the state budget of AP. From the state budget a major proportion of the funds will flow through the treasury system and the balance funds will go to the autonomous societies as *grants-in-aid*. The overall Fiduciary Risk for the proposed DFID assistance is considered **medium**.

Chapter 1: Overall Fiduciary Risk Assessment

This report has been prepared to assess the fiduciary risk associated with Health sector budget support of up to £60 million to Government of Andhra Pradesh (GoAP) in line with DFID guidelines. The health sector budget support is aimed at enhancing the access and quality of health care service for the poor and marginalised with a specific focus on primary and secondary health care.

The health scenario in Andhra Pradesh (AP) is mixed. The State has health indicators like MMR, IMR, and TFR etc. just around the all-India average, but these remain significant in comparison with those in southern states. Also, AP has one of the highest prevalence of HIV/AIDS in India and a high disease burden of Tuberculosis.

GoAP spends less than 1% of its Gross Domestic Product (GDP) on health and about 75% of the health budget is spent on salaries and other establishment expenditures. This resource crunch in the public sector is proving a bottleneck when most of the allocations go for salary payments, leaving limited resources for drugs, medical supplies and maintenance. This has adversely affected the Health Sector as service provision leaves much to be desired in terms of quality and access to the poor people.

1.1 Fiduciary Risk in DoHMFV

The assessment of the systems of public financial management and accountability in the Department of Health, Medical and Family Welfare (DoHMFV), GoAP was undertaken against the eight good practice principles and fifteen benchmarks defined by DFID. The assessment against each of the fifteen benchmarks is summarised in the risk matrix in the report which includes a risk rating (on an A-C scale) for each benchmark.

This evaluation gives consideration to both the likelihood and impact of risks. On the basis of the assessments and ratings against individual principles / benchmarks, in consideration of intention to change and the present status of progress in PFMA reform process, the fiduciary risk in the DoHMFV, GoAP is assessed at **medium**.

This is based on the following assessment of fiduciary risk in the DoHMFV:

- There is a medium risk that funds are not properly accounted for;
- There is a medium risk that funds are not used for the intended purpose;
- There is a high risk that funds do not achieve value for money.

1.2 Risk that funds are not properly accounted for

This has been assessed against the two Good Practice Principles (GPPs) that *reporting of expenditure is timely and accurate* and that *there is effective independent scrutiny of government expenditure*. Reconciliation is carried out on a routine basis at different levels. Funds through the treasury system are subject to stringent checks and auditing (of annual accounts) by the Comptroller & Auditor

General (C&AG), whose reports are presented to the Legislative Assembly within the statutory period. However, for entities outside the treasury system such as the Societies, improvements need to be made. The Public Accounts Committee (PAC) and Estimates Committee with the assistance of Accountant General (AG) play their role with a high degree of application and scrutiny of issues is fairly rigorous, except in timeliness, and is detailed in fixing accountability for government agencies.

1.3 Risk that funds are not used for intended purpose

This has been assessed against the two GPPs of budget being *a reliable guide to actual expenditure* and *expenditure within the year is controlled*. There are no materially significant deviations from DoHMFV budgets. However, there are certain problems of budget predictability in movement of funds from Government of India (GoI) to Societies - that are outside the treasury system - for effective implementation of budgets. In the context of re-appropriations, while data is not published on this - given the clear restrictions on Heads of Departments on re-appropriating from specific object heads and across group sub-heads - the value of re-appropriation is quite insignificant.

1.4 Risk that funds do not achieve value for money

This has been assessed against the two GPPs that budget *supports pro-poor strategies* and *procurement is transparent and brings value for money*. There is an incremental budget making process and culture throughout the Government. The DoHMFV has significant capacity issues with regard to being able to develop realistic budgets and formulate costed programmes and policies. However, there has been a recent initiative to link policy with spending with the formulation of a Medium Term Expenditure Framework (MTEF) (2006-11) in consonance with the AP Health Sector Reform Strategy (2006-11) duly approved by the Finance Department.

The drive of the finance department in guiding the MTEF has indicated strong ownership. The Health Strategy has a clear focus on pro-poor primary healthcare, social security mechanisms and reducing financial burden of illness for the poor. There is an increasing commitment to pro-poor health strategy with a back of institutional reforms. User fees are abolished. There is a focus on improving standards of services delivered by the institutions. Health Insurance for the poor is being considered. For the first time allocation of Rs 20 crores for Health Insurance Scheme for the poor has been made in the 2006-07 budget. GoAP has also recently introduced an exclusive provision for treating cardiac ailments of children belonging to the vulnerable sections of the society. However, there is clear weakness in linking health policy and budgets. But a beginning to make that link has been made through the MTEF which the government plans to roll in this year's budget.

With regard to procurement most of the DoHMFV drug budget is for centralised procurement and only some sub-departments procure around 15-25% of their respective budgets. The systems for decentralised procurement at the district level are not well defined. At centralised procurement level there is an absence of a clear audit trail, weak MIS system, high staff turnover and low staff capacity. GoAP is in the process of implementing a Procurement Law to establish a regulatory authority and standardise procedures.

1.5 Credible Programme of Improvement

The **programme of reform is credible**. The programme of improvement has been developed by the DoHMF, in consultation with Finance Department, to mitigate the fiduciary risks and for strengthening financial management framework and enhancing capacity of the department for undertaking effective planning, monitoring and expenditure reviews.

Some of the key actions include; establishing a Financial Management Unit (FMU) in the health department led by a Financial Advisor for overall supervision and financial management, developing standards of financial management for all societies and autonomous bodies, and capacity building of financial officers at all levels with a special focus on internal audit. As procurement is a high risk area the plan includes specific procurement reforms such as developing standard bidding documents, procurement manuals and streamlining the procedures for award of contracts in accordance with international best practices. APHMHDC has put into place a procurement reform action plan which includes appointment of core technical staff for drug procurement and developing a procurement manual.

In order to improve the efficiency of the department and put in place governance reforms, the Strategy Performance and Innovation Unit (SPIU) has been strengthened to act as an institutional mechanism for driving the reform process. Additionally, with the advent of the National Rural Health Mission and the constitution of the State Health Mission and District Level Health Missions significant improvement in coordination between sub-departments can be expected.

1.6 Risk of Corruption

In AP, high value corruption pertains mostly to major departments like irrigation; excise, commercial taxes, and urban development because they receive significant budgetary allocations, have large programmes and involve discretionary use of power. The health sector budget in comparison is significantly lower than these departments. Within the health sector budget close to 75% are spent on salaries and only 13% are allotted for drugs, equipment etc. Both these reasons limit the scope of corruption in real money terms in the DoHMF.

In the context of petty corruption AP is ranked as the 4th least corrupt state out of 20 states according to the composite ranking of states (TII-CMS study 2005). There is however, widespread public perception that health providers in government institutions take bribes which affect service delivery (India Corruption Study 2005, by Centre for Media Studies). In AP it was found through a service delivery assessment study that corruption is mostly related to the frontline (Ascent, 2005). This study found out that corruption mostly related to the patients being forced to pay, at times, to get services on time. Otherwise they were mildly harassed and had to face difficulties in getting the services which were otherwise free. But there was no evidence of a pervasive corruption. Overall in the health sector there seemed to be a medium risk of corruption involving access to services at the frontline, cash reimbursements to beneficiaries, personnel management (departmental transfers

and promotions), rate contracts, emergency drug procurement and drug distribution at the facility level.

GoAP has an established institutional and legal framework in place for identifying and controlling corruption. In the previous few years AP followed the enforcement approach more strongly to tackle corruption through the anti-corruption agencies. In last two years GoAP's focus has been on supplementing the enforcement approach with a stronger focus on accountability-transparency type initiatives at the service delivery level, that include right to information, improved human resource management, monitoring and evaluation processes, e-procurement and Citizens Charters. GoAP is already implementing the powerful RTI Act 2005 as a tool for improving public awareness, government-citizen interface and facilitate active role of the civil society.

At the DoHMFV level, procurement reforms have been initiated. DFID is providing TA support to take this forward. In order to deal with corruption associated with procurement, GoAP is in the process of implementing a Procurement Law, for standardising procurement procedures and establishing a central procurement regulatory authority. Internal vigilance system including its field agency is planned to be revamped and strengthened in consultation with the Vigilance Commissioner as well.

Chapter 2: Statement on Risk of Corruption

2.1 Domain scene across GoAP

India has scored the least among the other South Asian countries in context of corruption in the health sector (Study by Transparency International, 2005). Andhra Pradesh is ranked the 4th least corrupt out of 20 states on petty corruption according to the composite ranking of states (TII-CMS study 2005). Also the UNDP Health Index has classified AP as a medium performing state with Health Index Ranking of 6 out of 16 states. As per India Corruption Study 2005 by the Centre for Media Studies the percentage of persons who had to pay bribes in government hospitals had gone down in 2005 as compared to 2002. However, there is a public perception that corruption associated with government agencies remains significant.

In Andhra Pradesh most cases of corruption pertain to major departments like irrigation, excise, commercial taxes, and urban development because these sectors receive significant budgetary allocations, involve discretionary use of power and support large programmes. The sectoral allocation for health sector is low in comparison. Additionally, for the year 2006-07, 75% of the Health budget was allocated to wages, salaries, stipends, operations and administration and only 13% was for drugs, materials, equipment, works and capital expenditure. Thus the low sectoral allocation combined with a large proportion of the sector budget allocated to salaries, wages etc. limit the scope of corruption in real money terms in the DoHMF. However the problems related to corruption in the health sector is about small time payments that the poor are forced to make the payments to get services and the harassment in accessing services they face when they can't make, is a central issue. This means corruption in health sector is more about service providers not providing adequate services.

2.2 Risk of Corruption in the Health Sector

A preliminary press scan for the period January to December 2005 reveals that there was no major corruption story associated with the health sector in the state. Though there is indication of petty corruption at the grassroots level pertaining to health providers engaged in service delivery, cash reimbursements to beneficiaries and drug distribution. This leads to the inference that there is no high end high value corruption in the AP health sector. There is however, low end petty corruption with impact on service delivery and low personnel productivity.

The GoAP has an established institutional and legal framework in place for identifying and controlling corruption.

Prevention of corruption and maintenance of integrity in public service:

- Andhra Pradesh Vigilance Commission - the oversight body in charge of preventive, punitive and public participation measures for anti corruption;

- Institution of Lokayuktha and Upa-Lokayuktha - a statutory body to enquire into allegations against Ministers and specified public servants;
- Commissionerate of Inquires – to deal with inquires with respect to senior officers under the All India Services Discipline and Appeal Rules and AP Civil Services Classification, Control and Appeal Rules;

Corruption Enforcement Machinery

- Anti Corruption Bureau – investigating arm of the Government to deal with complaints under the Prevention of Corruption Act, 1988;
- Directorate General of Vigilance and Enforcement – an external inspecting and enquiry agency for detection of and enquiry into leakage, waste, and misuse of government funds and resources of the State.

The institutional framework is working reasonably. Neither the institutions appear to have become effective over the years nor have they become defunct. The statistics below give an indication of the overall level of corruption in the DoHMFV as well as the commitment of the GoAP to curb such practices.

Between 2001 and 2003, the number of “trap”¹ cases went up by 71 percent and the number of disproportionate assets cases by 83 percent. The number of convictions increased by 115 percent, number of dismissals from service increased by 25 percent and the number of gazetted and non-gazetted officers booked increased by 25 and 68 percent respectively. There were 31 complaint petitions and 12 newspaper reports on irregularities pending at the beginning of the year 2005-2006. According to the C&AG report, for the year ended March 2002, there were 54 cases of misappropriation reported to audit pending final action in the department for an aggregate sum of Rs 1.46 crores. There were 21 misappropriation cases, 83 cases of discreet and regular enquiries and registered cases, 63 cases of “trap”, 18 cases of disproportionate assets, and 63 cases of surprise checks by the Anti Corruption Bureau pending punitive follow up action at present in the Department.² The surprise checks by the Anti Corruption Bureau (ACB) related mainly to surprise inspections of Primary Health Centres (PHC) and other medical institutions, drug stores, etc.

The Vigilance and Enforcement Inquiries in DoHMFV, relate to irregularities in the purchase of equipment, lapse of funds and non disbursement of incentive amounts under the *Sukhibhava* Scheme, lapses in the expenditure of incentive amounts for family planning and corrective operations of physically handicapped, misappropriation of drugs, absence of medical officers and other medical personnel, lapses in regard to testing of blood smears for malaria, procurement of vaccines etc. According to information furnished by the Vigilance Commission, the ACB had submitted during the year 2004-05 four surprise check reports, 4 regular enquiry

¹ “Trap” refers to the accused getting caught red handed while accepting bribes, usually employed by the enforcement agency against Government employees of doubtful integrity.

² The statistics were compiled with the help of the Chief Vigilance Officer of the DoHMFV and the Andhra Pradesh Vigilance Commissioner in respect of anti corruption efforts pertaining to the department.

reports, 10 preliminary reports and 20 final reports in respect of “trap” cases involving acceptance of bribes, and a preliminary report and 3 final reports of amassing assets disproportionate to known sources of income by officers of the DoHMFV.

The Vigilance Commission advised suspension of 8 Gazetted Officers and 3 Non Gazetted Officers based on these reports pending enquiries or investigation as the case may be, prosecution of 15 Gazetted Officers and 7 Non Gazetted Officers and disciplinary proceedings against 2 Gazetted Officers through the Commissioner of Inquiries. The special courts for ACB cases convicted 6 officers during the year 2003-04 for periods up to 2 years of rigorous imprisonment and fine.

This indicates the enforcement approach adopted by GoAP for controlling corruption. However, GoAP realises that while enforcement can act as a deterrent it cannot serve to completely prevent corruption. Therefore, GoAP is complementing the enforcement approach with a preventive approach focusing on public awareness and peoples’ empowerment - through effective implementation of the RTI Act and citizen charters.

2.3 Corruption Prone Processes

2.3.1 Provision of services by frontline health workers

Service Delivery:

There is a public perception that personnel in public health institutions take bribes which affects service delivery (India Corruption Study 2005, by Centre for Media Studies).

Cash Reimbursements for institutional deliveries:

From the C&AG Audit report (Civil) for the year ended 31 March 2005, it is inferred that there is a scope for corruption in incentive payments (cash reimbursements) to beneficiaries at the delivery point by health functionaries due to weak internal control systems:

- Medical Officers (MOs) of the PHCs and the Community Health Centres (CHC) are empowered to draw a maximum of Rs 8000 and Rs 10000 respectively on AC bills, on each occasion, it was observed that the MOs exceeded the limit in Nalgonda (three bills in 2001-02 and five bills in 2004-05 were drawn for Rs 50,000 each) and West Godavari (two bills of Rs 15,000 each drawn in 2004-05) districts for payment of incentive to Family Planning (FP) acceptors;
- In four districts (Chittoor, Nalgonda, Ranga Reddy and Warangal) compensation to FP acceptors was paid for sterilisation conducted in private medical institutions without verification of records of those institutions;
- During 2004-05 District Medical & Health Officers (DM&HOs) in Kurnool and Warangal made advances (ranging from Rs 10000 to Rs 50000) to MOs of PHC/CHCs on simple hand receipts from out of the amounts drawn on AC bills for payment to FP beneficiaries. DM&HOs did not however maintain any register to watch the adjustment of advances. The amounts advanced were kept out of government account for three to six months until these were adjusted in the

respective DC bills;

The above indicates the existence of a medium risk of corruption associated with incentive payments to beneficiaries due to weak internal control systems. The weak internal control is identified as a central problem.

2.3.2 Personnel Management

There is a medium risk of corruption involving favouritism, bribery and undue influence regarding personnel management issues surrounding transfers, postings, and promotions. This is a major issue and is being tackled through the development of a human resource management policy which includes the implementation of a fair and non-discriminatory transfer and postings policy and which is adequately transparent. The government has agreed that this is one of the critical steps that need to be undertaken in the first year of the programme. DFID has already supported the analysis of human resource management practices in the health department through the Ernst and Young/Centre for Good Governance study under the Governance Reform Programme. This analytical work will help draw up the human resource management policy for the health department.

2.3.3 Drug selection and use, procurement of drugs and medical equipment, distribution and storage of drugs, regulatory systems, budgeting and pricing

Public Procurement in DoHMFV is centralised in APHMHIDC while other sub departments deal with 15% to 25% of their budget (decentralized procurement). APHMHIDC was primarily conceived for civil works and hence it has more systematic processes and procedures for works in comparison to drugs procurement.

The following observations were made in the context of procurement assessment review:

- Though the Standard Bidding Documents (SBD) for civil works, goods/ supplies and drug procurement are available in APHMHIDC, these need review and modifications. The SBD for service procurement are not available.
- There are stock-outs of many essential drugs at district stores which results in emergency procurement of drugs from open market. Procurement systems in such cases are not standardised.
- The inventory management system records hospital-wise issue of drugs, but it does not provide details of use of drugs and current balance.
- The patient-wise drug dispensing records are not maintained and hence, it is not possible to tally the drug issued from the stores with the actual use. Drug lists and current stock are publicly displayed at PHCs but need to be regularly updated.
- Other weaker areas noticed in APHMHIDC are absence of clear audit trail, weak MIS system, high staff turnover (as all the staff are on short-term deputation from government), and lack of capacity building efforts etc.
- There is no separate vigilance officer in APHMHIDC and the chief engineer acts as vigilance officer. There is also no established mechanism for handling the grievances/representations from suppliers.

- The quality assurance system of APHMHIDC has recently been streamlined with recruitment of a drug inspector and setting up of the drug analysis wing. It tests every batch of every drug. Six private drug laboratories have been empanelled for testing the samples drawn on random basis.
- No cases of political interferences were reported either by the staff of APHMHIDC or by its suppliers. The management committee, which is headed by a political appointee, does not interfere in day-to-day operations of the corporation including the procurement decisions.
- Bureaucracy is involved in decision making at different levels in different evaluation committees at the corporation as well as at GoAP.

The above indicates a medium risk of corruption in receipt of kick-backs, rate contracts, emergency drug procurement and drug distribution at the facility level.

2.4 Anti-Corruption Initiatives

AP has mostly followed the enforcement approach in tackling corruption. In the last five years focus was on the enforcement. “Andhra Pradesh reforms in enforcement (2000-2004)³:

- G.O. No. 1825 (April 4, 2001) was issued to establish a high level anti-corruption committee chaired by the Chief Secretary tasked with reviewing the progress of investigation into complaints and monitoring the disposal of ACB cases
- In order to prevent tampering with evidence and facilitating speedy investigation instructions were issued to the Director General, ACB that in all cases of successful “traps” the accused employees should not be granted bail in a routine manner but should be sent into judicial restraint (May 19, 2003)
- In order to facilitate the seizure of assets acquired by corrupt means in disproportionate assets cases, instructions were issued to the Director General, ACB, for attaching properties under the relevant Sections of Criminal Law Amendment Ordinance 1944, and for placing the accused employee under suspension (June 10, 2002)
- Instructions were issued to maintain an annual list of officers of doubtful integrity and to obtain the clearance of the Vigilance Commissioner providing added weight and sanction
- G.O. Ms. No. 174 (June 9, 2003) was issued to bring the Commissionerate of Inquires under the administrative control of the Vigilance Commissioner
- G.O. Ms. No. 232 (August 6, 2003) was issued to create a list of points or places of corruption and a list of unscrupulous contractors, suppliers and firms among others
- Augmenting ACB staff by the sanction of 5 additional posts at the level of Deputy Superintendent of Police and 12 additional posts of Sub-Inspector of Police, to facilitate the creation of five new ranges in addition to the existing fifteen
- The passage of G.O. Ms. No. 280 (September 9, 2003) to fix a minimum tenure of three years for deputation of personnel to the Anti-Corruption Bureau and to allow their premature transfer only with the approval of the Vigilance Commissioner
- An additional pay increment of 30 percent was sanctioned to all staff of the ACB

³ Source: World Bank Internal Analysis, October 2003

by G.O. Ms. No. 280 (September 9, 2003).”

2.5 Comprehensive Action Plan

In the last two years GoAP has focused on creating transparent systems at the service delivery level, improving human resource management focusing on performance measurement, effective monitoring and evaluation systems and a more transparent procurement system in addition to the regular enforcement mechanisms. For controlling corruption GoAP is using the powerful RTI Act 2005 as a tool for improving government-citizen interface.

Centre for Good Governance (CGG) supporting the governance component of the health sector budget support is the National Implementing Agency for Capacity building for access to information under the RTI Act supported by Gol and UNDP. It has undertaken training and sensitization of government officials to meet citizen information needs, and build capacities of citizens, Panchayati Raj Institution members, civil society organisations, to demand more information.

The DoHMFWS plans to take up effective measures for controlling corruption. These include revamping the internal vigilance system in the department including its field agency by reviewing the role of the Vigilance Officers, and developing a clear staffing structure and mandate in consultation with the State Vigilance Commissioner.

All cases of unauthorized absence of medical officers are being strictly dealt with in order to curb absenteeism. The DoHMFWS plans to put in place a non-discriminatory transfer and posting policy, incentive system for posting in backward areas and performance management system. The GoAP has also indicated a commitment to increase involvement of Local bodies in health care management. Local bodies are to be made an integral part of the mandal and village level planning and monitoring of health service delivery to ensure greater accountability.

GoAP is in the process of implementing a Procurement Law, for standardising procurement procedures and establishing a central regulatory authority. Procurement reforms in the DoHMFWS would include putting drug information in the public domain, effective mechanisms for grievance redressal and streamlining procurement processes. The APHMHIDC has put in place a procurement reform action plan which includes recruitment of core technical personnel on full-time basis for drug procurement and development of procurement manual.

Chapter 3: Statement on Credible Programme of Improvement

3.1 Programme of Improvement

The following programme of improvement has been developed by the DoHMF, with technical support from CGG, in consultation with Finance Department.

1. Review of the existing financial management system, including funds flow and control mechanism from the finance department to the health department's service delivery point (PHCs and sub-centres);
2. Improvements/reforms in the financial management framework comprising of:
 - a. Budget planning and execution framework for the DoHMF at secretariat level
 - b. Reforms in financial management system at the sub-department, district and other levels
 - c. Internal audit and comprehensive risk review for the health department, including the societies/departments having Public Deposit (PD) accounts and centrally sponsored schemes
 - d. Setting up financial MIS systems and e-enablement of sub-departments
 - e. Financial Management Handbook for DoHMF
3. Financial capacity building including
 - a. Financial Adviser, as head of Financial Management Unit (FMU) in the DoHMF, under overall supervision and control of Principal Secretary, DoHMF to lead the programme of improvement
 - b. Financial management capacity building at the state and district level
 - c. Financial management capacity building for Drawing & Disbursing Officers (DDOs) of National Health Programmes.
4. Procurement reforms
 - a. Standardization of procurement process and documentation according to international best practices by comprehensive procurement manuals and training and capacity building
 - b. A system based audit for procurement and civil works
 - c. Strengthen human resources with technical expertise in drug procurement
5. Anti-Corruption measures within DoHMF
 - a. Strengthen Vigilance setup in consultation with State Vigilance Commissioner
 - b. Empowerment of citizens through Citizen Charter and RTI Act
 - c. Assessment of corruption prone processes

3.2 Is the programme of improvement Government led?

The programme of improvement has been developed by the DoHMF in a participatory manner wherein all sub-departments and the Finance department have been involved in the process. In-depth discussions on the areas of concern and

proposed plan were undertaken during a series of workshops which led to a general consensus of commitment towards the programme of improvement from both within the DoHMFWS and the Finance Department. The Finance Secretary, GoAP has endorsed the programme of improvement. Steps have been initiated by DoHMFWS and Finance Department towards implementing PFMA reform in DoHMFWS and these have effective donor harmonisation.

3.3 Is the programme of improvement integrated and effectively sequenced?

The programme of improvement is integrated and effectively sequenced. As an initial step the DoHMFWS developed the SPIU as an institutional mechanism to carry forward the reform agenda. The SPIU has been operationalised and strengthened with human resource capacity.

Subsequently the DoHMFWS, through the SPIU, has conducted a comprehensive review of the Financial Management Framework, developed a Medium Term Expenditure Framework for the Health Sector and conducted an Under-spend Analysis. The SPIU is in a position to take the reform plan forward in a structured manner.

3.4 Is the programme of improvement realistic and achievable?

The programme of improvement is realistic and achievable. This is based on the following steps taken by DoHMFWS:

- Developed a comprehensive Andhra Pradesh Health Sector Reform Strategy that lays down the State's concerns and priorities and provides a guideline for directing future initiatives. The Strategy is likely to be approved by the Cabinet shortly;
- Developed an MTEF 2006-11 which has been approved by Finance Department. The MTEF is linked to the Health Sector Reform Strategy and is an effort on the part of the Department to link spending with policy objectives;
- Governance Reform projects in Health sector to be undertaken by SPIU are:
 - *Budget Analysis and overall financial management capacity building*
 - *Collaboration with private sector and regulation*
 - *Capacity building*
 - *Human resource management and organisational development processes*
 - *Standard Treatment Protocols*
 - *Monitoring and Evaluation (process evaluation)*
 - *Communication*
 - *Standards/Norms of service delivery*
 - *Research and planning*
- Online Employee Database Management System has been developed by the department with support from CGG to streamline human resource management. The application has been developed and is being piloted in 2 districts and is planned to be rolled out to the entire state.

- The Finance department has indicated its commitment to the programme by initiating Financial Management training for DDOs, Accounts Officers and the personnel concerned in the DoHMFV.

3.5 Is the programme of improvement relevant and sustainable?

The health FRA related reforms are set within the wider PFM reforms being pursued by the government. GoAP has put into place various PFM reforms subsequent to the State Financial Accountability Assessment (SFAA). These include:

- Revision of the budget manual is in the final stages and it is expected to be published by October 2006;
- Functional manuals for the Finance department has been completed;
- Significant reduction in outstanding AC Bills, pending audit paras etc. has been noted after April 2002 due to impact of G.O. 507;
- Fiscal policy strategy statement has been prepared and presented to the Legislative Assembly along with the Budget for the year 2006-07;
- Performance reviews of the line departments for the years 2004-05 and 2005-06 have been completed;
- Resources Expenditure Information System (REINS) has been successfully implemented, and its database is being used by Integrated Financial Information System (IFIS);
- High cost debt has been swapped for low cost debt;
- Internal Audit Cell has been established in the Finance Department and an Internal audit manual has been prepared;
- Annual Fiscal Framework has been completed;
- Budget in Brief has been put up on the official website to widen the public access

The above initiatives are supposed to build long term systematic improvements to PFMA.

The programme of improvement appropriately addresses the key risks identified during fiduciary risk evaluation with particular reference to procurement and corruption. The DoHMFV while formulating the programme of improvement has given due weightage to consultancy inputs from national and international resources.

The incentive to make the programme of improvement self-sustainable is expected to be driven by empowered public demand for improvements in frontline primary health care service delivery.

3.6 Does the programme of improvement include capacity development strategies?

Financial management capacity development is a key component of the programme of improvement. It not only includes Department of Finance and Health but also representatives of the Supreme Audit Institution (C&AG).

The Health Sector Reform Strategy developed by the DoHMFV envisages the creation of an institutional framework to address the perpetual training needs of the department. Finance department and Centre for Good Governance will play a key

role in capacity building. The emphasis is on developing training institutes to carry forward training and ensure regular capacity building of officers in the department.

The Finance Department has also recently commenced financial management capacity building for DDOs and Accounts Officers in the DoHMFW.

Hence there is a clear focus on capacity building strategies in the programme of improvement.

Chapter 4: Methodology for Fiduciary Risk Assessment

The methodology applied to the Fiduciary Risk Assessment of the Andhra Pradesh DoHMFWD is as outlined in the “Managing Fiduciary Risk when providing Poverty Reduction Budget Support” document.

Fiduciary risk can be defined as the risk that funds; are not used for the intended purposes; do not achieve value for money and are not properly accounted for. The basic underlying principle is to assess the performance of the PFMA System against a parameter of eight good practice principles and fifteen benchmarks. Whereby the system is assessed against each principle/ benchmark and given a rating of A to C as illustrated below along with a trajectory of change which indicates progress in terms of positive, status quo or negative trend.

- **A is low risk** – represents a situation where there is basic compliance, although coverage may not be 100%.
- **B is medium risk** – indicates there are some significant weaknesses in compliance or that procedures need to be changed.
- **C is high risk** – indicates substantial failure to comply or that the system will require substantial upgrading to meet the standard.

The use of this rating scale is not an exact science, due to the complexity of the specific state context and the fact that the benchmarks do not represent specific performance indicators. Therefore, the rating should be read in the context of the associated narrative and the fact that GoAP in India is a leader in undertaking a range of reforms.

To assist in recording the trajectory of change, an arrow has also been employed against each of the fifteen benchmarks. This indicates the quality/credibility/existence of the Department’s/GoAP’s programme to improve the standards of PFMA systems and the expected progress going forward based on actual evidence of progress achieved to date.

4.1 Methodology for study

The study has been conducted in a participatory manner with extensive discussion with key stakeholders at different points of the study to validate findings and ensure ownership of the department. The Andhra Pradesh public financial systems have been widely studied and therefore this study draws heavily from these sources such as the SFAA, Health Department Expenditure Review, and World Bank Country Procurement Assessment Report (CPAR).

The study broadly involved in-depth review of existing documents, extensive field visits and consultations with stakeholders at different administrative levels. A comprehensive sample of districts was selected for field visits which covered 5 districts namely - Krishna, Warangal, Nalgonda, Medak and Ranga Reddy in AP. The field visits involved control testing at the grassroots level and assessment of the practical difficulties experienced by department officers.

The draft report was circulated within the DoHMFWS & the Finance department and series of workshops were conducted for feedback to validate the findings of the study and as well as to ascertain commitment to reform agenda.

4.2 Methodology for selecting funding mechanisms

The majority of DoHMFWS expenditure is on salaries, both in Plan and Non-Plan. The SFAA noted that the Treasury systems for the payment of salaries were satisfactory, "Control testing of salaries and allowances revealed satisfactory results in the offices tested. In all cases, where records could be inspected, all relevant records are properly maintained, kept up to date, and properly attested by the appropriate officer. No cases of arrears are noted; group insurance was properly deducted; advances were being appropriately deducted. In all cases there was evidence of periodic attestation of the records by the Controlling Officer (CO). Compliance with controls over salaries and allowances has reportedly improved significantly over the past two to three years. While the traditional system of distribution of salary by the DDO poses some inherent and control risks, these are minimised by the centralised appointment system and employees signing for salary in a shared volume".

Since the SFAA was completed there have also been improvements in the Treasury computerised financial management systems, and e-khazana is up and running down to district level in Treasury departments. It was also noted that the payment of salaries and allowances is guaranteed and is not subject to budgetary control, meaning that the salary budget is not affected by the cash position of the GoAP and is therefore never significantly under-spent. There are therefore no significant fiduciary risks in the salaries and allowances element of the DoHMFWS budget.

Of non-salary expenditure, the most significant areas of expenditure were in the Commissionerate Family Welfare (CFW) and the Directorate of Health Services (DHS), on Centrally Sponsored Schemes, the secondary health budget of the Andhra Pradesh Vaidya Vidhana Parishad (APVVP), and the drugs and civil works budget being administered by the APHMHIDC. These have been studied in detail to ascertain the level of fiduciary risk involved in their financial procedures. Of the CFW schemes, the majority are funded by the GoI on Central Sector Schemes, which were released bypassing treasury systems through a mechanism of issuing direct bank drafts to the societies. The Disease control programmes are typically implemented by Societies constituted for the specific purpose such as TB Control Society, Malaria Control Society etc and funded through Centrally Sponsored Schemes. It has a range of funding mechanisms from Treasury to PD Accounts.

APVVP has a high proportion of non-salary costs of DoHMFWS. Its funding comes entirely from grants-in-aid, operating through a PD account, and therefore does not account to the Treasury for the use of its funds. Procurement of drugs and equipment and the contracting and implementation of civil works for the DoHMFWS is carried out by the APHMHIDC. Procurement is usually regarded as a high risk in most PFMA systems and thus we have prioritised the review of APHMHIDC. Both the World Bank and DFID have reviewed procurement issues previously and this assessment utilised elements of those reviews and also highlighted some additional areas of risk that have not been covered previously.

5.1 GPP1 – Budget Rules

Risk: Medium. The PFMA system is prescribed by Gol within the provisions of the Constitution of India. It is well defined by Government Accounting Rules, Account Codes, and General Financial Rules. The Andhra Pradesh Fiscal Responsibility and Management Act, 2005 was enacted by AP Legislative Assembly on Dec 20, 2005 to bring in fiscal stability.

The budget classification broadly complies with GFS standards. The expenditure classification system has been prescribed by Gol on the advice of the C&AG of India. The classification system is well understood and implemented at the state level. However, there are some issues at district level and below due to the complexity of the budgets and variety of funds flow mechanisms. G.O. 507 issued by the Finance Department is targeted to improve accounting controls and increase compliance and reduce fiduciary risk in autonomous bodies operating outside the Treasury system.

5.2 GPP2 – Comprehensiveness

Risk: Low. GoAP is now a leader in budget comprehensiveness, for example having brought previously off-budget borrowings on budget and by disclosing (and increasingly providing for) government guarantees. International standards are met in presentation and coverage of the budget. However, there is a high degree of detail and complexity making the Budget not user-friendly. GoAP has made significant efforts to enhance user understanding, such as preparation of Budget in Brief, Performance Budget, Summary of department-wise total appropriations etc. GoAP's forecasts of revenue are also consistently below budget but within a low margin of error and the quality of these forecasts are improving. In the context of extra-budgetary expenditure, around 10% of the DoHMFV budget, funded through Gol and other external funds, remains off-budget due to the lack of confidence in GoAP's treasury system. GoAP has already joined other states to ask for routing such funds through the GoAP's Treasury system in the future.

5.3 GPP3 – Allocation

Risk: High. GoAP has a Medium Term Fiscal Framework (MTFF), an Annual Fiscal Framework (AFF) and has made forward strides in fiscal reform and PFMA reform. However, the budget process remains incremental throughout the Government. The DoHMFV has significant capacity issues with regard to being able to elaborate realistic budgets and formulate costed programmes and policies.

However, the DoHMFV has recently formulated a comprehensive MTEF (2006-11) in consonance with the AP Health Sector Reform Strategy (2006-11) duly approved by the Finance Department. The Health Sector Reform Strategy has been developed by the DoHMFV with a clear focus on pro-poor primary healthcare, social security mechanisms and reducing financial burden of illness for the poor. There is a clear commitment to pro-poor health strategy. User fees have been abolished. There is a focus on defining standards of services delivered by the institutions. Health

Insurance for the poor is being introduced. For the first time allocation of Rs 20 crores for Health Insurance Scheme for the poor has been made in the 2006-07 budget. GoAP has also recently introduced an exclusive provision for treating cardiac ailments of the children belonging to the vulnerable sections of the society.

5.4 GPP4 – Budget Reliability

Risk: Medium. There are no materially significant deviations from DoHMFWS budgets. There are certain problems of budget predictability in movement of funds to Societies outside the Treasury system for effective implementation of budgets. GoAP has also improved the timeliness of expenditure authorizations through the system of Budget Release Orders (BROs) and advance release of the first three quarters to the spending authority. However there persists an issue with the lack of predictability of funds with delays in expenditure releases (via distribution statements) to COs and DDOs. This results in conservative spending in the first two quarters, and expenditure accelerates in the last quarter once the final annual allocations are known. The Financial Management Framework developed by the DoHMFWS has identified ways to improve the timeliness which include developing and implementing a fund flow protocol system.

5.5 GPP5 – Internal Control, Audit and Payroll

Risk: High. GoAP has transparent and carefully managed processes for in-year reporting of actual expenditure. However, the reliability and format of monitoring reports requires further improvement. The key Treasury internal control systems are adequate, except in relation to sub-systems operating independently of the Treasury system. These sub-systems are fragmented, inadequately maintained and ill monitored. Government of India has already initiated a process to achieve a common financial procedure for all the Societies. The current internal audit system needs further strengthening in terms of qualified manpower with particular reference to payment transactions outside the treasury system. In the context of effective cash flow management, the implementation of the Integrated Financial Information System (IFIS) by GoAP as a part of ongoing PFMA reforms will enable the full integration of all GoAP financial systems.

Data is not published on re-appropriations. However, the scope of Heads of Department (HoDs) to re-appropriate is curbed by the restrictions on specific heads (e.g. Salary is 63% and cannot be re-appropriated to another object head). Departments have also not been given any power to re-appropriate across Group Sub-Heads. Therefore the value of re-appropriations is not significant.

5.6 GPP6– Procurement - Significant Items of Expense: Drugs' Procurement

Risk: High. Public Procurement in DoHMFWS is centralized in APHMHIDC while other sub departments only deal with 15% to 25% of their budget (decentralized procurement). This is a high risk area as internal control, governance, documentation and financial management practices at APHMHIDC are not in tune with International best practices. There is also an absence of clear audit trail, weak MIS system, high staff turnover (as all the staff are on short-term deputation from other government departments), and lack of capacity building. However, despite these shortcomings

there was no major drug procurement scandals reported in the media in the last 1 year. GoAP is in the process of enacting a Procurement Law for standardizing procurement processes and establishing a regulatory authority.

5.7 GPP7 – Accounting and Reporting

Risk: Medium. Reconciliation is carried out on a routine basis at different levels. As a result of the PFMA reform initiatives there has been a significant reduction in the delays for reconciliations as well as improvement in compliance requirements for reconciliations at district and sub-district level while there is scope for improvement at state level.

Auditing of annual accounts is not an area of high risk with regard to Treasury statements. The Budget and Audit reports are presented to the Legislative Assembly within the statutory period. In context of non-treasury systems there are no standardized accounting formats and they do not provide direct reports to the government.

5.8 GPP8 – Effective Independent Scrutiny

Risk: Medium. The Supreme Audit Institution viz. CAG enjoys clearly established, sufficient, and enforced independence, duties, and powers. The CAG undertakes relatively high quality work in Andhra Pradesh which is duly reflected in the Audit Reports. Improvement in rate of responsiveness is being seen as a result of PFMA reform initiatives and recommendations made by the auditors are followed up.

The PAC and Estimates Committee with the assistance of Accountant General play their role with a high degree of application. The scrutiny of individuals is fairly rigorous but there is need for greater focus on timeliness given the considerable backlog. From the Audit Report (Civil) for the year ended 2004 it is observed that there is an improvement in responsiveness to audit reports and encouragingly pending audit paragraphs show a declining trend.

Chapter 6: Fiduciary Risk Assessment Matrix

Assessment of the PFMA System in the DoHMFw in accordance with good practice principles and benchmarks as defined by the DFID is presented in the following matrix.

An assessment of the overall rating for fiduciary risk is based on evaluation done adopting a holistic view considering the likelihood and impact of varying degree of risk and their relative impact on the department in the context of on-going PFMA reform programme is presented at the end in the summary. This reflects collective judgement of the fiduciary risk assessment team after taking into account the views expressed by all the stakeholders including senior functionaries in DoHMFw and DFID representatives at the workshop/s conducted for review of the findings of the draft report during the tenure of process of assessment. Ongoing PFMA reforms which include DoHMFw would leave impact in improving the control environment.

The progress made in implementation of PFMA reform initiatives and credible programme of improvement of the DoHMFw has been assessed in arriving at the direction of change.

Fiduciary Risk Assessment Matrix

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
1. A clear set of rules governs the budget process	1. A budget law specifying fiscal management responsibilities is in operation	B	↑	<ul style="list-style-type: none"> • The fiscal roles of the executive, legislative and judicial branches are clearly defined in the constitution • The PFMA system is prescribed by Gol within the provisions of the Constitution of India • It is well defined by Government Accounting Rules, Account Codes, and General Financial Rules as reflected in GoAP's AP Financial Code, AP Accounts Code and AP Treasury Code • The Constitution broadly defines the division of responsibilities between Central and State governments and the rules for the preparation and execution of State government budgets • AP Government Business Rules and Secretariat Instructions assign responsibility for "all matters relative to financial procedure and the application of the principles of sound finance" to the Finance Department. Finance Department is thus responsible for ensuring that line departments are supported and guided in their financial management responsibilities. • The AP Legislative Assembly and its committees - the Estimates Committee and the PAC, have a long standing and well established role in scrutinizing public finances. • GoAP has undertaken a wide range of PFMA reforms aimed at strengthening controls and compliance in key areas of departmental budget execution to narrow the divergence between formal PFMA theory and practice. It has sought to overcome many of the constraints of the all

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>India framework.</p> <ul style="list-style-type: none"> • The Andhra Pradesh Fiscal Responsibility and Management Act, 2005 was enacted by A P Legislative Assembly on Dec 20, 2005 to bring in fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit and prudent debt management consistent with financial sustainability coupled with transparency in operations of the government and conduct of fiscal policy in medium term framework. • GoAP has signed a Fiscal Correction Path with GoI that requires the state government to progressively move towards better fiscal discipline in return for GoI grants. • The budget manual is being completed and will be published by November, 2006. This will increase clarity about roles and responsibilities. • Further improvements will be enabled firstly by selective revision and updating of PFMA rules and regulations to increase their transparency and accessibility, secondly by devising and implementing further mechanisms for their enforcement. • Modernisation, codification, and simplification of the legal framework based on clearly articulated principles and a complete and consistent accountability framework are yet to be taken up. This should increase compliance at the district and field levels, where the competence and motivation to comply, need to be improved. • DoHMFV staff lack competency in financial functions and have received little financial training till date. • There are limitations in the accountability mechanism for

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>autonomous bodies operating outside the treasury</p> <ul style="list-style-type: none"> The legislative review of the budget is constrained due to the lack of technical support provided to the Hon'ble members
	<p>2. Accounting policies and account code classifications are published and applied</p>	<p>B</p>	<p>↑</p>	<ul style="list-style-type: none"> Budget classification broadly complies with GFS standards The expenditure classification system (sectors, major heads and minor heads) has been prescribed by Gol on the advice of the C&AG of India. State Governments have no power to prescribe such heads of classification. This ensures uniformity in the accounts of Gol and the State Governments. This makes it possible to prepare the Combined Finance and Revenue Accounts for each financial year showing the receipts and expenditures up to the level of Minor Heads for Gol, each of the State Governments, and the grand total for the entire country. There are some significant issues with regard to the understanding of the budget system at district level and below due to the complexity of the budgets and the variety of funds flow mechanisms. There is need for further improvements by training and capacity building to improve the quality of budget execution and to overcome the problems of misclassification. This would in due course bring in uniformity in financial management systems synchronizing with the timetable for reforms in treasury systems along with those in parastatals.

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<ul style="list-style-type: none"> • GoAP as a part of the PFMA reforms has launched an action plan to achieve improvement in Treasury System like Treasury Department Performance Evaluation Information System, development of departmental and functionary manuals for all line-departments, improvement in key accounting controls vide G.O. 507, Integrated Financial Information system (IFIS) including e-khazana that can address all the functions of Treasury departments to ensure transparency, efficiency, integrity and timeliness thereby facilitating efficient transfer, storage and retrieval of financial information • Although primary health care is supposed to be an integrated concept, there are at least 6 agencies at the District level handling the budget which confuses the Departmental staff and fragments the functioning of primary health care delivery. APVVP, CFW and DHS have multiple budgets within primary health care, and it is not always clear who has responsibility for what and whether there is duplication of budgets. An example of this is maintenance of the PHCs. The National TB Programme has a component of maintenance of PHCs in its Plan budget. A World Bank Programme that has recently been completed in September 2005 (APERP) had a large civil works programme with maintenance of PHCs. The RCH programme has PHC maintenance, as does another externally funded programme, the EC's Sector Investment Programme (ECSIP). There are also numerous budgets under the DHS's State Plan that have maintenance budgets.

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<ul style="list-style-type: none"> • The classification system is well understood and implemented at all levels in the APVVP. G.O. 507 is targeted to improve accounting controls and increase compliance and reduce fiduciary risk in autonomous bodies operating outside the Treasury system. • Finance department has published a Financial Accountability Handbook for better understanding of financial accountability responsibilities of all the controlling officers. • The finance department's functional manual has been completed.
<p>2. The budget is comprehensive</p>	<p>3. All general government activities are included in the budget</p>	<p>A</p>	<p>→</p>	<p>GoAP is now a leader in budget comprehensiveness, having brought previously off-budget borrowings on budget and by disclosing (and increasingly providing for) government guarantees. GoAP's reforms in the timeliness and reliability of financial information have also borne fruit in 2002-03. However, the comprehensiveness of the Budget brings with it a high level of detail, which implies complexity. As in all States in India, the Budget is not user-friendly. The Demands for Grants are very technical documents and it is difficult for the average person to identify key fiscal trends or expenditure priorities. The form of the accounts is prescribed by the President on the advice of the C&AG.</p> <p>GoAP has made significant efforts to enhance user understanding, for example:</p> <ul style="list-style-type: none"> ▪ Budget in Brief, prepared since 2001-02, provides useful summaries and the AFF provides a break-down of

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>expenditure by economic classification. Both documents are published on the GoAP website (www.ap.gov.in) and are clear and user-friendly although very brief.</p> <ul style="list-style-type: none"> ▪ Performance Budget is submitted by each department when their budget is presented to the Legislative Assembly ▪ For the first time in the 2003-04 Budget, GoAP published a summary of total appropriations on a department-wise basis. This was an improvement, as previously no aggregated data was presented department-wise and a user would have needed to add up the totals of all the relevant Grants to identify the total expenditure for that department. <p>International standards are met in presentation and coverage of the budget. GoAP has sought to minimize fiduciary risk by supplementing Gol requirements in PFMA reform by increasing the availability of information on public finance in a transparent form. As per the FRBM Act 2005, a comprehensive statement on the fiscal position is published on a quarterly basis. Recently implemented Right to Information Act, 2005 would, to a great extent improve accessibility/ availability of financial information including audit report.</p> <p>Budget realism and comprehensiveness are given high priority to reduce fiduciary risk. GoAP's forecasts of revenue are consistently below budget but within a low margin of error and the quality of these forecasts are improving. Much of the</p>

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				variance is due to less than anticipated receipts from Gol. GoAP has made impressive strides in improving the reliability and timeliness of financial information.
	4. Extra-budgetary expenditure is not material	B	→	<ul style="list-style-type: none"> • Around 10% of the DoHMFV budget funded through Gol and other external funds remain off-budget. An example of such schemes where funds are diverted and not disclosed in the budget are Centrally Sponsored Schemes such as the TB Programme. • Gol's preference to route funds through Societies is due to the complicated controls of the treasury that often delays funds to the frontline in many states. • GoAP has already joined other states asking for routing such funds through the GoAP's Treasury system in future. • Realizing the fact that Gol in the medium term will route funds through Societies (RCH 2 being the latest example), GoAP-led PFMA reforms are targeted to improve accountability mechanisms in Societies operating outside treasury and bring in uniformity in line with treasury systems. • Health department too is setting up a Financial Information Management System to provide comprehensive information on all fund flows in the DoHMFV including Societies.
3. The budget supports pro-poor strategies	5. Budget allocations are broadly consistent with any medium term	C	↑	<ul style="list-style-type: none"> • GoAP has an MTFV, an AFF and has made forward strides in fiscal reform and PFMA reform. • However, there remains an incremental budget process and culture throughout the Government.

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
	expenditure plans for the sector or for the overall budget			<ul style="list-style-type: none"> • The DoHMFw has significant capacity issues with regard to being able to elaborate realistic budgets and formulate costed programmes and policies and it is further hindered by an inability to develop performance budgets at departmental level. • Although making the budget is the central instrument of policy and reform is an objective of the GoAP as a whole, the policy orientation of the budget in the Department remains constrained by its very weak capacity and external budget funded directly by GoI and external donors and executed outside Government budgetary channels. • Budgeting in the health department is largely incremental in nature and not clearly linked to a stated health policy. This is being addressed by GoAP by developing a State Health Strategy. A MTEF has been prepared with ownership of the finance department to resource the Strategy. Adequate institutional mechanisms are being put in place through the Strategy Performance and Innovation Unit (SPIU) and a new Financial Management Unit (FMU) to ensure that MTEF links to the annual budgeting process of the health department. The FMU is headed by a newly recruited Financial Adviser for the Health department. GoAP has also agreed to strengthen accounting and financial management capacities in the health department through the FMU.

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<ul style="list-style-type: none"> • AP Health Sector Reform Strategy (2006-11) has a clear focus on pro-poor primary healthcare, social security mechanisms and reducing financial burden of illness for the poor. • GoAP has also put an enhanced state share in the budget in the current year 06-07 in line with MTEF focus on increased resources for the Health sector. • User fees have been abolished. There is a focus on standards of services delivered by the institutions. Health Insurance for the poor is being introduced. For the first time allocation of Rs 20 crores for Health Insurance Scheme for the poor has been made in the 2006-07 budget. GoAP has also recently introduced an exclusive provision for treating cardiac ailments of children belonging to the vulnerable sections of the society. • The approved MTEF (2006-11) for the Department has the potential to achieve developments including the introduction of a consistent, multi-year perspective in resource ceilings and involvement of the sub-Departments /agencies /institutions in the strategic phase of the budget formulation process.
<p>4. The budget is a reliable guide to actual expenditure</p>	<p>6. Budget outturn shows a high level of consistency with the budget.</p>	<p>B</p>	<p>→</p>	<ul style="list-style-type: none"> • The department consistently under spends the allocated budget especially in the plan funds. As a follow up to the FRA, the SPIU in health department carried a thorough under spending assessment. The under spending is mainly because of excessive controls in the treasury

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>system which lead to late release of funds to the frontline and due to lack of planning and rigorous monitoring of expenditure by the health department. To reduce under spending, the health department has committed to more rigorous monitoring and reporting of expenditure at all levels. It will also develop a Health financial information system for better management of the budget.</p> <ul style="list-style-type: none"> • Departments are now provided with broad guidance as to their expenditure allocations by the Finance Department in early January. Each HoD and CCO is given final notice of allocations through the issue of the Appropriation Act in the month of April. • It is the responsibility of CCOs to distribute that budget allocation to each of their COs, and thereon to their DDOs or Executive Engineers (the equivalent of DDOs in development projects) through distribution statements.⁴ However, controls testing indicated that COs and DDOs are usually not informed by CCOs of the budget allocation for the full fiscal year. Therefore, they are only advised of their budget for the first six months of the year, through distribution statements and on a quarterly basis thereafter. Given that quarterly allocations are not necessarily equal, it is not possible for the CO or DDO to extrapolate the annual allocation from their first distribution statement. This lack of predictability usually leads the COs and DDOs to be conservative in their spending in the first two quarters, and the expenditure

⁴ How the budget will be distributed is determined by the CCOs, but is usually in line with the budget estimates submitted by each CO during the budget formulation stage.

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>actually picks up in the last quarter once the final annual allocations are known.</p> <ul style="list-style-type: none"> • There are no materially significant deviations from health department budgets. However, there are certain problems of budget predictability in movement of funds from Gol to Societies outside the Treasury system. • GoAP has improved the timeliness of expenditure authorizations through the system of BROs. In particular, GoAP introduced, in April 2001, a system of advance release budget spending authority for the first six months of the year, followed by quarterly releases.⁵ This system has been further streamlined in April 2003, when the GoAP introduced advance release of the first three quarters spending authority in April, followed by a second and last instalment in January, based on Revised Estimates minus earlier releases. • Despite improvements in the timeliness of BROs to departments as found during field visits there are still significant delays in expenditure releases (via distribution statements) to COs and DDOs. This is because there is a separate distribution statement for each Plan scheme and non-Plan control sub-head. • A financial framework management assessment followed by the FRA was carried out and the report has been submitted to the government. This report suggests a number of measures to speed up the flow of funds from the state treasury to the frontline including having a fund

⁵ BROs are released only for those expenditures that require Finance Department concurrence. This relates to Plan schemes and non-Plan control object-heads, such as operational and maintenance expenditure and grants-in-aid.

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>flow timeline protocol from the state level downwards to the health centre at the frontline. The government has agreed to implement most of the suggestions to smoothen the flow of funds.</p>
<p>5. Expenditure within the year is controlled</p>	<p>7. In-year reporting of actual expenditure</p>	<p>C</p>	<p>↑</p>	<ul style="list-style-type: none"> • GoAP has transparent and carefully managed processes for in-year reporting of actual expenditure. • Given the uncertainty involved in forecasting revenue and expenditure the Budget can not be fixed in stone and some within-in year changes to expenditure will always be necessary. • However, the reliability and format of monitoring reports requires further improvement to facilitate proactive and effective departmental monitoring and financial control. • In the DoHMF, during the last decade there were many special projects that needed timely flow of funds without being effected by constraints imposed under the budgetary process. Therefore an alternative mechanism of fund management was put in place to ensure smooth flow of funds to ensure successful implementation of programme activities. Under this mechanism funds were kept in separate Bank Accounts for each project exclusively to facilitate project-wise financial monitoring at any given point of time. The same method was also adopted for the special projects taken up with Central Government or external financial assistance. • Efforts need to be made to develop uniform set of guidelines for integrated financial management and

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>monitoring of accounts in respect of all projects where separate bank accounts are maintained, along with adequate internal control systems of international standards (INTOSAI).</p> <ul style="list-style-type: none"> • The key Treasury internal control systems are adequate, except in relation to sub-systems operating independently of the Treasury system. These sub-systems are fragmented and inadequately/ inconsistently maintained and monitored. Government of India has already initiated a process to achieve a common financial procedure in all the Societies and these guidelines need to be further strengthened to achieve commonality in accounting and auditing in all sub-departments. • The current internal audit system needs further strengthening in terms of qualified manpower with particular reference to payment transactions outside the Treasury system. • The reporting of actual expenditure is also constrained by India-wide reporting formats from GoI. And various donor requirements relating to particular programme specifications. • In the context of effective cash flow management the implementation of the Integrated Financial Information System (IFIS) by GoAP as a part of ongoing PFMA reforms will enable the full integration of all GoAP financial systems. Like e-khazana, IFIS is dependent on APSWAN, together with the AP State Information and Communication Network (APSION) which aims to bring connectivity to mandal and village level which will

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				significantly improve the timeliness, reliability, and integrity of accounting and financial information.
	8. Systems operating to control virements, commitments and arrears	C	↑	<ul style="list-style-type: none"> • The scope of HoDs to undertake re-appropriation is limited given the number of other restrictions on re-appropriations. This is especially so, given that a large proportion of the departmental budget is devoted to salaries (63%) and re-appropriations from the salary object-head are not permitted. • Given that data is not published on re-appropriations, it is not possible to precisely determine to what extent these types of virement take place. Departments have also not been given any power to re-appropriate across Group Sub-Heads (or across groups of schemes funded from different sources). Therefore, in practice the restrictions on re-appropriations means that the value of re-appropriations is probably not significant. • A Financial Advisor is appointed to set up a Financial Management Unit to assist the DoHMFw to formulate a comprehensive financial management information system to overcome these deficiencies.
6. Government carries out procurement in line with principles of value for money and transparency	9. Appropriate use of competitive tendering rules and decision-making is recorded and auditable	C	↑	<ul style="list-style-type: none"> ▪ Public Procurement in DoHMFw is centralized in APHMHIDC while other sub departments deal with 15% to 25% of their budget (decentralized procurement). ▪ APHMHIDC – is a society promoted by DoHMFw for handling procurement of drugs, surgical,

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>consumables, equipment, services and civil works on behalf of other indenters of DoHMF. For the year 2005-06 an amount of approx. Rs.90 Crores has been allocated for drug/surgical procurement while approx. Rs.200 Crores is available for construction of buildings.</p> <ul style="list-style-type: none"> ▪ DHS – is responsible for primary level health services delivery through PHCs. These PHCs do not directly handle the procurement of drugs, and 100% of their supply is made from APHMHIDC stores. PHCs also receive drugs from centrally sponsored schemes such as RNTCP/NMEP/NFEP. DHS also directly handles the procurement under projects such as School Health Programme, Epidemic Control Programme, and Diabetes Control Programme etc. Estimated value of procurement under these programmes is more than Rs.50 Crores/year. ▪ APVVP - is a society promoted by DoHMF. For managing community health centres (CHCs), area hospitals and district hospitals in the state. These CHCs/Hospitals directly handle the procurement of emergency drugs, for which 15% of their drug procurement budget is retained by them. ▪ DME - Manages medical education and administration of the teaching hospitals and specialty hospitals attached to the medical colleges in the State. These Hospitals directly handle the procurement of emergency drugs, for which 25% of

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>their drug procurement budget is retained by them.</p> <ul style="list-style-type: none"> ▪ Other institutes such as AYUSH, AP Yogadhyayana Parishad, Institute of Preventive Medicine and Commissionerate of Family Welfare also handle some procurement which is not significant in value term. <p>APMHIDC was primarily conceived for civil work procurement under a World Bank Programme and hence it has much more systematic processes and procedures for works in comparison to drugs procurement.</p> <ul style="list-style-type: none"> • No cases of political interferences reported by either the staff of APMHIDC or its suppliers. • Weak areas noticed in APMHIDC are the absence of clear audit trail, weak MIS system, high staff turnover (as all the staff are on short-term deputation from other government department), lack of capacity building etc. • APMHIDC is an autonomous body wherein internal control, governance, documentation and financial management practices are not in tune with International best practices. • While at present there is no Procurement Law, steps have been taken to initiate enactment of Law for centralization of procurement operations (for all departments) at GoAP level. • The legal and operational framework would be put in place after enactment of the Procurement Law and development of DoHMFw's procurement reform agenda. • At the field level it was observed that there was a general

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>lack of awareness about applicability of procurement procedure for emergency purchases at the hospital.</p> <ul style="list-style-type: none"> • These weaknesses are being immediately addressed by APMHIDC and plans are afoot to recruit specialists in drugs purchase and procurement management. APMHIDC has also put together a procurement reform plan. The Chief Executive of APMHIDC has already appointed an internal auditor. Steps have also been initiated to standardise operational guidelines and produce a procurement manual in line with the Tamil Nadu e-procurement model. • There was no major drug procurement scandal reported in the media in the last 1 year.
	10. Effective action taken to identify and eliminate corruption	C	↑	<ul style="list-style-type: none"> • Corruption is low value, but prevalent and affecting mostly the frontline. • A preliminary scan of press reports coverage in the last year indicates presence of petty corruption at the grassroots level pertaining to medical personnel engaged in service delivery, incentive payment to beneficiaries and free drug distribution. • There is a public perception that health providers in public health institutions take bribes which affects service delivery. • India scored the least among the other South Asian countries in context of corruption in the health sector (Transparency International). • Andhra Pradesh is ranked 4th least corrupt - out of 20 states on petty corruption according to composite ranking of states (TII-CMS study 2005).

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<ul style="list-style-type: none"> • UNDP Health Index has classified Andhra Pradesh as a medium performing state with Health Index Ranking of 6 out of 16 states. • As per India Corruption Study 2005 by the Centre for Media Studies the percentage of persons who had to pay bribes in government hospitals had reduced in 2005 as compared to 2002. • With regard to personnel management there is favouritism, bribery and undue influence. This is a significant source of corruption that ultimately costs a lot to the public. • In the overall budgetary allocation the resources allotted to DoHMFWS are not significant enough (as compared to others like Irrigation) to attract adversely notified bureaucrats to the department. • GoAP advised suspension of 8 Gazetted Officers, and 3 Non-Gazetted Officers. Two professors, an assistant professor, a civil assistant surgeon, a deputy executive engineer and a health assistant were convicted in corruption cases during 2003-04 for up to 2 years of rigorous imprisonment and fine. • Between 2001 and 2003, the number of “trap” cases went up by 71 percent and the number of disproportionate assets cases by 83 percent. The number of convictions increased by 115 percent and the number of dismissals from service increased by 25 percent and the number of gazetted and non-gazetted officers booked increased by 25 and 68 percent respectively. • GoAP has a well organized institutional and legal

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				<p>framework in place to identify and control corruption.</p> <ul style="list-style-type: none"> GoAP has been following a strong enforcement approach through the designated agencies. This approach is planned to be supplemented with a preventive approach emphasizing public awareness and peoples' empowerment - through effective implementation of the RTI Act and citizen charters. CGG is the National Implementing Agency for Capacity building for access to information under the RTI Act supported by GoI and UNDP. It has undertaken training and sensitization of government officials, citizens, Panchayati Raj Institution members, civil society organisations, and is working towards improving government-citizen interface. Procurement reforms have been initiated by the DoHMFW. Internal vigilance set-up in DoHMFW is also planned to be revamped and strengthened.
<p>7. Reporting of expenditure is timely and accurate</p>	<p>11. Reconciliation of fiscal and bank records is carried out on a routine basis</p>	<p>B</p>	<p>→</p>	<ul style="list-style-type: none"> Reconciliation is carried out on a routine basis at different levels. Having identified that reconciliations are the key control in ensuring that funds have been spent on purposes intended and authorised besides the critical role they play in a non-integrated financial accounting system, GoAP has initiated proactive measures to enforce discipline. During sample testing at different field locations it was observed that PFMA reform initiatives launched by the Finance department are having a significant impact and it was noticed that there is a significant reduction in the

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				delays for reconciliations as well as improvement in compliance requirements for reconciliations at district and sub-district level while there is scope for improvement at state level.
	12. Audited annual accounts are submitted to State Legislative Assembly within the statutory period	B	→	<ul style="list-style-type: none"> • Auditing of annual accounts is not an area that is considered to be high risk with regard to Treasury statements. • The timeliness and reliability of GoAP's accounting as an after effect of ongoing PFMA reform process has undergone significant improvements. • The Budget is presented to the Legislative Assembly in February/March each year, within the statutory period. • The Audit Report is issued in March in the year following the year of account. • Compilation and analysis of financial information is constrained due to lack of capacity in the DoHMFV. • The budgetary impact of autonomous bodies or societies has not been quantified as they do not provide direct reports to the government. • There are no standardized accounting formats for the societies and autonomous bodies that are outside the Treasury system. • GoAP can only retrieve and report on disbursement information rather than actual expenditure. To this extent the external budget does not serve the purpose of being a public expenditure management tool. It does not facilitate policy formulation for the sector spending and its distribution in order to achieve allocative efficiency.

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
<p>8. There is effective independent scrutiny of government expenditure</p>	<p>13. Government accounts are independently audited</p>	<p>B</p>	<p>→</p>	<ul style="list-style-type: none"> • The Supreme Audit Institution (C&AG) enjoys clearly established, sufficient, and enforced independence, duties, and powers. • The C&AG undertakes relatively high quality work in Andhra Pradesh and Audit Reports duly reflect the insights and professionalism. • The system of audit needs strengthening in some key areas for example by encompassing physical verification and increasing risk based audits/ investigation into potential major areas of irregularity. • The form of audit reporting warrants change to clarify opinion of C&AG on the accounts and PFMA. • The responsiveness of government departments to audit observations is now being improved following the reform initiatives by Finance Department. • These factors combine to limit the extent to which audits can act as a deterrent to financial irregularities or result in system improvements across the government. • Improvement in rate of responsiveness is seen as a result of PFMA reform initiative and recommendations made by the auditors are followed up.
	<p>14. Government agencies are held to account for mismanagement</p>	<p>B</p>	<p>→</p>	<ul style="list-style-type: none"> • PAC and Estimates Committee with the assistance of Accountant General are playing their role with a high degree of application. • The scrutiny of individuals and issues are fairly rigorous and detailed in fixing accountability for government agencies. However there is a need to focus more on

Good Practice Principle	Benchmark For Assessment	Rating (A-C)	Trajectory of Change	Overall Assessment
				timeliness given the considerable backlog for ensuring a more effective role in achievement of PFMA system improvement and accountability.
	15. Criticisms and recommendations made by the auditors are followed up	B	→	<ul style="list-style-type: none"> • The PAC meets regularly at least twice a week during the Legislative Assembly to examine audit reports. However, there is a significant time lag in PAC scrutiny of audit reports. To overcome this PAC has recently committed half of its time for the previous years audit report and work through the remaining years chronologically. The rate of implementation of PAC's recommendations does not appear to be high • From the Audit Report (Civil) for the year ended 2004 it is observed that there is improvement in responsiveness to audit reports. Encouragingly pending audit paragraphs show declining trend • In line with international best practice, the chairman of PAC is from the opposition party. Sitzings of the Legislative Assembly are televised.

Chapter 7: Monitoring Fiduciary Risk

The DoHMFw, with technical support provided from CGG, has developed a Risk Mitigation Action Plan to deal with the fiduciary risk in the department. The Action Plan has been developed in consultation with the Finance Department. There is a clear commitment and approval from both the departments to implement the plan.

At the Secretariat level creation of a Financial Management Unit under a Financial Advisor is the first key milestone to be crossed to launch an effective and credible work plan to identify, measure, control and manage vulnerabilities across DoHMFw. This would be undertaken through a review of the existing financial management system, including fund flow and control mechanism from the finance department to the health department's service delivery point (PHCs and sub-centres).

The detailed Risk Mitigation Action Plan given below indicates the milestones for monitoring the fiduciary risk. This would be reviewed annually and an update on FRA will be produced jointly by the health and finance department. Based on the updates produced by GoAP, DFID will assess the progress made in line with the risk mitigation matrix.

Risk Mitigation Matrix agreed by GoAP

Recommendation	Action points-risk mitigation	Institution(s) responsible	Timeframe
Institutional mechanism for implementing mitigation action plan	<ul style="list-style-type: none"> Establish of Financial Management Unit (FMU) in the DoHMFW Develop staffing structure with clear mandate 	Finance Department and DoHMFW	Year 1
Enhance financial accountability in Societies/ Parastatals	<ul style="list-style-type: none"> Establish key functions within Societies/ Parastatals to take responsibility for key accountability indicators e.g. internal controls, monthly/quarterly/annual reports, submission of statutory requirements, liaison with audit/PAC, follow-up of external and internal audit reports. Ensure financial management capacity building in all Societies/ Parastatals 	Societies/ Parastatals, Finance Department and CAG Office	Year 1
Rationalisation of DDOs in DoHMFW	<ul style="list-style-type: none"> Assess the current number of Drawing and Disbursing Officers; at the Head of Department level and at the field level, and do a rationalisation exercise, to reduce the number of DDOs as per assessment of FMU. 	FMU and Principal Secretary (Health)	Year 2
Enhance budget process	<p>Improve of budgeting and performance framework</p> <ul style="list-style-type: none"> Review norms-based approach to budgeting and develop needs based approach Develop performance budget indicators to reflect health outcomes for health sector Provide training in performance budgeting techniques to line managers to understand the rationale and processes 	Finance Department	Year 1 and 2
Strengthening anti corruption measures within the DoHMFW	<ul style="list-style-type: none"> The internal vigilance system in the department including its field agencies to be revamped, with a review of the staffing structure and develop clear mandates Develop and implement citizen charters, specific to each level of health service delivery at all field locations for empowerment of citizens and reducing speed money Employ RTI Act as a tool to enhance Citizen's capacity to fight corruption. Assess Corruption Prone Processes of the DoHMFW 	DoHMFW, SPIU (Health) and Vigilance Commissioner	Year 2

Recommendation	Action points-risk mitigation	Institution(s) responsible	Timeframe
	<ul style="list-style-type: none"> Develop and implement the Human Resource Management Policy 		
Enhance financial management techniques to improve reporting	<p>Institutional strengthening of all line departments:</p> <ul style="list-style-type: none"> Develop and consolidate financial management handbook Implement financial management training package for relevant staff Develop financial reports on monthly/quarterly/annual basis to reflect budget against actual/variance reports from each financial reporting unit/hospital 	Finance Department and FMU/ SPIU (Health)	Year 1 and 2
Increase comprehensiveness of financial reporting for Central Sector Schemes	<ul style="list-style-type: none"> Develop appropriate standard model for all central sector schemes on budgeting, accounting, monitoring and reporting/ variance reporting 	FMU in consultation with Gol/ CAG	Year 2 and 3
Develop DoHMFW capacity to perform internal audits to international standards	<ul style="list-style-type: none"> Develop a full fledged internal audit wing at the departmental and sub-departmental levels. Recruit staff specific to internal audit Ensure compliance with key fiduciary controls (e.g. AC/DC bills, cash, reconciliations, responses to audit observations) A higher standard of explanations for both savings and excess expenditure by departments in the Appropriation Accounts. Departments to provide explanations for any excess expenditure or savings from their revised estimates as well as actual expenditure relative to budget. Any significant deviations may also be explained Proper monitoring and timely surrender of unutilised amounts that are not expected to be used by end of year <p>Build capacity of internal auditors in DoHMFW</p> <ul style="list-style-type: none"> Develop internal audit manual for internal auditors in line with international (INTOSAI) standards Provide training to internal auditors Initiate training for auditors to ensure systems based audit 	FMU, Finance Department and CAG	Year 2
Ensure procurement process is	Develop procurement rules and regulations	APMHIDC, SPIU (Health) and DFID	

Recommendation	Action points-risk mitigation	Institution(s) responsible	Timeframe
Undertake comprehensive risk review of all schemes	<ul style="list-style-type: none"> • Develop matrix of schemes, risk indicators and schedule for undertaking regular reviews in DoHMFw • Undertake risk reviews of high risk schemes • Review and implement recommendations 	Finance Dept., CAG, DoHMFw	Year 3
Develop capacity of SPIU to carry out strategic planning, policy making and financial monitoring of DoHMFw	<ul style="list-style-type: none"> • Enable the SPIU to carry out strategic role within DoHMFw: • Employ financial advisor within SPIU • Develop roles and responsibilities/TORs of SPIU to be able to undertake strategic planning, policy making and financial monitoring of DoHMFw • Undertake training of SPIU staff to carry out roles • Develop matrix/database of all activities within DoHMFw • Develop performance indicators for all activities/schemes • Develop training calendar for budget holders throughout DoHMFw • Develop handbook with roles/responsibilities of budget holders • Develop DoHMFw managers skills in policy making/resource allocation • Improve quantity and quality of analysis of reasons for major variances in Appropriation Accounts (based on work undertaken by Internal Audit to strengthen system of reporting) 	GA (GPM&AR) Dept. and SPIU (Health)	Year 2
e-enablement of the 9 sub-departments of DoHM&FW	<ul style="list-style-type: none"> • Develop a comprehensive and integrated management information system for the DoHMFw to enable single point review at the HoD level • Online processing and monitoring of budgets, accounts, cash management, internal controls, audit observations and PAC paras • Improve the use of e-procurement (APHMHIDC) by eliminating the need for submitting the hard copies of the bids (have a pre-qualified list of suppliers) and adding online bid-evaluation (reverse e-auction may also be considered to maximize the saving and transparency) 	Line department of DoHMFw, SPIU (Health)	Year 3 and 4

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Appendix 1:

DoHMFW Expenditure by Source of Funds, 2001-02

Rs. in Crores

Dept/ Group	Plan/ Non Plan	Govt	External	GoAP	Total
DHS	N	0.00	0.00	194.12	194.12
	P	1.45	58.92	22.89	83.26
Primary Health	N	0.00	0.00	162.00	162.00
	P	2.33	1.85	24.98	29.15
OSM	N	0.00	0.00	53.5	53.50
	P	0.66	0.00	0.42	1.08
ESIS (State Insurance Scheme)	N	0.00	0.00	47.32	47.32
	P	0.00	1.34	5.89	7.23
CFW	N	0.00	0.00	4.22	4.22
	P	238.18	6.71	31.17	276.05
APVVP	N	0.00	0.00	120.68	120.68
	P	0.00	100.00	0.08	100.08
DME	N	0.00	0.00	280.56	280.56
	P	0.00	0.00	38.53	38.53
TOTAL		242.63	168.81	984.33	1395.76
%		17.38	12.09	70.52	100

Source: Mahal and Others, 2003 Andhra Pradesh State Health Accounts⁶

⁶ DFID. Andhra Pradesh State Health Accounts. Institute of Health Systems. 2004.

Appendix 2:

List of DoHMFWSchemes - Centrally Sponsored & Central Sector

MEDICAL AND PUBLIC HEALTH

a. Director of Medical Education

State Plan Schemes:

1. Books & Dress Allowance to SC/ST Students
2. Teaching Hospitals
3. Medical Colleges
4. Continuation of Government General Hospital, ATP.
5. Teaching Hospitals- Scholarships and Stipends
6. Nursing Colleges
7. Training of Paramedical Personnel
8. Construction of buildings
9. Computerization
10. Regional Diagnostic centers - EFC

b. A.P. Vaidya Vidhana Parishad

State Plan Schemes:

1. Assistance to APVVP.
2. Computerization

c. N.T.R. University of Health Sciences:

State Plan Schemes:

1. Development of University of Health Sciences

d. Nizam's Institute of Medical Sciences:

State Plan Schemes:

1. Development of NIIMS

e. AYUSH:

Central Sector Schemes

1. Ayurveda drug manufacture
2. Drug manufacture - Ayur, Homeo, Med Education Training & Research (PG)

State Plan Scheme:

1. Allowances to SC/ST Students of Ayurvedic colleges.
2. Allowance to SC/ST Students of Homeo Colleges
3. Other State Plan Schemes.
4. Computerization
5. Staff to 6 Ayurvedic Dispensaries
6. Staff to 3 Homeo Dispensaries
7. Staff to 3 Unani dispensaries

f. A.P. Yogadhyayana Parishad

State Plan:

1. Assistance to A.P. Yogadhyayana Parishad.

g. Drugs Control Administration:

1. Administration of Drugs Act.

h. Institute of Preventive Medicine:

State Plan:

1. Strengthening of Dist. P.H. Labs & WQM Labs Manufacturing of TCARV Pelicon Filtration system.

i. Director of Health

Central Sector Scheme

1. National Leprosy Eradication Programme.
2. National V.D. Control Programme. (100%)
3. Guinea worm Eradication Programme. (100%)
4. National Goitre Control Programme.

Centrally Sponsored Scheme

1. National Malaria Eradication Programme.
2. National Filaria Control Programme.
3. National T.B. Control Programme. And towards repairs of Motor Vehicles under NME
4. Taluk Hospitals
5. Hospitals on Dam Sites

State Plan Schemes:

1. School Health Programmes
2. District Diabetes Care and Control Programme in Kurnool and Visakhapatnam
3. Head Quarter Office.
4. Health Transport.
5. National Programme for Control of Blindness.
6. Training of Health Staff.
7. Amount transferred from Plan to Non-plan for repairs of Vehicles
8. Assistance to State Blindness control Society.
9. Computerization.

Primary Health:- State Plan Schemes

1. A.P.H.M.H.I & D.C. for Capital Works PMGY
2. Continuation of Primary Health Centers-PMGY
3. Hospitals
4. Establishment of New PHCs

j. Commissioner, Family Welfare

Central Sector Schemes:

1. Head Quarters Office
2. District Family Welfare Bureau
3. Regional Family Welfare Training Centre.
4. Training of Auxiliary Nurses, Midwives, Dayas and Lady health visitors.
5. A.N.M. Training Schools run by Local Bodies and Voluntary Organizations
6. Training and Employment of Multi purpose Workers (Male)
7. Family Welfare Centres]
- 8.. Sub Centres
9. Construction of FW Buildings
10. Urban Family Welfare Clinics
11. Medical Termination of Pregnancy.
12. RCH Programme
13. Transport.
14. Compensation
15. Mass Education Selected Area Programme
16. Indian Population Project - VIII.

17. Maintenance of Sterilization Beds.
18. Post partum Schemes District Hospitals Teaching Hospital
19. Post partum Schemes/ Taluk Hospitals.
20. Microsurgical Re-canalization.
21. Health & Family Welfare Centres in Urban Slum areas.
22. IPP VIII-MCH.
23. Bill & Melinda Gates Foundation.

State Plan Schemes:

1. State Population Policy.
2. Area Project/Indian Population Project - VI.
3. SI of HD FW Hyderabad under /IPP-VI.
4. Sukhibhava - PMGY.
5. Compensation.
6. Construction of FW Buildings.
7. AP Urban slum health care project IPP VIII extension.
8. Sub Centres.
9. Post partum Schemes (District Hospitals).

k. AP State AIDS Control Society (100% from NACO)

Appendix 3:
Expenditure data on Medical, Public Health & Family Welfare and Percentage of Total Expenditure and SGDP for the past 5 years

(In Rs Crores)

Years	SGDP*	Total Exp **	Expenditure on Medical, PH, & FW**	Percentage to Total Exp	% of SGDP
1999-00	125236	30426	1154.27	3.79	0.92
2000-01	140119	37956	1334.03	3.51	0.95
2001-02	151396	42747	1308.46	3.06	0.86
2002-03	162310	38597	1336.29	3.46	0.82
2003-04	180812	48855	1451.97	2.97	0.80
2004-05	199075	45747	1492.70	3.26	0.75
2005-06		49624	1776.37	3.58	
2006-07		63528	2113.23	3.33	

* Economic Survey 2004-05

** AP State Budget Books

Appendix 4:
Total grant, actual expenditure, savings, the amount actually surrendered and percentage of savings on Total Grant under the Medical, Health and Family Welfare budget

Year	Total Grant *	Actual Expenditure.*	Savings	Amt. Actually surrendered during the year	% Savings on Total Grant
1999-00	1302.35	1155.37	146.98	210.34	11.29
2000-01	1464.13	1334.19	129.94	104.3	8.87
2001-02	1199.43	1113.58	84.85	84.57	7.07
2002-03	1323.41	1110.31	213.10	194.76	16.10
2003-04	1665.62	1491.09	174.53	151.02	10.48

Source: Appropriation Accounts of GoAP

* Includes other than Functional Major Heads of Medical, Public Health and Family Welfare but budget provided for under Medical and Public Health Grants.

Analysis of under-spending in the 2004-05 Budget

A brief analysis of the 2004-05 Budget was undertaken by the department to understand where there are under-spends occurring (plan/ non-plan; which sub-department; which sub-heads etc.) and the major causes for this under-spend.

**% of Expenditure to RE under Medical, Health and Family Welfare Department,
GoAP 2004-05**

Figures in Rs in Crores

Sl. No.	Department	Plan		Non Plan		% of expenditure –plan and non-plan
		Allocation RE	% of Expenditure to RE	Allocation RE	% of Expenditure to RE	
1	Health, Medical & Family Welfare Department, Secretariat Department	38.48	105.3	159.88	96.4	100.85
2	Director of Medical Education	23.29	110.46	94.0	97.5	97.5
3	Directorate of Health	206.00	51.2	474.80	101.0	75.45
4	Commissionerate of Family Welfare	380.50	76.5	NA	NA	76.5
5	Institute of Preventive Medicine	0.06	82.8	11.42	101.5	92.15
6	AYUSH	0.56	1221.9	60.92	101.6	101.6
7	Drug Control Admn	0.05	65.6	6.12	77.9	71.75
	Total	648.94	80.31	1030.06	98.0	87.9

Source:

Budget Estimate 2005-06 and 2006-07 Demand XVI, Medical and Health Vol III/8 (For BE, RE and Expenditure for 2004-05)

NA: Not Applicable

*As there is vast difference between the Plan allocation for AYUSH and the expenditure – 56.18 lakhs and 686.48 lakhs respectively, this figure is not included for computation of aggregate percentage of expenditure for the DoHM&FW

Key observations from review of Expenditure of HM&FW Department:

- The major shortfall of expenditure is occurring in the plan allocation of the department.
- The Directorate of Health, Drug Control Administration and the Commissionerate of Family Welfare are the departments with the highest shortfall of expenditure in descending order for the financial year 2004-05.
- Some of the major causes for the under-spends are:
 - Poor planning for the funds allocated during the financial year—as a result of which money is not distributed to the districts, or spent at the HoD level, as mentioned in the Overview of District Financial Accountability at Appendix 11;
 - Issue of a standard 10% cut in the allocation by Finance Department for the fourth quarter;
 - In nearly all the institutions the financial transactions are supervised by staff who are not from the Treasuries or Finance Department and who do not have any training in the financial management processes. For e.g. The entire plan budget of the Directorate of Health is looked after by 11 DDOs all of whom are non- treasury persons;
 - In some cases the BE is overestimated, as a result of which the department is unable to spend the money. This indicates that enough exercise is not done at the directorate level to understand whether their estimates for the next financial year are realistic or not;
 - There is inadequate review of financial spending at all levels and there is need to devote some time for review of allocations/ releases/ expenditure.
 - Poor staff position as a result of which most of the financial functions performed are fire fighting operations (trying to get BROs/ Treasury authorizations/ Administrative sanctions) and they are unable to provide an overview of financial spending to the HODs.

Appendix 5: The Public Deposit System and its operation.

The general financial rules prohibit the withdrawal of monies from the Treasury unless required for immediate disbursement. However, the rules do allow authorised officials to draw monies from Treasuries and place them in local agency banks in deposit accounts, outside the Consolidated Fund, in the Public Account (thus still within the Government Account).

The deposit accounts will be classified as non-lapsable or lapsable. In the latter cases, funds will lapse on 31 March of the financial year following the year in which the funds were released. The deposit accounts thus provide for contravention of the annularity principle, which requires funds to be returned to the Consolidated Fund at the end of each financial year. The risk is that unutilised budgeted funds will be transferred to deposit accounts to prevent the allocations from lapsing so that the money can be utilised after the close of the financial year.

Monies withdrawn from the treasury and deposited in the PD accounts are accounted for as expenditure, pending submission of monthly PD account statements by the PD account administrator. Thus unspent balances in PD accounts represent an understatement of expenditure. The CAG in his 2001-02 report expressed concern at the unspent balances under deposit heads included as expenditure: as at end March 2002 they totalled Rs.68 crore, compared to Rs.56 crore as at end March 2001 and Rs. 113 crore as at end March 2000.

Retention of large amounts in deposit accounts by government officers for long periods is also fraught with the risk of diversion and misappropriation of the funds provided for specific purposes and also non-implementation of the schemes. Unutilised funds provided for specific schemes in the Budget should, unless re-appropriated, be surrendered to the Government (Consolidated Fund) at the end of the year.

GoAP's major concern has been about one type of deposit account, being the PD account, whose total balance was Rs.115.26 crore at 31 March 2002. GoAP has attempted to increase both its control over, and the transparency of, lapsable PD accounts. PD accounts are theoretically allowed only in a number of specified circumstances, but the most common is for the execution of schemes in the districts over a number of years. Having access to a PD account enables the PD administrator (for example, the District Collector or Project Director) to draw upon funds quickly when monies are required at short notice, in contrast to regular Treasury accounts which require pre-approval of invoices before paying them.

GoAP recognises the risks posed by the PD account system and has taken steps to impose control over them, including issuing a Government Order, (GO) 507.

Appendix 6: Grant-in-aid, Utilisation Certificates and AC/DC bills

A key risk area, as noted by the SFAA, is that of grant-in-aid paid to autonomous bodies, NGOs, societies and other institutions to fund their expenditure. Grants may be for either general purposes or specific purposes. In DoHMFW a key example is the APVVP which is 100% grant aided. GoAP's accounting policy is to account for grants-in-aid as expenditure when they are paid by the Treasury departments. The aided institutions only account for the use of the monies via the post-facto submission of UCs. There are five issues with regard to grants-in-aid and UCs. (from the SFAA)

"First, accountability by the aided institutions for the use of these grants-in-aid is lacking as submission of UCs is poor. Secondly, controls testing for the SFAA indicated that GoAP controls over UCs are generally inadequate. None of the officials questioned were able to supply details of UCs furnished against each grant and UCs pending, so we were unable to confirm grants had been properly accounted for. Thirdly, many unused specific purpose grants are not being remitted to the Treasury departments. The sanction order releasing the amounts specifies that unused amounts from the 'specific purpose' grants should be rendered back to the Government ('general purpose' grants do not have to be remitted). Of the ten district offices tested, only Vishakhapatnam DMHO was remitting grants unutilised by the grant recipients. The other offices were unable to provide a reason for the non-remittance. Furthermore, there is a risk in the way in which the grants-in-aid are maintained deposited in the deposit accounts of the local bodies.

Fourthly, grant aided institutions have a poor record for the finalisation of their accounts, statutory audit of their accounts and response to audit observations. Thus, neither directly (i.e. via UCs) nor indirectly is GoAP always able to have much reassurance about the usage of grant-in-aid funds. Fifthly, the UCs themselves merely state the value of monies utilised. They do not provide sufficient relevant information in a transparent manner on how the funds were utilised exactly. Nor do the UCs require any disclosure about what was achieved with the funds. This raises fundamental questions about the effective use of the grant-in-aid funds and the extent to which GoAP can monitor and improve the performance of aided institutions."

Crucially, for the DoHMFW, given their proliferation in the schemes, grants-in-aid and UCs are also a key target for GoAP reforms. GO 507 placed additional controls over grants-in-aid. While the GO was date specific, the requirement for stricter discipline is ongoing. Before financial releases may be made, institutions must have submitted a certificate that complies with a number of requirements outlined in the GO.

Responsibility for enforcing compliance lies with the concerned Finance Secretary, the HoD and the DDO. It is also the responsibility of each District Treasury Officer (DTO) to scrutinise claims and certificates. While this strengthened discipline seems to be addressing the lack of accountability of institutions receiving grants-in-aid, this discipline only applies to fresh monies granted from April 2002 onwards. The lack of accountability for funds granted prior to that date remains.

UCs are also used by the Gol and other external donors for Central Sector Schemes as the means by which transfers directly to bank accounts of societies are accounted for, either quarterly or annually, depending on the scheme. The same risks apply to these types of transfers.

AC/DC bills

Monies are drawn on AC bills, where monies are required in advance and yet the exact amount required for the purpose cannot be specifically calculated. (A form of imprest account) AC bills are required to be adjusted within one month (previously three months) from the drawal of funds on the AC bills by the submission of a DC bill which accounts for

the funds utilised. In recent years, the AG maintained computerised records of outstanding AC bills department-wise, better to monitor them.

AC bills are charged as expenditure. Thus, to the extent that these AC bills have not been adjusted by the submission of DC bills confirming actual expenditure, expenditure is overstated or unaccounted for in the accounts. The CAG reports generally attribute the pendency of AC bills to non-receipt of vouchers from the subordinate officers, non-receipt, or condonation orders of government for delay in submission of DC bills and want of stock entries on original bills.

Appendix 7: Fund Accountability Mechanisms

Much of the legal and institutional framework, within which the GoAP PFMA system operates, is prescribed by Gol in accordance within the provisions of the Constitution of India, as set out at Table 1 below.

Table 1: Key aspects of PFM determined by Gol and the Constitution

The Constitution sets out provisions for distribution of revenues between Gol and States; provides for giving of grants from Gol to the States; prescribes conditions for raising of borrowings by States; includes enabling provisions for the setting of limits on borrowings by States and giving of guarantees; lays down the procedures at key stages of the PFM process, such as preparation of the annual financial statement, estimates, appropriation bills, supplementary grants, votes on account and so on; prescribes the Gol Government Accounting Rules, Account Codes and General Financial Rules; prescribes through the CAG the manner in which the accounts of States should be maintained; provides for the audit of the accounts of States through the CAG. Financial relations between Gol and States also transcend the Constitutional provisions, with the Planning Commission guiding the development of the Plan.

GoAP is thus constrained in many areas in its attempts to reform PFM, but has sought to supplement Gol requirements in some areas so as to minimise fiduciary risk, for example by increasing the availability of information on public finances in a transparent form. In other areas, such as the budget process, State Governments have delegated authority and GoAP has used this to good effect by undertaking reforms that seek to reduce fiduciary risk by increasing budget realism and budget comprehensiveness.

To enable institutional accountability, the accountability of individuals within institutions must be clearly established. The AP Government Business Rules and Secretariat Instructions assign responsibility for “all matters relative to financial procedure and the application of the principles of sound finance” to the Finance Department. However, the Finance Department has defined their principle role as that of supporting line departments in establishing internal controls and it has done this primarily through placing Treasury officials in line departments as Chief Accounts Officers in Directorates.

The key Treasury officials are the Director of Treasuries and Accounts (DTA) at the State-wide level, the District Treasury Officer (DTO) at the district level, and the Sub-Treasury Officer (STO) at the field level. The DTA plays a critical role in PFMA, when public funds are funnelled through the Treasury system and he acts as a liaison between GoAP and the AG. There is some way to go in providing institutional strengthening in key areas in order to ensure that financial accountability is attained, however. Not least of these is training and capacity building of line department officials with financial management responsibilities, as this is currently severely lacking.

The following Departmental officials have a key role to play in PFM:

- Chief Controlling Officer- the Director of Health;
- Sub-Controlling Officers, responsible for departmental matters at the district level, for example the DM & HO and the District Coordinator for Health Services (DCHS)

Good practice requires that CCOs are made clearly and specifically responsible for maintaining an adequate system of internal control to ensure that departmental mission, vision, objectives and targets are successfully achieved through the effective and efficient use of scarce public resources. Specifically, a key objective is the safeguarding of resources against loss due to waste, abuse, mismanagement, errors, fraud, and other irregularities.

Drawing and Disbursing Officers

The DDOs are also critical to minimising fiduciary risk. At the field level, the DDO will be

the Medical Officer running each PHC, or the Programme Officer for each vertical scheme. At the district office level, the DDO will be the General Administration Officer (GAO), reporting to the CO. At the Directorate level, the CAO or any other designated official will be the DDO, reporting to the CCO.

The duties of DDOs are contained in various documents: the Budget Manual, which contains general instructions on budgetary preparation and reconciliations; the AP Financial Code on financial matters; and the AP Treasury Code on the custody of monies/payments of monies into/withdrawal of monies from the Government Account.

The HRD Institute did codify the key duties and responsibilities of DDOs in 1999. The HRD Institute used the codified DDO Manual as training material and a manual for the training of DDOs in their duties and responsibilities, and provided this to trainees. But the manual has not been provided directly to all DDOs in the field. This distribution is necessary in view of the history of weak compliance by DDOs. In recognition of this, Finance Department issued an important GO in April 2002, GO 507 which focuses on accountability in line departments, touching on societies and autonomous bodies in addition. The Finance Department, in collaboration with the CGG, also issued a "Handbook on Financial Accountability", in response to the SFAA and in order to provide a clearer and more complete manual of roles and responsibilities with regard to financial accountabilities within departments.

The success of GO 507, and similar initiatives, will be greatly enhanced by departments supplementing Finance Department's monitoring. However, in the case of the Health Department, we noted significant weaknesses in financial management abilities at all levels, which gives cause to doubt that the Department is in a position to monitor its own accountability at this stage. In no cases did we find copies of the Handbook.

The placement of DTA officials as Chief Accounts Officers (CAOs) in Directorates does go some way in offering this support. Finance Department may benefit from institutional strengthening in key areas in order to enable the broadening and deepening of the PFM reform process and in the case of DoHMF, there are significant weaknesses in this area due to capacity issues, large numbers of vacancies in districts for critical posts such as DDOs, and absence of training for Department staff with financial management responsibilities. A comprehensive and transparent legal framework is essential, but its success in strengthening PFM and reducing fiduciary risk is contingent to a significant extent on the competence, commitment, motivation, objectivity and ethics of the officials responsible for implementing it. All of these qualities are usually found in direct relation to the level of PFM knowledge and skills, the extent to which this imparted to them through various forms of training, and the extent to which their expertise is recognised.

Appendix 8: Evaluation of fiduciary risk

This section provides an evaluation of fiduciary risks in the DoHMFV. By assessing its PFMA systems against good practice principles and benchmarks, there is a high-level description of the institutional context for the PFMA systems.

Assessment against good practice principles and benchmarks

This assessment has been prepared on the basis of the eight good practice principles and 15 related benchmarks defined in the current DFID policy for carrying out a fiduciary risk assessment.

The following sections provide an evaluation against these good practice principles and related benchmarks, with analysis against each benchmark in a separate subsection except where DFID has grouped these in Annex 1 of its methodology.

The assessments in this section are summarised into separate fiduciary risk matrix in Chapter 4 of the main document. However, the narrative for the assessments themselves are grouped together consecutively to give clarity for each benchmark, where applicable. Where the benchmark is covered adequately in the State Financial Accountability Assessment (SFAA) extract from the same is given.

Principle One: A clear set of rules governs the budget process

DFID has identified the following two benchmarks for assessing fiduciary risk in relation to this principle of good practice.

- A budget law specifying fiscal management responsibilities is in operation.
- Accounting policies and account code classifications are published and applied.

1. Operation of budget law

1.1.1 Is the budget law of adequate quality to satisfy requirements on government to be fully accountable for the use of public funds?

TB Scheme

The “legal framework” underpinning the budget process in GoAP is understood to comprise the body of prescribed requirements, including those prescribed by the Constitution, laws, and subordinate legislation such as rules, regulations, codes, manuals and Government Orders (GOs). The GoI Government Accounting Rules, Account Codes and General Financial Rules are the primary source of GoAP’s AP Financial Code, AP Accounts Code and AP Treasury Code which determine PFM processes on a day to day basis. Much of the legal and institutional framework, within which the GoAP PFM system operates, is prescribed by GoI in accordance within the provisions of the Constitution of India.

However, it is important to note that there is no Budget Law as such, the legal framework being defined in the Constitution and the various codes, manuals, and Government Orders acting as subordinate legislation under this and they derive their legal force from the Legislative Assembly.

With regard to the quality of this legal framework as it applies to the DoHMFV, as noted in the SFAA, the main points to note are:

- The division of responsibilities between Central and State governments and the rules for the preparation and execution of State government budgets are broadly defined in the Constitution and are very clear
- The AP Government Business Rules and Secretariat Instructions assign

responsibility for “all matters relative to financial procedure and the application of the principles of sound finance” to the Finance Department. Finance Department is thus responsible for ensuring that line departments are supported and guided in their financial management responsibilities.

The legal and accountability framework, however, is urgently in need of updating, simplifying, clarifying, and consolidating and distributing to the relevant officials at all levels. The Financial Accountability Handbook developed in 2004^{vii} by the Finance Department and the CGG goes a long way towards clarifying accountability and procedures for line departments, most particularly of DDOs. However, there remains a need to simplify some of the regulations, which are still written in archaic language and only in English. The Centre for Good Governance has made arrangements for distribution of these Handbooks among the DDOs through the District Collectors.

- Accountability mechanisms continue to focus only on financial accountability, rather than holding departments or individuals accountable for results. GoAP is moving towards reforms enabling performance accountability, but recognises the challenges involved in this in the short-term.
- The legal and accountability framework continues to list “duties” and “rules” rather than define how individuals will be held to account for fulfilment of their responsibilities. Wider PFM roles and responsibilities are not set out in a comprehensive way and thus fiduciary responsibilities, for example are not covered adequately.

With regard to the specific applicability of these points to the administration of the TB Scheme, accountabilities are vaguer, given that most of the activities of the scheme operate through the District TB Society. Although TB programme officers are DDOs, and thus their responsibilities are articulated through relevant rules set out in the Budget Manual, Financial Code and Account Code, and specifically, through GO 507, the fact that the societies are in existence and that the Societies Act also defines a degree of accountability to the Society Board constitutes a degree of uncertainty and ambiguity. For example, societies do not account fully for the use of their funds through the Treasury system but through income and expenditure accounts to their boards. In addition, monies transferred through PD accounts are, by definition, outside of the Government Account and are thus less subject to scrutiny than funds within the Government Account. This ambiguity of accountability needs to be addressed by the Finance Department, however, and not by the Department. The Finance Department has not sufficiently addressed the issue of quasi-autonomous bodies, societies and agencies, and this significantly affects the issue of fiduciary risk.

The APVVP

The APVVP is a grant aided autonomous body constituted under the Public Societies Act in 1986. Whilst it is a sub-department of the DoHMFV and therefore subject to the same legal framework as the rest of the Department theoretically, in reality accountabilities are somewhat vague. The Statute compelling the Society to have its books audited annually is the Societies Act. There is no applicable requirement in the Constitution. Such were the concerns over accountabilities relating to autonomous bodies, societies and grant-aided institutions that the Finance Department released a GO, number 507, which specified a list of conditions with which such bodies had to comply in order to receive further Treasury funds. One of these referred to the maintenance of accounts in a specific format prescribed by the C & AG. The Societies Act does not give instructions or guidance on the maintenance of accounts and the submission of utilisation certificates. It simply states that

^{vii} Handbook on Financial Accountability for Chief Controlling Officers, Subordinate Controlling Officers and Drawing and Disbursement Officers, Parts I and II. CGG 2004

the accountability for the Society rests with the Board of the Society and that the accounts should be prepared in income and expenditure format once a year. The accountability of the Board is not specified in legislation and thus the accounts are not published. It does not specify the necessity for a statutory audit, whereas the GO specifies this necessity. GO 90 did prescribe norms for applying the budget in APVVP but did not address accountability.

The APMHIDC

The APMHIDC is also an autonomous body, (Corporation) registered under the Societies Act. However, since it is not directly in receipt of Treasury money, it would be difficult to enforce GO 507 on the Corporation and although it is accountable to its Board, it is doubtful that it is fully accountable to the Head of the Department. Indeed, the Financial Accountability Manual notes “though much is said about financial accountability in various codes and manuals, there is a gap between principles and practice” (Introduction). The APMHIDC levies service charges varying between 2 and 7% on procurement and civil works to health institutions.

The aims and objectives for which the Society is established are:

- To formulate, organize, undertake, implement, execute or carry out schemes for the provision of housing for the needs of the Medical and Para Medical staff, and Construction of Public Health Centres, Hospitals, Dispensaries, Clinics and other Health care centres.
- To formulate and undertake schemes for the acquisition of medical equipments and other infrastructure facilities, to let out on hire, on lease or in any other manner such equipments for the provision of Family Welfare and Health Care facilities and to undertake Family Welfare and Health Care.

The Corporation is also notified as the nodal agency for undertaking procurement, storage and distribution of drugs and medical supplies. The DHS, the DME and the APVVP have budgets under Plan and non-Plan for the procurement of drugs, equipment and consumables. These budgets are held by the Corporation and released under the PD Account mechanism. For drugs alone for 2004-5 the budget is 80 Crore. The APMHIDC also carries out civil works and procures drugs and equipment under various schemes. The method of release is also under the PD Account system.

The APMHIDC is an autonomous body and thus is technically self-governing. The expenditure of the Corporation is “off-Vote” because it derives its income from its service charges to health institutions. This is where the accountability framework is confused. The GoAP has not established separate and clear financial accountability rules and regulations for autonomous bodies, societies, quasi-governmental bodies, or agencies. Because of this, it is unclear where the accountability lies. Whilst technically the Head of the Corporation is a Head of a Sub-department and therefore a CCO, he does not prepare a budget that is submitted under the normal government budget process. He reports to a non-elected Board. The key weakness, in common with that of Society Boards and the Board of the APVVP is that the Board has no legislative requirement to report to Parliament and their reports and accounts are not published. Thus, the performance of these bodies is not subject to sufficient legislative scrutiny and their accountability to the public is compromised.

In the UK, many of these dilemmas were addressed by adopting the principle of the executive agency. Executive agencies are free from many central government-wide rules and day to day interference by ministers and operate with generic, rather than specifically central government, management styles. Second, instead of expressing detailed inputs including budget sections or staffing, the agencies use contractual frameworks specifying an overall budget level and a set of desired outputs against which the performance of the

unit is monitored. Third, there is more use of competitive and market-like structures for provision of goods and services. These structures include competition with private firms, splitting purchasers of services from providers and charging users individually for the goods and services they receive rather than funding from general taxation.

The executive agency model has two main features:

- An executive agency organisation, semi-detached from its parent department, with its own budget, freedom from some departmental regulations, freedom from ad hoc, day to day, intervention by the department, freedom from some central government-wide regulation, with the organisation under the direction of a chief executive recruited through open competition.
- Executive agency accountability for the performance of specific operational tasks as a corporate unit, including output focused performance targets set by the parent department, and personal accountability of the chief executive for performance.

Chief executives have personal accountability to Ministers for operational performance and report results, with individual responsibility for the consequences of their actions and a portion of their pay, linked to individual performance. Ministers retain the right to alter the system and reorganise the status of executive agencies, for example, to fold it back into the department and to intervene in cases of extreme need.

The freedoms accorded to executive agencies differ between those that predominantly receive their budget through an allocation by the parent department and those that have freedom to trade by charging customers 'fees' for services. Trading agencies have freedom to raise revenue from their customers and to alter services in response to customer demand, forming an additional form of accountability to customers. Trading agencies provide information about services and may be sanctioned by customers who may choose not to purchase from the body. All executive agencies are subject to systems of central government-wide regulation, although some freedoms are granted from general rules on the use of resources and there is little regular reporting of performance to, or direction by, central units. Executive agencies are incorporated in the system of ministerial accountability to Parliament with chief executives reporting operational performance and being held responsible for their individual contribution to operational performance whilst ministers report strategic performance and remain responsible for strategic issues.

It is clear that the APHMHIDC fits the criterion for a trading executive agency, along the lines of the UK National Health Service Purchase and Supply Agency (PASA) and its accountability and accounting framework would benefit from clear operating guidelines, a statutory requirement to report according to a contractual framework and accountability to its customer, the DoHMFV.

Whilst agencies vary hugely in size, function and significance to key departmental objectives, they are only one model of executive organisation within central government. Others are directorates within departments, non-departmental public bodies (NDPBs) (e.g. the Environment Agency in the UK) and public corporations (e.g. British Nuclear Fuels Limited). Increasingly, agencies and other public bodies in the UK, for example, are delivering public services through partnership or contractual relationships with private or voluntary organisations. Given the range of agencies, NDPBs, and other non-departmental bodies currently operating within the DoHMFV, it might benefit from reviewing a number of organisational models such as these in order to rationalise and improve its accountability and performance, as the current PFM framework is not able to meet international standards and is not comprehensive or flexible enough to deal with the current structure.

1.1.2 Is there an effective budget circular with related budget guidelines and procedures on budget preparation and execution?

The AP Budget Manual outlines the process for the formulation of the budget, changes to the Budget Estimates during the year and outlines the accountabilities of line departments during the budget process. The Manual does not change from year to year and is therefore not a circular. The Draft Performance Budget Exercise took place for the year 2003-4 and is referred to in the SFAA (section 4.3).

Line department ownership of budgets

Line departments' ownership of budgets is important to fiduciary risk as it supports the development of realistic budgets, whilst building departmental commitment to implementing the budget as planned. GoAP recognises the importance of line department ownership of budgets. Indeed it is a key pillar of GoAP's fiscal strategy; the Strategy Paper on Fiscal Reforms refers to the aim of "creating the conditions for good operational management and improvement of services to the public, by empowering the government departments to take decisions in their remit while assuring accountability for the use of resources and their results".ⁱ GoAP has undertaken a number of reforms which aim to build line department ownership by providing a greater level of autonomy for line departments in developing their budgets. These next sections look at:

- Departmental involvement in budget formulation;
- District involvement in budget formulation.

Departmental involvement in budget formulation

The key reform aimed at increasing departmental responsibility for budget formulation is ***the "Draft Performance Budget Exercise" undertaken during the 2003-04 budget*** formulation process. The exercise encourages departments to consider the linkages between their activities and performance indicators, with the aim of prompting them to consider whether they are undertaking an appropriate mix of activities. Therefore, it represents a positive and encouraging first step towards bringing discussion of activities and objectives into budget formulation.

This approach has the potential to increase departmental responsibility for developing an affordable expenditure strategy. Over the longer term, GoAP aims to further strengthen the links between expenditure strategies and available resources through the development of departmental Medium Term Expenditure Frameworks (MTEFs). Giving departments real flexibility and ownership of budgets depends on building their capacity to develop multi-year, costed expenditure policies or strategies. Departmental capacity to develop medium term expenditure strategies is currently weak. While departments often have strategies, linked to overall government strategies, these are usually not costed on an activity basis and are often not reconciled with available resources on an annual or medium term basis.

As noted by the Strategy Paper on Fiscal Reform, "most programmes are of a continuing type with more or less firm commitments on the resources of the future ... therefore, the margin of resources available for new initiatives is extremely limited on a year-to-year basis, while new policies typically take more than a year to implement". A medium term approach facilitates more fundamental shifts in expenditure priorities by enabling them to be planned over a time span of several years.

For the first time in the 2003-04 budget formulation process, GOAP undertook a "performance budgeting" exercise. As recognised by the Government, this exercise was not performance budgeting in the pure sense, but reflected GoAP's efforts to facilitate greater political engagement in the setting of final expenditure ceilings and to encourage departments to think more about the linkages between their activities and performance indicators. Departments were instructed to prepare initial estimates for non-Plan expenditure in late November.^{viii} Based on revenue forecasts (including the limits to borrowing) and "committed" non-Plan expenditure, the Finance Department determined the resources available for the Plan. The Finance Department communicated initial budget ceilings to line departments in early January. The budget ceilings

^{viii} G.O.M. No.34528-A/1137/BG/A1/2001, dated 15/11/2002

were for both non-Plan (object-wise) and Plan (group sub-head wise) for each department for RE 2002-03 and BE 2003-04.

All HoDs were required to prepare a Performance Review indicating the actual achievements for 2001-02, progress towards targets for 2002-03 by December 2002 and targets for 2003-04 for each of their performance and process indicators. In their write-up of the Performance Review, all HoDs were required to explain their strategy and programme for implementing various schemes and projects in the coming year. They were also required to give sub head-wise details of the schemes under non-Plan and Plan proposed to be implemented in the coming year.^{ix}

These performance reviews were discussed at a State workshop (16-17 January 2003) and a series of district workshops. The State workshop was divided into eight groups where all Ministers, Secretaries and Heads of Departments (HoD) participated. All HoDs made presentations on their performance review and draft performance budget in their group and group recommendations were presented to the plenary session.

The Chief Minister released the Annual Fiscal Framework (AFF) on 22 January with indicative budgetary allocations to all departments. The concerned Ministers released the Group Reports on Departmental Performance Budgets from 23-27 January 2003. The State Government organised district level workshops from 27-31 January and further State level seminars were held from 3-7 February. A Cabinet Sub-Committee scrutinised the responses received from the public and departments and final guidelines for modifications were considered by the Council of Ministers on 10 February.

Departments were instructed to prepare detailed budget proposals on the basis of these expenditure ceilings. While these expenditure ceilings were then at the scheme and object head level for Plan and non-Plan expenditure respectively, departments had been closely involved in agreeing these ceilings. Departments finalised their detailed budget proposals between 11 and 17 February, with the final Budget presented to the Assembly on 22 February 2003.

Therefore, the pilot initiatives to develop MTEFs in the primary education and health sectors represent positive progress in this area. GoAP is only in the early stages of launching work for a pilot MTEF in the primary health sector and planned work on a primary education MTEF has not yet begun.^x The development of medium term expenditure strategies for all departments is a challenging task that, if undertaken, is likely to take many years.

However, international experience suggests that the most successful efforts at medium term and performance budgeting are those that are used as a strategic tool to make broad allocation decisions, rather than attempt to develop sophisticated performance budgeting techniques. Therefore, GoAP's recent efforts to focus budget decision-making on activities or schemes and on performance have the **potential to bring substantial benefits**. These initial reforms could, therefore, focus budget decision-making on objectives and activities, and increase department ownership of budgets.

However, **expectations of the potential benefits of these reforms must be tempered by understanding of the short term constraints that GoAP and departments face** in terms of the scope to review their programmes or activities to develop an affordable and realistic expenditure strategy. In reality, most departments have very little real flexibility in the development of their budgets, due to the following factors:

- While, in theory, departments can re-allocate funding across schemes from the initial scheme-wise ceilings provided by the Finance Department, in reality **most of the funding that departments receive under the Plan budget is tied to particular schemes** by the Gol. Only around 27% of Plan expenditure is at the discretion of the State under "normal State Plan schemes."^{xi}

^{ix} As per Chief Minister letter to all Secretaries, No.027/N/CMP/2003, dated 02.01.2003

^x Although an expenditure review of the Primary Education sector has been undertaken

^{xi} Of Plan expenditure in 2001-02 (based on Revised Estimates), 28% was external aid tied to particular projects and another 20% was tied to other projects over which GoAP does not have discretion. A further 5% of expenditure is absorbed by matching expenditure in centrally financed schemes. Once the power subsidy

- The **majority of the non-Plan budget, which represents around 68% of total expenditure, is absorbed by salaries and debt servicing**, as noted at section 4.2.2. Together salaries and debt servicing represent around 81% of total non-Plan expenditure (revenue and capital) in the 2002-03 Revised Estimates. For a number of departments, salaries are an even higher percentage of their budget.

These factors mean that **departments either have little incentive to discontinue low priority schemes or identify surplus labour and no real capacity to reallocate expenditure**. While departments can re-deploy staff to other activities, or surrender them and their budgets to the manpower cell, the relatively low level of O&M expenditure means that there is little non-salary funding to transfer to another activity as the result of the discontinuation of an activity.

Unfortunately, **there is little scope for GoAP to address this issue in the short-term**. The Finance Department states that any savings from the surrender of posts to the surplus manpower cell can not be retained by the department, given overall expenditure constraints, as the salary will need to be continued to be paid from a separate budget.^{xii} This position flows from GoAP policy of “focusing on human resource development and skill upgradation of its employees rather than any radical downsizing of the civil services. Towards this end, the government will continue with its policy of streamlining administration and staffing patterns in line with modern technological innovations and work norms and processes. This would be achieved through reorientation, retraining and redeployment of existing staff “^{xiii}

GoAP is seeking to increase flexibility by controlling salary costs, and **has made significant progress in recent years** through attrition and strict control of recruitment. GoAP has established a surplus manpower scheme in the Finance Department to regulate redeployment and instructions have been issued to all HoDs to obtain permission from Finance Department to recruit employees.^{xiv} If GoAP succeeds in bringing down the overall salary burden over time, and achieves its objectives of reducing the debt servicing burden, this may bring greater scope to address under-funding of non-salary O&M expenditure. However, although the DoHMFV has now produced 3 Performance Budgets, there is a need to further develop these. (See Section 8.1.3 for further discussion)

An attempt was made to develop a Medium Term Strategy and Expenditure Framework (MTSEF) for Health in 2004-5. The strategy presented priority areas for the development of the health sector over a 3-5 year period and key elements of implementing the strategies, whilst the expenditure framework provided a basis for forward budgeting and financial commitment to achieve the set objectives. Unfortunately, much of the work was carried out by external consultants with the result that the necessary empowerment of the Department was lacking and capacity building did not take place. This has resulted in the MTSEF not being taken up and work is ongoing to develop another MTEF, building on lessons learnt. International experience suggests, however, that development of MTEFs, particularly at departmental level is very challenging and may take years. Taking into account the constraints that such an MTEF will face, i.e., the constraints mentioned above

is excluded, this leaves only around 27% of Plan expenditure at the discretion of the State under normal State Plan schemes. As Plan expenditure is about 32% of total expenditure, this is only about 7% of total expenditure.

^{xii} Note there is also a risk around giving departments greater flexibility to re-allocate between salaries and other expenditure arising from the non-control nature of salaries. Given that salaries are not checked against budget during execution, departments would face an incentive to under-estimate salaries to free funds for other expenditure, knowing that GoAP would be forced to meet salary commitments during budget execution. Therefore, greater flexibility in budget formulation would need to be matched by measures to ensure salaries are adequately provided for and entrench departmental accountability for under-providing for salary costs.

^{xiii} GoAP Strategy Paper on Fiscal Reforms (2001), paragraph 62

^{xiv} GoAP Strategy Paper on Fiscal Reforms (2001), paragraph 63.

and the low level of financial and strategic policy making capacities in the Department, the process may well be delayed further.

TB Scheme

The TB Scheme budgets that are non-salary are drawn up by the GoI and the Planning Department of the GoAP (for Plan expenditure). Budget norms as defined by the AP Budget Manual relate largely to number statements for salary payments and allowances. The Department itself has extremely limited inputs into determining budgets for Plan expenditure as the norms for the Scheme are determined by the Government of India. It seems that for some schemes, however, the budgets are discussed at State Society Level. Once again, there is considerable variance across the Department according to scheme.

Documents that are submitted (we saw a budget for the TB Scheme for one district) are merely requests for money under each economic classification with no explanation of increases over the previous year and no indication of spend for the previous year for comparison. The Programme Officer indicated that he was asked for a budget with no clear guidelines indicating procedures or guidelines for how to prepare it. The budget was submitted to the District Board for approval before sending it to the State TB Board.

APVVP

The APVVP budget appears in the Budget under two economic classifications, "Salaries" and "Other" as it is a grant-in-aid. The APVVP Commissioner does not request districts to prepare budgets as per the Budget Manual as it has its own budget norms which were defined in GO 90. It seems that the Commissionerate, although able to be flexible with its budget, **does** not allow the districts to be flexible in turn. Every other budget heading is set by the Commissionerate Finance Division and districts are effectively not involved in budget discussions or negotiations. There are no circulars or procedures circulated. There is no ownership of budgets by Districts due to this centralised procedure, despite the fact that the Commissionerate was set up originally to enable the provision of services to be flexible and according to needs of patients. The methodology that is currently being utilised effectively stifles this flexibility and is not tailored to needs in any way, but rather formulated according to hospital bed numbers and staff numbers. This effectively limits performance budgeting and budget realism from the outset as districts are not held accountable for performance indicators. The APVVP is also not held accountable for its performance in any way, particularly as its actual expenditure is not reported to State Assembly. (See later section 8.1.8 for discussion on this aspect).

APMHIDC

The Corporation does not derive its funding from the GoAP Budget and thus the Budget Manual does not specifically apply to it. As it is an autonomous body it potentially should be driven by a performance budget and specific guidelines and procedures designed to elicit a cost-effective and efficient performance. However, its status is currently not sufficiently overseen by any competent authority and its income and expenditure accounts are not reviewed by either the Department, by auditors or by its customers. At present its budget is approved only by its Board. The recent performance budget round (2003-4) did not include the Corporation and its performance targets are therefore not known. It is a non-profit making Corporation and we noted it makes a profit every year. It is not known, however, how the Corporation is regulated and by whom in terms of how such profit could be spent, although it is likely to be the Board that decides. We did not establish who the members of the Board are, but they are appointed, not elected officials.

1.1.3 Are the budget law, guidelines and procedures actually understood and implemented?

There are significant capacity issues in the Department, linked amongst other things to low pay levels, low motivation, poor training, no performance related pay, large numbers of vacant posts and the complete absence of a human resources function. Currently, it appears that the budget laws/procedures and guidelines are not well understood outside the MoF and are poorly implemented throughout GoAP, although in fairness, at District level and below, there is virtually no involvement in the budget process, the Heads of each Sub-department providing the required number statements at the appropriate time of the year. However, our interviews confirmed that there is little understanding amongst district level and below staff of the procedures, requirements and necessity for the budget process, or indeed, the difference between a budget and expenditure. The capacity of line ministries to participate meaningfully in the national budget process is severely constrained given that their technical capacities in the areas of budgeting and financial management are weak compared to the Finance Department and also that they have limited capacity in policy analysis and formulation.

Despite the attempts by the MoF to introduce a more strategic approach to the budget process through the draft performance budget programme, in practice, the submissions that the Department of Finance receive tend to be overburdened with exceptionally detailed information by institutions, but contain very weak analysis and justification of requests, as well as lacking clear statements on sectoral policies, expenditure priorities and their rationale. The Performance Budgets for the Department focus on inputs rather than outcomes and highlight the inability of the Department to streamline and coordinate activities in a strategic and effective way. It is recognised that developing institutional capacity across GoAP will take years, however, and the reform of budget processes is at its early stages.

1.1.4 Is there an effective legislative committee (e.g. Budget Committee) that examines the annual budget law and related budget appropriations?

The role of the Legislative Assembly in budget approval is provided for in the Constitution. The Constitution stipulates that prior authorisation of the Legislative Assembly is required for withdrawals from the Consolidated Fund. The Legislative Assembly provides this authorisation through the Appropriation Act, which provides the approval to appropriate amounts for specified purposes.

The Budget is usually presented to the Legislative Assembly in February and passed in March. In the event of a delay in the passing of the Budget, article 206 of the Constitution provides for "Vote on Account" (via an Appropriation Act) or demands for advance grants in respect of the estimated expenditure for a part of the budget year. This enables spending before the regular Appropriation Act is passed for the Budget as a whole.

The Estimates Committee has been established to assist the Assembly during budget formulation and approval. The Committee's role is clearly laid down as to "suggest the form in which the estimates shall be presented in the Legislative Assembly". *Thus, the Estimates Committee does not analyse the budget appropriations.* The Estimates Committee is chaired by a MLA from the ruling party, but with 15 members representing all the political parties represented in the Legislative Assembly. In the past, there had been significant breaks in the continuity of the Estimates Committee, but this has improved in recent years. The tenure of the members of the Estimates Committee is for one year only.

Unlike at the Union level, there are no other standing committees in the AP Legislative Assembly, whose responsibility it would be to develop expertise in specific sectors or departments better to scrutinise their budgets (and to examine the performance during the year). This means that effectively the Assembly is not given any technical assistance in

understanding the budgets and is unable to ask for clarity in specific areas. For the Health Department, this is potentially disastrous. Given the complexity of the DoHMFWS budgets particularly, the inability of the Department to defend its budget is a significant point. GoAP has constituted a committee to implement SFAA report recommendations. During meeting with Jt Secretary (Finance) it was indicated that possibility of co-option of technical experts in the estimates committee and public accounts committee is under discussion.

The fiscal roles of the executive, legislative and judicial branches are clearly defined in the Constitution. However, it cannot be said that the Legislative Assembly is at the stage where it is able to review the budget and related appropriations effectively or critically.

1.1.5 Does the scope of legislative review cover fiscal policies and the medium term fiscal framework in advance of revenue and expenditure details?

There are two main stages to the Legislative Assembly's discussion of the Budget, as follows.

- In the first stage, general discussions take place mainly based on the budget speech of the Finance Minister, which indicates the economic policies, taxation proposals, principles followed in allocation of resources, past performance and most importantly future projections. This includes a discussion of the Annual Fiscal Framework, which is published on the GoAP's website. The major fiscal stabilisation goals of GoAP are reflected in the Medium Term Fiscal Framework (MTFF).
- In the second stage, the Demands for Grants are discussed in the Legislative Assembly. The Detailed Demand for Grants is available by then and the discussions centre around the details in the Detailed Demands for Grants. When the period fixed for discussions for Demands for Grants is over, no further discussion is allowed by the Speaker, and the Demands for Grants which are not discussed are also taken as approved by the Legislative Assembly. In this process, many of the Demands for Grants get approved without any discussions in the Legislative Assembly due to the limitation of time at its disposal.

It is worth pointing out that because the budget process is not yet fully linked to government priorities through its MTFF and because the budget process is almost entirely incremental, allocative efficiency is not at its maximum as decisions remain input-based. This effectively means there is not the possibility to measure the impact of policy on budgetary allocations. At present the annual budget speech by the Finance Minister is the only source of information on policy intentions for the DoHMFWS as there is no overall strategic policy document. However, recognising the importance of having such a strategy document the Department is in the process of developing a State wide Health Strategy in association with CGG. The document would clearly articulate the priorities of the department and areas of focus for the five year period 2006-11.

Although the legislature approves the annual budget law in two stages, it is questionable whether there is adequate scope for an analysis of the main budget policy direction and the GoM's macroeconomic policy and objectives in the first stage. The second stage allows for the review of revenue and expenditure details but it appears that there is not sufficient time for an effective process to take place.

1.1.6 Does the legislative committee have adequate capacity to effectively perform its role (for example does it receive timely, prioritised, user-friendly budget reports and have adequate resources for in-depth review)?

The Assembly undertakes scrutiny of PFM at two main stages, being:

- Monitoring during budget execution, when the Assembly, including through its Estimates Committee, seeks to ensure that the budget is being implemented as passed;
- Ex post facto scrutiny, when the Members of the Legislative Assembly (MLAs) have the opportunity to determine the extent to which resources were used for the purposes intended and authorised. This scrutiny is enabled by the placing of the Appropriation Accounts, the Finance Accounts and the CAG's Audit Reports before the Assembly, which delegates responsibility for detailed scrutiny to the PAC.

There are two means by which the Legislative Assembly can monitor budget execution, to determine the extent to which the budget is being implemented as passed, and hold the Government to account: questions in the Assembly and through the Estimates Committee.

The Estimates Committee assists the Assembly in its scrutiny role during budget execution. The role of the Estimates Committee during budget execution is outlined in the table below.

Role of the Estimates Committee during budget execution

- | |
|--|
| <ul style="list-style-type: none">- Report on what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates may be effected;- Suggest alternative policies in order to bring about efficiency and economy in administration;- Examine whether the value for money is well laid out within the limits of the policy implied in the estimates |
|--|

Source: AP Legislative Assembly: Committee on Estimates (2002 – 2003), Internal Working Rules, Rule 310 of the Rules of Procedure and Conduct of Business in the AP Legislative Assembly.

Ex post facto scrutiny

The PAC has a critical role to play in any assessment of fiduciary risk as it is in a unique position to ascertain the extent to which the funds granted by the Legislative Assembly have been spent by the Government on authorised or intended purposes

The PAC examines the extent to which:

- | |
|---|
| <ul style="list-style-type: none">▪ Money has been recorded as having been spent against the Grant does not exceed the amount granted;▪ Expenditure which has been brought to account against a particular Grant must be of the nature as to justify its being recorded against the Grant and against no other;▪ Each Grant has been spent for the purpose for which it is set out in the detailed demand and that it has not be spent on any new service not contemplated in the demand;▪ In the case of excess Grants – i.e. where actual expenditure has exceeded the Grant – the PAC considers the circumstances and recommends to the Legislative Assembly whether or not to regularise the excess grant. The PAC also examines cases of losses, nugatory expenditure and financial irregularities. |
|---|

Source: AP Legislative Assembly: Committee on Public Accounts (2002 – 2003), published under Rule 310 of the Rules of Procedure and Conduct of Business in the AP Legislative Assembly.

To fulfil this role, the PAC has the authority to examine the Appropriation Accounts, the Finance Accounts, the Audit Reports (Civil and Revenue Receipts) of the CAG of India and such other accounts laid before the House, as the Committee thinks fit. In practice, the PAC tends to examine the Audit Reports only. The PAC selects a number of the audit

paragraphs and reviews for more detailed examination.

Summary and conclusions

GoAP's recent PFM reform programme has sought to overcome many of the constraints of the India-wide framework. Reforms in specific areas of PFM need to be underpinned by reforms that tackle weaknesses in the legal and institutional framework. Most urgently required are the modernisation, codification, and simplification of the legal framework based on clearly articulated principles and a complete and consistent accountability framework. This should increase compliance at the district and field levels, where the competence and motivation to comply can be weak. Reducing the risk of non-compliance relies on strengthening the organisational culture by reforming working practices; in-roads can be made by strengthening training and human resource management of finance staff and more particularly, Health Department staff with financial responsibilities. It was noted that Health Department staff have to date received no financial training.

The AP Legislative Assembly and its committees - the Estimates Committee and the PAC have a long standing and well established role in scrutinising public finances.

2. Accounting policies and account code classifications

1.2.1 Is there effective classification of the budget in relation to administrative / economic / functional / grammatic classifications?

The expenditure classification system (sectors, major heads and minor heads) has been prescribed by Gol on the advice of the CAG so as to ensure uniformity in the accounts of Gol and the State Governments. This point is covered in the SFAA and is given below.

Budget classification

The expenditure classification system (sectors, major heads and minor heads) has been prescribed by Gol on the advice of the CAG of India. The State Governments have no power to prescribe such heads of classification. This ensures uniformity in the accounts of Gol and the State Governments. This makes it possible to prepare the Combined Finance and Revenue Accounts for each financial year showing the receipts and expenditures up to the level of Minor Heads for Gol, each of the State Governments, and the grand total for the entire country. In particular, expenditure data is categorised according to:

- the broad **sectors** of general services, social services and economic services, with sub-sectors such as agriculture, education, health etc;
- **major heads (or functions)** under each sub-sector, for example under the education sub-sector are the major heads of general education and technical education;
- **sub-major heads (or sub functions)**, for example under the major head general education are the sub-major heads elementary education, secondary education, university and higher education;
- **minor heads (or programmes)**, for example under the sub-major head of elementary education are the minor heads direction and administration, Government primary schools, assistance to non-Government primary schools, assistance to local bodies for primary education, inspection, teachers training, scholarships and incentives, examinations and other expenditure;
- **sub-heads (or schemes)**, for example under the minor head Government primary schools is the sub-head of primary education;
- **detailed head (or object-head)**, for example under the sub-head government primary schools are salaries, wages, overtime allowance, domestic travel expenses, office expenses, rents, rates and taxes, supplies and materials, professional services, grants-in-aid, other charges and machinery and equipment; and

- **sub-detailed head**, for example under the sub-detailed head salaries are the sub-detailed heads of pay, allowances, dearness allowance etc.^{xv}

1. Classification system

The expenditure classification system (sectors, major heads and minor heads) has been prescribed by Gol on the advice of the CAG so as to ensure uniformity in the accounts of Gol and the State Governments. The classification system is set out at appendix 4. The complexity of the budget classification system does lead to some difficulties, being that the **large number of classification categories at the detailed or object head level** can be cumbersome; and **instances of misclassification** are reportedly numerous, and account for many of the discrepancies which are rectified by communicating variation statements to AG by the line departments. However, the GoAP has made significant efforts since 1999 to **simplify the classification system below minor head level**. This has included merging similar schemes into generic programmes to reduce the detailed and sub-detailed heads of account and weeding out obsolete and redundant heads of account. As a result, 3,800 detailed and sub-detailed heads of accounts have been reduced to 2537 and budget pages reduced from 5,200 to 3000 in 2003-04. GoAP has also rationalised budget detailed heads of account from 139 to 91. In addition, the Finance Department reorganised the Budget Demands in 2001-02 to bring each Secretariat Department and concerned HoDs together. Further, in the 2003-04 Budget, each demand has been broken down HoD-wise under Plan and Non-Plan. These initiatives have all increased the transparency of the classification system.

2. Consistency with Government Financial Statistics (GFS)

While the classification system enables the Government to classify expenditure by functional and economic classification and revenue by economic classification, these are not reported on a basis consistent with the International Monetary Fund's Government Financial Statistics (GFS). While GFS is not appropriate for use as an account classification system, it is considered good practice to publish supplementary expenditure and revenue statements on a GFS-consistent basis to facilitate international comparisons. The key divergence from GFS principles in the reporting of revenue and expenditure is the classification of new loans and borrowing as capital receipts (rather than a source of deficit financing) and capital disbursements as expenditure. However, GoAP is now separately providing a table showing how the deficit is financed in the AFF.

1.2.2 Are standard international classification practices applied (e.g. UN-supported Classification of Functions of Government COFOG)?

As above

1.2.3 Is the classification system understood throughout government and actually implemented on a consistent basis?

TB Schemes

The complexity of the budget classification system does lead to some difficulties, being that the large number of classification categories at the detailed or object head level can be cumbersome; and instances of misclassification are reported, and account for many of the discrepancies which are rectified by communicating variation statements to AG by the line departments.

Our investigation confirmed this at district and field level, where Medical Officers, DDOs, DM & HOs, Programme Officers and finance assistants generally appeared to struggle to understand the budget classification system and explain the source of funds for individual projects/schemes/budgets. Given the huge variation in the types of budgets and the

^{xv} The classification categories are prescribed by the Union Government to the minor-head level. The appropriation unit is sub-head. The annual Appropriation Accounts will only comment on variations up to sub-head level.

vertical nature of the schemes, in addition to the inconsistency and variability of the funds flow throughout the schemes, this was understandable.

The National TB Programme Manager interviewed in one district exhibited confusion as to the source of funds and to budget classifications. This was not surprising as the Programme is extraordinarily complex. TB is a Centrally Sponsored Scheme, with Plan Budgets for State and Centre and a State Non-Plan budget. Implementation is run through a District TB Control Society. There was no clarity on whether Plan funds came from an external donor, the Gol or both, nor in which form the money came. He also received goods in kind with no budgets and procured items coming from APHMHIDC on a PD account and from the DM&HO in kind, plus both AC bills and PD Accounts for advanced funds. In addition there are at least 5 allotted budgets with APHMHIDC for civil works, maintenance of PHCs, drugs, lab materials and consumables. Under the National TB Programme there are 5 schemes with NGOs, each with its own budget, each of these budgets has a variety of sources and types of funds.

The 5 schemes are:

- Information, education and communication
- DOT provider
- Hospitalisation
- Microscopic examination
- TB sputum testing

The Programme Manager, who is also the DDO, manages the NGO budgets, which are contracted out. Salaries come out of both Plan and Non-plan and the programme employs contractors on Plan. It was not clear from which budget the money for the NGO schemes came out of. The Programme manager is medically qualified and has received no training in budgets or financial management from either the Finance Department or the Health Department. He is given financial assistance by the accounts assistant at the DM&HO office, who is responsible for all the accounts of the district. Technically, the Programme Officer reports to the DM&HO on programme issues, but it was clear that the DM&HO has insufficient time to deal with this and delegates programme responsibilities to one of the Deputy DM & HOs, however, these posts are often vacant at District level.

It is worth pointing out that although primary health care is supposed to be an integrated concept, there are at least 6 agencies at the District level handling the budget which further confuses the Departmental staff and fragments the functioning of primary care delivery. APVVP, CFW and DHS have multiple budgets within primary health care, and it is not always clear who has responsibility for what and whether there is duplication of budgets. An example of this is maintenance of the PHCs. The National TB programme has an element of maintenance of PHCs in its Plan budget. A World Bank Programme that has recently completed in September 2005 (APERP) had a large civil works programme with maintenance of PHCs. The RCH programme has PHC maintenance, as does another externally funded programme, the EC's Sector Investment Programme (ECSIP). There are also numerous budgets under the DHS's State Plan that have maintenance budgets.

Summary and conclusions

Whilst budget classification broadly complies with GFS standards, there are some significant issues with regard to the understanding of the system at District level and below due to the complexity of the budgets and the variety of funds flow mechanisms. In addition, Department staff received no training in financial management and budgeting and this is reportedly compromising the accuracy and quality of budget execution due to

misclassifications of expenditure. For the APMHIDC and the APVVP, the classification system is well understood and implemented at all levels.

During the interactive meeting with HoDs it was pointed out that a training module is under preparation with Dr MCR HRD Institute to impart training to the Assistant Financial Officers of the APVVP in all districts.

Principle Two: the budget is comprehensive

DFID has identified the following two benchmarks for assessing fiduciary risk in relation to this principle of good practice:

- All general government activities are included in the budget;
- Extra budgetary expenditure is not material.

2.1 To what extent does the budget include all significant expenditures on government activities, including sub-national governments, state-owned enterprises and activities funded by donors?

This point is largely covered in section 4.4 of the SFAA (Box below)

Budget comprehensiveness

Budget comprehensiveness is critical to fiduciary risk. Given that money is fungible, the risk is that donor budgetary funds will lead to other government funds being diverted to off-budget activities, which generally lack transparency. **Overall, GoAP is now a leader amongst Indian States in budget comprehensiveness.** Relevant issues in AP in relation to budget comprehensiveness are:

- Guarantees and special purpose vehicles (SPVs);
- Borrowing from the Public Account;
- Donor funding; and
- Directly funded Centrally Sponsored Schemes.

The following sections consider GoAP’s performance in relation to each of these.

Guarantees and Special Purpose Vehicles (SPVs)

The Constitution requires that any State Government that has outstanding dues to Gol (which in effect means all State Governments) cannot raise any loan without the express approval of Gol.^{xvi} However, no approval from Gol is required to give a guarantee and State Governments have relied extensively on this mechanism to mobilise resources. In the past, **GoAP has, as in other States, used guaranteed Special Purpose Vehicles (SPVs) as a mechanism to increase borrowing** over the levels agreed with Gol. In particular, four institutions (AP State Irrigation Development Corporation, AP Road Development Corporation, AP Water Resource Development Corporation, and AP Power Finance Corporation) were used for this purpose. Given that these institutions were not self-financing, and their debt servicing obligations had to be financed through the Consolidated Fund, the budget figures understated the stock of Government debt. In substance, if not in form, these are Government borrowings.

Figure 1: Previous-off budget borrowings

Name of corporation	Balance as on 31/3/2002, Rs. Crore
AP State Irrigation Development Corporation	19.02
AP Water Resource Development Corporation	229.62
AP Road Development Corporation	145.00
AP Power Finance Corporation	2,291.58
Total	2,685.22

Source: GoAP Finance Accounts 2001-02

Since 2000-01, GoAP has **included all borrowings by SPVs as Government debt**, and their interest liability is included under interest payments. Given that this debt was Rs.2,685.22 crore

^{xvi} Article 293 of the Constitution

(see

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) or 6.2% of total debt, as at 31 March 2002, this move is a substantial improvement in budget comprehensiveness.

Borrowing from the Public Account

The publication of the Budget in Brief has contributed to budget comprehensiveness as it includes debt stock figures, whilst previously the budget only contained information on debt repayments and new borrowings (flows). However, ***the debt figures in the Budget in Brief do not fully capture liabilities under the Public Account***, which accounts for 27.9% of total debt in 2000-01 (see Figure 23). However, these liabilities are included in the Finance Accounts and were included for the first time in the 2003-04 AFF. The Finance Department rationale for not including these in the Budget in Brief is that this document is limited to Consolidated Fund transactions.

Donor funding

As all donor-financing to GoAP is channelled through Gol, it ***is captured in the GoAP budget*** (apart from those discussed in section 4.4.4). Expenditure financed from the funds is channelled through the Treasury system. Donor financing is shown on both the revenue and expenditure sides of the budget.^{xvii} Total donor financing (externally aided projects) is included as a source of receipts in the AFF. In addition, the Demand for Grants shows the amount that is externally financed under each scheme.

Centrally sponsored schemes

In general, Centrally Sponsored Schemes are included in the budget. Funds received from Gol are disclosed as receipts, and funds spent on the schemes (both Gol and GoAP shares) through the Treasury system are disclosed as expenditure. However, there are three exceptions to this rule: the District Primary Education Programme (DPEP), District Rural Development Authority (DRDA) and the Pradhan Mantri Grama Sadak Yojana (PMGSY). Gol provides funding directly to these three schemes, rather than through the GoAP Treasury system. GoAP is petitioning Gol to fund DPEP and PMGSY through the State budget, for reasons for financial control and accountability (outlined at section 5.8.4). These schemes have also not previously been shown in the State's budget. However, from the 2002-03 Budget onwards GoAP has included the DPEP receipts and expenditure (both).

An additional point to note here with reference to the Health sector is that whilst generally the budget coverage is comprehensive in the DoHMF, funding from the Gol for Central Sector schemes is not covered comprehensively, as the Gol is intentionally diverting funds away from the Treasury systems due to lack of trust in the State Treasury systems. Thus, in addition to directly diverting funds to district bank accounts; amounts which are not disclosed in the Budget, there are funds which are notionally disclosed as an amount in the Budget, but which are not reported upon as expenditure to GoAP as the money is not going through the Treasury systems. It is difficult for the Department to control this, however, as the Gol is sponsoring the schemes. In addition, there is little incentive for the Department to change this, as it is arguably benefiting by receiving funds in this manner. Since the amounts are not disclosed in the budget, it is not possible to determine the extent of the funds being diverted, but it is unlikely to be a material amount in the context of the overall Health Budget.

TB Schemes

One further point is the amount of goods-in-kind that are also being diverted to schemes that are also not disclosed in the Budget, and again this is from Central Sector Schemes but also from Centrally Sponsored Schemes such as the TB programme, and is unlikely to be material.

^{xvii} Note that GoI funding for externally financed projects to States as 70% loan and 30% grant. Therefore, 70% would be in capital receipts and 30% would be shown in revenue receipts.

The budget for the societies like, APHMHIC is not included in the Budget, as it is financed through user charges. However, it is arguable whether this should be included in the Budget as its inclusion would technically be double counting of expenditure belonging to other health institutions.

Achieving budget realism is a challenge for all governments. GoAP forecasts of revenue are consistently below budget but within a low margin of error, and the quality of these forecasts has generally been improving. Furthermore, much of the variance between budget and actual revenues is due to less than anticipated receipts from Gol. The revenue shortfall is one reason for downward revisions to budget allocations at the time of Revised Estimates, although these revisions also reflect the financial performance of departments in the year to date.

Therefore, downward revisions in expenditure from Budget do not necessarily imply over-estimation of expenditure at Budget time. While there may be some tendencies for departments to over-estimate their capacity to implement activities and, therefore, their expenditure needs, there is actually some signs of under-provision for non-salary O&M expenditure. This is recognised by GoAP and they aim to increase it over time. While this under-provision could create pressure for expenditure to expand during budget execution, in practice this does not happen as Treasury controls prevent expenditure exceeding budget.

GoAP's debt servicing and salary commitments (combined with the policy of avoiding staff retrenchment) mean that GoAP has limited budget flexibility and, consequently, departmental flexibility in formulating their budgets is also limited. GoAP is developing initiatives such as the MTF, Performance Budgeting and MTEFs which will improve departmental ownership, and the quality and realism of the budget, but these will largely only bear fruit in the medium term.

GoAP is also a leader among Indian States in reforms to enhance budget comprehensiveness. These reforms have reduced fiduciary risk in this important respect.

2.2 Is adequate financial information provided by donors on all significant funding / assistance in a timely manner? How close are the actual funds provided to forecasts (predictability of donor funding)?

As all donor-financing to GoAP is channelled through Gol, it is captured in the GoAP budget (apart from that channelled through Central Sector Schemes). Expenditure financed from the funds is channelled through the Treasury system.

Donor financing is shown on both the revenue and expenditure sides of the budget. Total donor financing (externally aided projects) is included as a source of receipts in the Annual Fiscal Framework (AFF). In addition, the Demand for Grants shows the amount that is externally financed under each scheme.

Actual funds disbursed are not necessarily the same as those budgeted. This is because the GoAP may reduce grants received from donors due to fiscal deficits. This is one of the reasons that Gol and other external donors have been diverting funds off-budget to ensure that programmes receive the funds that were planned.

The Department only knows that it will not receive the full amounts budgeted when disbursements are reduced. As noted in Appendix 4, for the last 5 years, under spends on grants have been up to 16% of budgeted amounts, due largely to non-release of funds. Predictability of funding is severely reduced in these instances and this has an impact on service delivery.

2.3 *Is there effective coordination of budgeting for recurrent and investment expenditures?*

A significant amount of information is provided in the Budget documentation to a detailed classification level. The structure of the budget documentation is outlined in the SFAA at Appendix 3.is given below.

Budget Documentation

Volume I: Annual Financial Statements and Statement of Demands for Grants. This provides a statement of the overall demand for each grant (with a list of the associated major heads). It shows both the gross demand and expected net expenditure, distinguishing between plan and non-plan expenditure. It also provides a summary of the Government's financial results for the last year (actual), current year (budget and revised estimate) and ensuing budget year (budget estimate). This summary includes a Statement of Revenue, Statement of Receipts under Public Debt and Loans and Advances, Statement of Receipts under the Public Account, Statement of Expenditure on the Revenue Account, Statement of Capital Expenditure, a Statement of Disbursements under Public Debt and Loans and Advances and a Statement of Disbursement under Public Account.

Volume II: Detailed Estimates of Revenue and Receipts. This provides detailed information on revenue and capital receipts to the sub-head level. This is provided for the last year (actual), current year (budget and revised estimate) and Budget year (budget).

Volume III: Demand for Grants. Normally one Demand is presented in respect of each department. In respect of some of the large departments, however, more than one grant is presented. There are eighteen sub-volumes, labelled III/1 etc. The figures of budget for the current year, the revised estimate for the current year and the budget estimate for the ensuing year are shown. The figures for revenue expenditure are shown separately from capital, charged is shown separately from voted expenditure and plan is shown separately from non-plan. Each Demand for Grants may include one or more Major Head. The same Major Head may appear in several Demands for Grants, if a number of departments undertake programmes under that Major Head. Thus, while the figure for expenditure under a Major Head is in one place under the Annual Financial Statement, the part of the same figure may appear under several Demand for Grants.

Subsequently, detailed demands for grants are submitted to state Legislative Assembly, before it starts discussions on Demands for Grants. While a Demand for Grant shows the figures of estimates by Major Heads only, the Detailed Demands for Grants shows the estimates up to detailed heads; i.e. standard objects for expenditure.

Volume IV: Public Account. This outlines the receipts and outgoings from the Public Account.

Volume V: Explanatory Memorandum on the Budget is a detailed memorandum explaining the figures in the Budget Estimates, in Telegu and English.

Volume VI: Budget in Brief. This provides summary tables and charts on the salient features of the Budget. It includes information on revenue, expenditure and debt levels, as well as information on the growth of expenditure in important development sectors.

Volume VII: Annual Plan

Volume VIII: Minor head-wise estimates

Volume IX: Survey of Economic Trends, which is released by the Planning Department either on the day preceding, or the day of, the budget presentation. This includes analysis of the economic position of the state and of the budgetary position.

Volume X: Government Commercial

Volume XI: Appendices to Budget Estimates Undertakings

Volume XII: Analysis of Demand for Grants by Ministers

Each department, when its budget is submitted to the Legislative Assembly, also submits a Performance Budget. This provides information on the revised estimates for the previous year vs. budget and describes how the money was proposed to be used, and how it was.

The Annual Financial Statement, presented as part of the budget documentation, provides a detailed breakdown of revenue and capital receipts by type and source. It also provides

a functional breakdown of both revenue and capital expenditure (i.e. at major head level). The Demands for Grants, which also distinguish between Plan and non-Plan expenditure, (i.e. recurrent and investment expenditure) provide information to the sub-head level. The subsequent Detailed Demands for Grants provide information to the sub-detailed head level.

2.4 *Is key fiscal information (including annual budget reports, procurement information and audit reports) officially published and readily accessible to the public, in a user-friendly format?*

The comprehensiveness of the Budget brings with it a high level of detail, which implies complexity. As in all States in India, the Budget is not user-friendly. The Demands for Grants are very technical documents that contain many pages of tabular material. It is very difficult for the average person to identify key fiscal trends or expenditure priorities from the pages of tabular material, undermining the scope for meaningful public discussion of the budget. The complicated detail of the budget makes it difficult for people to pick out the relevant information and understand the “big picture” of how money is spent. However, the form of the accounts is prescribed by the President on the advice of the CAG and GoAP has made significant efforts to enhance user understanding, for example:

- The Budget in Brief, prepared since 2001-02, represents an excellent start in improving user-friendliness. This document provides useful summaries, including a graphical representation of ‘how the rupee comes’ and ‘how the rupee goes’ as recommended by the Core Group on Voluntary Disclosure Norms for State Governments. However, given GoAP’s objective of increasing non-salary O&M expenditure over time, it would also be desirable to provide a breakdown of expenditure by economic classification. This would support the public in tracking the Government against this key objective over time. The Budget in Brief is available on the GoAP website.
- The Annual Fiscal Framework does, however, provide a break-down of expenditure by economic classification. The AFF is published on the internet on the GoAP website (www.ap.gov.in). This document is clear and user-friendly although very brief.
- A Performance Budget is submitted by each department when their budget is presented to the Legislative Assembly. This outlines how its budget was utilised in the current year, in addition to information on the revised estimate relative to the budget estimate for the upcoming fiscal year. Performance Budgets were expanded as part of the 2003-04 budget process to include broad objectives and performance indicators for Plan schemes. In the case of the DoHMF, these budgets, however, are difficult to obtain and are not published for the public. They are not user-friendly and are difficult to understand for those not well-versed in the operation of the Department.
- For the first time in the 2003-04 Budget GoAP published a summary of total appropriations on a department-wise basis. This was an improvement as previously no aggregated data was presented department-wise and a user would have needed to add up the totals of all the relevant Grants to identify the total expenditure for that department. Furthermore, each demand for grant included a break-down of expenditure under the relevant HoD, enabling a user to see which programmes and schemes are under the control of each HoD. It is arguable, however, whether a member of the public would be able to understand this document, as it is technically complex.
- The broad fiscal objectives and budget expenditure priorities of GoAP are outlined in the budget speech, including the MTF objectives for the revenue deficit, fiscal deficit, debt and guarantees.
- While the budget documentation is included on the internet, other key financial

monitoring and reporting documents are not. For example, the Accounts at a Glance are not released on the internet nor are the monthly monitoring accounts. The latter are not publicly available in any form.

TB Schemes

The Plan and non-Plan budgets are available as part of the Budget-in Brief. However this will not be by economic classification, as noted above, and therefore will be in aggregated format and not particularly informative.

Audit reports generally in GoAP are not published and available to the public. This is contrary to international best practice. However Right to Information Act is in operation with effect from June, 2005 under which members of the public would be entitled to see a range of financial information such as the audit reports that are not currently being published. RTI Act represents an improvement in transparency and accountability for the GoAP.

APVVP

APVVP is subject to a statutory audit. However these reports are not made available to the public. APVVP's budget is published as part of the Budget in Brief, however, as the budget is a grant-in-aid, the budget is not detailed but in aggregate format (grant awarded only).

APMHIDC

Procurement tenders for the APMHIDC are published in national newspapers. However, as discussed in section 6.1, there is no procurement law at present and standards of procurement are low. Contract information on bids awarded is not routinely published. The Budget and audit reports are not required to be published or made available to the public or legislature. However in view of the Right to Information Act, any citizen is entitled to seek information on the activities of the corporation.

2.5 Is fiscal risk arising from government activities being comprehensively monitored and managed and fiscal risk arising from the operation of parastatals and SOEs, including state-owned national banks (i.e. are there procedures in place to measure and manage the risks)?

In order to demonstrate prudent fiscal management, the GoAP should monitor and manage fiscal risks arising from its own activities and risks that arise and have impact nationally from the management of SOEs. Contingent liabilities are obligations triggered by a discrete event that may or may not occur. The probability of the contingency occurring and the magnitude of the government outlay required to settle the ensuing obligation are difficult to forecast. Contingent liabilities can pose significant fiduciary risk. If they are realised, without having been adequately provided for, they imply either the diversion of budget expenditure or an increase in deficit and debt levels. GoAP's contingent liabilities arise mainly from guarantees extended by the Government with respect to loans raised by statutory corporations, government companies, local bodies and other institutions. Liabilities could be triggered by other eventualities as well. While pension liabilities are not contingent, in the sense that they will definitely eventuate, they are included in this chapter as they are a significant non-debt liability and GoAP is uncertain of their magnitude. The negative net worth of public enterprises could also be considered a contingent liability as ultimately these are GoAP's responsibility. However, they are not considered in this report as public enterprises are beyond the scope of this assessment.

The APMHIDC

The APHMHIDC is a public corporation, however and it does have loans extended to it by the GoAP, as disclosed in its income and expenditure accounts. A large portion of government guarantees is to central financial institutions, which routinely seek State Government guarantees for loans extended to State enterprises, co-operative institutions, and parastatal entities. Proposals for extending government guarantees emanate from the concerned line department but need the concurrence of the Finance Department and such other approvals as may be prescribed under the transaction of business rules of government. GoAP intends hence forth to strictly enforce the requirement for adequate scrutiny of guarantee proposals, including an assessment of risk. The Budget for 2003-04 states that the Government has initiated a process of rigorous risk assessment before giving government guarantees and takes adequate precautions to ensure proper use of funds by the PSUs to avoid devolvement of liability on the Government. It was not possible during this assessment to gather information relating to the assessment of risk relating to the loans given to the APHMHIDC, however.

Summary and conclusion

The **presentation and coverage of the budget does meet international standards.** GoAP is constrained in many areas in its attempts to reform PFM, but has sought to supplement Gol requirements in some areas so as to minimise fiduciary risk, for example by increasing the availability of information on public finances in a transparent form. In other areas, such as the budget process, State Governments have delegated authority and GoAP has used this to good effect by undertaking reforms that seek to reduce fiduciary risk by increasing budget realism and budget comprehensiveness.

GoAP is now a leader in budget comprehensiveness, for example having brought previously off-budget borrowings on budget and by disclosing (and increasingly providing for) government guarantees. GoAP's reforms in the timeliness and reliability of financial information have also borne fruit in 2002-03, and will be strengthened further by the integration of systems in the coming years.

Principle Three: the budget supports pro-poor strategies

The benchmark associated with this principle is whether budget allocations are broadly consistent with any medium term expenditure plans for the sector or for the overall budget.

3.1 Is there a consistent multi-year perspective in fiscal planning, expenditure policy-making and budgeting?

The budget process has been improved due to the implementation of an MTF programme in the Department of Finance. However, despite the progress in the MTF programme in terms of expenditure policy-making and fiscal management, there are still very weak linkages between sector policies and resource allocations, as the budget process is still totally incremental across line departments. Incremental budgets give little scope for departments to allocate resources effectively in line with policies and given that increases in non-plan budgets are set by the Finance Department annually only for salaries at 10% a year, there is no scope at all for increases in non-salary non plan budgets (recurrent expenditure such as maintenance, fuel, etc) Indeed, we were informed by members of the Finance Department that the objective each year was actually to reduce the non-plan, non-salary component. In terms of the Plan, again there is little scope for departments to increase or vary their budgets in line with stated objectives as the Plan is set largely by the Gol with little or no negotiation with line departments.

GoAP's record of reforms in PFM and accountability since 1999-2000 reflects its primary

commitment to providing a sound fiscal basis for the development of the State, and the minimisation of fiduciary risk in this aspect. The initial focus of these PFM reforms was on increasing the transparency of the budgetary process and fiscal discipline. GoAP's Strategy Paper on Fiscal Reforms (2001) renewed GoAP's commitment to PFM reform and set out a vision of PFM. Four of the vision's key pillars are critical to containing fiduciary risk, as outlined below^{xviii}

- Creating the conditions for good operational management and improvement of services to the public, by empowering the government departments to take decisions in their remit while assuring accountability for the use of resources and for results;
- Assuring close correspondence between actual expenditures and the approved budget, thereby permitting the introduction of good cash management, and improving predictability throughout government;
- Modernising the financial management system by streamlining financial regulations and appropriate use of information technology;
- Enabling public participation in budget formulation and implementation by making budget documents simpler and disseminating government financial decisions in user-friendly forms.

Whilst these areas focus on fiscal discipline and increasing budget transparency, there is little attempt to prioritise expenditure in line with national and state objectives over the medium term. There is therefore no clear multi-year, pro-poor, strategic perspective to budgeting at GoAP level and most critically not at departmental level.

APVVP

Apart from the issue that budget ceilings are largely imposed on departments by the Finance Department in line with primarily fiscal objectives, the DoHMFV's attempts to develop an MTSEF are laudable but will not solve one fundamental problem, which is that there is a complete lack of an effective policy, planning and analysis function at state and district level. The evolution of performance budgets illustrate the efforts that have been made, but the poor quality and content of these budgets highlights this lack of capacity at all levels.

Examples of this include, for APVVP, performance indicators of the number of X-rays, the number of ECG's and the number of inpatients and outpatients. There are no linkages established between these performance indicators and the overall objective of the APVVP, which is stated as, "to provide better medical care to the neediest sections of society in the State of AP". The budget for 2005-6 is aggregated between plan and non-plan and there is neither any explanation/rationale behind the projected increase in budget, nor any explanation or breakdown of the expenditure for the previous years, or reasons for overspend/underspends. Budget is not compared against actual in this document, which rather negates the purpose of a "performance "budget. The number of overall staff is quoted with no indication of the number of vacancies, the total staff budget, targets for staffing, etc.

Indeed for most sub-heads of expenditure; the budget allocations are carried out based on bed strength. This, despite the actual number of beds in some cases being higher and regardless of the occupancy rates in the hospitals. Of those APVVP hospitals visited, we observed one 100 bed hospital with virtually no patients and an average occupancy rate of less than 50%, and one 300 bed hospital with more than 500 beds and more than 100% occupancy. Budgets were not adjusted in either case to allow for these variations. Resource allocations, therefore were entirely arbitrary and little to do with either need or actual functions. District Coordinators for Hospital Services (DCHSs) were often not even informed of their budgets for the year at all, we were informed by the Finance Division of the Commissionerate.

^{xviii} Source: GoAP Strategy Paper on Fiscal Reforms

It was noted, however, that these norms were not set by the Department, but by the Commissioner for APVVP. The APVVP receives its funding entirely through grant in aid. This money is given to the APVVP in a lump sum and the Budget Estimates list the amounts as grant in aid for salary and "other". Thus the APVVP is free to establish its budgets as it wishes and it has done this at state level according to the norms which are set out in a manual printed in 1987 the contents pertaining to individual budget heads are being reviewed periodically.

The APVVP funding system was set up originally by the World Bank as a quasi-independent agency, in order to provide a degree of flexibility in budgeting and resource allocation that had previously constrained the operations of the secondary health care hospital system. Collection of a wide range of performance information has been established and it would be entirely possible to allocate budgets based on need and effective performance. However, it was clear from our interviews, from information obtained from other reports, from the performance budgets and from the various audit reports, budget releases and expenditure reports provided to us that in fact, budgeting and resource management is incremental, is non-flexible and is not according to policies or need. In addition, despite the large numbers of performance targets that have been set for/by the APVVP and stated in the Performance Budget, there is no link between these targets and the budgets, either stated or inferred.

We also noted the following:

- too many targets set below the level of current performance;
- too many targets reflecting internal processes rather than outputs and outcomes; and
- too few measures of real efficiency.

Complaints that were highlighted to us by other interviewees and those we noted ourselves included:

- APVVP not working in tandem with other organisations where it could improve overall services;
- a 'solo mentality';
- too much focus on inputs and processes and not enough interest in health outcomes

Were the APVVP to focus on its original purpose, which was to function as an independent agency, and draw on its potential it could achieve the following:

- clarity and focus on specified tasks;
- a culture of delivery;
- empowerment of frontline staff;
- greater accountability and openness;
- tailor-made structures and systems;
- innovative thinking and action;
- structure and branding of services.

However, currently the APVVP is yet to reach its optimum performance and improve its accountability, by reorienting focus on its main tasks.

TB Scheme

For the National TB programme, the DHS performance budget gives one performance indicator: the number of new TB cases detected. The budget (Plan/non-Plan) is not indicated, the reasons for not achieving this figure are not explained nor the rationale behind the performance indicator nor the objective of the programme overall. Given that this is a national programme, it is to be expected that objectives exist for this programme,

but these have not been elaborated upon, nor has there been any attempt to explain the progression of the programme, constraints, challenges, achievements, etc. In fact the only reference to the TB programme at all is the statement of the performance indicator. For the rest of the schemes in the DHS the situation is the same. The DHS gives as budget performance figures the overall aggregated budget for the Department, the amount released and the expenditure for the year 2004-5, less information than is available from the Budget Estimates.

Budgeting for the National programme is incremental and based on number statements for non-plan salaries derived from the District TB officers. (i.e., the number of staff in post) Other budget heads are typically either not increased or are set by the GoI with no inputs from Districts or the DHS. The budget figures bear no relation to the performance indicators either set at National level or at State level. Therefore it would be impossible, for example, to derive unit costs for the programme based on the budgets, despite the potential availability of data if required to be collected.

The APHMHIDC

The APHMHIDC does not appear in the performance budget document for 2005-6, despite being a sub-department of the DoHMF. The budget for the APHMHIDC is derived from service charges and therefore does not figure in the Budget Estimates. However, it would be useful to see a document indicating the APHMHIDC's objectives, its total budget for the year and the breakdown of expenditure. The only document that indicates financial information relating to the Corporation is the annual income and expenditure statement produced for the Corporation's Board. This indicates that the Corporation is making a profit and that it is earning income from interest in numerous bank accounts. The income and expenditure statement is not a useful document for transparency purposes as it does not give the budget for the year, does not give comparative figures from previous years, does not indicate objectives or performance indicators nor indicate the effectiveness of its services for customers, ie, the DHS, the APVVP and the DME.

Were the DoHMF to consider the APVVP and the APHMHIDC as agencies and develop accountability frameworks and performance contracts for them, along the lines of executive agencies in the UK, for example, service delivery would improve, performance management would improve and accountability to customers/the Department/the public would improve.

The MTSEF document^{xix} notes the following challenges for DoHMF:

- Lack of clear connections and links between health strategies and reforms and the overall poverty reduction strategies of the government;
- Inefficient resource allocation, not channelled directly towards target groups;
- Fragmentation of programmes and initiatives within the health sector and outside the health sector (education, infrastructure, cross sectoral expenditure, etc);
- Lack of a broad approach to health problems; and
- Lack of understanding and information regarding the inequalities and patterns of health status- geographic, socio-economic and gender.

These comments are made in the context of numerous health strategy efforts in AP since 2001. Whilst the GoAP theoretically encourages departments to develop strategic plans and performance budgets, it makes it difficult for departments to achieve them, through its incremental approach to budgeting and through regulating and cutting budget allocations according to its fiscal situation.

^{xix} MTSEF for Health in AP. International Health Systems Programme (IHSP) Harvard University School of Public Health. (2004)

Although the GoAP has made a formal commitment to increasing resource flows to primary health care, this commitment has not materialised as yet. The requirement to develop an MTEF in the health sector is related to the GoAP's acceptance of conditions attached to the first Structural Adjustment loan provided by the World Bank and DFID. The GoAP agreed to this as part of this commitment to increase financing for primary health care. The commitment was included in the MTFF prepared for the 2002-2007 Five Year Plan. However, financing for primary health care has not increased. Though there has been an annual increase in total expenditure on Medical, Public Health and Family Welfare from Rs. 1154.27 crores in 1999-00 to Rs. 1484.31 crores in 2003-04 the percentage of total expenditure decreased from 3.79% in 1999-00 to 3.04 in 2003-04. Similarly the percentage ratio to GSDP also decreased from 0.92 in 1999-00 to 0.82 in 2003-04.

In addition, whilst under Vision 2020 there was a specific health strategic vision and an emphasis on health outcomes, today there is no such strategic vision document. There is no GoAP pro-poor policy document and thus the health sector is largely focused on national policy statements, although it is clearly limited in its ability to do more than formulate incremental budgets at present.

As mentioned earlier the GoAP is in the process of developing a Health Sector Strategy document which would indicate the priority areas of the government and its strategic options that it plans to take forward in order to achieve improvements in health outcomes. This Strategy document is being prepared is expected to be put up for cabinet approval shortly. The strategies focus around the following broad themes:

- Improving the functioning of public health care services and programs;
- Strengthening public administration through governance, workforce management and decentralisation reforms;
- Promoting community participation and initiatives
- Enhancing the contribution of private providers to public health goals and to sectoral health reform goals;
- Developing social security mechanisms to ensure better outreach to vulnerable sections and better health equity;
- Ensuring convergence of all related sectors so as to ensure better impact on indicators of health status

3.2 *Are there costed statements of national and major sector strategies to guide the development of forward estimates?*

Whilst the Vision 2020 document laid out an ambitious agenda for economic and social development in the State including a range of specific performance targets for health in the form of targets such as those for: infant mortality rates (IMR), child mortality rate (CMR) and maternal mortality rate (MMR); the current GoAP has not produced such a strategic policy document.

While departments often have strategies, linked to overall government strategies, these are usually not costed on an activity basis and are often not reconciled with available resources on an annual or medium term basis. As noted by the Strategy Paper on Fiscal Reform, "most programmes are of a continuing type with more or less firm commitments on the resources of the future ... therefore, the margin of resources available for new initiatives is extremely limited on a year-to-year basis, while new policies typically take more than a year to implement". A medium term approach facilitates more fundamental shifts in expenditure priorities by enabling them to be planned over a time span of several years.

The DoHMFV has one policy, the State Population Policy, in which it is able to set objectives and targets. The Government of AP has evolved four core indicators to achieve the overall goal of population stabilisation, in the State Population Policy. These are: Maternal Mortality Rate (MMR), Infant Mortality Rate (IMR), Total Fertility Rate (TFR), and Couple Protection Rate (CPR).

While Andhra Pradesh's indicators are better than the country averages, the state lags behind considerably in most of the indicators among the states in South India. However, this policy, in common with other national policies for health, such as the National Health Policy, is not linked to the budget through costing of specific activities/programmes and the measurement of achievements against targets. Whilst in theory one advantage of vertical programmes is that they delineate specific activities, in practice, financial data and resource availability is not linked to activities or performance information during the budget process and thus cannot be reported on. Thus unit-costing, or even costing of specific programmes is not possible.

Linking budgets to national policy through a Health MTEF will take considerable time and capacity building across the Department. The fact that none of the District Health staff have received any financial training of any description is just one constraint to this process.

3.3 *To what extent are forward estimates integrated in the annual budget formulation process?*

This question cannot be answered as there are no forward estimates of future expenditure, the annual budget formulation process is entirely incremental as discussed above and is not based on a multi-year perspective at departmental level.

3.4 *Is there strong direction in the budget circular regarding multi-year forecasts to be adhered to in budget submissions?*

As discussed above, there are no current multi year forecasts for the Health sector. The development of an MTEF should enable multi-year forecasts to be developed based on departmental priorities and strategies.

3.5 *To what extent can poverty related expenditure be identified in the budget (for example, through a comprehensive classification system or specific appropriations)?*

At present, it is not possible to explicitly identify poverty related expenditure in DoHMFV budgets, as budgets are not linked to policies or strategies and there are no explicit pro-poor policies in GoAP or in the DoHMFV. However, given that public health facilities are known to be used only by the poor in India, it is implicit that health expenditure is pro-poor.

The Health department is in the process of developing an MTEF for the health sector which will make it possible, in the long-term, to identify poverty related expenditure in the Budget through specific allocations linked to costed programmes as elaborated in policy documents.

The current low level of capacity in the Department will be a significant factor hindering the reform process. In addition, the Budget will obviously only include funding that goes through the government systems. A degree of external funding at present (including all World Bank funds) does not go through the Government Budget because of lack of confidence in the Treasury systems.

3.6 *Is there evidence available to demonstrate that government expenditure is in*

accordance with agreed plans and supports the Poverty Reduction Strategy and Medium Term Expenditure Framework?

As explained above, the current DoHMFWS budget does not specifically support a pro-poor policy and is not in line with an MTEF. However, it would be possible to demonstrate through actual budget execution reports that expenditure is in line with the Budget and particularly salary budgets. Budget Control Registers at district level are also available to support expenditure against specific budget heads that are non-salary.

3.7 Is there effective participation in the budget process by spending ministries?

The capacity of line ministries to participate meaningfully in the budget process is severely constrained given that their technical capacities in the areas of budgeting and financial management are weak compared to the Department of Finance and also that they have limited capacity in policy analysis and formulation. In addition, the budget process in GoAP, as explained above, is completely incremental and thus does not allow the Department to participate meaningfully, even if this were possible. The development of performance budgets was an attempt by the Finance Department to begin to develop line department capacities, but as noted above, capacities are so low that this exercise has not been very successful. In addition, no training has been given to line department staff involved in budget formulation or policy formulation to enable them to take advantage of this strategy.

However, individuals from the Health Department interviewed for the SFAA (section 4.3.2 given below) advised that only around half of their district offices submitted Budget Estimates to the department. This pattern was confirmed by controls testing, which revealed that DMHOs in only three out of the five surveyed districts submitted Budget Estimates. Offices in only one of the five districts were submitting number statements.

District offices involvement in budget formulation

While ownership of the departmental budget by headquarters officials is important, ownership of their budgets by district offices is also key to developing a realistic budget that will be implemented as passed. The Budget Manual requires that the budget submissions of departments be based on the budget submissions of the relevant district offices. However, Primary Health and Education advised that only around half of their district offices submitted Budget Estimates to the department. This pattern was confirmed by controls testing, which revealed that DMHOs and DEOs in only three out of the five surveyed districts submitted Budget Estimates. Offices in only one of the five districts were submitting number statements^{xx}. As another example, all the CCOs in the Roads and Buildings (R&B) Department submitted their budget estimates to the Administrative Department with delays ranging from 42 to 122 days. These estimates were in turn submitted by the R&B Department to the Finance Department during February/March (they should have been submitted in mid-October). In the absence of proposals from the Administrative Department, the budget estimates were finalised in the Finance Department, with the available information and the past actuals.^{xxi}

Even when district offices do submit budget requests, these are not usually used by Primary Health and Primary Education, as the requests tend to be unrealistic in terms of expenditure ceilings. These district offices are often not even informed of their expenditure allocations for the full year and the first indication they get of their budget allocation is the distribution statement advising them of their first budget release (see section 5.4.1).

While the quality of district expenditure submissions may warrant this approach, the lack of engagement with district offices means that their knowledge of local factors driving costs does not

^{xx} The DMHO and DEO in Visakhapatnam reported that they were submitting numbers statements.

^{xxi} Report of the CAG of India for the Year ended 31 March 2002 (Civil) GoAP, see section 4.1.4.

contribute to efforts to develop realistic budgets. **There is a need to raise the capacity of district offices to participate in budget formulation to enable them to be held accountable for execution of the budget.**

APVVP

As indicated by the above report district offices usually have no information regarding their expenditure allocations for the full year and the first indication they get of their budget allocation is the distribution statement. This was observed in a district hospital at the APVVP where the DCHS was completely unable to articulate the budget process and insisted that his only involvement was the receipt of budget releases during the year. This approach was later confirmed at the offices of the APVVP where the head of finance for APVVP concurred that districts were not informed of their annual budgets at any time and were advised only of budget releases.

Our assessment of copies of the budget releases showed that there was no explanation of any kind detailing the process of resource allocation by sub-head, nor explanations of why particular sub-heads were lacking any funds. (It appears that the Finance Department restricts releases of grant in aid based on its ways and means position and the finance department of the APVVP takes decisions to limit releases of certain budget sub-heads depending on the amounts received. We were not able to determine any particular methodology for this approach, however, as the allocations appeared arbitrary and there were no formal regulations to guide the process. Unlike those sub-departments receiving regular appropriations from Plan and non-Plan budgets, the APVVP pays its own salaries from the grant-in-aid, rather than through the regular Treasury systems and thus salaries are not guaranteed, as in the other sub-departments.

Since the APVVP receives all of its money through the PD account system, Finance Department does not regulate the expenditure of funds against the disbursement, as money disbursed through this system is considered expended as soon as it is released to the PD account (as described in Appendix 5).

TB Scheme

While the quality of district expenditure submissions in general may warrant such approaches, the lack of engagement with district offices (DM& HOs and DCHSs) means that their knowledge of local factors driving costs does not contribute to efforts to develop realistic budgets. There is a need to raise the capacity of district offices to participate in budget formulation to enable them to be held accountable for execution of the budget. We noted that the TB Programme Officer we interviewed had little capacity to explain his involvement in the budget process. Equally the DM& HO to whom he was technically reporting in the organisation, had no knowledge of the operation of the TB Programme despite the fact that he was the joint signatory of the local bank account holding the funds for the Programme and was also the accountable officer at the District level. The DM& HO was also unable to detail how many bank accounts he was in fact the signatory on and estimated to us, "probably around 30", thus highlighting the weaknesses in accountability and disengagement at District level. We later established that it was rather less than 30, although it was still a high number (20).

It was noted during the interviews with Secretariat staff that there is a "budget section" in the Department. The purpose of this section appeared to be solely to physically consolidate budget data received from sub-departments during the budget process (in hard copy format only, for the most part) and to submit the documents to the Finance Department. The section was unable to answer questions relating to the content or validity of the documents and it even appeared that the role of checking the documents and/or correcting them was not a function that the section performed.

It seems that each sub-department of the DoHMFw prepares its own budget documents, based on the number statements (i.e., the CFW, the APVVP, the DME, etc) and the previous year's expenditure and submits the budget estimates to this section. There is no coordinating section within the Department or one individual who has the overview of all the DoHMFw's budgets, with the possible exception of the Director of Health.

It was noted that the Department has no financial expertise available to advise on budget preparation, strategic policy directions, give analyses of expenditure trends, advise on areas of high fiduciary risk necessitating careful attention, etc. The Department is entirely at the mercy of the Finance Department to assess its budget submissions and make reductions according to its own policy priorities. Given the lack of capacity of DoHMFw staff in general to produce and analyse data to support performance, make reasoned budget submissions and develop performance budgets for example, this is a significant weakness. Ownership of budgets is weak and the Department is unable to determine whether budget formulation is realistic and according to needs and in line with policies. Budget realism is a question not only of revenue and expenditure "marksmanship", but of whether budget formulation is undertaken so as to ensure a realistic estimate of revenue levels and expenditure needs. The placement at the SPIU of a professionally qualified finance specialist would enable the Department to address these weaknesses and begin to develop ownership of its budgets. It might also be able to address issues of the development of true performance budgets and more strategic resource management.

3.8 *Are budget allocations and related strategy documents available as public documents?*

The GoAP Website shows the AFF and the Budget in Brief and the GoAP Budget is published as described above in section 8.1.2. The MTEF is not available; however, although given its complexity it is doubtful whether members of the public would have sufficient expertise to understand it. Budgets for the APHMHIDC, as noted above, are not available as the Corporation receives no voted funds.

Summary and conclusion

GoAP has an MTEF, an AFF and has made forward strides in fiscal reform and PFM reform. However, there remains an incremental budget process and culture throughout the Government. The DoHMFw has significant capacity issues with regard to being able to elaborate realistic budgets and formulate costed programmes and policies and it is further hindered by an inability to develop performance budgets at departmental level. The Finance Department, whilst encouraging the line departments to produce performance budgets has yet to take up financial training for line department staff.

The introduction of an MTEF for the Department has the potential to achieve developments against this benchmark- including the introduction of a consistent, multi-year perspective in fiscal planning, expenditure policy making and budgeting, linkage of strategic planning with budget preparation, the use of sector resource ceilings and involvement of the sub-Departments/agencies/institutions in the strategic phase of the budget formulation process.

However, efforts to enable a greater political commitment to pro-poor strategies in the Medium Term Expenditure and budgets must be maintained.

Principle Four: the budget is a reliable guide to actual expenditure

4.1 *To what extent does the actual fiscal deficit deviate from budget? What has*

been the trend over the last three years?

This question is not relevant to the assessment of the health sector as it relates to the fiscal deficit of the GoAP as a whole.

4.2 To what extent does actual expenditure deviate from budget? What has been the trend over the last three years? Are there any notable trends across administrative (e.g. line ministry / spending agency) or functional (e.g. health / education) classifications?

In general, the DoHMFV underspends on its budgets, rather than overspends. Grant-wise, the percentage savings on Total Grant ranges from 7.07% to 16.10% during 1999-00 to 2003-04. According to the CAG, such savings are largely due to postponement of works and failure to issue administrative sanction in the form of budget releases.

The high value of grant savings is partly due to lower than forecast grants-in-aid from Gol preventing the release of these funds, and the matching State Grants, for the relevant Plan Centrally Sponsored Schemes. Lower than forecast Plan expenditure accounted for a high proportion of the variances between budget and actual revenue expenditure in most cases. However, there are also significant variances in non-Plan expenditure items, particularly in the control items of non-salary O&M and maintenance of capital assets. These areas are notable for the fact that budget releases for these are often delayed or even not transferred at all.

We noted in two districts that certain non-Plan non salary budget releases for the first two quarters of 2005-6 for the DHS under budget head 2210 (ie, April-June and July-September) reached PHCs on September 17th. Although the Finance Department committed this year to releasing budgets on a 50% basis in the first week of the financial year, clearly this has not happened.

Reasons for the savings reflect factors such as lower than budgeted revenue, delays in the issue of budget distribution statements at the district level and administrative bottlenecks. Note that reasons given by departments via the Appropriation Accounts for savings are almost non-existent and therefore it is not possible to derive reasons for these savings. Indeed the C&AG's report for the year 2001-2 noted, "Explanations for savings were either not received or received incomplete in respect of 645 heads of account, or 81% of 793 heads". The C& AG's reports are littered with comments relating to the failure of departments to explain underspends.

One scheme in CFW that was particularly notable for underspending was the RCH I programme. The PAC report for 1999-2000 noted the following:" Of Rs 17.39 Crore released by Gol under the scheme during 1997-2000, State Government released Rs. 6.58 Crore and this only in 1999-2000; the non-release of the scheme amounts was due to the poor ways and means position of the State. Thus the scheme was unable to be implemented despite the funds being released by the Gol. Of this amount released, the entire amount was credited by the CFW to the PD account of the APHMHIDC. Of this, only Rs 74.99 lakh was spent and the balance of Rs 5.83 crore was left unutilised in the PD account of the APHMHIDC." As a result of this, the Gol took the decision to remove the RCH I programme entirely from the GoAP Treasury systems and all funds for this programme are now diverted directly to district bank accounts by direct bank draft.

The C& AG's report of 2001-2 also noted, in respect of a large World Bank project, APERP, "Due to freezing of funds ordered by Government in 1999-2002, the provisions made in the budget could not be utilised by the Department which resulted in huge savings. The action of the Executive, in ordering the freeze, had made the legislative

sanction for taking up the projects and incurring expenditure thereon, lose its significance. This, apart from increasing undischarged liabilities, hampered the progress of works". (The APERP is financed through a loan from the World Bank).

APVVP

However, APVVP, being a grant-aided body, does not underspend its budgets as it is financed through grants in aid and money is transferred through the PD account system. This means that expenditure is incurred as soon as the money is transferred to the PD account.

Although underspends are, although technically, under Treasury rules, to be surrendered to the Consolidated Fund, in practice balances remain in the APVVP's bank account. It was noted on examination of a selection of APVVP income and expenditure statements, that the APVVP, being a Society, has money in its bank account at the end of the year. This money is technically an underspend but is not reported as such because of the functioning of the PD account mechanism. This represents a weakness in transparency and contravenes the annuity principle of voted expenditure, requiring the funds to be returned to the Consolidated Fund at the end of the year. The APVVP, being a Society, is also under less scrutiny than other institutions in the Department. Its accounts are scrutinised only by its Board and not by the legislature. Its accounts are also not published.

TB Scheme

The SFAA noted the same tendency in the execution of schemes at district level. (section 5.8.5). "Retention of large amounts in deposit accounts by officers for long periods is fraught with the risk of diversion and misappropriation of the funds provided for specific purposes and also non-implementation of the schemes. Unutilised funds should be surrendered to the Government at the end of the financial year".

We noted a high balance in the year-end funds of the TB Scheme in the bank account and the income and expenditure statement of the district that we visited. The statement gave no reasons for the underspends per budget head and the amounts were not transferred to the Consolidated Fund at the end of the year. It was not possible to determine if the amount was significant, however, as the income and expenditure statement did not disclose the budget for the year.

APMHIDC

Since we were unable to determine what the budget for the APMHIDC was, it was not possible to determine if there was an under spend. Once again, we examined an example of an income and expenditure statement but there was no indication of the budget for the year. This represents a significant weakness in transparency and casts doubt on the ability of the Corporation Board to draw many conclusions about the performance of the Corporation based on the income and expenditure statements. It also highlights the inadequacy in general of the budget monitoring process for agencies, societies and autonomous bodies, whose income and expenditure statements are neither uniformly prescribed nor comprehensively reviewed by a competent authority.

4.3 *Is there a mid-year review process to update the revenue forecast and adjust related expenditure to maintain fiscal balance?*

This question has little particular significance for the Department of Health given that the process is common throughout GoAP.

4.4 *Are there any significant expenditure arrears?*

Expenditure control systems are focused on budgetary controls at the Treasury level,

before payments are released, not before expenditures are committed or incurred. Departmental offices do not maintain a record of their consolidated commitments, such that these could be used as an aggregate control. Furthermore, as noted during controls testing in the SFAA (section 5.6.1) and during our assessment, DDOs at the field level do not generally maintain Budget Control Registers,(BCRs). Thus, although arrears are calculated at the end of year for inclusion in the next year's Budget Estimates, the DDOs' records do not enable these to be calculated relatively easily. This creates a risk of expenditure commitments being greater than budgeted through arrears generation.

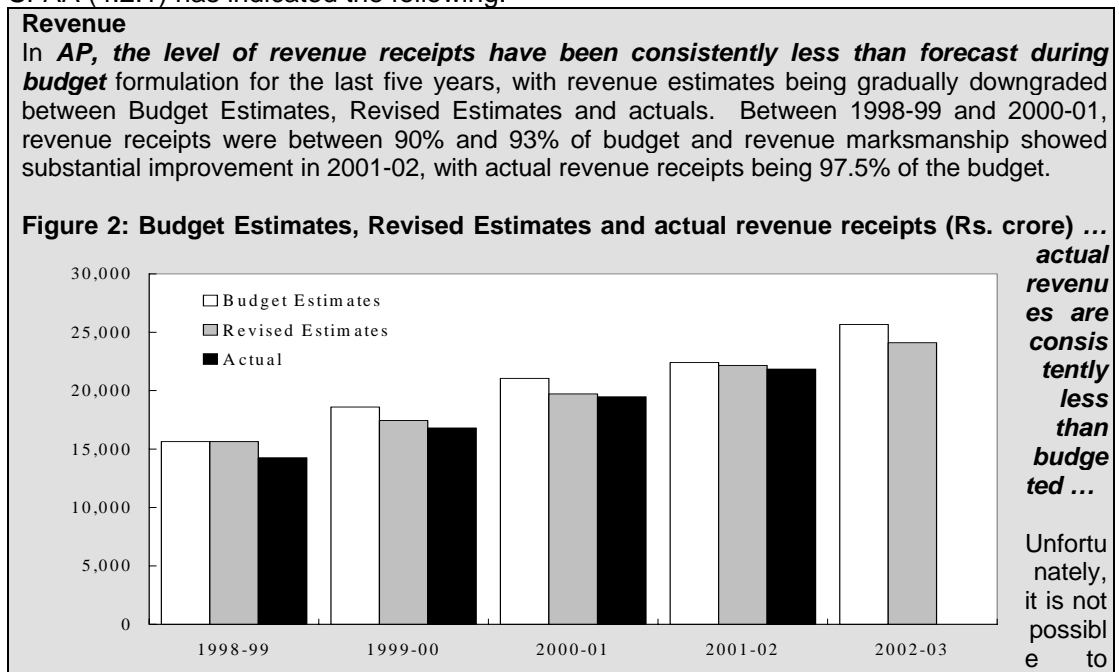
APHMHIDC

It was also noted during our assessment that in most cases, arrears relating to payments of suppliers at district level and below, such as utilities payments are being carried forward from one quarter to another and from one year to another. This was also particularly noticeable in the APMHIDC, where suppliers for drugs were owed one quarter's payments (Rs. 20 crore) due to a number of factors. The first was that APMHIDC is allowing sub-departments requiring drugs such as the DME and the APVVP to exceed their quarterly drug budgets, in some cases by one whole quarter, thus incurring the need to order more drugs than are budgeted in each quarter and secondly, because the corporation needs to keep a buffer stock of drugs for its customers in order to ensure delivery of requested supplies. There is no budget for such a buffer stock, hence the need to order drugs on credit from suppliers and carry forward arrears from year to year. Because the APMHIDC is a corporation, and its budget is not recorded in the Budget Estimates, these arrears are not carried forward for inclusion in the following year's budget estimates. In this case, the arrears are significant, being a quarter of the annual drugs budget. However, in the rest of the Department it is not possible to estimate the materiality of the arrears.

4.5 To what extent does actual revenue deviate from budget? What has been the trend over the last three years?

This question relates to GoAP revenue and it is not possible to derive this information about DoHMFw institutions specifically.

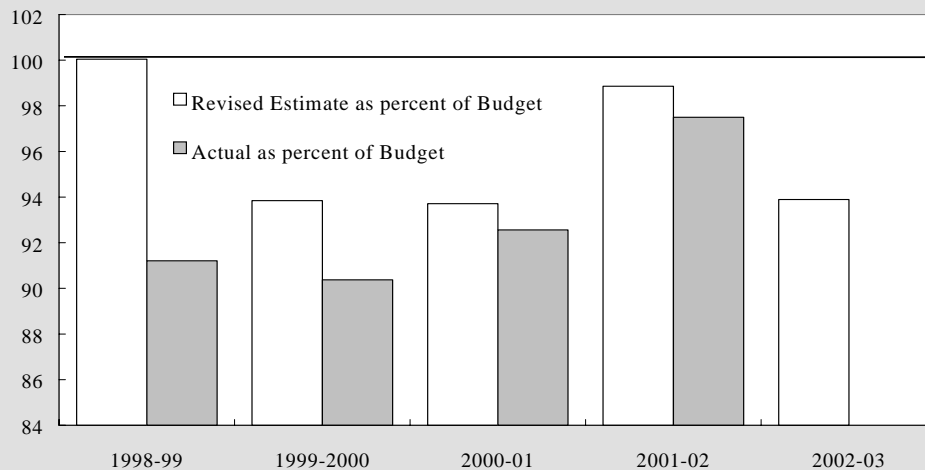
SFAA (4.2.1) has indicated the following:



determine whether there has been a sustainable improvement in revenue forecasting from one year, and this improvement has not been totally sustained in 2002-03 with the Revised Estimate for revenue receipts at 94% of budget.

However, revenue forecasting will never be 100% accurate for any government and **variances in recent years has been within a relatively small margin of error**. Note that the 2002-03 figures are drawn from Revised Estimates, rather than actuals.

Figure 3: Revised Estimates and actual revenue receipts as % of Budget Estimates ... there are signs of improvement in the accuracy of revenue forecasts ...



Despite the improvements in accuracy, the consistent under-estimation of revenue suggests that forecast errors are not purely due to random unpredictable events.

Traditionally, forecasts of the State's tax and non-tax revenue have not been based on macro-economic forecasts or assumptions. Revenue departments generally base their forecasts for the following year on mark-ups over the expected receipts for the current year, although they do attempt to correct for any unusual factors or circumstances. The Department of Commercial Taxes, which accounts for around 67% of State tax revenue, does undertake quite detailed "revenue potential" assessments with each revenue unit, in an attempt to identify the key factors at the unit level that will determine revenue collections. Whilst revenue departments submit their forecasts to the Finance Department around December of each year, it is ultimately the Finance Department which determines the revenue forecasts to be included in the budget; the forecasts are translated into targets for the revenue departments. Both the Finance and revenue departments acknowledge that these forecasts are typically higher than those initially provided by the revenue departments. They are based on anticipated growth rates in revenue in relation to the previous and current year trends.

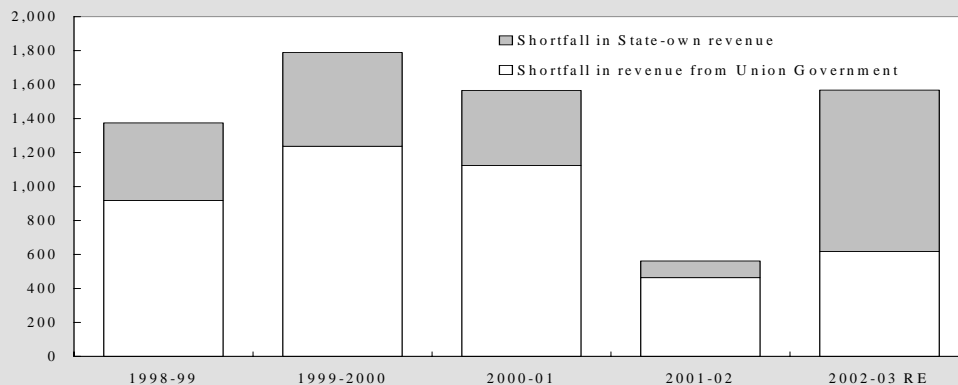
Given the limited economic information at the State level, it is not possible for the Finance Department to base its revenue estimates on any sophisticated economic models. Indeed, these techniques may give a misplaced sense of precision. Yet there is scope for the use of simple approaches to linking revenue and economic forecasts. The Finance Department developed a Medium Term Fiscal Framework (MTFF) in 2001, which makes assumptions about GSDP and tax buoyancies and has commissioned an academic economist to provide advice on developing a more sophisticated approach to revenue modelling. It has also established a Revenue Reform Committee to consider how to strengthen tax forecasting, in addition to assessing the potential for enhancing tax collection in AP. However, GoAP is yet to receive the Committee's recommendations.

However, while there is scope to strengthen revenue forecasting methodologies, it is critical to note **that the primary reason for revenue uncertainty for GoAP is generally the unpredictability in revenue flows from Gol**. For example,

Figure 4 shows that, in 2001-02, 83% of the variance between budgeted and actual revenue related to differences in receipts from Gol. The variance reflects variability both in the budgeted State's share of central taxes and grants-in-aid (see Figure 19).

However, it should be noted, that on the basis of the 2002-03 Revised Estimates, this pattern might be reversed in 2002-03. In the Revised Estimates, the greatest contribution to the variation between the Budget and Revised Estimate for revenue in 2002-03 is actually State-own revenue (reflecting lower than budgeted receipts in both tax and non-tax revenue). Lower than budgeted transfers from Gol explain only 39% of the variance, with GoAP's share of central taxes actually higher than forecast in the Budget (shown as a negative contribution to the variance in Figure 19).

Figure 4: Share of revenue shortfall attributed to State-owned revenue and revenue from Gol (Rs. crore)



... revenue uncertainty is mainly caused by unpredictable flows from Gol ...

4.6 Are line ministries and spending agencies able to plan and commit expenditures in accordance with the budget? Do budgeted resources reach front line service delivery units in a timely and transparent manner?

Departments are now provided with broad guidance as to their expenditure allocations in expenditure ceilings issued by the Finance Department in early January. They were provided with final expenditure ceilings in the 2003-04 process by 10 February 2003. Each HoD and CCO is given final notice of allocations through the issue of the Appropriation Act in April.

It is the responsibility of HoDs to distribute that budget allocation to each of their COs, and thereon to their DDOs or Executive Engineers (the equivalent of DDOs in development projects- ie in the APHMHIDC) through budget distribution statements. The subject of budget allocations is discussed at length in the SFAA in section 5.4.

The APVVP

As discussed above in section 8.1.4, however, it is clear that the issue of predictability is critical for the APVVP and the DHS schemes in general. The APVVP receives Plan and non-Plan grant in aid through the Treasury mechanism but by PD transfers. Our interview with the Finance Head of the APVVP indicated that the Treasury releases this money in tranches and is dependent on the ways and means position of the State and monies released from Gol. The annual budgeted figure is not an absolute indication of the amount they will receive and it is often less. The APVVP releases (usually quarterly) amounts to the DCHSs by budget sub-head on a discretionary basis, as discussed above.

DCHS's release money to DDOs at area hospitals according to the received schedule from the headquarters. The DCHSs and DDOs are not able to determine or predict how much they will receive in any quarter and in which sub-head, such as maintenance, travel allowance, utilities, etc. In one example of a budget release we examined for the year 2005-6, there were huge variations in budget releases across sub-heads. Some sub-heads, such as electricity and travel allowance did not receive allocations of money for 6 months, whereas other sub-heads, such as salary and maintenance, received regular amounts in line with budgeted norms. Since the budgetary allocations are not necessarily equal, it is not possible for DCHSs and DDOs to extrapolate the annual allocation from their first budget allocation and this leads to conservatism in spending for the first 3 quarters.

For APVVP hospitals, however, since money is received from the PD account and paid into local bank accounts, there is some flexibility in spending, as Treasury does not perform any budget controls or conduct scrutiny on the money since it is outside the Consolidated Fund. APVVP hospitals are not supervised by District Treasury Officers to ensure non-retention of large bank balances, unlike district offices, where DDOs and DM&HOs are required to regularly inform DTOs of bank balances. This flexibility means that DCHSs and DDOs at APVVP hospitals maintain balances in their accounts and are able to move money from certain sub-heads to meet deficiencies in others. An example of this is a sub-head known as the "user charges" sub-head. Money in this sub-head is flexible and can be utilised for a range of purposes such as maintenance, fuel, or utilities, subject to the approval of the DCHS.

In general, however, APVVP hospitals are not able to plan and commit expenditure in a timely manner due to the delays in the receipt of money and due to not receiving indications of their annual budget allocation. This has the effect of undermining the effectiveness of budget implementation and in the case of APVVP, leads to large unspent balances at the end of the year, as noted above.

The C & AG's audit reports are littered with references to large balances kept on unauthorised local bank accounts that are outside of the Consolidated Fund. This constitutes a medium fiduciary risk in the APVVP system, given that the APVVP is an autonomous body and reports only to its Board in terms of its income and expenditure. The C & AG's report for 2001-2 noted "On 7 occasions the Director of Health drew funds involving Rs 3.24 crore on AC bills and kept the amounts in the PD account of the APVVP, Hyderabad at the fag end of the financial years ending with March 1991, 1992 and 1994, even though the amounts were to be spent on schemes.". It is not clear from this report why AC bills were being used for the APVVP nor which schemes were being referred to, but this is an indication that PD accounts are being used in contravention of the Treasury rules and constitutes a fiduciary risk that money is not being spent for the purpose it was intended to be spent.

TB Scheme

The National TB Control Programme (NTCP) utilizes a mix of funds mechanisms as it is a Centrally Sponsored Scheme and, in addition, is receiving money from DfID and the World Bank via the Gol, bypassing Treasury systems. The NTCP suffers from unpredictability of funds due to budget releases being delayed by Treasury and funds freezing by the Government. The C & AG's audit report for 2000-2001 (chapter III, p42) contains an audit review of the NTCP and indicates a range of problems, including overspends due to inefficient budgeting, underspends due to late release of funds by Gol and also underspends for money released outside of the Treasury system, for which the reason was not indicated. However, the content of the audit report in general indicates that the management of the TB programme during 1996-2001 was unsatisfactory, and therefore it is difficult to conclude that lack of predictability of funds is a key cause.

The APHMHIDC

The APHMHIDC does not receive its budget through Treasury systems and does not suffer from unpredictability of funds, given that it is a corporation dependent on service charges.

Given that lower than expected grants-in-aid have recently been the key driver in shortfalls in actual revenues relative to budget, this perhaps explains why non-salary Plan expenditure has been significantly below budget in recent years. The issue of budget releases and GoAP cash management in general is covered in significant detail in the SFAA, however, (sections 5.4 and 5.5), reproduced below in the box.

Predictability in expenditure allocations

Predictability in expenditure allocations depends upon realism in budget formulation, as discussed in section 4.2, and the system for expenditure authority releases during budget execution. To ensure effective budget implementation, departments should receive timely:

- Advice as to their budget allocation;
- Releases of expenditure authorisations.

1. Advice of budget allocation

Departments are now provided with broad guidance as to their expenditure allocations in expenditure ceilings issued by the Finance Department in early January. They were provided with final expenditure ceilings in the 2003-04 process by 10 February 2003. Each HoD and CCO is given final notice of allocations through the issue of the Appropriation Act in April.

It is the responsibility of CCOs to distribute that budget allocation to each of their COs, and thereon to their DDOs or Executive Engineers (the equivalent of DDOs in development projects) through distribution statements.^{xxii} However, controls testing indicated that **COs and DDOs are usually not informed by CCOs of the budget allocation for the full fiscal year.**^{xxiii} Therefore, they are only advised of their budget for the first six months of the year, through distribution statements and on a quarterly basis thereafter (see section 5.4.2). Given that quarterly allocations are not necessarily equal, it is not possible for the CO or DDO to extrapolate the annual allocation from their first distribution statement. This lack of predictability usually leads the COs and DDOs to be conservative in their spending in the first two quarters, and the expenditure actually picks up in the last quarter once the final annual allocations are known.

2. Release of expenditure authorisations

GoAP has **improved the timeliness of expenditure authorisations through the system of Budget Release Orders (BROs)**. In particular, GoAP introduced, in April 2001, a system of advance release budget spending authority for the first six months of the year, followed by quarterly releases.^{xxiv} This system has been further streamlined in April 2003, when the GOAP introduced advance release of the first three quarters spending authority in April, followed by a second and last instalment in January, based on Revised Estimates less earlier releases.

The following sections consider the timeliness:

- Of the issuing of BROs to departments by the Finance Department;
- The distribution of budget releases to the CCOs and DDOs.

Issuing of BROs to departments

The Finance Department has advised the SFAA team that it issues BROs on a timely basis in line with GO 273. The only exceptions are BROs that relate to Centrally Sponsored Schemes, some of which GoAP releases only on receipt of funds from Gol. The Finance Department decides, in consultation with the Secretaries in the concerned administrative departments, as to the schemes for which a single BRO can be given at the beginning of the year and the schemes for which separate specific concurrence of Finance Department is needed before BROs can be issued by the Finance Department.^{xxv} The Finance Department does not issue the BROs for these schemes (including its matching share) until the funds are received from Gol, except in pressing circumstances.

Reform in the BRO system^{xxvi}

^{xxii} How the budget will be distributed is determined by the CCOs, but is usually in line with the budget estimates submitted by each CO during the budget formulation stage.

^{xxiii} None of the five districts COs or DDOs were advised of their budget allocation.

^{xxiv} BROs are released only for those expenditures that require Finance Department concurrence. This relates to Plan schemes and non-Plan control object-heads, such as operational and maintenance expenditure and grants-in-aid.

^{xxv} G.O.Ms No.59, Budget Monitoring – Budget Release Order – Certain Instructions – Regarding. Dated 30.3.2001.

^{xxvi} As outlined in G.O.Ms No.59, Budget Monitoring – Budget Release Order – Certain Instructions – Regarding. Dated 30.3.2001. and GO Ms No. 273, Dated April 1, 2003.

Under the new BRO system, the Government has decided to put 50% of the Budget Estimate provision of the financial year at the disposal of the HoD in the 1st week of April (first week of the financial year). The Finance Department releases 50% of the total budget estimate provisions specified under each scheme and items for which otherwise proposals used to come to the Finance Department for specific administrative sanction.

The second instalment will be released by 1st week of October of each year and shall be equal to the amount of expenditure incurred in the first quarter or 25% of the budget provision; whatever is less. The second instalment will be released only after the review of the schemes and achievement in performance indicators, actual expenditure incurred and subject to the actual receipt of inflows from GoI, National Bank for Agriculture and Rural Development (NABARD) or other financing institutions. In April 2003, the system of second instalment has been given up, and the first instalment is released for the first three quarters in April itself.

Each department will finalise a review of their schemes and submit estimates for Revised Estimates for the current year, as well as next year's Budget Estimates by the end of November each year. The Finance Department will estimate the overall availability of resources for the balance period of the year, as well as for the next year, and finalise the Revised Estimates for the current year and Budget Estimates for the next year by 25th December of each year. Consequently, the final instalment for each scheme will be decided and released by 1st week of January.

Given that lower than expected grants-in-aid have recently been the key driver in shortfalls in actual revenues relative to budget, this perhaps explains why non-salary Plan expenditure has been significantly below budget in recent years. Overall, divergences between budget and actual Plan expenditure were responsible for 56.2% of the overall difference between budgeted and actual revenue expenditure in 2001-02. This contribution was 66.1% in terms of the 2002-03 Revised Estimates

Components of Plan expenditure as % of budget
(2002-03 based on Revised Estimates)

Component of Plan expenditure	2001-02	2002-03
Total Plan expenditure	84.7	90.1
Salaries	129.5	100.0
Non-salary O&M	66.7	83.9
Maintenance of capital assets	66.9	85.6
Subsidies and other grants-in-aid	82.5	89.1
Other expenditures	292.2	99.8

Source: Annual Fiscal Framework 2003-04

Delays in expenditure authorisations at district level

Despite improvements in the timeliness of BROs to departments, controls testing suggests that there are still **significant delays in expenditure releases (via distribution statements) to COs and DDOs**. The figure below provides examples of distribution statement dates as advised by COs and DDOs in Primary Health and Primary Education sector in Nalgonda district. Given that the same distribution statement, with information for all districts, is sent to each district, this can be accepted as indicative of budget releases for all districts. Note also that the figure includes date ranges. This is because there is a separate distribution statement for each Plan scheme and non-Plan control sub-head. Therefore, the figure shows the range of dates at which distribution statements were received.

Nalgonda Primary Health and Education distribution statements dates for 2001-02 (range of dates)

	Primary health				Primary education			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Qtr ending	June	Sept	Dec	Mar	June	Sept	Dec	Mar

CCO (line department) to CO (DMHO or DEO)	22/5/01 to 22/6/01	24/8/01 to 24/12/01	02/2/02 to 14/03/02	16/4/01 to 20/5/02	29/6/01 to 28/7/01	14/10/01 to 19/11/01	15/1/02 to 22/2/02
CO to DDO (e.g. PHC or school)	29/5/01 to 11/7/01	10/9/01 to 28/2/02	25/2/02 to 28/3/02	3/6/01 to 22/6/01	4/7/01 to 14/8/01	27/10/01 to 25/11/01	20/2/02 to 10/3/02
Source: Controls testing (Nalgonda)							

There are a number of issues to note:

- There are **significant delays in the communication of budget releases from the CCO to the CO level**. For example, DMHOs are not generally provided with their first six months of expenditure authority until the second quarter of the year. They do not receive all of the distribution statements for the financial year until 14 March, only a few weeks before the end of the financial year.
- The **delays are even greater for DDOs**, with COs sometimes taking several weeks to communicate budget releases down to this next level. For example, PHCs were provided with their distribution statements for the final quarter of the year between 25 February and 28 March 2002. Therefore, the final distribution statement arrived within days of the end of the financial year.
- Expenditure releases for the Primary Education COs and DDOs are still on a quarterly basis for the whole year. However, Primary Health COs and DDOs were provided with an initial six-month expenditure authority release, although on a less timely basis than in primary education.

As a consequence of these expenditure release delays at the district level, GoAP is still experiencing the “**March rush**”, **with departments spending a large proportion of their budget in the last month of the fiscal year**. For example, in 2000-01 only 53% of total expenditure was incurred in the first three quarters of the year, 47% was spent in the last quarter and 34% was spent in March 2001 alone.^{xxvii} In 2001-02, 39% of annual expenditure was spent in the last quarter and 22% was spent in March 2002, showing some improvement in 2002 after the introduction of advance releases.^{xxviii}

Effective cash management

Effective cash management is critical to enabling GoAP to deliver predictability in funding to departments. Cash management is dependent on effective cash forecasting and monitoring. The Finance Department estimates cash inflows by month based on the three streams of receipts: tax and non-tax revenue of the State; shares in central taxes and other central transfers and borrowings. Based on past trends, the estimated annual tax receipts are projected month-wise for the year. The dates on which central transfers will be received are known and the receipts on account of borrowings are taken into account depending on the borrowing schedule or timetable.

Expenditures are also projected over the year. Departments do not provide Finance Department with monthly forecasts of their expenditure needs, although they will advise Finance Department of any extraordinary expenditure. Instead Finance Department plots the cash implications of committed expenditures such as salaries and debt servicing, and uses seasonality patterns in past expenditure to allocate other Budget Estimates across the year.

Under an agreement with the RBI of India, the State Government has to maintain with the Bank a daily cash balance of Rs.3.32 crore. If the balance falls below on any day, the Government has to take ways and means advances or overdraft from the RBI. The Finance Department keeps a close watch on its cash balance, to avoid GoAP going into overdraft for more than 12 consecutive working days (over and above the ways and means advance provided by the RBI), and thus to avoid suspension of payments by RBI. GoAP is provided with data on cash receipts, payments

^{xxvii} Report of the GAG of India for the year ended 31 March 2001 (Civil) GoAP, see para 2.3.18.

^{xxviii} Report of the CAG of India for the Year ended 31 March 2002 (Civil) GoAP, see para 2.3.16.

and balances by the RBI and relevant banks on a daily basis. GoAP is now constantly monitoring its cash position through an electronic monitoring system.

These efforts do appear to be delivering dividends. According to the Budget speech, GoAP had gone into overdraft for only 17 days in the year to December 2002. This is a significant improvement to the last few years when GoAP was forced to resort to ways and means advances or overdraft for the majority of the year. The table below shows that GoAP was in overdraft for 167 days in 2000-01, with the maximum amount of overdraft touching Rs.666.51 crore, and 172 days in 2001-02, with the highest level of overdraft being Rs.695.39 crore. Indeed, during 2000-01 except for ten weeks, and during 2001-02 except for four weeks, GoAP was either drawing on the ways and means advances or was in overdraft.

Details of the extent to which GoAP was able to maintain a minimum balance with the Bank

Details	1998-99	1999-00	2000-01	2001-02
1. Number of days on which the minimum balance was maintained without obtaining any advance	145	75	70	29
2. Number of days on which the minimum balance was maintained by taking ordinary ways and means	101	131	84	136
3. Number of days on which the minimum balance was maintained by taking special ways and means advance	29	43	37	28
4. Number of days on which there was a shortfall from agreed minimum balance, even after availing of the ordinary and special ways and means advances to the full extent, but no overdrafts were taken	1	0	7	0
5. Number of days on which overdraft were taken	89	117	167	172

Source: Compiled from Finance Accounts: 1998-99, 1999-00, 2000-01 and 2001-02

Historically, when GoAP, or any State Government, had been in overdraft for eight or nine days, and therefore in risk of RBI suspending its payments, it would instruct the Treasury to stop disbursing and to delay payment of non-essential bills. These “freeze orders” to Treasury were oral and not officially communicated to line departments, although they may have been told informally to “go slow” when there is a shortfall of cash. Alternatively, in periods of cash shortage the Finance Department would counter-sign any cash releases of more than Rs.1 crore and would restrict or moderate releases to cope with cash shortages. However, both the Finance Department and Treasury departments confirm that they have not resorted to such measures since 1999-2000. They have indicated that any decision to reduce departmental appropriations is made formally through the Revised Estimates process. There is also oral evidence from districts that they have not received “freeze orders” in the last year, or even two.

Summary and conclusions

Despite the problems with budget predictability as elaborated above, there are no materially significant deviations from DoHMFWD budgets, either favourable or adverse. However, in some schemes, Finance Department has to hasten up the distribution of funds in respect of centrally sponsored schemes.

The concern in the APVVP particularly, is that there appears to be poor predictability of funds for spending agencies, particularly at local levels, and indications are that such unpredictability is undermining efforts to implement budgets effectively.

Again, in the case of the APVVP, there is an additional concern that due to the uneven flow of funds, large unspent cash balances are being kept outside of the public account and this is a weakness in accountability and transparency. This is gradually expected to decrease with the active PFM reform taken up by the Finance Department.

In the case of the APHMHIDC, there is a concern that there are large significant uncontrolled levels of arrears with creditors, relating to drugs purchases and this represents a fiduciary risk.

Principle Five: expenditure within the year is controlled

DFID has identified the following two benchmarks for assessing fiduciary risk in relation to this principle of good practice:

- In-year reporting of actual expenditure;
- Systems operating to control virement, commitments and arrears.

5.1 *Is there a relevant internal control system, which is cost effective, well-understood and complied with, for which senior management takes full responsibility?*

Controls testing at the departmental levels under the SFAA revealed adequate controls and compliance in the main areas of payment transactions, except for budgetary control by DDOs and maintenance of cash records and controls over cash and local bank accounts. The internal control system for payments under the Treasury system is considered to be adequate, therefore, and it was noted that the Financial Accountability Handbook contains very detailed descriptions of the main internal controls and checklists and pro formas for DDOs, SCOs and CCOs to maintain.

All CCOs, COs and DDOs are required to maintain Budget Control Registers (BCRs) through which to monitor expenditure against the available budget. Checks against appropriations are only done for 'control items', basically, non-salary expenditure. Salaries are not checked against appropriations but are checked by the DDO against the service book and the pay bill register. The SFAA noted that controls testing indicated that DDOs in general are not maintaining BCRs and our assessment confirmed this in two districts. However, we noted that in the case of PHCs, DDOs are usually Medical Officers. For each PHC there is a locally employed Senior Assistant to assist the DDO. These, in addition to the DDO, have not received any training in financial management and are expected to keep, as an example, 47 registers, in addition to BCRs for each budget (page 75, Financial Accountability Handbook). These are to be kept manually.

We noted that there are significant numbers of vacancies in senior assistant posts throughout the districts and one PHC we visited had no senior assistant. An accounts assistant from another PHC was visiting three times a month to carry out basic administrative tasks, but our examination of the available registers and records (for previous years only) indicated that he was unable to maintain any of the registers and had very little understanding of the financial position of the PHC, the relevant budgets, or indeed of the Treasury systems themselves. He was also standing in for two other PHCs and had received no financial training, had not received a copy of the Financial Management Handbook and was not able to produce any of the documentation we asked for. The Medical Officer of the PHC, who was the DDO, was also unable to demonstrate any financial understanding of the workings of the Treasury system, was of the impression that the responsibility for financial management of the PHC lay with the Sub Treasury Officer (STO) and was also unaware which budgets he was responsible for.

At a second PHC visited, in a neighbouring district, we encountered a very efficient accounts assistant who was well informed and was keeping a good number of the required registers but by no means all. He had a good understanding of the treasury systems and Gol funded schemes requiring maintenance of local bank accounts. The DDO was also very well informed about the internal controls and his responsibilities.

It was noted that PHCs and district offices are expected to purchase registers from their stationery allowances and that there are no standard register book prescribed for each of the 47 purposes noted in the Handbook. There are proformas suggested for these books, however, and thus each accounts officer/assistant is therefore expected to create these registers by hand. Whilst there is clearly a prescribed internal control system for treasury payments, the question of its relevance and cost-effectiveness arises in this instance, as it cannot be effective to maintain so many registers by hand. Computerisation of record keeping is expected to ease the problem

At present, there is a great lack of clarity on the financial and accounting procedures and controls applied. Whilst there is a certain amount of guidance provided by the rules, regulations and instructions provided by the Department of Finance in terms of the national framework, there are many aspects specific to the health sector that are not clear. In addition, there is a great deal of bureaucracy which gives the impression of people completing and signing forms for the sake of doing so without regard to underlying rationale and controls. There is need to initiate capacity building plans in this regard coupled with departmental procedural review and re-engineering.

TB Scheme

In the case of the NTCP, each district programme officer is the DDO for the programme. We interviewed one of these programme officers who was able to describe his responsibilities in some detail but was unsure of the source of funds for some of his budgets. Given that the NTCP is a society at district level, the internal controls are different from the Treasury systems in a number of ways.

Non-Plan salaries are paid through the Treasury system as are some allowances and limited stationery and fuel budgets. Plan funds come through a PD account and the DDO maintains a local bank account for this money. The issue of local bank accounts, as raised by the SFAA (section 5.6.5) applies here. Not only does the DDO maintain a local bank account for the receipt of the PD account money, he also maintains a separate bank account into which he receives cheques from the Gol. This money neither originates nor is monitored via Treasury systems.

“There is evidence of substantial loss of interest due to the delayed remittance of cheques/ demand drafts into Government accounts. In 2000-01 for example, delayed remittance of 942 demand drafts relating to 1995-99 valued at Rs.1.16 crore into Government accounts resulted in interest of Rs.17.58 lakhs being foregone. Controls testing also revealed some examples of delayed remittances of demand drafts. Proper maintenance of registers and a periodical review by the Head of Office and a responsible official would have avoided the loss of interest. In these cases, accountability cannot even be enforced in the absence of adequate and sufficient record maintenance.” (SFAA section 5.6.5)

The DDO is the joint holder of both accounts with the DM&HO. He issues cheques to local NGOs for the operation of sub-schemes who report quarterly on their disbursements to him. We noted through observation of the bank statements that the bank accounts were deposit accounts (in contravention of the rules for holding local bank accounts) and attracted interest. Rules for the utilisation of this interest were not clearly specified to Programme Officer, who stated that the District Society Board makes decisions relating to expenditure of the interest. The DDO submits utilisation certificates to the Gol for the utilisation of funds and to the STO for the Plan funds. As noted in the SFAA, “controls testing indicate that GoAP controls over UCs are generally inadequate. In controls testing, the grants-in-aid register, containing the sanction for the grant, was adequately maintained and properly attested in all ten district offices tested. But, a control register for UCs was absent in eight out of ten district offices tested”. Additionally, “the UCs

themselves merely state the value of monies utilised. They do not provide sufficient relevant information in a transparent manner on how the funds were utilised exactly. Nor do the UCs require any disclosure about what was achieved with the funds. This raises fundamental questions about the effective use of the funds and the extent to which GoAP can monitor and improve the performance of societies/ institutions.” (SFAA section 5.6.5)

GO 507 was issued on 10.04 2004. It appears to be the only GoAP document that clearly states the roles and responsibilities of DDOs, DTOs and HoDs with regard to PD accounts, AC Bills and UC certificates. However, these responsibilities only relate to monies originating from Treasury. Compliance with the rules and thus effectiveness of these rules remains also in doubt. The regulations do not appear to close the accountability gap for those Societies receiving funds outside of the Treasury systems. GO 507 states the following:

“It is observed that budget controls are quite effective before payments are released but not after the release when the expenditure is committed or incurred. Consequently it is has been noticed that DDOs withdraw amounts from the Treasury and keep them either in the PD Accounts or in bank accounts for long periods of time before they are actually spent. Therefore, Government has decided that no further amount for a particular scheme can be drawn until and unless proof of expenditure of the amounts earlier drawn is provided (UC certificates). Further, Government hereby orders that every DDO shall also furnish the list of bank accounts operated by him and cash balances available therein, pertaining to the specific scheme for which further funds are proposed to be drawn from the Treasury. The concerned Treasury Officer shall not authorize any further releases till the Certificate has been given and 75% of the amount drawn is spent or credited back to the Treasury”.^{xxx} Given the point made by the SFAA above, UC certificates, even if submitted, are not adequate evidence of expenditure having been made and it was noted that no narrative reports are submitted or required with the certificates either to the society boards or to the Gol or STOs. This raises questions about the quality of transparency and accountability for the operation of PD Accounts in general, but also for all Central Sector schemes for which UCs are effectively the only means of monitoring expenditure against budgets. It is to be noted that the SFAA’s control testing in the Health Department did not include any Central Sector schemes and that therefore any conclusions that were drawn about fiduciary risks relate only to Centrally Sponsored Schemes.

The following paragraph appears in the RCH I appraisal report, 2004^{xxx} “In the matter of obtaining utilisation certificates and audit reports from the district-level officers, considerable difficulties are being faced at present. It is hoped that the development of a comprehensive finance and accounts manual, and training on the same would enable the district and sub-district level officers to become more confident in finance matters, and do the required paper work in this regard in a timely manner.” The Commissioner of Family Welfare confirmed in an interview that for CFW schemes in general, he faces considerable difficulties with DM & HOs and scheme programme officers in financial management issues such as these.

The GO 507 regulations relate to the operation of PD accounts and are therefore relevant to the NTCP payments through Plan, all of APVVP expenditure and expenditure for drugs, civil works and equipment carried out by the APMHIDC. The TB Society is also purchasing equipment and drugs locally (in addition to through the APMHIDC) and using AC bills (for Plan expenditure only). The C& AG’s Report for 2001-2 (p34) states, “On two occasions, the Joint Director, Medical and Health services, TB Control, Andhra Pradesh, Hyderabad drew (March 1990 Rs 15.75 lakh on AC bills for purchase of X-ray machine

^{xxx} G.O. 507 10.04.2004

^{xxx} Reproductive Child Health Programme I. Assessment Report 2004

generator and anti-TB drugs but did not submit the DC bills since vouchers as well as the office copies of the AC bills were lost” Again, in the same document, “Financial rules provide for drawal of monies on AC bills by DDOs either on the authority of standing orders or specific sanction of Government. DC bills in respect of AC bills drawn more than a month earlier are required to be submitted before the presentation of the next AC bill at the Treasury. Scrutiny revealed that the above rules were utterly disregarded by a number of DDOs and the controlling officers failed to enforce accountability for such lapses. As of March 2001, 94,854 AC bills for Rs 549.63 Crore pertaining to the period 1971-2001 were pending adjustment for want of submission of DC bills. Of these, 61% were pending for over three years.” (p37).

Local procurement of drugs and equipment is another significant issue that warrants further investigation and clarification, especially with regard to funds circumventing Treasury internal controls. The TB Societies procure drugs and equipment locally through purchase committees composed of members of the Society Board. Although we did not have time to investigate this area fully, it appears that the Societies in general are following the Financial Code for financial powers, and a range of GOs, one of which specifies the levels of approval (GO 148). However, because Societies are governed by the Societies Act rather than explicitly by the Financial Code, this is an area that needs clarification and at face value there is no uniform approved procedure for procurement across DoHMF. As stated in the Procurement Review for AP 2002^{xxxi} “There is an overwhelming need to rationalise and standardise all documentation relating to procurement into one document reflecting modern procurement practices internationally and relevant Government of India and GoAP legislation and guidance. This would make a significant improvement to transparency and to obtaining best value for money from state funds.”

It appears that all Centrally Sponsored Schemes and Central Sector Schemes are carrying out local purchase of drugs and equipment and there does not seem to be a limit to the volume of these purchases. Given that in every case the purchases are not carried out by public tender but by the practice of asking for quotations, this is unlikely to be a transparent process. Further comments on procurement are described below under Principle 6, however we note that there is a risk of lack of transparency, which could mask misappropriation of funds. There are certainly inadequate internal controls in this area and the scope of this review did not allow for controls testing. Given that there are no explicit procurement rules, it is not possible to make comments on compliance with those rules. Given also that internal audit for the DoHMF is practically non-existent (see below) the examination of local purchases by internal audit and recommendations for improvements are not happening at present.

The APVVP

The C & AG’s report for the year 1999-2000 refers to non-submission of UCs for the APVVP of Rs 177.36 crore for the year 1999-2000 which were still outstanding at the date of the completion of the report (2001) and p21 of the same report showed that CFW had 11.7% of all pending AC bills for the year 1999-2000. P40 continues “the Commissioner for Family Welfare drew AC bills aggregating to 3.31 crore and 5 DM& HOs drew 1.61 crore during the period 1976 to 1999-2000. They did not submit the DC bills till April 2000. Of this, Rs 16.63 lakh had remained unadjusted for over 20 years, Rs 10.25 lakh for over 10 years and Rs 2.47 crore for over 5 years. This is a serious irregularity and the possibility of pilferage of large amounts by the officials cannot be ruled out”.

With regard to the APVVP’s local procurement, given that all payment transactions are carried out outside of the Treasury systems, the same issues as noted above for the

^{xxxi} Procurement Review Government of Andhra Pradesh. 2002. (DFID)

schemes and societies apply. The APVVP is a Society and thus, to a large extent, makes its own rules and sets up its own systems. The one difference relating to the APVVP is that it has its own internal audit section, and thus there is a system of review of payment transactions, if not of controls as such. (see below for further discussion).

APMHIDC

In the case of the APMHIDC, again, because all transactions take place independently of the Treasury systems, rules and regulations are (theoretically) set by the Board of the Corporation. However, the Corporation does have a DDO (an Executive Engineer) and a CCO (the Head of the APMHIDC) and theoretically these individuals are accountable to the Director of Health. Given that the income of the Corporation is not voted on in the Appropriation Act, however, and the Corporation is not required to provide an annual budget through the budget process, this accountability is debatable.

The APMHIDC has taken proactive steps for establishing internal control systems. Internal Audit department is set up and an internal auditor has been appointed. According to MD of the corporation they have finalised plans to develop internal audit manual and stream line systems in consultation with external consultants with necessary expertise in this area .Statutory audit has been completed up to 2004-05 but the report given by the chartered accountant merely certifies compilation and authenticity of records with out review of systems. Querried on this point the MD of the corporation stated that in the current year necessary mandate would be given to the auditors by revising their terms of reference and expressed a view that they are taking necessary action.

5.2 *Is there regular and adequate review of the internal control system through an effective internal audit function? Is there reporting of error rates in procurement and expenditure transactions?*

The quality of GoAP's internal controls and the extent of compliance with them comparing GoAP against the relevant principles of good practice, as set down by the International Organization of Supreme Audit Institutions (INTOSAI)^{xxxii} are examined in detail in the SFAA, chapter 11.3. given below.

^{xxxii} Within INTOSAI, the Internal Control Standards Committee has specific authority in the field of internal controls. The Committee has issued three useful resources: Guidelines for Internal Control Standards (1992); Guidelines for Reporting on the Effectiveness of Internal Controls: SAI Experiences in Implementing and Evaluating Internal Controls (1997); Internal Control: Providing a Foundation for Accountability in Government.

Effective internal controls designed, installed and operated

To assess the adequacy of controls, and compliance with them, the SFAA team undertook controls testing, supplemented by the gathering of supporting evidence.

Evidence gathered suggests that prescribed controls in GoAP are sufficient in many areas; outdated and inadequately clear in others. Compliance with controls is adequate in the Treasury system and in those departmental areas discipline in which can be enforced through the Treasury system, such as documentation supporting payments. In all other departmental areas, such as cash records, asset management or reconciliations at the CCO level, compliance is generally weak. Compliance is poorest at the DDO level in the field.

GoAP recognises the need to strengthen internal controls and is working actively towards this end. Examples of areas targeted by Finance Department for reform are outlined in the table below.

Examples of Finance Department target areas for strengthening internal controls

- Computerisation of the accounting systems (which reduces inherent risk of reliance on manual systems);
- Strengthened budgetary control in e-khazana;
- Bank reconciliations;
- Reconciliations between Treasury and departmental records;
- Submission of UCs;
- Submission of DC bills;
- Restrictions on usage of PD accounts;
- Direct payment of salaries into bank accounts (which reduces the inherent risk of reliance on cash);
- Monitoring of DTOs of their performance in enforcing key controls in GO 507;
- Planned expansion and improvement of internal audit.

We noted some specific points in addition relative to internal audit.

The Functionary Manual requires the establishment of an internal audit function in each GoAP Directorate. Our investigation of the internal audit function showed that there is currently no sufficient internal audit function in the DoHMF. It is the placement by DTA of a Chief Accounting Officer in each of the Directorates which enables internal audit to be undertaken. The CAO supervises the internal audits and reports to the HoD. We interviewed the CAO for CFW who indicated that most of the accounts officers in the DoHMF are assigned to accounts duties and not to audit. He pointed out that none of the staff were trained in audit, having only passed the Treasuries and Accounts exams as graduates. There is no audit manual for the design and implementation of audits, although there is a basic checklist. Although we asked for a copy of this we did not receive it.

We were told that audits were carried out on a random basis and not according to a plan and we understood this to mean that when there were staff available an audit took place. It was noted that accounts officers assigned to the CFW were different to those assigned to the DHS and the DME and it seems that because the administration of all sub-departments is separate, when accounts staff from CFW carry out an audit of a DM& HO, for example, there is no integration of effort with other sub-departments, such as the DME or the DHS to ensure that auditors exchange information, work together or plan audits together to minimise duplication.

Given that the functions of both the DHS and the CFW revolve around the PHCs and the DM&HOs, this seems wasteful and indicative of a lack of thought and planning. It is however, typical of the vertical administrative structure of the Department, with few horizontal linkages to enable effective and efficient work practices and streamlined management. The CAO also indicated that instead of carrying out risk-based random

sampling of transactions and reviewing internal control systems, as per international standards, 100% transaction audit was carried out of DM& HOs and no visits to PHCs were carried out.

TB Scheme

In addition, we noted that schemes were not being audited, as the majority of schemes are being implemented by societies and the internal auditors of the Department consider that schemes are being audited by chartered accountants appointed by the society boards. In fact, these schemes are not being audited in all cases, but chartered accountants are often appointed to produce accounts, a considerable difference. This highlighted once again the confusion at district level over responsibilities between sub-departments and the capacity issues with regard to financial management. We therefore consider that insufficient attention is being paid to the establishment and maintenance of internal controls in the TB Scheme in particular and in schemes in general. Understanding and appreciation of internal controls is low amongst officials at district level. Department and Functionary Manuals do not cover the fiduciary responsibilities of officials at this level and we did not find any evidence of scheme documentation noting responsibilities for establishing internal controls. The fact that schemes are not subject to internal audit, notwithstanding the fact that internal audit is not reviewing internal controls, is a significant omission. The Department in general is not taking on its responsibility to enforce internal controls and its organisational structure is inhibiting its effectiveness with regard to overseeing administrative functions, including internal audit and the establishment of internal audit committees at district level.

APVVP

The CAO of the APVVP also indicated that the staff assigned to internal audit had no specific training, and we did look at a number of internal audit reports for the APVVP and interviewed two of the auditors. In the case of these auditors, we noted that they carried out 100% transaction audits of all APVVP on a rotation basis, which means that all the hospitals are audited at least once every 3 years. The quality of the audit does not comply with international (INTOSAI) standards; however. Comments from the SFAA which we concur with on the basis of these interviews are as follows:

Objectivity and independence of auditors. There are no separate internal audit functions in line departments. Instead, internal audits are undertaken by staff drawn together from different departmental functions, normally the Accounts Wing. This arrangement has a number of implications that potentially compromise the objectivity and independence of auditors in evaluating the adequacy of controls, for example:

Their accounts duties will habitually lead them to work with district and field accounts staff and undertake accounts work;

- The staff in at least one department (DHMS) are also responsible for answering AG audit observations on behalf of the department.

Objectivity and independence of management of internal audit. As laid down by the Functionary Manuals (and the various GOs drawn upon to compile the Manual), internal audit is the responsibility of the CAO. The overall audit function thus lacks the required independence, as the CAO is also responsible for the accounts and thus financial control. Proper understanding of the role of internal audit appears to be lacking in some quarters. For example:

- The Functionary Manual sets down the role of internal audit as being is to “conduct internal audit of all monetary transactions in the department”. ;
- Internal audit reports often start with a statement that the auditors have conducted an audit of the accounts;
- Internal audit reports state that they cover a number of years, i.e. the period from e.g. 1997 - 2002. This defeats the objective of internal audit, which is not to cover

transactions (and therefore could cover several years) but to evaluate and report on the effectiveness of internal controls. While controls can be evaluated for their effectiveness over time, this period would not normally exceed one year.

Audit approach

The DHMS team uses no audit checklist or questionnaire. This raises considerable risks. (there is a checklist but we were unable to see it, thus raising a question of its existence)

Sufficiency and proficiency

DHMS has three staff but (as noted above) these staff are not deployed on internal audit full time. This deployment is thus inadequate. The auditors are usually graduates who have passed the accounts tests of the Treasuries and Accounts department, however they have no specific internal audit qualifications.

Inadequate coverage and timeliness

Coverage and timeliness of audits has generally been inadequate, as set out below.

- The DHMS only undertakes audit visits to four DMHOs per year. PHCs are visited much less often of course; some visited during SFAA controls testing had not been audited since 1994. Clearly, the huge number of PHCs will make regular audits of them difficult, but the same cannot be said for district offices. The irregularity of the visits undermines the validity of the audit substantially. It will be difficult to determine which rules were in place at the time of the transaction or event, to gather required documentation, and to hold officers accountable.

Inadequate responsiveness to internal audit: Departmental responsiveness to internal audits is extremely poor. This is due to a number of factors, but the fact that there no internal audit committees at the district level may also play a role.

In summary, therefore, although the work is known as “internal audit” in many ways it is more akin to inspection visits. Furthermore, its effectiveness has been low.

The Constitution of District level audit sub-committees as part of SFAA reform initiatives is expected to improve the situation.

APMHIDC

The Corporation has recently created internal audit cell and appointed an internal audit officer to develop internal audit systems and internal audit manual. The area of internal control as on date reveals as an area of weakness pending improvement in due course.

5.3 Are there effective payroll controls? Are payroll records reconciled to human resource records (“the nominal roll”)? Is there a strong system of payroll audit to identify control weaknesses and/or ghost workers?

The SFAA (section 5.6.3) given below indicated that payroll controls are sufficient.

Salaries and allowances

The figure below sets out the process for the payment of salaries and allowances.

Control testing of salaries and allowances revealed satisfactory results in the offices tested. In all cases where records could be inspected, all relevant records were being properly maintained, being kept up to date, and had been properly attested by the appropriate officer. No cases of arrears were noted; group insurance was being properly deducted; advances were being appropriately deducted. In all cases evidence was seen of the periodic attestation by the CO of the records. Compliance with controls over salaries and allowances has reportedly improved significantly over the past two to three years. While the traditional system of distribution of salary by the DDO poses some inherent and control risks, these are minimised by the centralised appointment system and employees signing for salary in a shared volume.

Records and process for payment of salaries and allowances

The records:

Records maintained by the DDO:

1. Service Book of the Government Servant which includes date of appointment, scale designation, pay events, annual verification reports, leave account, and sanction of periodic increments in pay.
2. Pay Bill register which includes month of salary, name, designation, pay and allowances grants for each employee, and authorised deductions. The Register also contains details of short term loans and advances to be recovered from the salary of each employee.
3. Stamps and acquittance rolls certifying receipt of the salary by each employee.
4. Leave records.

Records maintained by the STO/DTO:

1. Sanctioned cadre strength.
2. Fly leaves indicating the name of the employee and pay particulars of the employee occupying the relevant posts.
3. Budget sanction / BRO (salary).

The process:

1. Monthly salary bills are presented to the STO/DTO by the DDOs.
2. The STO/DTO verifies the sanction strength and checks the fly leaves for the names of the employees and their pay particulars.
3. The STO/DTO verifies the specimen signature of the DDO and arithmetical accuracy.
4. The STO/DTO passes the bill and sends it to the bank for payment.

If cash payments are to be made, cheques are issued in favour of the DDO. This cheque is encashed by the DDO who disburses the amounts to the individual employees. Proper stamped acquittance is taken by the DDO from the employees.

The **piloting of direct payment of salaries and allowances** to the personal bank accounts of all government employees, rather than relying on cash disbursements by the DDO, is a positive development. Direct payment is being piloted by the DTA in four districts, including two of the controls testing districts (Mahbubnagar and Nalgonda) with roll out across all districts during 2003. Districts reported considerable resistance from employees to the scheme as distance from the banks will mean additional delay in obtaining their salaries. However, the scheme will reduce the scope of possible irregularities that are possible under the current system of cash.

5.4 Is there timely and regular information on actual budget performance (from line ministries and from MoF) to enable corrective action if necessary and to facilitate accountability? (i.e. budget reports enabling direct comparison to the budget incorporating revenue, debt and expenditure information)

It is the responsibility of line departments, specifically HoDs, to monitor implementation of their budgets. Based on the consultations with departments during the SFAA review (section 7) it does appear that HoDs take seriously the need to monitor their expenditure against budget. They all were aware of the need to re-allocate funds (and the need to get the appropriate approval) in cases where there was likely to be an overspend against a particular budget allocation.

However the SFAA noted a number of weaknesses in the relevance, reliability and formats of the monthly expenditure reports in the case of Treasury systems (see section 7.2.2 summarise below) and we concur with all of these comments. "GoAP's efforts at increasing the timeliness and reliability of monitoring reports by improving reconciliations at CO/DDO level are commendable. However, the reliability and format of monitoring reports requires further improvement to enable proactive and effective departmental monitoring and financial control throughout budget execution. The constraints placed by India-wide reporting formats seriously limit the relevance and ability to understand of GoAP's Accounts, and hence the scrutiny enabled by them. GoAP has made tremendous strides in containing fiduciary risk by increasing transparency and accessibility by publishing other financial reports."

In addition, however we would like to add the following:

TB Scheme

In the case of the TB programme, clearly, computerised budget execution reports through non-Plan will be taken care of through the Treasury systems. However, Plan expenditure, as indicated above is dealt with through the PD Accounts system and the only financial monitoring mechanism for this is the paper-based submission of UC certificates which detail expenditure against releases from Treasury to the PD Account. As noted at length above, we do not consider this mechanism sufficient to satisfy requirements of good practice for minimising fiduciary risk. In addition, it is doubtful that the TB Societies are monitoring expenditure against budget on a regular basis, given that all accounting for Plan-based expenditure is being done manually and that districts do not receive budget information from the centre.

We did see a quarterly expenditure report for a TB scheme in a district. Whilst the report showed quarterly expenditure against individual budget sub-heads, it did not show any budget figures for comparison, nor the source of funds. What it did show was funds released during the year, per quarter. This was another indication that District societies are not given budget figures for the year but are forced to monitor their expenditure against budget releases. It also indicated that budget releases were not consistent, either by economic classification or by amounts. The amounts released were different in each quarter, there was no first quarter or fourth quarter release, and some sub-headings received no funding at all. However, the Board reallocated funds around sub-headings during the year, apparently in contravention of virement regulations. We also noted negative amounts on a particular sub-heading- contractual services. This is an indication of commitments made but not recorded.

Another interesting accounting treatment was the submission of a budget to the Joint Director of the TB Programme for the year 2005-6 in June 2005 without the previous year's expenditure figures, but showing only balances brought forward on budget expenditure categories. The budget year is from April 1 to 31st March, and budgets are due in February of the previous year. The amounts brought forward should have been submitted as underspends to the Consolidated Fund, as per Treasury Rules. The amounts brought forward were not the balancing amounts at the end of the year, but had been subject to reallocations during the year. So, for example, the budget was asking for Rs 50,000 for the year for publicity. The previous year there was no spend on publicity, the budget released amount transferred during the year having been reallocated out to another expenditure category. The balance on the account had been brought forward from 2 years ago. In enquiring about this, it seems that the programme officer does not spend his publicity budget, having no publicity activities, but he receives a publicity budget annually, regardless. Therefore he has taken to asking for it, knowing he will receive it, and then the Board reallocates it during the year to another sub-heading such as

contractual activities, for which he always receives less than he needs.

The above activities are indicative of the lack of accountability and scrutiny that is focused on society activities because they are outside of the treasury systems. Money is received through the PD account system and accounted for to the Society Board. The Board is receiving incomplete information with which to make judgements on expenditure and members are appointed, not elected. Budget submission is apparently outside the regular budget process, the TB Director receiving the budget submission in June of the year of the budget. The Programme Officer reports expenditure to the GoI by UC, which does not give either detailed expenditure patterns, or reasons for underspends or overspends on particular subheads. The annual income and expenditure reports do not give the annual budget, merely income received. From the Treasury standpoint, budget releases are expended on release. The fact that there are large balances at the end of the year has apparently gone unnoticed and the money is carried forward into the next financial year. Budgets are developed centrally without reference to actual expenditure, resulting in the pattern of releases the following year that bear no resemblance either to actual activities and expenditure or needs.

The performance budget prepared by the DoHMFV was theoretically designed to produce information of performance against budget, albeit annually. However, as noted previously, this document provides no financial figures for TB and one output performance indicator.

Each district Society is required by the State TB Society Board to produce an annual set of accounts, however and these, we understand, are prepared by a local chartered accountant in each district. Some confusion, however, arose when we asked about audit. It seems that the preparation of accounts by the accountant is regarded as an audit by the Programme Officer. We also observed this phenomenon at the APHMHIDC. Given the total lack of financial training and low levels of financial management capacity we encountered in all DoHMFV staff we met during our review, this is not entirely unexpected.

The C& AG's audit report for 1999-2000 carried out a comprehensive review of the NTCP and this review did focus on implementation of the programme, rather than solely on financial issues. Hence, "It was noticed that out of Rs 17.89 lakh released during 1998-99 and 2000-01, only Rs 10.35 lakh were spent on training, leaving Rs 7.54 lakh (42%) unutilised (March 2001). Though the TB Demonstration and Training Centre was required to be strengthened through teaching aids, laboratory equipment and manpower, this was not done for want of funds and none of the staff were trained during the 3 year period 1996-1999. No targets were prescribed by the Joint Director for TB for conducting training programmes."(p50). The report goes on to talk about excess payments for TB drugs, purchase of drugs in advance of requirements and the irregular appointment of senior TB supervisors. In addition, "though the Central TB Division at national level and the Joint Director (HoD) at State level are required to monitor and evaluate the activities of the programme, no such evaluation had been conducted at any level. There was also no system for the periodical evaluation of the programme except for the reviewing of quarterly and annual reports".

APVVP

Budget monitoring for the APVVP is done at the central level, as districts are unable to monitor their budgets for the same reason as for the TB Scheme- they do not receive any budget information from the Commissionerate. The APVVP also compiles income and expenditure reports for its Board and rolls forward money from one year to the next. The APVVP is statutorily obliged to have an annual audit, although we were not able to see an example of one of these. Each district maintains registers showing budget releases

received and expenditure against expenditure sub-headings but the exercise seemed somewhat futile as they were unable to incur expenditure or plan for expenditure as they had no idea how much each budget release was going to be or even if they were going to receive any budget allocations on particular sub-heads. For those districts employing contract employees, this seemed to be a stressful exercise as in some cases contract employees had not been paid for up to 6 months, as budget releases had not been received for contract employees in the first 2 quarters. We also noted that this was the case for contract employees in the DHS. Contract payments are not guaranteed, unlike salary payments in the Treasury system, and therefore contract employees are unable to be paid until budget releases reach the districts or below (PHCs). In the PHC we visited, there were 4 contract employees who were not paid until September 17, when the first and second quarters' budget releases were received.

As noted in the SFAA, "given the weaknesses in reliability, relevance and format of the monthly expenditure reports (Treasury) it would be difficult for departments to use them as a tool to proactively manage expenditure throughout budget execution." In addition, given the proliferation of different accounting subsystems and funds flow mechanisms, the task of monthly monitoring of budgets against actuals and obtaining an overview of all the various budgets is not possible at present. What monitoring is being done is only by the Finance Department and not by the Health Department. The DoHMFV is severely lacking in financial expertise, both on a day-to-day basis and on a strategic level and consequently opportunities to consolidate data are extremely limited, if not impossible. This, in line with the fact that information flows between sub-departments do not happen at any point severely hampers the Department not only in being able to minimise fiduciary risk but also to proactively and centrally manage financial information and compare it with programme information so as to give performance data and initiate corrective action.

5.5 Are virements ('re-allocations within the budget') performed in an open and transparent manner in line with agreed procedures? Do virements reduce the effectiveness of the budget as a tool for arrears effective planning and predictable funding?

While the Legislative Assembly approves expenditure at the Grant level,^{xxxiii} GoAP controls expenditure at the Grant level under Revenue, Capital and Loans sections and binds departments to appropriations at the sub-head level in an effort to exercise fiduciary control over expenditure. GoAP has increased the flexibility of HoDs to re-appropriate in order to respond to changing needs during the year. The extent of these re-appropriations is not known, as there is no published data on their level or value, but they do not contribute to the variations between Grants, as re-appropriations are a mechanism for within-year changes to expenditure within Grants only.

The re-appropriations rules do allow a HoD to re-appropriate between schemes (sub-head) and between programmes (minor heads) within a Grant that he/she is in charge of, subject to restrictions on the type of expenditure. For example, a HoD has delegated powers to re-appropriate between revenue to revenue, capital to capital and loans to loans. That means the HoD can re-appropriate from revenue expenditure in one sub-head or minor head to revenue expenditure in another sub-head or minor head respectively.

Most HoDs are responsible for more than one minor head. For example, the Director of School Education is responsible for two sub-major heads (Primary and Secondary Education) and all of the minor heads under these.^{xxxiv} This means, for example, that in

^{xxxiii} The Appropriation Act includes a total for each Grant that is not to be exceeded.

^{xxxiv} As other examples, the Commissioner for Agriculture and the Chief Conservator of Forests are also responsible for more than 15 minor heads (programmes).

theory it is possible for the Director of School Education to re-appropriate between the non-Plan budget for primary education and secondary education.

Given that data is not published on re-appropriations, it is not possible to precisely determine to what extent these types of virement take place. However, in practice, the scope of HoDs to undertake such re-appropriation is limited given the number of other restrictions on re-appropriations. This is especially so given that such a large proportion of departmental budgets is devoted to salaries, and re-appropriations from the salary object-head are not permitted. Departments have also not been given any power to re-appropriate across Group Sub-Heads (or across groups of schemes funded from different sources). Therefore, in practice the restrictions on re-appropriations means that the value of re-appropriations is probably not significant.

While there is a restriction on re-appropriations to new schemes, it is also possible for HoDs to set up schemes with token amounts of money at budget time to maintain flexibility to take them up during the year. There are also a number of examples in the 2001-02 Demands for Grants of lump-sum provisions at the sub-head or detailed sub-head level. These were either re-appropriated or surrendered during the budget year.

GoAP's efforts to give departments greater flexibility in order to facilitate the effective and efficient use of resources are commendable. However, it is important that a balance be struck between financial control and accountability on the one hand, and line department flexibility on the other. In particular, the type of flexibility given the departments needs to be closely linked to what departments are held accountable for (see **Error! Reference source not found.**below).

Alternative approaches to line department accountability

In determining the appropriate type and degree of flexibility for line departments in budget execution, it is important to be clear about what they will be held accountable for. It is their accountability which dictates the appropriate type and degree of flexibility. In particular, GOAP needs to be clear whether line departments will be held responsible for using inputs in line with the budget, producing outputs that are specified in the budget or achieving outcomes in line with the Government's objectives. If line departments are to be accountable for the use of:

- **Inputs or object heads**, then the focus is solely on financial accountability for **compliance with the itemised Budget and financial management rules**. This implies limited scope to shift resources between line items during budget execution and **no scope for shifting funds** between schemes and between programmes;
- **Outputs** - then the focus of accountability is on what managers are **producing** rather than on what they are spending funds on. Performance indicators should focus on the goods or services produced through GoAP schemes and programmes and departments should be able to **change the mix of inputs** they use within those schemes and programmes to deliver outputs. However, the scope to allocate across schemes and programmes during budget execution would still be tightly controlled;
- **Outcomes**, then the focus of accountability is on what departments are **achieving** rather than on what they are producing or what they are spending funds on. Performance targets would be linked to GoAP objectives and departments would be able to **shift funds between schemes and programmes**, at least during budget formulation.

Allowing HoDs to shift resources between schemes and programmes during budget execution implies accountability for outcomes rather than for delivering on the outputs specified in the budget. This is perhaps risky given that GoAP is in the early days of developing systems for performance management. It is also unusual. While some countries use a mixture of output and outcome performance measures, it would be unusual for departments to have full flexibility in determining the mix of programmes best able to contribute to achievement of the Government's objectives. In particular, while departments may have flexibility to modify the mix of programmes during budget formulation, subject to agreement from Cabinet and the legislature,

allowing these shifts during budget execution undermines the capacity of the political executive to set expenditure priorities.

To ensure accountability, HoDs who have the discretion to shift resources between programmes should be held accountable for the outcomes of expenditure. ***The fact that GoAP still imposes a number of restrictions on the re-appropriations of object heads (inputs) is a sign that AP does not yet have the wider accountability environment to support a movement to output or outcome accountability.*** These types of controls are needed during budget execution, as GoAP is only just beginning to develop approaches to linking performance measurement to budget accountability. Without this capacity, allowing re-appropriations between activities is premature. Furthermore, increases in flexibility should be limited to inputs or schemes with common objectives - no country has a pure “outcome accountability” model.

GoAP does recognise the importance of ensuring accountability for use of funds and that flexibility for line departments during budget execution must be linked to accountability for performance. The Government’s view is that under the current framework the flexibility to shift between programmes is very limited due to the restrictions outlined. There is a need for ***greater clarity about the underlying accountability framework, particularly as GoAP moves towards performance budgeting over time.***

Contingency Fund

If there is an urgent need for unforeseen expenditure which cannot be met from savings within the grant, the Finance Department is empowered to sanction an advance from AP Contingency Fund.

Supplementary Estimates

The supplementary estimates are allowed under the Constitution. It is observed in GoAP that supplementary estimates are not a cause of divergence from the budget. Many of these supplementary estimates actually relate to charged expenditure.

Revised Estimates

While Supplementary Estimates are not submitted to the Legislative Assembly till the end of March they are incorporated in the revised estimates. These revised estimates represent an updated version of original approved estimate which is revised to reflect changes that have occurred during the first six months of the year.

5.6 *Is there effective cash flow planning, management and monitoring? Is there a daily calculation and consolidation of cash balances?*

Effective cash management is critical to enabling GoAP to deliver predictability in funding to departments. Cash management is dependent on effective cash forecasting and monitoring.

Robust accounting systems and controls are particularly critical in the Treasury departments. ***The main Treasury system, C-TAS, has been subjected to an extensive IT audit by the AG and has been confirmed as reliable.***

The key issue for the Treasury departments is one of ***integration and connectivity*** between the plethora of financial systems being operated. These systems are as follows:

- DTOs/STOs and PAO (Hyderabad) operate C-TAS, Daily Information through Electronic Transfer (DIET), PEN and the Class IV GPF Accounting System;
- PAOs (Works and Projects) operates FACTS;

- The Director of Insurance in the Finance Department operates the AP Government Life Insurance Scheme system;
- SmartGov, which is a document management system operates in the Secretariat;
- The AG operates a Voucher Level Compilation (VLC) system to compile the accounts rendered to them by the Treasury departments.

At the heart of that reform programme is ***e-khazana, an online Treasury system*** to replace C-TAS. The salient features of E-khazana are set out in **Error! Reference source not found.** below. As the system is not yet operational, an IT audit of e-khazana has not yet been undertaken, and the SFAA team has not been able undertake a detailed examination of e-khazana. However, it does appear that it has a number of advantageous features which are likely to strengthen transaction processing, accounting and reporting.

E-khazana is being implemented in stages, and it is expected that parallel records will be maintained until April 2003, when the system is due to go online. Most of the DTOs have e-khazana and are entering data in it. Some of the new hardware for the e-khazana implementation has been installed at some of the STOs, but they are not yet operational with e-khazana and still rely on C-TAS. E-khazana cannot become fully operational until and unless network connectivity is established by the creation of the AP State Wide Area Network (APSWAN); its integration with other systems will be enabled by the Integrated Financial Information System (IFIS).

The Finance Department estimates cash inflows by month based on the three streams of receipts: tax and non-tax revenue of the State; shares in central taxes and other central transfers and borrowings. Based on past trends, the estimated annual tax receipts are projected month-wise for the year. The dates on which central transfers will be received are known and the receipts on account of borrowings are taken into account depending on the borrowing schedule or timetable.

Expenditures are also projected over the year. Departments do not provide Finance Department with monthly forecasts of their expenditure needs, although they will advise Finance Department of any extraordinary expenditure. Instead Finance Department plots the cash implications of committed expenditures such as salaries and debt servicing, and uses seasonality patterns in past expenditure to allocate other Budget Estimates across the year.

Under an agreement with the RBI of India, the State Government has to maintain with the Bank a daily cash balance of Rs.3.32 crore. If the balance falls below on any day, the Government has to take ways and means advances or overdraft from the RBI. The Finance Department keeps a close watch on its cash balance, to avoid GoAP going into overdraft for more than 12 consecutive working days (over and above the ways and means advance provided by the RBI), and thus to avoid suspension of payments by RBI. GoAP is provided with data on cash receipts, payments and balances by the RBI and relevant banks on a daily basis. GoAP is now constantly monitoring its cash position through an electronic monitoring system.

These efforts do appear to be delivering dividends. According to the Budget speech, GoAP has not gone into overdraft during the last two years. This is a significant improvement to the last few years when GoAP was forced to resort to ways and means advances or overdraft for the majority of the year.

Summary and conclusions

The treasury code is primarily based on the premise that all financial transactions of the government departments take place through the treasury, and under its budgetary control. However, in the past decade, the advent of many special projects in the DoHMFw that needed a timely flow of funds without being hampered by the constraints of the budgetary process saw the evolution of an alternative mechanism of funds management under these projects. This mechanism involved keeping the funds in separate bank accounts, exclusively for each project, to facilitate easy flow of funds and obtaining a clear picture about the funds position under the project at any given point of time. This method has become more and more common with all special projects taken up with Government of India financial assistance, or under externally financed projects. Therefore efforts need to be made to develop a uniform set of guidelines for the integrated management and monitoring of accounts in projects where funds are maintained in separate bank accounts. This means that international standards (INTOSAI) in respect of internal controls for these systems are yet to be implemented.

Consequently, there are many accounting subsystems operating within the DoHMFw in addition to the standard Treasury systems. Whilst the key Treasury internal control systems have been assessed by the SFAA as adequate, the subsystems (or what can loosely be called subsystems they are effectively not “systems” at all) operating independently of these systems are fragmented and inadequately maintained and monitored. In addition, key decisions are made and processes monitored without adequate reference to data in the underlying accounting information systems. Reference is made to non-integrated manual information systems, containing partial and unreconciled information. The systems need to be managed and integrated more efficiently such that data is analysed and checked at one point, in order to mitigate the risks of inappropriate decisions, including, most significantly the risk of duplicated payments. This lack of clarity and underlying lack of systems analysis creates an environment of uncertainty and hence risk.

The current Internal audit system needs further strengthening in terms of quality man power for its further effectiveness in DoHMFw particularly given the large numbers of payment transactions that are effectively outside of the Treasury system, as it is in these systems that fiduciary risk exists. What audit (examination) is being done is focused on transaction audit and this is not the role of an internal audit department

Principle Six: Government carries out procurement in line with principles of value for money and transparency

DFID has identified the following two benchmarks for assessing fiduciary risk in relation to this principle of good practice:

- Appropriate use of competitive tendering rules and decision-making is recorded and auditable;^{xxxv}
- Effective action taken to identify and eliminate corruption.^{xxxvi}

6.1 Is the procurement system defined by a clear regulatory framework, which is consistently implemented under the oversight of both internal and external control systems?

The Constitution of India authorises the Central and the State governments to contract for goods and services and also requires the executive to protect the fundamental rights of all citizens to be treated equally (while soliciting tenders), but beyond that it does not provide

^{xxxv} Refer Appendix 9 for detailed note on procurement processes in DoHMFw

^{xxxvi} Refer Appendix 10 for detailed note on corruption risk in DoHMFw

any guidance on public procurement principles, policies or procedures.

In the words of the World Bank CPAR, “In the absence of a Central law or State Act in public procurement, each ministry department, agency, local body and state enterprise, while following the basic rules of the open tender system, feels free to devise its own variations, with its own perceptions of public interest. Since the genesis is the ‘finance rules’ and not a law, nothing prevents them in this exercise, nor has the auditor anything to say unless it finds fraud or malpractice or impropriety. The absence of a central lead department or agency in the centre, dedicated to policy and oversight of public procurement, has resulted in a multiplicity of rules, procedures, directives and orders issued by all ministries plus the CAGY Chief Vigilance Commissioner, Central Vigilance Commission (CVC), etc. In fact, it is difficult to assemble and check all current instructions on any one topic. Similarly, there is a multiplicity of tender and contract documents issued by each agency and enterprise.

Secondly, the rules and procedures are viewed more as guidelines and do not have legal sanctity and are not enforceable in a court of law. The ministers and officials can override any of these procedures in the name of expediency and public interest, without a serious challenge from the public and the potential bidders. The possibility that the audit may criticize any such action in its report is ‘post mortem’ a few years later, and does not deter errant officials and politicians from manipulating the system. In spite of some initiatives to standardise tender documents using the Standard Bidding Documents (SBDs) of the World Bank as models, there continues to be a multiplicity of tender documents used by different ministries and agencies for identical procurements. This is truer in civil works contracting. According to one estimate, there are more than 150 different contract formats used by the government and its agencies.”

Procurement rules and practices in general, then, in India fall somewhat short of international best practice. Thus there is no legislative framework for procurement in GoAP and there is no one government body in the State of Andhra Pradesh with overall responsibility for making procurement policy, developing standardised documentation and disseminating regulations and guidance on best procurement practice. Consequently, there is lack of standardisation and no overall view of how Government procurement should operate.

However we understand that GoAP has already finalised a Procurement Law which is expected to be enacted shortly to streamline procurement practices in tune with international best practices.

APHMHIDC

In 1998, GoAP centralised all procurement and civil works for DoHMF and created the APMHIDC as a Corporation in order to carry out these operations. DFID contracted an Andhra Pradesh Impact and Expenditure Review in 2001 which included a review of Drug Procurement Management. In addition, another review of procurement generally was contracted by DFID in 2002. Unlike the CPAR, these two reviews did not take into account fiduciary risks emanating from procurement management and did not therefore rate the risks of undertaking procurement and civil works under the APMHIDC. However, the CPAR rates India’s procurement practices generally as high risk.

Originally the APMHIDC operated under World Bank rules and regulations when it was constituted, as it developed out of a World Bank Programme. A State Level Bid Evaluation Committee and Technical Committee were established for reviewing and inspection of the quality before indenting large-scale procurement orders. The Corporation does carry out procurement under some GoI funded schemes using WB procurement procedures (ie. Competitive tenders, implementing regulations, transparent procedures), but the

Corporation operates without a clearly defined procurement manual. An evaluation of the procurement process in the corporation and other departments of DoHMFWD revealed the following findings;

Under the AP department of health, medical and welfare (DHMW), following entities are entrusted with handling procurement from state government funds:

- 1) **AP Health Medical and Housing Infrastructure Development Corporation (APMHIDC)** – is a society promoted by DHMW for handling procurement of drugs, surgical, consumables, equipment, services and civil works on behalf of other indenters of DHMW. For the year 2005-06 an amount of approx. Rs.90 Crores has been allocated for drug/surgicals procurement while approx. Rs.200 Crores is available for construction of buildings.
- 2) **Directorate of Health Services (DHS)** – is responsible for primary level health services delivery through PHCs. These PHCs do not directly handle the procurement of drugs, and 100% of their supply is made from APMHIDC stores. PHCs also receive drugs from centrally sponsored schemes such as RNTCP. DHS also directly handles the procurement under projects such as School Health Programme, Epidemic Control Programme, Diabetes Control Programme, Nutrition Programme etc. Estimated value of procurement under these programmes is more than Rs.50 Crores/year.
- 3) **Andhra Pradesh Vaidya Vidhana Parishad (APVVP):** is a society promoted by DHMW for managing community health centres (CHCs), area hospitals and district hospitals in the state. These CHCs/Hospitals directly handle the procurement of emergency drugs, for which 15% of their drug procurement budget is retained by them.
- 4) **Department of Medical Education (DME):** Manages medical education and administration of the teaching hospitals and specialty hospitals attached to the medical colleges in the State. These Hospitals directly handle the procurement of emergency drugs, for which 25% of their drug procurement budget is retained by them.

In addition to the above organisations, other constituents of DHMW such as Andhra Pradesh Yogadhyayana Parishad, Directorate of Institute of Preventive Medicines and Drug Control Administration (DCA) also handle some procurement which is not significant in value term and hence have not been included in the study. Procurement under centrally sponsored schemes such as NACP and RCH has also not been covered in this report.

- APMHIDC was primarily conceived for civil work procurement and hence it has much more systematic systems and procedures for works in comparison to drugs procurement.
- APMHIDC charges 2% fee for handling the procurement of drugs/ surgicals/ equipment and 7% fee for handling works. For handling works under the World Bank projects (it is handling currently civil works under an education project funded by Bank), it charges 10% fee.
- The civil work procurement wing of APMHIDC is consisting of mainly civil engineers. Perhaps due to evolution of the organisation, the civil engineers are also partly involved in drug procurement. The technical wing for drug procurement consists of pharmacists and a bio-medical engineer.
- The essential drug list (EDL) was last revised on 25/03/2004 and has total 272 items out of which 140 items are identified for APVVP, 94 items for DHS and 256 items for DME.

- Though the standard bidding documents (SBD) for civil works, goods/ supplies and drug procurement are available in APHMHIDC, these need review and modifications. The SBD for service procurement are not available.
- The procurement procedure being followed for both goods and works are not properly documented in APHMHIDC. There are numerous GOs, Codes, rules etc. that are difficult to refer to.
- Huge opening balances of some of the drugs were observed at some of the hospitals indicating demand-supply mismatch.
- Though the inventory management system records the hospital-wise issue of drugs, it does not provide details of use of drugs and the current balance.
- Though APHMHIDC has recruited one professional on deputation as internal auditor, the internal audit process and financial concurrence on files are yet to start.
- There are stock-outs of many essential drugs at some of the district stores.
- The fund allotments to various hospitals are not consistent with the use. For example, for some of the hospitals the fund utilised till date is not even 25% of the fund allocated for the year 2005-06, while in some of the cases there are overdrafts of fund.
- The stocks kept in stores are not insurance against fire/theft etc. In addition, no fire fighting equipment are provided at stores.
- Physical stock verification is done at monthly basis at district stores.
- There are instances of problems in hardware provided at districts for inventory management system resulting in delay in submission of reports.
- The Accountant General's audit report for APHMHIDC for the year 2004-05 is yet to finalised. The AG report comments on procurement irregularities like awarding contract on the basis of limited tendering, ignoring the L1 bidder for signing the RC etc. It also suggests reviewing the EDL as many of the drugs from the list are not being used.
- The statutory audit of the accounts of APHMHIDC has been completed till the year 2004-05. However, the report does not seem adequate as there are no remarks on the accounting practices, record-keeping etc. The report also does not mention about the deployment of surplus funds and on the procurement procedure as it is outside their purview. The MD of the corporation said that during current year scope of their terms of reference is under revision to increase operational review.
- The quality assurance system of APHMHIDC has recently been streamlined with recruitment of a drug inspector and setting up of the drug analysis wing. It tests every batch of every drug. Six private drug laboratories have been empanelled for testing the samples drawn on random basis.
- No cases of political interferences reported by either the staff of APHMHIDC or its suppliers. The management committee, which is headed by a political appointee does not interfere in day-to-day operations of the corporation including the procurement decisions.
- APHMHIDC normally follows NCB for most of the procurement. Only in case of vaccines, ICB is used. Shopping is used only for the World Bank's funded projects with ceiling value of Rs. 6 Lakhs per package.
- APHMHIDC gives no price preference, dilution of quality standards or reservation of items for small-scale industries (SSI). SSI units and NSIC are however not required to deposit EMD.
- The contract form used by APHMHIDC for non-World Bank procurement does not contain many essential clauses, due to which it would be difficult to enforce in case of any dispute with supplier.
- Of late APHMHIDC has started to compare the rates asked by the bidder with those agreed by other states (such as TN and Karnataka) and also with Railways. However, such data are not collected systematically and only applied in selected purchases.

- Though APHMHIDC is involved in new constructions, it is not handling the maintenance. Similarly, the contracts for maintenance of the equipment are also handled directly by the users.
- The fund release mechanism to suppliers is not efficient. For each of the payment, the cheques are released after their concurrence regarding product quality. Suppliers are not comfortable with such delays and they indicated that the unit rate can be lower if APHMHIDC could assure that it will promptly release the funds and also if it considers to release cost of supplies made in parts rather than waiting for entire contracted supply in respect of bulk contracts
- The expenditure towards transporting the drugs/supplies to the PHCs have not been reimbursed by the government since 2003-04.
- The patient-wise drug dispensing records are not maintained. Hence, it is impossible to tally the drug issued from the stores with the actual use. Drug lists and current stock are publically displayed at PHCs but some of the data were not found to updated.
- The indenters were not happy with payment of 4% VAT for purchases made by APHMHIDC. They thought it is additional expenditure in comparison to the scenario if they could directly handle the procurement.
- There was a general dissatisfaction among the indenters about non-availability of some of the essential drugs at APHMHIDC stores most of the time. They were hence required to use emergency funds on procurement of such drugs from open market.
- Some of the indenters were not satisfied with the quality of equipment purchased by APHMHIDC.
- There was general lack of awareness about applicability of procurement procedure for emergency purchases at hospital level.
- For surgicals and consumables under APVVP, the CHCs and hospitals are required to draw the supplies from District Co-ordinator of Health Services (DCHS) store. However, they draw drugs directly from APHMHIDC store.
- Other weaker areas noticed in APHMHIDC are absence of clear audit trail, weaker MIS system, high staff turnover (as all the staff are on short-term deputation from government), lack of capacity building efforts etc.
- In some of the cases, it was noticed that even L6 bidder was asked to match the price offered by L1 bidder. Some of the manufacturers met strongly disapprove this practice.
- The current use of e-procurement platform for drug procurement is entirely unsatisfactory. In fact, APHMHIDC asks the bidders to upload the bids on the system as well as forwarding hard copies of bids thus duplicating the efforts required from the bidders. Till recently APHMHIDC was first opening the price bids, deciding on the lowest bidder, then opening the technical bid of the lowest bidder and then asking the lowest bidder to supplying the documents missing in the bid, if any. It was informed that this practice has now stopped.
- For e-procurement of civil works, the contractors registered with AP government only are permitted to upload the bids.
- There is no separate vigilance officer in APHMHIDC and chief engineer acts as vigilance officer. There is no established mechanism for handling the grievances/representations from suppliers.
- All civil works contracts are issued on lump-sum basis and there is no price variation clause in the contract. For preparation of cost estimates, the standard schedule of rates (SSR) published by the AP Government is used, which is updated on annual basis.

We recommend that

- As APHMHIDC has systematic procedures for works in comparison to drugs Comprehensive procurement capacity building plan may be taken up by the

corporation in the short term and DFID may consider corporation's request to consider technical assistance in this regard.

- As state procurement law is in offing legislative and regulatory framework is expected to be in place over medium term.
- Centralisation under procurement authority with guidelines framed under international best practices would help to overcome existing deficiencies and help to obtain value for money in furtherance of it's objectives.

6.2 Are regulatory institutions and procedures adequately resourced?

Internal and external controls at the implementing agency level and an effective external audit system are key elements of a governance and public financial management system and are particularly important to the effective and efficient operations of the public procurement system.

TB Schemes and the APVVP

There are no regulatory institutions either in India or in GoAP. In addition, district level Departmental staff/purchase committees carrying out local procurements for schemes or for emergency drugs are doing so with no guidance or procedures. The APHMHIDC is not a regulatory body and is not in a position to advise procuring entities or individuals. We noted that in many instances, for example at APVVP hospitals, individuals were carrying out drugs procurement when particular drugs were unavailable from stock. In these instances local pharmacies were being used. There was no attempt at even securing quotations. Drugs and equipment secured for schemes are being purchased locally for much larger amounts, either by individuals or by purchase committees with few applied rules or applicable procurement framework, and it is clear that there is no regulation over such purchases, or any attempts to consolidate district purchases to secure economies of scale. We also noted that the lack of procurement planning/civil works planning sometimes led to the initiation of procurement processes in the middle/end of the budget year when it is too late to launch the bidding process in order to use the funds allocated in the annual budget. These funds are then rolled over into the following year against Treasury rules.

The C& AG report for 2000-01 noted" The anti-TB drugs such as Capsule Rifampcin, Tablets Ethambutol, Isoniazid, Thiocetazone and combi packs of regimen RA, RB, etc were supplied by a Mumbai based firm during 2000-01. The firm supplied the drugs to all the District TB Control Officers in the State in three consignments. Scrutiny of the invoices received by DTCOs revealed that the rates charged by the firm for combi packs of RA and RB regimen were Rs 81.38 and Rs 58.44 in September 2000, Rs 83.88 and Rs 60.23 in October 2000 per strip respectively. As compared to the rates charged for supplies made in December 2000, (Rs 12.18 and Rs 27.44 per strip) the excess payments made to the firm amounted to 15. 36 lakh in these two districts alone (invoices were not made available to audit in the other 4 test-checked districts). The supplies were arranged by the Director General of Health Services, New Delhi. For supplies made for the entire State, the overpayments amounted to Rs 1.01 crore. The DTCOs and the Joint Director of the TB Programme stated that they were not concerned with the payments made and the Government endorsed the view." (p51) It is clear from this report that purchases of drugs under schemes are not being regulated either at State level or at district level and little attempt is being made to pursue issues of value for money or accountability.

However, further scrutiny of the systems indicates that this observation does not have direct relevance to DoHMFV as it relates to procurement under National Programme over which state authorities have no control.

6.3 Are contracts awarded on the basis of competition and value for money in

accordance with the regulatory framework?

The rate contract is awarded on the basis of open competition, but we were not in a position to evaluate contracts for civil works, nor in a position to determine whether contracts represent value for money. Such an assessment would require a specific investigation into aspects of value for money. It is worth noting that the C& AG does not undertake value for money audits and the SFAA notes, "The majority of the auditors' time is spent on the traditional financial audit. The relatively low application of a risk based approach to audit or more investigative approach means that major cases of waste and irregularity such as corruption, fraud, and misappropriation are more likely to go undetected and unreported. High risk areas might include functions with a higher inherent risk, such as procurement and large contracts, or offices where an assessment of controls has revealed a high level of control risk."

It should be noted, in addition, that whilst the C& AG's office is empowered to carry out audits on the Corporation, the audit does not focus on procurement systems. The CAG audit covers procurement transactions, but only to identify malpractice, transaction error or fraud. It therefore loses sight of the main objectives, viz., economy, efficiency, transparency and accountability. The C& AG does not have the capacity to carry out a professional procurement audit according to international standards and thus there is a significant fiduciary risk that funds are not being used according to the purpose for which they were meant.

We recommend that an internal control evaluation system based on international best practices is needed to overcome this weakness.

6.4 Are controls in place to prevent conflict of interest in the award of contracts?

As on date the procurement operations are spread over different line departments in addition to APHMHIDC. Fragmented process with varying levels of authority and participation from all line departmental heads who in turn are accountable to achievement of own charters does not facilitate involvement of control process to resolve conflict of interest. With proposed centralised procurement process under the authority with legislative sanction it is expected that this would be addressed.

In the interview with MD of APHMHIDC it was observed that procurement process is de-linked from the Management Committee and decision making process is with the state level bid evaluation committee consisting of independent members which precludes scope for political interference and conflict of interest.

6.5 Is there regular advertisement of procurement opportunities and publication of data on public contracts and awards?

Procurement opportunities are advertised in national media when there are open tenders. There are no open tenders at district levels for emergencies as quotations are taken and this system is open to uncompetitive practices.

6.6 Are contracts awarded and payments made on a timely basis? Are records maintained and accessible? .

We noted that there are substantial arrears to drug suppliers in the APHMHIDC by at least Rs. 20 crore. According to the Head of the Corporation, this situation has occurred because indents for drugs submitted by the DME, the APVVP and the DHS (for PHCs) exceed quarterly budgets by up to one quarter. This raises the question of accountability, as technically, the budgets are those of the institutions, rather than of the Corporation.

However there do not seem to be adequate budgetary controls in place in this area. The Corporation takes indents for drugs from the 23 districts in its 23 warehouses. Each user institution has an allocated annual drugs budget, based on norms. APVVP hospital norms are based on bed strength, PHC norms are based on local populations and DME hospital norms are bed strength based. The drugs budgets are not based on need/demand. Each user institution has a pass book and submits indents to the local APMHIDC warehouse (Central Drug Store) supposedly on a quarterly basis.

In reality, our examination of a number of passbooks indicated that some user institutions were visiting the warehouses on a daily basis, as a variety of vehicles including taxis and ambulances were being used to transport the drugs to the institutions. We were informed that because of the lack of a budget for transportation, institutions were unable to transport the drugs in bulk. We noted that quarterly budgets were often being exceeded and the APMHIDC informed us that this is a regular occurrence and that some user institutions overspend their budgets and some underspend. Upon examination of consolidated statements of budget allocations for all three sub-departments against consumption figures for the last five years, it seems that the Corporation is allowing each department to overspend their budgets. Or rather, the Corporation does not prevent the user institutions from taking more drugs than their budget allows.

Technically, the Head of each institution is responsible for their own drugs budgets and therefore if there are overspends he must seek approval for a supplementary budget from the Finance Department. After further investigation it seems that in 2003 a supplementary estimate was sought for overspends on the drugs budgets and in the opinion of the head of the Corporation, since the institutions are more than one quarter ahead again on their budgets, there will be a necessity to seek additional budgets in the last quarter. However, there does not seem to be an adequate management information system operating in the APMHIDC relating to its customers.

Whilst the Corporation maintains very detailed computerised records relating to drugs purchases and comparisons against budgets per institution, these figures are not released to the institutions. Each user institution maintains its own record manually from looking at the passbook. The Corporation needs to maintain such records in order to assess its own needs in terms of purchasing advance stocks of drugs to supply its customers. However, each sub-department needs to have consolidated records indicating the status of each of its institutions against its quarterly budgets in order to make decisions relating to drugs stocks and budgets. It seems that the Corporation calculates towards the end of each year whether each institution is going over its budgets based on total underspends and total overspends across all the institutions and then calculates how much the supplementary estimate needs to be for. This is not an adequate method for budgetary control as the Corporation itself has no incentive to restrict user institutions consumptions and the user institutions have insufficient information to be able to do so effectively. Given that the Corporation obtains 2% of the drugs budget per year for its services, it is in its interests to drive the budgets up. We also noted that annual statements on procurement activities are not prepared. This affects the transparency of the procurement process.

We also noted that the Corporation is taking 2% of the whole drugs budget for its services rather than deducting the emergency drugs budgets each of the institutions retains (10% for DHS and 15% each for APVVP and DME). The C& AG's report for 2000-01 also noted this point, "The centralised agency for procurement of drugs levied its service charges on the entire budget placed at its disposal instead of the amount actually spent on procurement, leading to excess retention of Rs 27.81 lakh. The Corporation contended (July 2001) that the transfer of funds by its to HoDs through demand drafts (cheques) also constituted a service to the Department. The contention is not tenable, as bank charges form part of the service charges of any organisation." We reviewed the income and expenditure accounts of the Corporation for the year 2003-4 and noted that the

Corporation continues to take 2% of the full drugs budget. This does raise the question of why the various institutions owning these budgets do not appear to notice that they are missing 2% of their emergency drugs budgets.

In fact, the systems operating with regard to the APHMHIDC in general need to be thoroughly reviewed. All budgets for all health institutions with regard to drugs, civil works, supplies and equipment are released on a quarterly basis to the Corporation through the PD Account mechanism. As discussed at length throughout this report, effectively this means that as soon as the monies are released to the Corporation they are outside the Consolidated Fund and are regarded as expended. In addition, the Corporation receives money from schemes for procurement of drugs, equipment and civil works, through bank drafts. We noted that the Corporation has over 30 bank accounts and of an income of Rs 114, 406, 588 for the year 2003/4, earned 12% of this in interest. Neither this interest, nor any balances in the accounts at the end of the year are returned to the Consolidated Fund, as required under Treasury rules. Finance department is expected to initiate some reform plan pertaining to PD Accounts to plug this area.

No procurement planning appears to take place, as there is no analysis of actual client needs other than the budgets. The Corporation does not provide any procurement reporting to the Department, nor report balances on its accounts, for example on civil works contracts, to the Director of Health or to the respective client institutions and this is the cause of considerable complaint by these institutions. We were informed by the Commissioner for Family Welfare that he had repeatedly asked the Corporation for information relating to a number of civil works contracts and to date he has not received any information. This is a significant weakness in accountability and transparency. It also puts the DoHMFV in a difficult position with regard to its own accountability and ability to manage its services effectively. It does highlight effectively, however, just how fragmented the accounting and reporting systems are in the DoHMFV. With no one having the overview of all the budgets, or even just the budgets of one sub-department, and the expenditure against these budgets, it is impossible to maintain financial integrity and ensure accountability.

The only financial reporting that is carried out is the annual income and expenditure report that is prepared for the use of the Board. We interviewed the DDO for the Corporation, an Executive Engineer, and he was unable to answer any of our questions on financial matters. He was under the impression that the preparation of the financial accounts represented an audit, when in fact the Corporation is only audited from time to time by the C& AG. We were not able to ascertain whether there had been any statutory audits carried out, as required under GO 507. The Income and Expenditure Review Report noted that "though there are committees to guide the Drug Wing, there are no guidelines on the functioning of these committees". We understood from the DDO that he had not received any financial management training whilst in post and this was in common with all of the DDOs that we met during the assessment. Therefore financial management capacity building plan is suggested for the department.

During our visits to the districts, we noted that PHC pharmacists were not in receipt of the essential drugs list and the prices. Since they are to place their orders from this list this seems quite strange. When we asked how they ordered drugs, the pharmacists and doctors said they ordered according to the previous orders. Each PHC can order from a list of 90 essential drugs from the rate contract. Emergency drugs are not ordered by the PHCs, as the emergency drugs budget is held by the DM&HO for all of the PHCs. This budget is released to the DM&HO by the APHMHIDC by direct bank draft. Once again, this money is released outside of the Treasury system and does not therefore come under Treasury scrutiny to ensure that the money is spent according to the budget. This system also incurs extra bank charges since it is being transferred twice, once by the Treasury to

the APMHIDC and then again to the DM&HO. It would be more rational and cost effective to transfer the budget release directly to the DM&HO. but that would interfere with lines of authority between finance, line department and corporation.

We also noted in some of the PHCs and in the hospitals that there was no effective system of recording drug consumption/drugs dispensed as against withdrawals from the drugs stores. Drugs were withdrawn daily from the stores and released to a sub-store. These drugs were then dispensed from the sub-store to patients on receipt of a prescription. No attempt was made to reconcile drugs dispensed with drugs withdrawn from the store. The nurses dispensing the drugs did not make any records of drugs dispensed to patients nor the amounts. This represents an area of weakness in terms of internal control and could potentially result in misappropriation of drugs. We have noted that in Krishna District record keeping is good as we could verify patient wise drug issue register maintained at PHC, Pedana. Thus in some areas it was good and in some other PHCs it needs improvement.

Summary and conclusions

Public procurement represents a significant proportion of the expenditure of the DoHMF. For drugs alone this proportion is 4% of total expenditure (and more in the schemes) and for civil works the percentage is potentially much higher, although it was not possible to calculate the volume of works the APMHIDC is carrying out. The aggregate importance of procurement in public spending is obscured in this case because procurement transactions are taking place in a decentralised and uncoordinated fashion across the entirety of the Dept. When the value of these transactions are combined, procurement is one of the top three types of spending (besides salaries and loan repayments), if not the most important.

It was clear that the Corporation and its operations, however, seem to be independent of the Department generally and as a result, there are no coherent reforms or overview of PFM activities being carried out in the APMHIDC. Additionally, since outcomes and outputs are not monitored, it is difficult to conclude or judge whether the Corporation is achieving its own objectives which should be to obtain value for money in procurement and management of civil works. This is a significant weakness in accountability and constitutes a fiduciary risk for the Department.

For DoHMF, procurement and civil works is the highest risk area, because it is implemented entirely by an ill-equipped procurement body under a yet to be implemented legislative and regulatory framework and because there are significant doubts about the accountability of the APMHIDC and its internal controls, governance and financial management. However, the corporation has adopted e-procurement platform to overcome deficiencies.

During the interactive meeting with the HoDs it was informed that comprehensive Procurement Reform is given high priority by GoAP as a part of its Governance Reform Agenda to improve transparency, bring in accountability and enhance public confidence. The salient features of the draft Bill which is in an advanced stage of enactment is given in Appendix 12.

Principle Seven: Reporting of expenditure is timely and accurate

DFID has identified the following two benchmarks for assessing fiduciary risk in relation to this principle of good practice:

- Reconciliation of fiscal and bank records is carried out on a routine basis;
- Audited annual accounts are submitted to parliament within the statutory period.

1. Reconciliation of fiscal and bank records

7.1.1 *Are timely and frequent bank reconciliations performed? Are there any large differences left unexplained?*

The following observations are made in SFAA report at page 6.6.4

Reconciliations

Reconciliations are the key control in ensuring that funds have been spent on the purposes intended and authorised, and in providing accurate accounting information; they play a particularly critical role in the absence of integrated financial accounting systems as noted above. The extent to which reconciliations are undertaken will thus play a significant role in the assessment of fiduciary risk. In the past, the major flaw in GoAP's accounting systems and processes has been the infrequency of its reconciliations. GoAP has taken tremendous steps to infuse greater discipline into the reconciliation system, yet until key reconciliations are promptly undertaken, the **reliability of the accounts will remain significantly impaired.**

The sections below examine the two key types of reconciliation undertaken, being:

- Between the records of the **department and the relevant Treasury department/AG.** Such reconciliations aim to ensure that the receipts/payments processed through the Treasury department **are as intended by the sanctioning authority,**
- Between the records of the **relevant Treasury department/AG and the bank.** Such reconciliations aim to ensure that the payments made by the bank **are as processed by the Treasury department.**

Departmental to Treasury/AG reconciliations

A series of departmental reconciliations are required as accounts pass up from the STOs to the DTOs, and thereon to the AG. Historically, the reliability of the accounts has been seriously undermined by the lack or irregularity of reconciliations between departmental figures at each level and those of the STOs, DTOs, and the AG. However, the reconciliation of accounts and submission of Expenditure Statements with Reconciliation Certificates are subject to increased discipline under GO 507 which was introduced in April 2002, as set out below.^{xxxvii}

GO 507 requirements for reconciliations

- DTOs and PAOs shall furnish the lists of DDOs who have failed to reconcile their figures with those of the STOs/DTOs to the HoD for further action. DTA confirms that this is happening;
- DTOs and PAOs are required to maintain a register showing the dates on which drawals have been reconciled with the departmental figures. This register should facilitate the checking of the certificate of reconciliation furnished by DDOs. The fact that DTOs are reporting on reconciliations by departments indicates that DTOs are maintaining this register;
- No Treasury officer shall permit any amount to be drawn by non-compliant DDOs after the 10th of the month until and unless reconciliation of accounts up to the previous month is completed and the relevant certificate confirming that is appended to bills submitted to the Treasury/PAOs for payment;
- Treasuries are empowered to stop the salary of any DDO, CO or CCO not undertaking regular reconciliations. However, DTA has reported that this sanction is not being applied in practice. The withholding of authorisation for payment is proving sufficient, without DTOs having to attempt to withhold salaries, which would be difficult in practice.

Adequacy of reconciliations between DDOs/CO/CCOs and STOs/DTOs/AG

There are three stages in the upwards chain:

- **Stage 1 at DDO level:** After the month end, DDOs are required to reconcile their figures with those of their **STOs** by the fourth of each month following the month to which they relate. The DDOs' clerks normally undertake the reconciliation on their behalf. This reconciliation should be certified by the STO as correct. Each month, after reconciliation with the STOs' figures, the DDO should forward the Expenditure Statement and a Statement of Receipts, and the certified reconciliation statement, to the CO immediately superior to him. Controls testing of five districts for primary health and education reveals substantial delays, but that GO 507 has resulted in considerable reductions in these delays and thus improvements in compliance with the requirements for reconciliation. **Thus, while months previous to April/May 2002 remain unreconciled, months since that date have been satisfactorily reconciled.**
- Stage 2 at District level: each CO should use these monthly Expenditure Statements as the basis for the district-wide monitoring of expenditure and receipts. The COs – represented by their Gazetted Administration Officer (GAO) - should consolidate the information from DDOs,

^{xxxvii} GOM 507, Finance (TFR) Department, dated 10 April 2002. Previous requirements in this regard are set out in the Budget Manual and GOM No. 277, dated 6 June 1990.

reconcile with the DTO at the district level by the ninth of each month, and forward the statements to the CCO. Yet for 2001-02, Rs.8,265.44 crore, constituting 30% of the total expenditure was not reconciled as of June 2002 by COs in 14 departments.^{xxxxviii} The unreconciled amount was up from Rs.4,724.40 crore (18% of expenditure) as at April 2001. Controls testing of five districts for primary health and education reveal delays, but that GO 507 has resulted in considerable reductions in these delays and thus improvements in compliance with the requirements for monthly reconciliation. The DTO performance monitoring reports support this finding across all districts: for example, only 1,182 of the 41,357 expenditure reconciliations required to be undertaken by departments for March 2003 were still pending at mid April 2003. Thus, 93% of expenditure processed through the DTOs had been reconciled for March. The equivalent results for revenue reconciliations were 614 (being 22%) of the 2802 reconciliations required were still pending, and 88% of revenue reconciled. DTOs have enforced this increased rate of reconciliation by withholding payment: in March 2003, DTOs rejected 199 bills due to pending reconciliations. Similarly, in the PAOs (Works & Projects) at end March 2003, only 64 of a total of 695 expenditure reconciliations for the month of March 2003 were still pending, i.e. 89% of expenditure had been reconciled. While the results are encouraging, it should be noted that the data does not reveal the significant backlog of accounts prior to April 2002, which are still unreconciled.

- **Stage 3 at State level:** The CCO – represented by his CAO - should consolidate registers from COs and undertake a reconciliation at the State level with the **AG's** figures of payments and receipts actually paid and received (which the AG will have received via the DTOs). When the figures have been reconciled, the CCO should send monthly Reconciliation Certificates to the AG every quarter, stating that the figures in his registers have been reconciled with those in the books of the AG. **Compliance with this reconciliation requirement is still poor.** As at end December 2002, unreconciled amounts for 2001-02 totalled Rs.4,870.37 crore for all expenditure heads and Rs.3,395.07 crore for loan heads; comparative figures for 2000-01 are Rs.3,335.31 crore and Rs.1389.09 crore.^{xxxxix}

The increased discipline does appear to be having an impact on departmental reconciliations. The DTA sends monthly reports to Finance Department on the extent of departmental reconciliations. These, together with the results of controls testing, show a **marked improvement in the timeliness of reconciliations**, as outlined in **Error! Reference source not found.** above.

In summary, **DDOs and COs are now complying with the requirement for prompt monthly reconciliations.** However, this compliance relates only to periods of account after April 2002, with accounts prior to that remaining seriously in arrears. Furthermore, **CCOs are still not complying with reconciliation requirements.** Reconciliation at the CCO level is critical for three reasons, being that:

- There may be errors in classification during district level consolidation of STO figures at the DTOs and State level consolidation of DTO figures at the AG;
- CCOs are not aware of the book adjustments carried out by AG on account of inter-departmental/inter-governmental transactions and PWD and Forest accounts;
- Significant amounts of expenditure are spent at the CCO levels.

The prescribed process is that the CCO should reconcile the consolidated figures with those of the AG and issue a Reconciliation Certificate once having completed this reconciliation. It should be noted that:

- CCOs who do not undertake these State level reconciliations **tend to accept the AG's figures as correct and adjust their own accounting records accordingly.** There are inherent risks in accepting these figures for a number of reasons. Furthermore, it is reasonable to assume that this approach seriously undermines the departments' sense of responsibility and accountability for maintaining their own accurate accounts;
- The AG reports that some departments do undertake the reconciliations but **do not actually submit the certificate**, so, in official terms will not be recognised as having undertaken the reconciliation;
- Those departments who do undertake reconciliations issue variation statements, requesting expenditure to be moved between heads. It is **essential that the AG verifies**

^{xxxxviii} Report of the CAG of India for the Year ended 31 March 2002 (Civil) GoAP, see para 2.3.17 and appendix XVIII.

^{xxxxix} Data provided by AG, December 2002.

the backing vouchers to ensure that the variation is valid, otherwise this variation can involve expenditure being wrongly re-classified.

Accounts at a Glance publishes a list of departments/CCOs who have persistently defaulted in their reconciliations in the past few years, in an attempt to 'name and shame'.^{xi}

There does not seem to be one specific reason why CCOs are failing to reconcile to the AG's figures. However, it is notable that GO 507 and the DTA monitoring has been credited with improvements at DDO and CO levels, no such arrangements exist for the CCO level. Similar exercises in discipline might enforce reconciliations at the CCO level. Furthermore, it is believed that the record for reconciliations by departments in the twin cities with the figures of the PAO (Hyderabad) remains extremely poor. However, no monitoring is undertaken of this, so no data is available. There are some 1,090 DDOs in the area who, it is believed, are failing to reconcile their monthly accounts

Treasury/AG to bank reconciliations

The picture is somewhat better with regard to the ***DTO/bank reconciliation, with evidence that it is being undertaken satisfactorily***. Controls testing confirmed that all five DTOs tested received a day-wise monthly statement (DMS) from the bank and reconciled it with its own records of passed payments. This is believed to be the position across all DTOs/STOs. Each DTO completes this bank reconciliation promptly, to enable it to produce monthly accounts for the AG. AP is the only State to undertake this reconciliation.

However, ***significant problems exist with the PAO (Hyderabad) reconciliation with cheques encashed by the bank***. Unreconciled entries comprise a credit balance of Rs.317.37 crore at 31 March 2002 representing un-encashed pre-audit cheques of Rs.279.56 crore issued by PAO (Hyderabad) and departmental cheques of Rs.37.82 crore issued by the Pension Payment Office, Hyderabad. PAO (Hyderabad) and the Pension Payment Office are required to reconcile every month the cheques issued by the department with the paid cheques to arrive at the balance of un-encashed cheques with details of the un-encashed cheques. Between the time when the PAO assumed responsibility for the Treasury function from the AG in 1971 and 1996-97, the reconciliation was not undertaken. In 1997-98, attempts at reconciliation were made. However, as at December 2002, reconciliation was 16 months in arrears, as the huge volume of transactions has proved too great for the PAO to keep reconciliations up to date. If this reconciliation is not undertaken systematically and promptly, there is a significant risk of non-detection of encashment of fraudulent cheques. Finance Department has engaged consultants to get the reconciliation up to date and exclusive software is being implemented in PAO (Hyderabad) to enable reconciliation of cheques and also to reduce the arrears. Work on software development has stated to be completed by 31st March 2003.

The reconciliation work is likely to be completed by end of May 2003. Problems remain also in terms of the cheque issuing departments, i.e. ***PAO (Works and Projects) and PWDs in terms of their bank reconciliations***. The PAOs (Works and Projects)/PWDs send their payments to the agency bank for payment. The paid cheques go to the DTO for onward transmission to AG, after payment by the agency bank. The PAOs (Works and Projects)/PWDs have to reconcile departmental figures of actual cheques issued with those encashed, for the amount authorised and paid to the recipient with the records available in the Treasury. However, this reconciliation process is severely in arrears due to problems remaining from the period previous to the introduction of FACTS. Monthly reconciliations are currently undertaken for the current months.

The ***AG to RBI reconciliation is satisfactory***. The monthly closing balance statement of the RBI is received by the AG on the 20th of the following month. Reconciliation between the AG's and RBI's figures is undertaken on a monthly basis, and a certificate to that effect, together with a discrepancy statement, is submitted to the CAG by the first week of the second succeeding month, i.e. the November reconciliation statement will be submitted in the first week of January. The reconciliation process has been computerised since 1993. A discrepancy statement and an analysis of the discrepancies are produced automatically. These documents are sent to the DTO,

^{xi} The worst offenders, with reconciliations not undertaken since late 1980s and early 1990s, include the Chief Commissioner of Land Revenue, Director of Works and Accounts, Commissioner Commercial Taxes, Commissioner and Director of Municipal Administration, and the Commissioner Municipal Corporation of Hyderabad.

RBI and the agency for them to resolve the discrepancies. Any outstanding discrepancies are resolved during periodic meetings are held between the AG, RBI, agency banks, DTA officials and Finance Department. However, the AG has not been submitting the discrepancy statements to the Finance Department along with the monthly civil account.

The unreconciled amounts between the debit bank balance in the AG's records and that under the head deposits of the RBI was Rs.13,64.82 lakh on 31 March 2000, Rs.10,38.43 lakh on 31 March 2001, but had decreased to Rs.12,81.38 lakh by 31 March 2002.^{xii}

However, the unreconciled balance had been reduced to Rs.1,13.29 lakh by end June 2002, significantly down from the same period in previous years, which indicates an improvement in controls over the accounts.

We were not able to ascertain any information on these aspects in respect of DoHMFV during the limited time we had but the subject matter is receiving adequate attention from Finance Department.

7.1.2 Is there an effective process to investigate discrepancies with subsequent follow up by senior management?

We were not able to ascertain any information on these aspects in respect of DoHMFV during the limited time we had. However it is observed that due to manpower shortages in accounts department the matter is yet to receive attention of the senior management

7.1.3 Are suspense accounts and advance accounts routinely reconciled and cleared?

We were not able to ascertain any information on these aspects in respect of DoHMFV at state level.

However during the sample testing at selected DMHO's offices in different districts status of reconciliation was satisfactory and in respect of Nalgonda district the Accounts Officer has obtained certificate for up-to-date reconciliation from the DTO.

2. Audited annual accounts

7.2.1 Are budget reports disseminated within government on a timely and regular basis? Do these reports provide adequate classification that allows direct comparison of actual performance to budget, and which incorporates expenditure, revenue and debt information?

The following information was taken from the SFAA (section 7.3.1)

The role of the Appropriation Accounts is to report on actual results against budget. Useful variance analysis is critical to inform the Legislative Assembly and the public of the extent to which the budget has been implemented as passed. The Appropriation Accounts disclose variances between actual revenue/expenditure and the budget estimate, whenever an excess in a Grant exceeds Rs.10 lakhs and savings in a Grant exceed Rs.20 lakhs. Insufficient information and analysis of variances is provided in the Appropriation Accounts between actual revenue/expenditure and the budget estimate in that:

- Variances are reported at too detailed a level, as Rs.10 lakhs is a relatively small

^{xii} The figure reflected in the accounts was Rs.51.94 crore debit, compared to the balance of Rs.39.13 crore debt intimated by the RBI. See Report of the CAG of India for the Year ended 31 March 2002 (Civil) GoAP, Explanatory Notes to Exhibits I, II and III, (5).

amount. Analysis at this level of detail lengthens the Appropriation Accounts, and could allow some more significant variances to go unnoticed;

- Invariably the 'reasons' provided simply note which minor and sub-heads accounted for the increase/decrease compared to budget. There is rarely any analysis of the underlying reason why that revenue/expenditure was more/less than budgeted. Furthermore, the CAG reports that explanations for savings/excesses were not received or were received incomplete in respect of 81% of the total number of heads of account (i.e. 645 of the total 793) ;
- Neither the Appropriation Accounts nor any other document discloses the Budget Estimates, Revised Estimates and actual for one complete year. It is necessary to flick through at least two budgets to assemble this information.

Furthermore, the Appropriation Accounts do not provide a summary comparison of the implications of the variances for fiscal aggregates.

The Finance Accounts provide comprehensive information about the receipts and payments of the State during the year and in many cases provide the comparable figures for the previous year. Again, the reasons for the variances are of limited usefulness.

The all-India prescribed format of the Accounts undermines relevance, understandability and comparability in the following ways:

- Expenditure has not previously been disclosed by department;
- No disclosure is made of the gross advances drawn from the Contingency Fund for various functions and recouped during the same year. Only the net amount and unrecouped amounts are disclosed;
- The Accounts disclose only up to minor head (programme) level (unlike the Detailed Demands for Grants which disclose to a more detailed level). Salaries, grants-in-aid, subsidies and externally aided schemes are below the minor head level, and consequently are not clearly disclosed to the reader of the Accounts.

The AFF and Budget in Brief produced by GoAP do provide significantly improved and increased disclosure of in the areas of omissions noted. The 2002-03 Budget in Brief also provides an explanation of expenditure in key priority sectors.

As explained in previous sections, the accounts only disclose that information which is reported through the Treasury systems. For the APVVP and the APMHIDC, it is necessary to rely on the income and expenditure accounts submitted to the various Boards. The income and expenditure accounts do not disclose the budgets, but they do contain revenue, debt and expenditure information. The budget should be able to be obtained from budget documents. However, there is no variance information available from any documents and this is a common weakness throughout the GoAP.

For the TB Scheme and schemes in general, again, it is necessary to rely on income and expenditure accounts submitted to District Boards. As noted throughout this document, the fact that the accounts of all of these societies and autonomous bodies are not published in the Financial Accounts, as are the rest of the Department's accounts constitutes a significant weakness in transparency and accountability. The quality of the information produced is not uniformly prescribed, its accuracy and validity is not regularly checked by qualified auditors according to international standards and it is not consolidated anywhere in the Department, to enable analysis to be undertaken.

7.2.2 Is there an effective two-way flow of information between the Ministry of Finance and spending units (e.g. line ministries and sub national governments)?

The current financial management information systems are not integrated across the

DoHFMFW as explained above. The Treasury system is a modern integrated system and produces effective financial information but the remaining systems, both for schemes and for the APVVP are manual and of a vertical nature according to programmes. This does not result in an effective flow of information between the MoF and the Department as it is fragmented and incomplete.

There is an element of risk because of the lack of integrated systems, and this will be amplified because there is no effective internal audit function within the Department to review internal controls and make recommendations for their improvements.

7.2.3 Are the financial statements comprehensive and understandable, and prepared in a timely manner in line with the legislative framework? Are the financial statements prepared in line with recognised national / international accounting standards?

Financial statements relating to Treasury systems are comprehensive and understandable and timely in line with the legislative framework. The Finance Accounts provide comprehensive information about the receipts and payments of the State during the year and in many cases provide the comparable figures for the previous year. Again, the reasons for the variances are of limited usefulness.

The primary financial reports are the Annual Accounts, consisting of the Appropriation Accounts and Finance Accounts. The Appropriation Accounts and Finance Accounts, are produced and presented to the Legislative Assembly within seven to eight months after the end of the financial year. The Appropriation Accounts record the grant-wise expenditure against provision approved by the Legislative Assembly and offer explanations for variations between the actual expenditure and the funds provided.

The Budget, presented to the Legislative Assembly in February/March, contains information about actuals for the previous financial year (i.e. FY 1), the Budget Estimates and Revised Estimates for the current financial year (i.e. FY 2), and Budget Estimates for the ensuing year (i.e. FY 3) whose Demands for Grants are under consideration by the Legislative Assembly. The key document is the Budget in Brief. This document is frequently the only one with actuals data that is actually reviewed by many stakeholders.

The CAG's Audit Report also provides useful abridged accounts. The Audit Report is currently issued in March in the year following the year of account. The CAG issues its annual Audit Reports with regard to GoAP in three parts: Civil, covering GoAP expenditure; Revenue Receipts; and Commercial, covering PSUs.

The SFAA goes on to note that accounting concepts and policies in general in India are not described clearly in a form that would enable them to be easily identified, and a key question is the extent to which this lack of clarity has had a concrete impact in practice. Standardised accounting practices are clearly a necessity and if the GoI has problems in carrying this out, it is a certainty that the Department will not be able to produce accounts in a standardised format, and this has proved to be the case.

Again, it is the financial statements that are prepared outside the Treasury that give the most concern. There are no uniform standards for these reports, each Society commissioning its own chartered accountancy firm as it decides. There is no single institution or individual who takes an overview of all of the reports and makes a judgement of their adequacy or accuracy. The fact that income and expenditure statements do not compare budgets against actuals is a significant factor in that it does not allow the Society Boards to assess reasons for variances against budgets, and indeed, there does not seem to be any systematic analysis of expenditure patterns, previous budgets, trends, etc,

anywhere in the DoHMFw and this is a major weakness in accountability and transparency.

The Department does not produce its own publicly available accounts in general, as the Treasury generally processes transactions and renders the accounts to the CAG. However, in circumstances where they are producing their own accounts, as in the case of schemes, the APHMHIDC and the APVVP, there are clearly some significant deficiencies. The SFAA's conclusion was that, "there is currently insufficient departmental capacity for, and commitment to, financial management and accounting to enable the transfer of responsibility to the departments in the short term" (section 6.2.1). Nevertheless, the Department is producing accounts, which are not being reviewed or produced by the CAG, in contrast to the rest of the Departmental accounts. This has resulted in the wide variety of standards, formats and adherence to regulations that is prevalent in the schemes and the autonomous bodies.

TB Scheme

An income and expenditure report that was produced to us by the District TB Society of Rangareddy raised more questions that it answered in that there were huge underspends on particular subheads and large balances carried forward on the account from the previous year. Interest accrued represented 17.8% of the carry forward. Transfers were made from one sub head to another in contravention of virement principles and scheme principles and finally, the document ended with a budget proposal for the year 2005-6. This document was dated 14 July 2005. The budget year begins 1 April. The budget document does not give the previous year's budget for comparison, and whilst including the carry forward from the previous year, excludes the considerable interest carry forward. None of the documents contained any narrative which would have aided understanding of the contents. No accounting policies or concepts were included in the accounts.

APHMHIDC and APVVP

Reviews of both the APVVP's income and expenditure statement and the APHMHIDC's elicited the same concerns. The documents do not contain sufficient information with which to make informed judgements and certainly do not conform to international standards. No accounting policies or concepts were laid down in the documents, as would be expected under international standards.^{xiii} It is additionally, not clear which legislative framework the accounts should be prepared under, as noted previously, as the AP Accounts Code does not cover the production of income and expenditure accounts by departments.

7.2.4 Are the financial statements presented to the Supreme Audit Institution in line with international standards?

The AG's office not only prepares the Appropriation Accounts and the Finance Accounts it is also responsible for their audit. The Constitution provides for the CAG to have a dual role, for both compilation and audit of the accounts. While accounts compilation is undertaken by the AG (Accounts Wing) and audit by the AG (Audit Wing), both wings fall within the overall responsibility of the CAG. And the CAG certifies both the Accounts and the Audit Reports. This is a highly unusual arrangement, divergent from international good practice.

The income and expenditure statements for the schemes and the APVVP and the APHMHIDC are not presented to the CAG, as noted above.

^{xiii} International standards here can be defined as the International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants (IFAC).

Summary and conclusions

Although improvements in reporting, both in terms of quantity and quality could be made, this is not an area that is considered to be high risk with regard to Treasury statements. However, it is considered that considerable improvements need to be made to the financial statements of the Societies and autonomous bodies in order to give assurance that money is being spent in accordance with the budgets and, indeed that the budgets are constructed reasonably in line with expected expenditure. Such improvements require the Finance Department and the DoHMFw to develop standardised accounting formats for such bodies, to enable consistency of reporting and to maximise transparency and accountability. It will also require a commitment to monitor and examine the accounts on the same timetable as the Treasury accounts and according to the same standards.

Additionally, whilst the C& AG theoretically has the mandate to review society statements, the volume of these would preclude thorough examination on a regular basis.

Principle Eight: there is effective independent scrutiny of government expenditure

DFID has identified the following three benchmarks for assessing fiduciary risk in relation to this principle of good practice.

- Government accounts are independently audited;
- Government agencies are held to account for mismanagement;
- Criticisms and recommendations made by auditors are followed up.

1. Independent audit

8.1.1 Is the Supreme Audit Institution (external auditor) adequately resourced and empowered to perform its role effectively?

SFAA reported as under:

I. Clearly established, sufficient and enforced independence, duties, jurisdiction and powers

In this section, we examine the adequacy of the Constitutional and legal provisions, and institutional arrangements in practice, for the independence, duties, jurisdiction and powers of the CAG.

1. Independence of the CAG

Independence is the most single important quality of any Supreme Audit Institution.^{xliii} The establishment of the CAG as the Supreme Audit Institution of India, with the necessary degree of independence from the executive and the Legislative Assembly, is provided for in articles 148 to 151 of the Constitution, providing critical Constitutional protection to this important office.^{xliv}

The independence of the CAG as an institution is inextricably linked with the independence of the CAG himself. The Constitution clearly sets out provisions for the CAG's appointment, tenure, salary and removal provisions that lay the foundation for his ability to express his views about

^{xliii} INTOSAI (1998) 'The Lima Declaration of Guidelines on Auditing Precepts'. The chief aim of the Lima Declaration is to call for independent government auditing.

^{xliv} Article 149 of the Constitution of India lays down that there shall be a CAG of India to look after the accounting as well as auditing arrangements of the accounts of the GoI as well as the constituent governments of the States. Again, Article 151 of the Constitution lays down that the reports on the accounts and audit are to be submitted to the President of India and the Governor of the relevant State, for the purpose of placing them on the table of the respective legislatures.

PFM without fear or favour. In particular:

- He shall be appointed by the President under warrant;^{xlv}
- He shall hold office for a term of six years, unless he reaches 65 years of age, at which time he shall vacate the office. He can only be removed from office by the President of India under warrant and prescribed procedures exist to govern the circumstances under which he can be removed, i.e. misconduct and incompetence;^{xlvi}
- His salary is determined by Parliament and charged on the Consolidated Fund (i.e. not voted), and neither his salary nor other rights shall be varied to his disadvantage after his appointment;
- He shall not be eligible for further office within the GoI or any State after he has ceased to hold office. In practice, the CAG tends to be an IAS officer in his last posting before retirement.

There are no specific provisions about the political neutrality of the CAG. The CAG pledges an oath on assumption of office that he will perform the duties of office “without fear or favour, affection, or ill-will”, and that he will uphold the Constitution and Laws. None of these Constitutional or legal provisions apply specifically to the Principal AG, but this is not required as he is considered to be the CAG’s representative in the State.^{xlvii}

In addition to legal and operational independence, Supreme Audit Institutions must have financial independence, so that government is not able to control their activities via restricting the level or allocation of their resources. The level of the CAG’s budget is agreed by the Ministry of Finance, but the allocation of resources within the overall budget ceiling is determined by the CAG. This constitutes sufficient financial independence.

In AP, this independence from GoAP appears to be well established in practice. There is no evidence or indication that either the Principal AG or his officials come under any pressure from GoAP. Certainly, the content and tone of the Audit Reports are convincing evidence that the CAG is able to comment freely on the extent to which GoAP has spent funds on authorised or intended purposes.

The Constitution provides for the CAG to have a dual role, for both compilation and audit of the accounts. While accounts compilation is undertaken by the AG (Accounts Wing) and audit by the AG (Audit Wing), both wings fall within the overall responsibility of the CAG. And, as noted below, the CAG certifies both the Accounts and the Audit Reports. This is a highly unusual arrangement, divergent from international good practice.

^{xlv} The issue surrounding the appointment of the CAG is analysed in: National Commission to Review the Working of the Constitution (2001) ‘A Consultation Paper on Efficacy of Public Audit System In India: C&AG – Reforming the Institution’.

^{xlvi} Provisions for the removal of the CAG are identical to those for the Judge of the Supreme Court, see articles 124(2b), 124(4) and 124 (5) and 148 (1) of the Constitution.

^{xlvii} Reflecting this representation, the Audit Reports will be signed by the Principal AG/AG and the CAG himself

2. Duties of the CAG

Details of the CAG's operational functions are set out in the legislation which supports the Constitution with regard to the CAG: the CAG (Duties, Powers and Conditions of Service) Act, 1971 (known as the DPC Act).

The duties of the CAG are clearly stated in the DPC Act as:

- Sec. 13: "to audit all expenditure from the Consolidated Fund ... and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it"; "to audit all transactions ... relating to Contingency Funds and Public Accounts"; "to audit all trading, manufacturing, profit and loss account and balance sheets and other subsidiary accounts kept in any department";
- Sec 14 & 15: "to audit Grants or loans from the Consolidated Fund of India or State in a financial year, excepting those specific purpose Grants whose audit was specifically exempted by the President or the Governor in public interest"
- Sec 16 & 17: "to audit all receipts payable into the Consolidated Fund, and accounts of stores and stock kept in any office or department of union or of a state."

The CAG Auditing Standards set out the CAG's role as to "safeguard the financial interests of the State within the statute and to uphold and promote financial accountability and sound financial and economic practices". The standards also clarify the definition of audit as "including both financial and performance audit", even though there is no legislative backing for performance audit.^{xlviii}

3. Jurisdiction of the CAG

The CAG's jurisdiction includes government departments, autonomous bodies, departmental commercial undertakings, statutory corporations and boards and government companies, as laid down in the respective statutes and Companies Act in respect of companies. But the audit of any Body or Authority can also be entrusted to the CAG, by the President of India or the Governor of the State in the public interest after consultation with the CAG, either *suo moto* or on the initiative of the CAG.^{xlix} There are three sets of circumstances in which the CAG does not automatically undertake the audits. First, the CAG's jurisdiction does not cover the *audits of bodies and authorities financed from the Consolidated Fund in all circumstances*. Their audits are conducted as per the provisions set out in their incorporation or registration acts or by the State Local Fund Audit.ⁱ Where the government grants are substantial (exceeding Rs.1 crore annually) the CAG is entitled to undertake what are known as section 14 audits, with the prior approval of the Governor of the State.ⁱⁱ Secondly, the audit of *Panchayat Raj institutions and Mandal Parishads* is entrusted to the Director of State audit. Thirdly, as the National Commission to Review the Working of the Constitution highlights, there is increasing outsourcing or devolution of government activities to *non-government organisations* outside the CAG's area of jurisdiction, which are audited by Chartered Accountants. The Commission is reviewing whether or not the audits by the Chartered Accountants are adequate, and hence whether a Constitutional provision should be made for all bodies which receive public funding to fall within the CAG jurisdiction.ⁱⁱⁱ

4. Powers of the CAG

With regards to the CAG's power to *undertake its duties effectively*, the CAG (Duties, Powers and Conditions of Service) Act, 1971 states that the CAG may:

- "inspect any office of accounts under the control of the Union or of a State",
- "require that any accounts, books, papers or other documents ... shall be sent to such place as he may appoint for his inspection;
- "put such questions or make such observations as he may consider necessary ...

^{xlviii} CAG of India: Auditing Standards

^{xlix} CAG (Duties, Powers and Conditions of Service) Act, 1971, section 19(3).

ⁱ For example, the statutory audit of co-operative societies is undertaken by the Registrar of Co-operative Societies.

ⁱⁱ The limit is set at Rs. 5 lakhs in the DPC Act, but has subsequently been increased to Rs.25 lakhs and Rs.1 crore.

ⁱⁱⁱ National Commission to Review the Working of the Constitution (2001) 'A Consultation Paper on Efficacy of Public Audit System In India: C&AG – Reforming the Institution', section 3.2.

1. Auditing standards

Audits are conducted as per standing instructions and audit standards prescribed by the CAG. These audit standards, which were updated in 2000, aspire to be in line with INTOSAI best practice. They comprise:

- General standards covering professional and quality assurance;
- Operational standards covering audit planning, regularity, legality audit, performance/Value for Money audit; audit of receipts; auditing in the Electronic Data Processing (EDP) environment; audit evidence;
- Reporting standards covering field audit reports and follow up audit reports.

Manuals are in place to guide the staff in their everyday work.

2. Audit methodologies

The traditional task of audit in India is to examine the regularity of financial transactions and practice, i.e. the extent of compliance with law and rules. However, audit methodologies have developed significantly in recent years, and the basic audit methodology currently applied by CAG in AP has four main components. All audit undertaken is post-audit.ⁱⁱⁱ

- *Central audit*: on receipt of the vouchers from AG (Accounts Wing) (see section 6.6.1), vouchers are audited by central audit teams based in AG (Audit Wing). The follow checks are undertaken: classification check; arithmetical accuracy; sanction of appropriate authority; check of invoices and vouchers. Objection books are maintained major head-wise and all audit objections are entered in the objection books. Any objections are pursued with the departmental offices.
- *Local audit (financial audit)*: AG Headquarters charts out a programme to select offices for local audit examination, depending on the importance of the office, but district offices are usually audited annually. Audit teams undertake test and systems audit. They randomly sample one month's expenditure for audit examination. Three weeks notification will be given. Having collected the vouchers from the AG for the marked month, the audit parties visit the departments (where they mainly work with the DDOs), and then to DTOs or STOs, where detailed checks are undertaken. On each of these annual visits, maybe two field offices (e.g. PHCs, primary schools) will be visited, and the records of a further 10% - 35% will be called for inspection at the district office. The records will be "generally examined and a test audit conducted". The month sampled and tested normally approximates to 8.5% of the annual expenditure. High value transactions above a certain value are also 100% tested. In the districts and offices tested, reports were received by the audited offices within six to eight weeks of completion of the audit.
- *Efficiency-cum-performance audit (ECPA)*. ECPA examines the performance, economy, efficiency and effectiveness of public administration. Key criteria include the social benefits, and effective and timely utilisation of funds for development activities. The Finance Department is given an opportunity to offer their suggestions about which areas should be selected for ECPA examination. It is during ECPA that areas of high risk are examined. The results of ECPA are fed into the overall financial audit results, rather than it being a separate area of examination, as in other countries. In India, ECPA has been undertaken since 1971.

Non-regular audits: undertaken to focus on key issues identified, for example systems audits and manpower audits. The AG is also planning a review of financial accountability for the 2003-04 audit report.

In those areas that the CAG does audit, the *audit approach is generally adequate* and yields a highly satisfactory standard of results, as evidenced from the Audit Reports. The approach could reasonably be expected to uncover many fiduciary risk factors, such as extra-budgetary activity and divergences from the budget. However, the further containment of fiduciary risk would benefit

ⁱⁱⁱ Pre-audit, which tends to blur the distinction of responsibility between government and audit, was discontinued as an AG function in AP in 1971.

from a development of audit approach in the following areas.

The focus of the approach is on an *audit of documentation, rather than on physical verification*. Auditors do not, for example, check the existence of an asset – everything from a road to a computer in a government office. They simply inspect the records about the existence of the asset. The usefulness of the audit would appear to be seriously undermined by this aspect of the audit approach.

Similarly, auditors tend to *examine records* from, for example PHCs, at district headquarters rather than visiting the PHC itself. Clearly, the distances and time spent travelling impede widespread visits. However, the usefulness of the exercise must be questioned.

As in most countries, auditors take a *compliance-focused approach* to audit, noting relatively minor aberrations, rather than the major systemic failures. Changing the balance of audit observations to those of a more value added and constructive nature should allow the CAG to play a greater role in enabling improvements to systems and controls across GoAP and increase departmental responsiveness to audit.

The majority of the auditors' time is spent on the traditional financial audit. The *relatively low application of a risk based approach to audit or more investigative approach* means that major cases of waste and irregularity such as corruption, fraud, and misappropriation are more likely to go undetected and unreported. High risk areas might include functions with a higher inherent risk, such as procurement and large contracts, or offices where an assessment of controls has revealed a high level of control risk.

III. Objective, qualified and resourced auditors

In this section, we examine three important aspects of the auditors: their objectivity and integrity, their qualification to undertake effective audit, and resources available to them.

1. Objectivity and integrity

Audit staff must not come under the influence of the audited body or become dependent on such bodies in any way. On joining the CAG's organisation, each auditor takes an oath to uphold the Constitution and standards of integrity in the conduct of audit. This pledge is renewed each year. The broad parameters to establish this objectivity and integrity are also included in the CAG Auditing Standards. The conduct rules as well as the classification control and appeal rules also provide adequate provisions for taking action on the errant officials.

2. Proficiency

With regard to *audit and accounts*, training is given on the related topics and then officers will be inducted into the service. There are arrangements for continuous training programmes at various levels. Provisions have also been made to impart training to staff, equipping them to discharge their duties effectively. No problems have been reported in training provision. There is no professional qualification, such as is gained by auditors in other Supreme Audit Institutions worldwide. However, officers are required to go through an examination in audit and accounts at the end of their six month induction training. And, subordinate level officials are required to pass an all-India level examination. There is also a scheme for Continuing Professional Experience (CPE). A challenge for auditors worldwide is to develop a proficiency in a number of *technical subject areas*, everything from health to construction of roads and bridges, to inform their audit, albeit largely financial audit.

3. Resources

No problems of lack of resources have been reported or noted.

IV. Timely and appropriate responses to audit observations

If audit is to have an impact both in individual cases and as a general force promoting sound PFM and accountability, it is essential that departments provide timely and appropriate responses to audit observations. Neither the DPC Act nor any governmental rules set down the time period within which responses are required from departments at each stage of the audit process. However, executive instructions for the speedy settlement of audit observations and Inspection Reports are issued by Finance Department from time to time. The norms of responsiveness for which reliable aggregate data is available from the Audit Reports (i.e. prior to the introduction of

GO 507) are shown for each type of audit observation in the figure below.

Data on departmental responsiveness to each type of audit observation

Audit objections are raised during the course of the audit and communicated to the respective departments for their response or rectification. The usual practice is to require a response within 3 days. The experience of audit is that there is little or no response to the audit objections.

Inspection reports produced by audit teams containing audit paras. Following each audit visit, the audit party produces an Inspection Report, with audit paras covering financial and procedural issues. Auditors give the report to the DDO for discussion on the last day of the audit visit. The report is copied to the HoD or the designated officer who is above the auditee office. The usual practice is to require a response within six weeks. Districts offices visited had an average of 15 – 30 audit observations per AG audit; field offices had an average of three audit observations per AG audit visit. Controls testing of departments revealed no cases where responses had been submitted within the one to two months deadlines. Some replies had started to arrive in the fourth to sixth month following the audit visit. In most cases, the response had still not been received within one year. Those responses that are received are normally 'holding replies'. It is only notification of a subsequent audit visit that prompts a response. In aggregate, as at the end of June 2002, 21,286 Inspection Reports (issued up to end March 2002) containing 83,305 paras were pending.^{iv} Of the Inspection Reports and paras pending, even first (holding) replies had not been received in the case of 2,058 Inspection Reports and 13,792 paras. However, comparative figures of pendency below indicate that responsiveness is improving over time.

	At 30 June 2000	At 30 June 2001	At 30 June 2002
Numbers of Inspection Reports not settled	23,046	22,207	21,286
Numbers of paras not settled	91,246	85,256	83,305

Draft audit paragraphs and reviews to be published in the Audit Reports are forwarded to the relevant Secretary so that the GoAP's comments might be incorporated in the Audit Reports before their presentation to the Legislative Assembly. The usual practice is to require a response within 6 weeks. The CAG reports that "in a large number of cases, however, the departments did not abide by the provision about furnishing the comments on the draft paragraphs within the stipulated time."^{iv}

Audit paragraphs appearing in the Audit Reports published by CAG. Government departments are required to submit suo motu Action Taken Notes (ATNs) on all audit paragraphs and reviews to the PAC within three months of their presentation to the Legislative Assembly, as per instructions issued by the Finance Department in 1993. The CAG notes the rate of responsiveness in his annual Audit Report. Data as at August 2002 is provided below.^{iv}

Year of CAG Audit Report	Number of audit paras appearing in CAG Audit Reports	Number of audit paras for which ATNs had not been received as at August 2002
2000-01	63	47
1999-2000	69	49
1998-99	64	26

Update: Response to Audit Reports

From the Audit Report (Civil) for the year ended 31 March 2004, it is observed that there is improvement in responsiveness to audit reports as per the details given below. At the end of June 2004, the Status of IRs issued up to March 2004 were settled as shown below.

Details	Pending as at the end of		
	June 2002	June 2003	June 2004
Number of IRs	21286	21044	18317
Number of Paragraphs	83305	79084	67459

^{iv} Report of the CAG of India for the Year ended 31 March 2002 (Civil) GoAP, para 3.13 and appendix XXI and appendix XXII.

^{iv} CAG 'Epitome of CAG's reports on the GoAP for the year ended 31 March 2001'.

^{iv} Report of the CAG of India for the Year ended 31 March 2002 (Civil) GoAP, para 3.16 and appendix XXVI.

Encouragingly, the number of pending paragraphs shows a declining trend during the period 2002 to 2004.

2. Government agencies held to account and audit recommendations followed up

8.2.1 *Is there an effective legislative committee (e.g. Public Accounts Committee - PAC) that examines the external audit reports and questions responsible parties about the findings and subsequent actions for follow up?*

The PAC meets regularly (approximately twice weekly during sittings of the Legislative Assembly) to examine Audit Reports, consider audit paragraphs, conduct hearings and make recommendations to the Government. There has been, hitherto, a significant timelag in PAC's scrutiny of Audit Reports. For example, in 2002-03, PAC focused on examining audit paras from the year 1995-96, with examination of a small number of audit paras from the following two years. This does represent an improvement on previous years however as, in 2001-02, PAC was focused on examination of audit paras as far back as 1993-94. In 2005, PAC is still examining data from 1996-2000 and despite a recommendation by the PAC Chairman to examine the previous year's data, this is not happening and there remains a significant timelag, with all the implications of this.

The Government is required to take action on the recommendations of the PAC and keep it informed of the action taken or proposed to be taken within six months of the recommendations having been made, by way of Action Taken Reports (ATRs). However, this requirement is not established in law, but by a May 1995 Finance Department instruction to administrative departments and Heads of Departments. Nor does PAC have any powers of enforcement. Indeed, implementation of the PAC's recommendations depends largely on the co-operation of GoAP which is being held to account, for example for excess expenditure. The PAC Secretariat oversees the implementation of the PAC's recommendations. The PAC reviews the implementation of the recommendations and reviews GoAP's performance in implementation when it examines the particular department.

The rate of implementation of PAC's recommendations does not appear to be high. The CAG reports that, as at August 2002, 1,159 recommendations made between year 1962-63 and 2000-01 were pending settlement. Of these, the PAC had received ATRs in respect of 313 recommendations. Of the remaining 846 for which ATRs had not been reviewed, no ATRs had been received from the concerned departments in 493 cases. Of these ATRs not received, 195 related to just one department, Irrigation and Command Area Development. The PAC has stated that it had received confirmation of only four and three of its 52 and 25 recommendations made" for 2000-01 and 2001-02 respectively having been implemented. Examination of the latest PAC report does not show any improvement. It should be noted, however, that the PAC does not attempt to prioritise particularly risky areas of expenditure and draw conclusions from audit reports, therefore the selection of paragraphs is done at random. A more strategic approach might yield more results from Departments if areas of high fiduciary risk were selected and focused upon.

APVVP

A relevant example relating to the DoHFMW is as follows: "Wasteful/infructuous .edcahl remained unutilised for 8 years. 19.29 lakh spent on building and equipment and Rs 21.74 lakh on pay and allowances of surplus staff produced no benefit. Government approved upgradation of a 9 bedded civil hospital into a 30 bedded hospital in March 1987. For this purpose a new building was constructed at a cost of Rs 12.28 lakh and 10 additional posts

sanctioned in July 1992. The upgraded hospital functioned in the new building for 12 months and then closed in June 1993 due to failure of water and electricity supply as a result of damage by miscreants. The hospital functioning reverted to the old building in June 1993. However the hospital authorities filled up the additional posts during September 1994 to August 1998 without ensuring utilisation of their services in the new building. ~~The DM&HO stated June 2000 that the additional staff were being utilised in the old building. The reply was not tenable, as no vacant posts existed in the 9 bedded hospital. The matter was referred to the Government February 2000. Reply had not been received as at September 2000.” lvii It is clear that whilst the quality of PAC’s reporting is high, there are some significant issues with regard to follow up of recommendations and the effectiveness, therefore of the legislature in ensuring accountability if Departments are not sufficiently and transparently held to account. The PAC has no powers to enforce implementation of its recommendations and thus accountability is compromised.

APMHIDC

Given that the APMHIDC is only audited by the CAG on an irregular basis and not by statutorily by an audit firm annually, the PAC is the only body that can hold the APMHIDC to account (on the basis of comments made by the CAG, since no budget reports on expenditure of the APMHIDC are submitted to the legislature). The income and expenditure accounts of the Corporation are only examined by the Board of the APMHIDC and this is a weakness that should be addressed by the Department. However, as noted above, although the PAC can make recommendations to the legislature, this does not mean that its recommendations are carried out. The APMHIDC does not have its budget voted on and this is another weakness in transparency .However it is subject to CAG audit and consequential PAC review.

TB Scheme

The Plan and non-Plan aspects of the TB Schemes budgets are available for examination by the legislature, both through the Estimates Committee and through the Assembly itself, although since the Plan budget is devolved down to district level through the PD account mechanism, technically the actual expenditure of the Scheme is not reported on and thus not available for comment by the legislature. The Estimates Committee is theoretically supposed to comment on value for money issues, but this is not possible, given the level and quality of information (budget reports, for example) that is given to the EC and the composition and technical abilities of the EC. Therefore, at this stage, we can conclude that the legislative committee is not in a position to make effective judgements with regard to the undertaking of its role, not just with regard to the TB Schemes, but in relation to all of the line departments’ expenditure. Improvements in legislative scrutiny rely upon improvements to overall accountability, however, including changes to budget reporting mechanisms.

8.2.2 *Is the legislative scrutiny conducted in a transparent manner open to the public and media? Is there freedom of information legislation and media freedom to facilitate access? Are controls in place to prevent conflicts of interest (e.g. asset declarations, whistleblower protection)?*

Whilst neither the Estimates Committee nor the PAC meetings are open to the public, the verbatim records of the PAC hearings are available to the media.

The GoAP has recently enacted RTI Act which greatly enhances accountability and transparency mechanism enabling freedom to access any information.

^{lvii} PAC Report 1999-2000. Ref. 3.10

The CGG has already taken several significant measures as the to spearhead capacity building in this regard which greatly enhances transparency and accountability by increasing empowerment to public to access wide range of information which interalia includes audit reports and any other financial data. The RTI Act is a powerful cross-cutting tool which has tremendous potential to increase accountability and make governance a participative process. Asset declarations already exist as a part of staff regulations for government employees and for legislators under the regulations framed by the election commission.

Summary and conclusions

Both the Estimates Committee and the PAC play their role with a high degree of application, however, with the assistance of the Principal Accountant General. Their scrutiny of individuals and issues is rigorous and detailed. However, the PAC itself could focus more on specific strategic issues given its considerable backlog and the need to improve the timeliness of their scrutiny, to be more effective and contribute to the improvement of the system of PFM and accountability. GoAP is putting in place a range of legislative reforms to enhance accountability and transparency such as Right to Information Act and establishing a number of websites to improve transparency and accountability.

Directorate of Health Services

The post of Director of Public Health was originally sanctioned in the year 1919 consequent on the introduction of Government Of India Act 1919 .The post of Director of Public Health existed from that date till 1967 when the Medical and Health Departments were merged. Again it was revived as Director Health and Family Planning in the year 1978 and renamed as Director of Health after appointing a separate Director of Family Welfare in 1987.

Director of Health Services is the Head of Department having jurisdiction over entire state of Andhra Pradesh with the principal focus on administration and personnel as the key programme operations are monitored by Additional / Joint Directors as depicted in the organogram in the appendix 10. This Directorate mainly operates under the treasury system with all the regulations under the Chief Accounts Officer represents finance wing in enforcing regulations under the A P Budget Manual, A P Treasury Code, A P Financial Code, A P Accounts Code.

The A P Budget Manual outlines formulation of Budget; A P Treasury Code contains rules for treasury officers; A P Financial Code is the guide book for Drawing and Disbursing Officer; and A P Accounts Code sets out accounting treatment for all financial transactions.

DHS operates about 40% of overall state health budget under the head "Public Health". Additional Director Planning and Chief Accounts Officer are the key personnel involved in budget, finance, and accounts functions at DHS. Initial estimates for non-plan and plan are made in the department as per directions of finance department by the planning section and accounts section based on district level inputs. But in practice it was observed that none of the DMHOs are actively involved in the process of initial estimates and it largely decided on previous experience. As a part of PFM reforms Finance Department is increasing it's efforts to give autonomy to line departments in developing their budgets. However it is seen that heads of department are going by their experience rather than involving their field level offices in developing their budgets. During the meeting with the CAO of the DHS office he admitted that to a great extent it is done on previous year's

numbers and following plus 10% incremental approach widely prevalent across all the departments. Even though some district level offices submit their requirements they do not seem to be given due importance at the directorate. Majority of the District offices are not actively involved in the formulation. As the DHS office deals with establishment and administration incremental budgeting is uniformly followed. As the personnel and their service record are known and well kept at the DHS office according to CAO the estimates are drawn with out any margin for errors and with incremental addition done each year.

During the discussion at DHS office with the CAO it came to light there is severe shortage of skilled personnel in the accounts department which is affecting the overall output at the department. The CAO is assisted by one AO, one AAO, Jr A Os (6) supported by 18 Sr. Accountants. Currently 9 posts of Sr Accountants are reported vacant and the post of AO is vacant. There does not seem to be a systematic human resources review which is a constraint.

Even though Finance department has initiated significant reforms to involve line department ownership there does not seem to be adequate understanding of budget process, as several officers without due qualifications in finance and accounts are currently holding accounts positions. It is observed that personnel are not trained properly and there is a tendency to leave every thing to be finalized by the finance department. Capacity building is required across the department in the areas of financial management. Finance department has introduced performance budgeting two years back with particular reference to non-plan expenditure, followed by performance review, and state wide workshops wherein heads of department have presented draft performance budgets. But the spirit does not seem to have percolated down to desk level at the department and budget formulation seems to be a just another statement filed for the finance department with incremental figures.

The DHS office mainly deals with expenditure in the following areas:

- Direction and administration
- Prevention and control of diseases
- Prevention of food adulteration
- Drug Control
- Manufacture of vaccine
- Public Health Labs

The CAO and Additional Director Planning during the discussion have exhibited fairly good understanding of the different budget heads and their classification.

As the major part relates to administration and establishment across the department there is good understanding of the budget classification relating to plan expenditure.

Estimates for the budget are drawn based on the number statements received from the DM&HOs. As the DHS budget pre dominantly relates to establishment with well laid out heads under each item of expenditure the collation, compilation and consolidation is done at DHS office for onward approval at the Secretariat for submission to finance department. No review meetings are observed. Finance department finalizes the overall figures and retains the prerogative to modify the initial estimates done by the department.

Sample check of Inward Register, Register of Bills, Treasury Bill Book and Cash book at DHS office led to the following observations

1. The accounts branch is understaffed due to large no of accounts assistants either

not available or not being posted

2. The staff members have fair knowledge of the budget classification system and coding.
3. Based on the no statements received from some DM&HOs offices the estimates are compiled and consolidated for submission to finance dept
4. There is no expenditure review, or analysis of the actual expenditure incurred in the previous year either at the district level or at the state level.
5. DHS is preoccupied with administrative matters and related court litigation
6. Due to lack of staff, pending AC bills are not receiving adequate attention for conversion into DC bills .During sample checking it was noticed that AC bills from the year 1991-92 onwards are pending. There are about 34 bills for a total amount of Rs 4,05,39,987 which are to be regularized in terms of GO 507. However for the periods after 2002, in view of strict implementation of GO 507 pending AC bills show declining trend.
7. Reconciliation with Treasury is completed up to October 2005 and CAO is unable to clear the arrears due to non availability of staff
8. The CAO seems to be over burdened as he is also looking after the DME accounts function.
9. Response to compliance for audit paras is not satisfactory. As on the date of review it is noticed that there are about 375 audit paras pending comprising 70 at DHS office and the rest from regional offices.
10. Key accounting records maintenance is satisfactory but there is backlog of postings and reconciliations
11. During the wrap review meeting with Dr Somasekhara Reddy, DHS it was noted that:
 - a. Reforms initiated by finance department have not fully impacted line departments and need for capacity building is necessary in the department
 - b. Coupled with addition of duly qualified finance personnel
 - c. Complete system analysis and process re-engineering study is required to bring clarity in inter-se functional responsibility and accountability .among various heads of department
 - d. Based on the above induction cum orientation training need to be given

Appendix 9: DoHMFV Procurement Assessment

Health Sector Procurement

Under the AP department of health, medical and welfare (DHMW), following entities are entrusted with handling procurement from state government funds:

- 1) **AP Health Medical and Housing Infrastructure Development Corporation (APMHIDC)** – is a society promoted by DHMW for handling procurement of drugs, surgical, consumables, equipment, services and civil works on behalf of other indenters of DHMW. For the year 2005-06 an amount of approx. Rs.90 Crores has been allocated for drug/surgicals procurement while approx. Rs.200 Crores is available for construction of buildings.
- 2) **Directorate of Health Services (DHS)** – is responsible for primary level health services delivery through PHCs. These PHCs do not directly handle the procurement of drugs, and 100% of their supply is made from APMHIDC stores. PHCs also receive drugs from centrally sponsored schemes such as RNTCP. DHS also directly handles the procurement under projects such as School Health Programme, Epidemic Control Programme, Diabetes Control Programme, Nutrition Programme etc. Estimated value of procurement under these programmes is more than Rs.50 Crores/year.
- 3) **Andhra Pradesh Vaidya Vidhana Parishad (APVVP):** is a society promoted by DHMW for managing community health centres (CHCs), area hospitals and district hospitals in the state. These CHCs/Hospitals directly handle the procurement of emergency drugs, for which 15% of their drug procurement budget is retained by them.
- 4) **Department of Medical Education (DME):** Manages medical education and administration of the teaching hospitals and specialty hospitals attached to the medical colleges in the State. These Hospitals directly handle the procurement of emergency drugs, for which 25% of their drug procurement budget is retained by them.

In addition to above organisations, other constituents of DHMW such as Andhra Pradesh Yogadhyayana Parishad, Directorate of Institute of Preventive Medicines and Drug Control Administration (DCA) also handle some procurement which is not significant in value term and hence have not been included in the study. Procurement under centrally sponsored schemes such as NACP and RCH has also not been covered in this report.

Observations and Findings

- APMHIDC was primarily conceived for civil work procurement and hence it has much more systematic systems and procedures for works in comparison to drugs procurement.
- APMHIDC charges 2% fee for handling the procurement of drugs/ surgicals/ equipment and 7% fee for handling works. For handling works under the World Bank projects (it is handling currently civil works under an education project funded by Bank), it charges 10% fee.
- The civil work procurement wing of APMHIDC is consisting of mainly civil engineers. Perhaps due to evolution of the organisation, the civil engineers are also partly involved in drug procurement. The technical wing for drug procurement consists of pharmacists and a bio-medical engineer.

- The essential drug list (EDL) was last revised on 25/03/2004 and has total 272 items out of which 140 items are identified for APVVP, 94 items for DHS and 256 items for DME.
- Though the standard bidding documents (SBD) for civil works, goods/ supplies and drug procurement are available in APMHIDC, these need review and modifications. The SBD for service procurement are not available.
- The procurement procedure being followed for both goods and works are not properly documented in APMHIDC. There are numerous GOs, Codes, rules etc. that are difficult to refer to.
- Huge opening balances of some of the drugs were observed at some of the hospitals indicating demand-supply mismatch.
- Though the inventory management system records the hospital-wise issue of drugs, it does not provide details of use of drugs and the current balance.
- Though APMHIDC has recruited one professional on deputation as internal auditor, the internal audit process and financial concurrence on files are yet to start.
- There are stock-outs of many essential drugs at some of the district stores.
- The fund allotments to various hospitals are not consistent with the use. For example, for some of the hospitals the fund utilised till date is not even 25% of the fund allocated for the year 2005-06, while in some of the cases there are overdrafts of fund.
- The stocks kept in stores are not insured against fire/theft etc. In addition, no fire fighting equipment are provided at stores.
- Physical stock verification is done at monthly basis at district stores.
- There are instances of problems in hardware provided at districts for inventory management system resulting in delay in submission of reports.
- The Accountant General's audit report for APMHIDC for the year 2004-05 is yet to be finalised. The AG report comments on procurement irregularities like awarding contract on the basis of limited tendering, ignoring the L1 bidder for signing the RC etc. It also suggests reviewing the EDL as many of the drugs from the list are not being used.
- The statutory audit of the accounts of APMHIDC has been completed till the year 2004-05. However, the report does not seem adequate as there are no remarks on the accounting practices, record-keeping etc. The report also does not mention about the deployment of surplus funds and on the procurement procedure.
- The quality assurance system of APMHIDC has recently been streamlined with recruitment of a drug inspector and setting up of the drug analysis wing. It tests every batch of every drug. Six private drug laboratories have been empanelled for testing the samples drawn on random basis.
- No cases of political interferences reported by either the staff of APMHIDC or its suppliers. The management committee, which is headed by a political appointee does not interfere in day-to-day operations of the corporation including the procurement decisions.
- APMHIDC normally follows NCB for most of the procurement. Only in case of vaccines, ICB is used. Shopping is used only for the World Bank's funded projects with ceiling value of Rs. 6 Lakhs per package.
- APMHIDC gives no price preference, dilution of quality standards or reservation of items for small-scale industries (SSI). SSI units and NSIC are however not required to deposit EMD.
- The contract form used by APMHIDC for non-World Bank procurement does not contain many essential clauses, due to which it would be difficult to enforce in case of any dispute with supplier.
- Of late APMHIDC has started to compare the rates asked by the bidder with those agreed by other states (such as TN and Karnataka) and also with Railways. However, such data are not collected systematically and only applied in selected purchases.

- Though APHMHIDC is involved in new constructions, it is not handling the maintenance. Similarly, the contracts for maintenance of the equipment are also handled directly by the users.
- The fund release mechanism to suppliers is not efficient. For each of the payment, the cheques are released after their concurrence regarding product quality. Suppliers are not comfortable with such delays and they indicated that the unit rate can be lower if APHMHIDC could assure that it will promptly release the funds and also if it considers to release cost of supplies made in parts rather than waiting for entire contracted supply in respect of bulk contracts
- The expenditure towards transporting the drugs/supplies to the PHCs have not been reimbursed by the government since 2003-04.
- The patient-wise drug dispensing records are not maintained. Hence, it is impossible to tally the drug issued from the stores with the actual use. Drug lists and current stock are publically displayed at PHCs but some of the data were not found to updated.
- The indenters were not happy with payment of 4% VAT for purchases made by APHMHIDC. They thought it is additional expenditure in comparison to the scenario if they could directly handle the procurement.
- There was a general dissatisfaction among the indenters about non-availability of some of the essential drugs at APHMHIDC stores most of the time. They were hence required to use emergency funds on procurement of such drugs from open market.
- Some of the indenters were not satisfied with the quality of equipment purchased by APHMHIDC.
- There was general lack of awareness about applicability of procurement procedure for emergency purchases at hospital level.
- For surgicals and consumables under APVVP, the CHCs and hospitals are required to draw the supplies from District Co-ordinator of Health Services (DCHS) store. However, they draw drugs directly from APHMHIDC store.
- Other weaker areas noticed in APHMHIDC are absence of clear audit trail, weaker MIS system, high staff turnover (as all the staff are on short-term deputation from government), lack of capacity building efforts etc.
- In some of the cases, it was noticed that even L6 bidder was asked to match the price offered by L1 bidder. Some of the manufacturers met strongly disapprove this practice.
- The current use of e-procurement platform for drug procurement is entirely unsatisfactory. In fact, APHMHIDC asks the bidders to upload the bids on the system as well as forwarding hard copies of bids thus duplicating the efforts required from the bidders. Till recently APHMHIDC was first opening the price bids, deciding on the lowest bidder, then opening the technical bid of the lowest bidder and then asking the lowest bidder to supplying the documents missing in the bid, if any. It was informed that this practice has now stopped.
- For e-procurement of civil works, the contractors registered with AP government only are permitted to upload the bids.
- There is no separate vigilance officer in APHMHIDC and chief engineer acts as vigilance officer. There is no established mechanism for handling the grievances/representations from suppliers.
- All civil works contracts are issued on lump-sum basis and there is no price variation clause in the contract. For preparation of cost estimates, the standard schedule of rates (SSR) published by the AP Government is used, which is updated on annual basis.
- APHMHIDC requested DFID to consider providing technical assistance to initiate the procurement capacity building in the corporation

Recommendations:

No.	Action	By	Time-Frame
1.	Expedite the enactment of procurement legislation in the state	AP Govt.	Short-term
2.	Preparation of comprehensive Procurement Manual containing detailed step-by-step procedure for goods, works and services.	APMHIDC	Short-term
3.	Updating the standard bidding documents for goods and works; and preparation of standard bidding document for services	APMHIDC	Short-term
4.	Issuing guidelines to its staff for properly maintaining contract files with clear audit trail	APMHIDC	Short-term
5.	Conduct skill-audit and mapping of current staff to decide about the adequacy of the skill-sets and number of staff in the organisation	APMHIDC	Short-term
6.	Consider recruiting few core procurement staff on its own payroll to provide continuity in operation while the senior level posts could continue to be manned by deputed staff	APMHIDC	Short-term
7.	Strengthen the coverage of statutory audit including observations on financial and procurement irregularities	APMHIDC	Short-term
8.	Streamline the contract award procedure and Strengthen the contract monitoring to avoid award of contracts after expiry of bids, extension of RCs and time overrun of civil work contracts	APMHIDC	Short-term
9.	Upgrade the computerised inventory management system to extend it to district indenters' level and by also adding the indenting module, reorder level, order quantity etc.	APMHIDC	Short-term
10.	Operationalise the internal audit mechanism and also introduce the financial concurrence on files before the purchase orders are placed/ contracts are signed.	APMHIDC	Short-term
11.	Improve the communication with indenters including involving them in devising the procurement strategy, providing them access to inventory status and MIS reports and keep them better informed on their indents	APMHIDC	Short-term
12.	Ensure that the staff strictly follow the procurement procedure to avoid irregularities such as opening the commercial bids before completing the technical evaluation, asking other bidders to match L1 rates, splitting of contract without any clear justification etc.	APMHIDC	Short-term

No.	Action	By	Time-Frame
13.	Ensure that price negotiation is used only exceptionally when there are enough reasons to justify it and is conducted only with the L1 bidder and not with others	APMHIDC	Short-term
14.	Prepare and introduce store manual and train the store staff in their day-to-day operation as well as in customer relationship management	APMHIDC	Short-term
15.	Introduce the formal mechanism of verification of suppliers' credentials including the quality assurance system by plant visit and checking the original certificates/the references given by suppliers before the RC/ contract is entered into	APMHIDC	Short-term
16.	Purchase of equipment should be evaluated based on life cycle costing (by including the operation and maintenance costs) rather than only the upfront capital cost. Also to involve the end-users in sample testing of equipment (by masking the brand-name) before the order is placed.	APMHIDC	Short-term
17.	Improve the monitoring of inventory to minimise the stock-outs at district store level	APMHIDC	Short-term
18.	Provide the details of rate contracts on the website for better transparency	APMHIDC	Short-term
19.	Consider introducing progress-linked payment schedule (release of payment for the drug quantity already supplied) to enable the suppliers to reduce the cost of working capital	APMHIDC	Short-term
20.	Re-examine the time given for supplying drugs, specially where the suppliers are required to arrange for raw-material and then produce the drugs (consider giving the web-based access to inventory level data to suppliers so that they could take pro-active action rather than waiting for formal purchase order)	APMHIDC	Short-term
21.	Set-up dynamic market intelligence (details of drug/equipment suppliers, capacity, production, quality assurance system, published unit rate and that agreed by other buyers) gathering mechanism to be used for taking informed procurement decisions	APMHIDC	Medium-term
22.	Consider entering into one year rate-contracts to benefit from falling drug prices and entry of new manufacturers in the market (or inserting right to review clause in rate contracts)	APMHIDC	Medium-term
23.	Set-up a formal complaint/grievance redressal mechanism	APMHIDC	Medium-term

No.	Action	By	Time-Frame
24.	Improve the use of e-procurement by eliminating the need for submitting the hard copies of the bids (have a pre-qualified list of suppliers) and adding online bid-evaluation (reverse e-auction may also be considered to maximise the saving and transparency)	APMHIDC	Medium-term
25.	Introduce formal supplier rating system to record their performance like on-time delivery, quality, user feedback etc. so that the same could be referred while placing the next order	APMHIDC	Medium-term
26.	Upgrade the buildings/racks/light/ventilation for district level stores. Also provide fire-fighting equipment and consider taking insurance	APMHIDC	Medium-term
27.	Set-up Procurement MIS system (as part of HMIS being planned) for providing timely information to the top management and the customers	APMHIDC/ Health SPIU	Short-term
28.	Bring the drug procurement handled (other than emergency procurement) by other health sector entities (under DHS, DME, APVVP) to APMHIDC	DHMW	Short-term
29.	Provide the procurement guidelines to other health sector entities (under DME, APVVP) for complying while handling emergency drug procurement including the review/control mechanism (one of the option is giving this mandate to APMHIDC)	DHMW	Short-term
30.	Consider commissioning studies on rational use of drugs and also on pattern of prescription by doctors to provide inputs to APMHIDC for better servicing the indenters	DHMW	Short-term
31.	As APMHIDC is procuring on behalf of government, request finance department to waive off 4% VAT on drugs procured by it	DHMW	Short-term
32.	Providing transport charges to PHCs/ CHCs /Area hospitals to enable them to claim reimbursement for arranging pick-up of stock from district stores	DHMW	Short-term
33.	Ensure that the emergency drug procurement fund is utilised only for the intended purposes	DHMW	Short-term
34.	Bring the civil work maintenance and equipment maintenance contracts being handled by other health sector entities (under DHS, DME, APVVP) to APMHIDC	DHMW	Medium-term
35.	Introduce scientific demand forecasting mechanism for drugs/surgical/consumables rather than going by current norm of allocation per patients/per bed etc.	DHMW	Medium-term

No.	Action	By	Time-Frame
36.	Consider transferring the funds through its bank account to APHMHIDC to ensure that funds are available timely for releasing to suppliers	DHMW	Medium-term
37.	Introduce the patient-wise record keeping at the point of distribution, once resources/ technology permits the same	DHMW	Medium-term
38.	To avoid over-drawl of some drugs by some of the indenters, involve the district level health authorities in checking/counter-signing the indents before they reach to the district stores	DHMW	Medium-term
39.	Consider increasing the fund allocated for drug purchase to meet the demand of users and minimise the overdraft by indenters	DHMW	Medium-term
40.	Consider providing technical assistance to APHMHIDC to implement above procurement capacity building measures	DFID	Short-term

Appendix 10: DoHMFV Corruption Risk Assessment

Nature and Types of Health Sector Corruption

The major sources of corruption that can be identified in relation to the health sector are those associated with

- Financial resources involving misappropriation of money;
- Bribery, fraud, theft or other misuse in relation to construction, procurement, storage, distribution and delivery of supplies and equipment;
- Bribery, favouritism, conflict of interest etc. in the course of service delivery; and
- Bribery and other forms of corruption in the regulation and administration of health services.

Health sector around the world is particularly more vulnerable to corruption in view of the system of direct provision of service delivery; and financing of provision of public health and medical facilities. Andhra Pradesh follows the system of direct provision in so far as the citizens are concerned. The public servants serving the government and other instrumentalities of government are, in addition, entitled to reimbursement of cost of treatment in private hospitals where such facility is not available in the public hospitals run by the State. Special vulnerability of the sector can be attributed to the high degree of information asymmetry i.e. imbalance of information available to patients vis-à-vis the medical profession; inelastic demand for health services; highly discretionary, decentralized and individualized nature of the services; the uncertainties associated with health; emergencies and the multiplicity of actors involved.

Development of a well coordinated and effective system of public financial and human resources management and accountability, which seeks to minimize fiduciary risk and manage corruption, has to be an integral part of measures to achieve the goal of 'health for all'. Not all cases of fiduciary risk can be attributed to corruption. Diversion of funds could be due to acute shortage of funds for priority requirements or to a well intentioned attempt to circumvent the rigidities of budgetary, treasury or administrative processes or due to ineffective supervision and control or simply honest mistakes. These could be categorized as misconduct on the part of public servants; but cannot come within the definition of corruption, which assumes the character of criminal misconduct. There is a fine line of distinction between inefficiency and corruption. Mismanagement or corruption or a combination of both could result in poor service to the people. Corruption can subvert even well conceived public expenditure management systems.

Identifying the specific nature and types of corruption with particular reference to the health sector is essential to assess the relative potential for damage to the financial resources of the State, quality of service delivery and danger to the health and well being of the population of the State so as to determine the relative priorities with specific reference to the nature and magnitude of each of them occurring day to day; and to design specific strategies to counter and control these threats and to punish the guilty. Corruption in the health sector could be in the nature of embezzlement, theft of public property, misuse of funds, facilities and services, bribery, extortion, fraud, conflict of interest, influence peddling, favoritism, nepotism and illegal political contributions.

Misappropriation of public resources could be of revenue receipts or embezzlement of money in the course of payments involving salaries and allowances or disbursement of incentive payments for family planning, attended delivery etc. It could also be outright theft of drugs and other stores or appropriation of hospital supplies, facilities and services for personal use of physicians or other health workers. In the case of reimbursement of

expenditure to public servants for consultation, tests, treatment etc in private facilities there could be cases of excess billing, billing for services not actually provided by falsification of invoice records, receipt books and utilization records, etc. In the case of bribes paid as speed money, one has to pay to receive services which are supposed to be provided free and a co-citizen is disadvantageously placed as a consequence; but no public money is lost to the exchequer. On the other hand misappropriation involves not merely loss to the exchequer but also deprives the citizens of resources otherwise available to them. Criminal misconduct involving embezzlement of public funds or by way of service charges realized from the beneficiaries is a common law offence and a serious form of corruption associated with financial resources for which documentary proof is possible. Such cases leave an audit trail.

Criminal conspiracy among the parties involved, bribery of and kickbacks to the authorities in procurement result in a variety of losses to government and the general public by way of over payment for, or in failure to enforce contractual standards for quality, and less than optimal payment and delivery terms for medicines, supplies, equipment, services and construction. The problem areas in procurement are in the registration of medicines, selection of medicines, actual process of procurement, transportation and storage. This apart promotion of drugs is an area of considerable conflict of interest in so far as the medical profession is concerned. Selection of drugs done on the basis of efficacy, safety and quality is a regulatory decision that permits marketing a new product subject to compliance with regulations affecting drug licensing, accreditation and approval. These are subject to strong lobbying and corrupt practices on the part of pharmaceutical companies seeking to gain entry into the national / state list of essential drugs and medicine and to secure orders. Collusion among bidders to secure higher prices and kickbacks from suppliers to reduce competition and influence selection are dangers inherent in the system. Rather than paying the most competitive price which the government as the single largest consumer of medicines and other supplies can command instances are not wanting where supplies are contracted even at prices above their maximum retail price or the statutory price notified by the National Drug Pricing Authority. Receiving drugs which are "not of standard quality" or are sub standard or spurious or time expired which have the potential of endangering human lives are among the most serious types of corrupt practice in the health sector. Intentionally indenting for costlier patented drugs when equally efficacious generic substitutes are available is another source of leakage of government revenues. Purchase of expensive equipment and technologies and major constructions involving facilities are very potential sources vulnerable to corruption. Non delivery of contracted supplies by the party given the contract and falsification of records and receipt books; theft of medical supplies and equipment for personal use, private practice or resale and falsification of utilization records or creation of bogus patients are secondary instances of corrupt practice occurring in the pharmaceutical supply chain. Local purchases for so called emergency requirements and to meet shortfall of essential drugs is an area where clear guidelines are wanting and there is failure to follow competitive procedures leading to purchase at non competitive prices of substandard quality from preferred sources. In short, bribery is resorted to in order to influence decisions in relation to the nature of the drugs, consumables and equipments purchased, the price payable, quantity to be ordered, quality standards, terms of delivery and payment are encountered in the pharmaceutical supply chain.

Informal payments are a common form of corruption in health service delivery which brings great disrepute to the system; but does not result in loss to government. By its very nature being a matter of well being and life and death, informal payments are often motivated by gratitude and not the result of premeditated prior demand on the part of the health givers or the workers in the chain of service delivery. Bribes may be paid as speed money or demanded to provide a discretionary or an undeserving benefit, right or

concession, in order to get out patient advice or admission as in-patient, to secure medicines, to ensure proper care from health workers etc. Some view even speed money as a mild form of extortion. When bribery assumes the form of extortion it becomes offensive to the victim particularly in the health sector where it is a matter of life and death. There have been instances of demand for money even for delivering dead-body after a tragic post-mortem from public hospitals. Unprofessional conduct on the part of medical officers involving breach of oath and conflict of interest are observed in the furtherance of private practice, in prescribing unnecessary drugs, costly, proprietary rather than generic drugs, avoidable tests and in favouring particular drug companies, diagnostic firms or drug stores for which kickbacks are collected. Illicit use of public facilities for private practice and self referral are other grave forms of corruption apart from absenteeism, delayed attendance, non residence at the place of posting, all of which add to the travails of the patients, even though they cannot be construed as corruption in the monetary sense. All the same they amount to serious misconduct and might even mean criminal negligence considering the risk involved in cases of causalities treatment.

Personnel management in health services sector is also an area with risk of corruption where administrative staff extorts money from the medical profession and health workers in the course of official dealings with them. Such instances are observed even in matters of transfers and postings and other service matters. Corruption has been noticed in inflated diet charges for inpatients in hospitals. The Drug Control Administration which discharges regulatory functions of licensing, quality control and price regulation is particularly prone to corruption.

Measuring Corruption

Measuring and documenting the frequency, magnitude and impact of corruption in the operation of the health system in the country and an understanding of the governance and institutional context in which the system operates are essential requirements preparatory to evolving a credible mitigation strategy set against the broad anti corruption strategic policy framework. A desk review has been attempted with the help of the office of the Andhra Pradesh Vigilance Commissioner, the Chief Vigilance Officer and the Strategic Policy and Implementation Unit of the Health, Medical and Family Welfare Department of the Secretariat. A brief review of public opinion surveys has also been made in order to indicate the level of health sector corruption in the State vis-à-vis the other sectors; and with reference to other States.

Corruption Perception Index

The Corruption Perception Index compiled annually by the Transparency International is a survey of surveys reflecting the perceptions of a range of international organizations which is helpful to get a broad indication of risk rating for corruption across countries in any given year. But this is not useful in arriving at the specific risks to public financial management system of a country. It indicates the perceptions of the degree of corruption prevailing in the country based on survey of business people, academics and risks analysts, ranking countries on a 0-10 scale; the higher the score the cleaner the country. The following is the year-wise ranking for the period 1995-2005.

Table A10.1: Corruption Perception Index and Rank of India, 1995-2005

Year	No. of Countries Covered Total	Corruption Perception Index	Country Ranking
1995	41	2.78	35
1996	54	2.63	46
1997	52	2.75	45
1998	85	2.9	66

1999	99	2.9	72
2000	90	2.8	69
2001	91	2.7	71
2002	102	2.7	71
2003	133	2.8	83
2004	146	2.8	90
2005	159	2.9	88

Source: Corruption Perception Index, Transparency International, Berlin

Citizen Feedback Surveys

The corruption perception index, though relevant and gives an overall view, it cannot be used for identifying areas that need to be tackled or for planning activities and undertaking measures targeting corruption. Therefore need arises for specific national and State level assessments of actual plight of the common man.

South Asia Survey of Corruption

Specific country surveys have been made about sectoral corruption in India. Transparency International conducted a citizen feedback survey in five countries in the Indian subcontinent in 2002, which was the first regional survey of its kind in South Asia measuring the extent, spread and intensity of corruption in seven key sectors viz., education, health, power, land administration, tax, police and judiciary. From a user perspective the main findings of the survey were as follows:

- Education, health and power emerge as the three most commonly used public services across the region from the seven services probed. For a large percentage of the population, public institutions are the sole providers of these services.
- The police is generally perceived to be the most corrupt sector in four out of five countries in the region. In Nepal, it is perceived to be the third most corrupt after land administration and customs.
- However, experiences of actual users of services highlight that the police and the judiciary come out as the two most corruption prone sectors, followed by land administration and education.
- Middle and lower level functionaries are identified as the key facilitators of corruption in all sectors probed.
- An analysis of the nature of corruption finds extortion to be the most prevalent form.
- A lack of accountability and monopoly power are quoted as the major factors contributing to corruption in public services.

The survey shows the following scores for the selected sectors.

Table A10.2: A Corruption Scorecard for the Sectors

Country	Education	Health	Power	Land Admin.	Tax	Police	Judiciary
Bangladesh	40	58	32	73	19	84	75
India	34	15	30	47	15	100	100
Nepal	25	18	12	17	25	48	42
Pakistan	92	96	96	100	99	100	96
Sri Lanka	61	92	Sample too small	98	Sample too small	100	100

The above table showing percentage of respondents reporting corruption in interactions with the sectors reveals that the three top corruption prone sectors according to user feedback for India are police, judiciary and land administration when compared to

education, power and health. In so far as health sector in India is concerned, the least number of people encountered corruption among the other countries.

Corruption Survey of India, 2002

Transparency International survey done through ORG – Marg covered 5000 citizens in the country in 2002 by interviews house to house. Based on this survey which did not cover high level collusive corruption, it was estimated that a sum of Rs26,768 crores was extracted from citizens who interacted with the 10 sectors viz., education, health, law and order, power, telephone, railways, land and building administration, judiciary, taxation and public distribution system. The survey revealed police to be the most corrupt. However the impact of corruption was much more in the health and education sectors involving far greater segment of the population. The major findings were:

- The Telecom Sector is perceived to be least corrupt, followed by Railways
- In the East, Health is perceived to be most corrupt sector while Police is the most corrupt sector in the West compared across zones and across other sectors.
- Ration in the South and Power in the East are among the more corrupt sectors.
- Health and the power sectors are perceived to have the maximum impact on society taking into consideration their extent of interaction with the public.

The survey found that in all but Sri Lanka most payments were ex-anti demands from providers and that bribes were required for admission to the hospital to obtain a bed and to receive subsidized medication. In Bangalore it was revealed that informal payments were made to ensure proper treatment but they were typically demanded by providers and 51% of those interviewed indicated that they had paid bribes in government hospitals; but that they also paid in the private hospitals.

CMS Index of Corruption Perception in Indian Cities

The Centre for Media Studies prepared a Corruption Perception Index for seven public services in the four metros of the country and Hyderabad City in the year 2003 covering the respective municipal corporations, public distribution system, transport, electricity, hospital services and customs and excise and railways which revealed that health sector in the city of Hyderabad which belonged to the civic body itself!

Table A10.3: Corruption Perception Index – Hyderabad City^{lviii}

Department	Score	Rank
Municipal Corporation	9.41	1
Electricity	7.64	2
Hospital	6.94	3
Driving License (Transport)	6.62	4
Customs and Excise	6.13	5
Ration Card & PDS	5.97	6
Railways	5.87	7

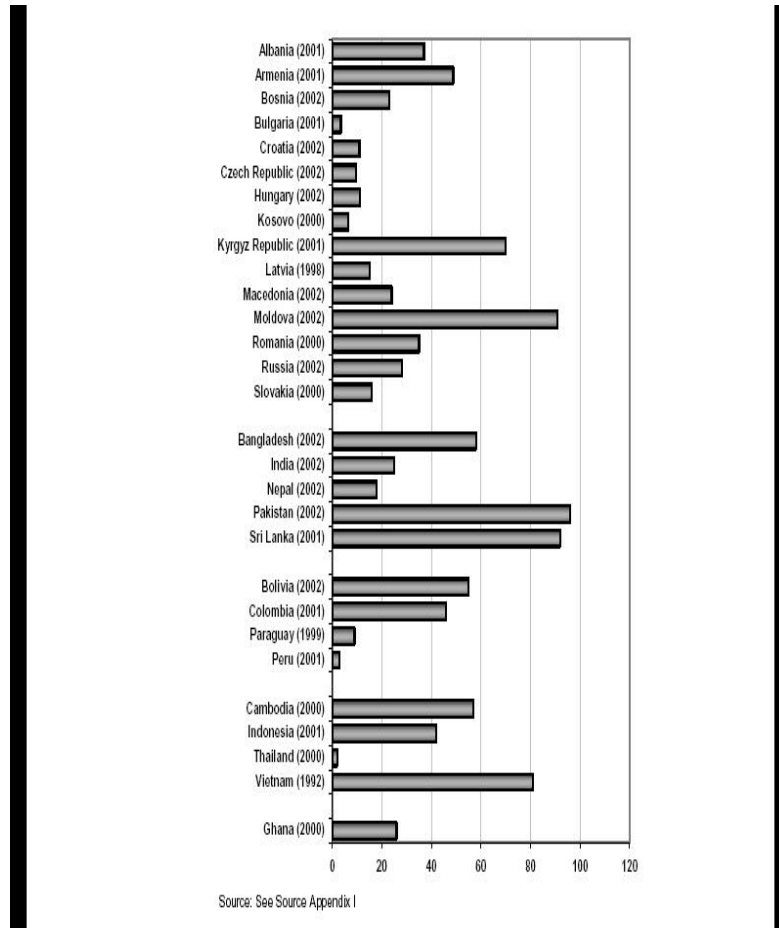
Cross Country Analysis of Informal Payments in Health Sector

The following graph from the Working Paper 78 “Governance and Corruption in Public Healthcare Systems” by Maureen Lewis of the Centre for Global Development 2006 summarizes the frequency of informal payments to public healthcare workers among users of public services in various countries in South America, Europe and Asia based on survey data pertaining to mostly 2001-02. The source relating to India is from the

^{lviii} Score of 10 indicates higher levels of corruption and 0 indicates lower level of corruption. Scores based on responses from the Hyderabad Citizens.

Transparency International Survey, 2002. The frequency range is enormous from 3% in Peru to 96% in Pakistan. Even though regionally South Asia stands out for its heavy reliance on informal payments, it shows India in a better light when compared to its neighbours.

Figure 3: Proportion who make Informal Payments among Users of Health Services



India Corruption Study 2005

The India Corruption Study 2005 is the fourth in the series conducted by the Centre for Media Studies, New Delhi. A very significant finding of the study is that there is a mismatch between the perception that corruption is increasing and actual experience. While popular perception is that corruption has increased the study found that the experience suggests otherwise, in so far as much lesser percentage had to pay bribe to avail public services in 2005 when compared with the situation in 2002. Only 19% of the citizens paid bribes in government hospitals, while the percentage was 32 in 2003 and 45 in 2002 as shown in the statement below:

Table A10.4: CMS Corruption Track - Percent of citizen who paid bribes*

Service	Experience of Corruption		
	2002	2003	2005
Electricity	56	47	21
Municipalities	65	62	53
Hospitals	45	32	19

PDS	-	41	21
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*Matching sample from Delhi, Kolkata, Chennai and Hyderabad

11 Public services, need based and basic were ranked for the purposes of the survey as follows:

Table A10.5: Ranking of Public Services

Corruption Index and Ranking of Services			
Nature of Interface	Composite Index	Rank	Key Areas of Corruption
NEED BASED			
RFI* (Farmers)	22	1	<ul style="list-style-type: none"> • Loan Approval (81%) • Documentation (12%) • Surety (4%)
Income Tax (Individual Assesses)	35	2	<ul style="list-style-type: none"> • Filing Returns (43%) • IT Refund (21%) • Under Assessment (13%) • New PAN Card (12%)
Municipal Services	47	3	<ul style="list-style-type: none"> • Building Plan Approval and Modification (51%) • Certificate/Renewal of License/Property Survey (32%) • Reducing Property Tax (13%)
Judiciary	59	4	<ul style="list-style-type: none"> • Favourable Judgment (23%) • Speeding Up (23%) • Affidavit/Registration (14%) • Obtaining Bail (14%)
Land Administration	59	5	<ul style="list-style-type: none"> • Registration (39%) • Mutation (25%) • Tax Dues (12%)
Police (Crime / Traffic)	77	6	<ul style="list-style-type: none"> • Registering FIR (47%) • Traffic Violation (16%) • Avoidance of Notice / Arrest (11%)
BASIC			
Schools (up to 12 th)	26	1	<ul style="list-style-type: none"> • Fee Exemption (33%) • Issue of Certificate (28%) • Admission (26%)
Water Supply	29	2	<ul style="list-style-type: none"> • New Connection (54%) • Restoration of Water Supply (12%) • Water Tanker (7%)
PDS (Ration Card / Supplies)	37	3	<ul style="list-style-type: none"> • Issues of New Ration Card and Changes (62%) • Overcharging for Supplies (24%)
Electricity (Consumers)	39	4	<ul style="list-style-type: none"> • New Connection (27%) • Correction of Bill (25%) • Attending to Complaints (11%)
Government Hospitals	42	5	<ul style="list-style-type: none"> • Getting Medicines (29%) • Getting Admission (22%) • Consultation / Treatment (17%) • Diagnostic Services (13%)

* RFI – Rural Financial Institution

Low Composite Score = Low Corruption

This shows that need based services are more corrupt than basic services. Police is ranked as the most corrupt.

The interstate position of usage of government hospitals and corruption therein is reflected in the following statement:

Table A10.6: Usage of Government Hospitals and Corruption

States	Percent of Households using Government Hospitals	Corruption Index for Government Hospitals
Bihar	41	50
Haryana	51	32
Rajasthan	55	29
Tamil Nadu	63	29
Uttar Pradesh	46	29
Madhya Pradesh	54	28
Jammu & Kashmir	36	27
Gujarat	42	26
Chattisgarh	54	25
Assam	62	25
Maharashtra	40	24
Jharkhand	51	23
Delhi	44	23
Orissa	67	18
West Bengal	71	18
Karnataka	65	16
Punjab	56	16
Andhra Pradesh	58	15
Himachal Pradesh	77	12
Kerala	45	5

Source : India Corruption Study 2005

The above table reveals that among the states Andhra Pradesh is the third least corrupt state in regard to usage of government hospitals where 58% of the households were found to be using government hospitals. The states which faired better among all the 20 states were Kerala and Himachal Pradesh.

As per the composite ranking of the states on petty corruption involving common citizen in relation to the eleven public services Kerala stands as the least corrupt with Rank No 1 followed by Himachal Pradesh and Gujarat with Ranks 2 & 3, Andhra Pradesh being ranked with a composite index of 421 and Rank No 4 among 20 States. Government hospitals and water supply services being ranked more corrupt in comparison to other services in the State.

Table A10.7: Ranking of States

State	Composite Index	Rank
Kerala	240	1
Himachal Pradesh	301	2
Gujarat	417	3
Andhra Pradesh	421	4
Maharashtra	433	5
Chattisgarh	445	6
Punjab	459	7
West Bengal	461	8
Orissa	475	9
Uttar Pradesh	491	10
Delhi	496	11
Tamil Nadu	509	12

Haryana	516	13
Jharkhand	520	14
Assam	542	15
Rajasthan	543	16
Karnataka	576	17
Madhya Pradesh	584	18
Jammu & Kashmir	655	19
Bihar	695	20

Note : High value of corruption index = more corrupt

Source : TII-CMS Study 2005

In the states with good performance on health indicators prevalence of irregularities is much lower than the states performing poorly in regard to availability of medicines, self referrals, over prescription, demands for bribe, unnecessary tests and absence of doctors. In the Southern States including Andhra Pradesh all these irregularities are on a much lower scale when compared to others. It is pertinent to note here that the study focuses on bribes paid by common citizens to avail services of government hospitals but does not take into account bribes paid by business houses and other institutions in regard to procurement.

UNDP Health Index

Andhra Pradesh has been classified by the UNDP as a medium performing state with Health Index Ranking at No 6 out of 16 States in which Kerala Ranks No 1 and Rajasthan Ranks No 16.

Governance Indicators

Jeff Huther and Anwar Shaw estimated in 1998 quality of governance index based on a citizen's perception index, a government orientation index, a social development index and an economic management index which is three tiered viz., good, fair and poor and applied it to 80 countries and rated them according to the quality of governance viz., good, fair or poor. India got a quality index of 43 and was considered a fair governance country, with the top index of 75 assigned to Switzerland and bottom with 20 to Sudan.

The scores assigned to India for the selected governance indicators in the Human Development Report 2002 of UNDP are given below:

Table A10.8: Key Governance Indicators for India

Country	Selected Governance Indicators					
	Policy Score	Press Freedom	Voice & Accountability	Law & Order	Govt. Effectiveness	Graft Corruption
India	9	42	0.66	4.0	-0.17	-0.39

In the above table polity score reflects the presence of the institutional factors necessary for democracy and scores range between (-10) to 10 depending on the authoritarian or democratic nature of governance. Press freedom score is derived from Freedom House and ranges between 0 – 100. Score between 0-30 means a free press, between 31-60 a partly free press and above that press that is not free. Voice and accountability, government effectiveness and graft corruption are measures of the World Bank based on a statistical compilation of perceptions of the quality of governance ranging between -0.25 to 2.5 (higher being better). The law and order measure derived from International Country Risk Guide ranges from 1-10 (here again higher means better).

Governance Dimensions

Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi of the World Bank have estimated six dimensions of governance viz., voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption covering 199 countries and territories for four time periods : 1996, 1998, 2000 and 2002 based on several hundred individual variables measuring perceptions of governance drawn from 25 separate data sources constructed by 18 different organizations. These governance indicators are drawn from the broad definition of governance (as the traditions and institutions by which authority in a country is exercised) which includes (1) the process by which the government is selected, monitored and replaced (voice and accountability and political stability), (2) the capacity of government to effectively formulate and implement sound policies (government effectiveness and regulatory quality), and (3) the respect of citizens and the State for the institutions that govern economic and social interactions among them (rule of law and control of corruption). The governance estimates are distributed with a mean of zero and standard deviation of 1 in each period implying that virtually all scores lie between -2.5 and 2.5, with higher scores corresponding to better outcomes. In so far as India is concerned the following poor picture emerges except in respect of voice and accountability, and to an extent, rule of law:

Table A10.9: Governance Indicators over Time – India

Indicators	2002	2000	1998	1996
Voice and Accountability	1.52	1.44	1.36	1.38
Political Stability	-0.84	-0.35	-0.34	-0.55
Government Effectiveness	-0.13	-0.05	-0.13	-0.16
Regulatory Quality	-0.35	-0.16	-0.08	-0.13
Rule of Law	0.07	0.23	0.21	-0.01
Control of Corruption	-0.25	-0.21	-0.17	-0.29

Government effectiveness includes (a) quality of public service provision, (b) quality of bureaucracy, (c) the competence of civil servants (d) the independence of the civil service from political pressures and the credibility of the government's commitment to policies. Control of corruption measures perceptions of corruption, i.e., (a) additional payments to get things done (b) effects of corruption on business environment (c) grand corruption in political arena or in the tendency of elite firms to engage in State capture. The presence of corruption is often a manifestation of a lack of respect of both the corruptor and the corrupted for the rules which govern their interactions and hence represents a failure of governance.

Of the six elements mentioned above voice and accountability, government effectiveness and control of corruption are of particular relevance to the health sector in so far as all these effect, in the words of Maureen Lewis, the environment within which healthcare services function. "Voice and accountability reflect external accountability, the effectiveness of citizen and institutional influences on government action. Lack of voice leaves citizens and territories at the mercy of public sector whims and fancies. They permit communities to be involved in decisions and oversight of healthcare services --- government effectiveness encompasses efficiency of the bureaucracy and the public servants, role and responsibilities of local and regional governments including administrative and technical skills of government, effectiveness of policy and programme formulation, governing capacity and effective use of resources --- control of corruption captures the extend and nature of corruption among public officials including nepotisms,

cronyism and bribes among civil servants, irregularities in public purchasing and oversight and nature and extent to which government manages corruption (Maureen Lewis).

National Integrity System

As a prelude to identifying the elements of an effective anti-corruption strategy, Transparency International has popularized the concept of “National Integrity System” comprising those institutions or sectors (Pillars) which, when operating with high standards of effectiveness, transparency and accountability, support each other to maintain high standards of integrity and low levels of corruption which sustain the overarching values of rule of law, sustainable development and quality of life. Policy responses to corruption typically involve strengthening these pillars of national integrity system in a carefully sequenced strategic frame. An analysis of the key systemic weaknesses in the major pillars of the national integrity system enables one to design suitable measures to counter such systemic weaknesses which perpetuate corruption. The most common “integrity pillars” of a nation to provide good governance include:

- The political system, the Parliament and Legislatures,
- the political executive at the national, intermediate and local levels,
- The civil service,
- The judiciary, rule of law and the legal system,
- The watchdog agencies (the Election Commission, the Supreme Audit Institution, Ombudsman, the Public Service Commissions and the Anti-Corruption Agencies),
- Public awareness and participation of civil society, the professions and the private sector,
- The Mass media, and
- The international agencies.

Together they provide the institutionalized horizontal and vertical accountability mechanisms. The basic foundations of the pillars would be societal values and public awareness. Corruption proofing of the pillars is sought to be achieved by incorporating the core rules and practices like avoidance of conflict of interest, independence of judiciary, rule of law and judicial review of executive actions, free and fair elections, political leadership with political will, independent audit, public reporting and securing accountability in executive decision making, public service ethics, access to and dissemination of information, right to information, freedom of speech, public awareness and citizens voice, enforcing of laws, competitive private sector and international cooperation.

A bird's eye view of the governance institutions of the country, as conceived in the Constitution, and the way they have evolved over time and stand at present, reveals that the country has a very sound institutional framework. As a result India is today the biggest functioning and a dynamic democratic system in the world. As things stand today vitality of some of these institutions have significantly lessened needing reinforcement by corrective steps. Effective action is necessary to stem the tides of decay even though the democratic institutional framework in the country is strong enough to withstand the corroding effects of corruption and is capable of exposing misdemeanor.

The lack of political will to enforce the constitutional, legal and the institutional provisions; available to combat corruption is one of the major factors responsible for the rise and spread of corruption in India. Higher Judiciary is today the most effective institution of the democratic system of the Republic for which people have great respect. Judicial independence and rule of law are the bedrocks of the Indian democratic system. The Public Interest Litigation or Social Action Litigation as it was originally called, which has

the effect of relaxing the requirement of locus-standi, initiated by a concerned citizen is a powerful weapon now in the hands of citizens and civil society groups for moving the highest courts to enforce fundamental rights. The legislation envisages and ensures a nation-wide framework in this regard. Consumer Courts, Fast Track Courts, Family Courts and Lok Adalats are also welcome developments. Weaknesses are the unimaginably large number of pending cases before the courts, long delay and the high cost of litigation particularly for the poor. Inbuilt dilatory procedural rigmarole and layers of appeals, revision and review provided in the procedure codes, and adjournments at the drop of a hat make the system costly and time consuming.

Accountability of the Executive to the other limbs of government is sought to be achieved through the mechanism of horizontal accountability to the Legislature and Judiciary. Legislature oversees the executive functions through its deliberations viz., budget discussions, questions and call attention motions and through its committees more important among which are the Public Accounts Committee, the Public Enterprises Committee, Assurances Committee, Grievances Committee and the like. In the case of Parliament, in addition, there are the department related committees. The Comptroller and Auditor General who audits the accounts of the Union and the States presents its Annual Report to the Parliament and respective Legislatures and the PAC follows up and reviews the action there on where the officers are required to appear and explain.

Judicial accountability of administrative action is an integral part of the accountability mechanism where actions of the executive are subjected to scrutiny and those that are ultra virus the constitution, mala-fide or violating of safeguards provided in the relevant act of the Parliament or Legislature as the case may be set aside or modified. Thus the judiciary exercises an effective check on the abuse of an administrative power or encroachment on fundamental rights. An interesting offshoot of such delay or disregard on the part of executive is the latest mechanism of a continuing writ to oversee the process and adequacy of compliance of directions. The inertia of the Executive has led to judicial activism which is at times being rightly questioned as transgressing the constitutional boundaries. Atmosphere does not permit a vacuum!

The Election Commission of India, the Comptroller and Auditor General together with the Accountants General in the States, and the Union Public Service Commission and the State Public Service Commissions are three independent constitutional authorities entrusted with supervision, control and direction of the conduct of elections to the Parliament and the State legislatures; audit of the accounts of the Union and the States; and Civil Service recruitment and discipline respectively. The Comptroller and Auditor General of India stands at the pinnacle of the financial accountability pyramid of the Indian constitutional structure. He is the Supreme Audit Authority in the country created under the provisions of Article 148 to 151 appointed by the President and removable only by impeachment proceedings in order to ensure full independence of his action. CAG's reports are presented to the President to be laid before each house of Parliament and reports pertaining to States to the Governor and the State Legislature. The Public Accounts Committee and the Committee of Public Undertakings of the Parliament and the State Legislatures examine these reports with the aid of the CAG and his officers and fixes responsibility on the executive for inactions, omissions and commissions including irregularities noticed in the course of the audit. The CAG audit together with the PAC system is the biggest financial safeguard against corrupt practices and provides horizontal accountability of the Executive to Parliament and the respective legislatures.

The media is capable of playing critical roles in the fight against corruption. Given conducive circumstances it can seek out information, help build public awareness, change social attitudes and provide 'voice' to citizens to demand accountable and transparent government. Media also can investigate, expose and track of cases of

corruption and act as a deterrent as well as monitoring and combating tool. Thus fourth estate can be an important limb of the governance structure of a country with responsibility to keep an eye on the legislature, the executive and the judiciary. In the process it helps improve credibility in State institutions. Media is a main stay of Indian democracy in so far as it is immense in its coverage and has been fearless and critical and capable of playing an adversarial role and has been acting as a watchdog on the institutions and government with informed comment and criticism and occasional exposure. Editorials which are forthright, bold, evaluative and critical appear in the press. Visual media has added television shows, talk shows and interviews to this repertoire. Lastly the internet has also begun playing a constructive role.

Civil society organizations capable of playing a vital role in the task of prevention of corruption involving change of the present public apathy and tolerance of corruption, creation of active and widespread public awareness about the pernicious affects of corrupt practices, facilitation of public participation; public private partnership and exposure of corruption and demand for information, transparency, responsiveness and accountability of the government. India does have a tradition of service oriented civil society organizations built on morality and service. Religious institutions engaged in educational and health services, care of the destitute and the old and social reform movements which began in the 19th century primarily aimed at reforming Indian society. The trade union movement began with progressive industrialization. Associations enthused by the freedom movement came into being charged by patriotism. CAPART, a major funding agency for voluntary organizations, is associated with rural development and dissemination of rural technology. Off late foreign contributions have begun playing a major role in the emergence of several civil society groups formed by a generation of volunteers focusing on issues of environment, afforestation, pollution, human rights, women's rights and primary health, education, drinking water, child welfare, sanitation groups focusing on the social reform. Certain NGOs have been inspired by global agendas supported by the FAO, Rio conferences, Vienna Conference etc. Advocacy engaged in by these organizations involves "informing, influencing, ordering, modifying, implementing, discarding and resisting or encouraging public policy". Grass root organizations are creating a pressure for transparency and questioning the over- lordship of government, challenging its priorities and procedures and pressurizing for openness and responsiveness. The most successful example of such a movement is the one spearheaded by Mazdoor Kisan Shakthi Sanghatan (MKSS).

The Transparency International's 2003 critique of the National Integrity Systems of India finds that "political and administrative institutions in India are strong and independent to a great extent. The Supreme Court, the High Courts, the Election Commission, the CAG, the Union Public Service Commission, the Central Vigilance Commission and the National Human Rights Commission have all proved their mettle -The civil society has scored over many hurdles and valiantly contested cases in various areas, especially pertaining to the rights of the dispossessed, the forgotten, the weaker sections of the society, gender discrimination and corrupt practices. The media is active, relatively free and has exposed many a scandal. However, the study comes to the conclusion that "more has to be done in the area of political and electoral, judicial, legal, administrative and institutional reforms as well as acknowledging the role of the civil society". Its overall assessment is that "India has a strong potential of being a reasonably corruption free society, if politicians accept corruption as a serious problem and consciously take measures to deal with it. If this does not happen there is hope in the institution of the judiciary and the civil society to bring about structural changes for forcing reform. The bureaucracy can also construct its own framework of rules, procedures, actionable code of conduct as to enforce norms of probity, transparency and openness".

National Legal Framework for Probity in Public Life

Rules of conduct for public servants have been framed, in exercise of the powers conferred by the Constitution, to regulate and ensure good conduct and probity in public life. Criminal misconduct of a public servant is sought to be taken care of through the enforcement of the Indian Penal Code 1860 and the Prevention of Corruption Act 1988 in accordance with the Indian Evidence Act 1872, the Criminal Procedure Code 1973 and the Criminal Law Amendment Ordinance 1944. The police department is in-charge of investigation and prosecution of common law offences like criminal conspiracy to defraud, forgery, misappropriation, theft of public property and the like. The economic offences wing of the CID is entrusted with more serious cases of misappropriation. Investigation and prosecution of corruption cases within the ambit of Prevention of Corruption Act 1988 is entrusted to the Anti Corruption Bureau reporting to General Administration Department through the Andhra Pradesh Vigilance Commissioner, trial of such cases being done by five special courts functioning in different parts of the State.

Vigilance Organizations in the State

The Andhra Pradesh State has an elaborate and well integrated structure of vigilance institutions built around the Indian constitutional system. The organizations responsible for anti corruption measures and maintenance of integrity in public life in the State are:

- The General Administration Department which is the nodal department in the Andhra Pradesh Secretariat for anti corruption;
- The Anti Corruption Bureau which is the investigating agency for cases under the Prevention of Corruption Act, 1988;
- The Directorate General of Vigilance and Enforcement – an external inspecting and enquiry agency for detection of and enquiry into leakage, waste and misuse of government funds and resources of the State;
- The Andhra Pradesh Vigilance Commission - the oversight body in charge of preventive, punitive and public participation measures for anti corruption;
- The Institution of Lokayuktha and Upa-Lokayuktha - a statutory organization to enquire into allegations against ministers and specified public servants.

The Chief Secretary to Government in the General Administration Department coordinates anti corruption work in the government departments and the instrumentalities of government with the assistance of the investigative arms viz., the Anti Corruption Bureau and the Directorate General of Vigilance and Enforcement and a Statutory Domestic Enquiry Agency viz the Tribunal for Disciplinary Proceedings. It is the nodal department for the Lokayuktha and the Andhra Pradesh Vigilance Commission which has under it the Commissionerate of Inquiries to conduct domestic enquiries against government servants.

The Anti Corruption Bureau

The Anti Corruption Bureau (ACB) is the investigating arm of the Government in respect of all complaints relating to corruption and criminal misconduct under the Prevention of Corruption Act, 1988. The ACB undertakes, suo motu or on reference from the Government or the Vigilance Commission, discreet / detailed enquiry into complaints, investigates cases under the Prevention of Corruption Act 1998 including cases of disproportionate assets, lays traps on known corrupt officers and conducts life style checks, searches and surprise inspections. It is competent to conduct investigations not only against Government servants but also other public servants who are employees of various State public sector undertakings, statutory corporations, government companies and local authorities. Where the Institution of Lokayuktha is seized of a matter the ACB will not investigate. The Bureau has suo moto powers of investigation of offences of

Prevention of Corruption Act 1988. All reports of the ACB are sent to the concerned department in the Secretariat through the Vigilance Commissioner, who in turn forwards it to the department concerned with his recommendation. The ACB is required to send monthly reports and annual reports on the progress of disposal of enquiries and criminal prosecutions to the government marking copy to the Vigilance Commission. In all cases of corruption or criminal misconduct investigated by the ACB, criminal proceedings have to be conducted by Judicial Offices exercising powers of a sessions judge. Special Courts have been designated specially for the purpose. There are presently five courts located at Hyderabad, Vijayawada, Visakhapatnam and Nellore. Proposal for establishment of two more courts at Warangal and Kurnool are pending consideration since a long time. Cases of misconduct considered not fit for being prosecuted in a court of law enquired into by ACB, DG V&E and departments themselves, are subjected to disciplinary proceedings under the Andhra Pradesh Civil Services(CCA) Rules, 1991 or under the Andhra Pradesh Tribunal for Disciplinary Proceedings Act, 1960. Depending on the gravity of the charges and strength of evidence, the Tribunal for Disciplinary Proceedings, or a Commissioner of Inquiries under the Commissionerate of Inquiries within Commission or a departmental inquiry officer appointed by the department concerned for the specific purpose is entrusted with the enquiry on the advise of the Vigilance Commissioner. In a case enquired into by the Andhra Pradesh Lokayuktha or the Upalokayuktha following the procedures prescribed under the Act and the Rules thereunder, no further procedure under the CCA Rules need be followed except to furnish a copy of the enquiry report calling upon the officer to showcause before awarding punishment. An enquiry or investigation against an All India Services Officer or a Head of the Department can be initiated only at the instatnce of or with the prior approval of the Government at the highest level which conscripts the effectiveness of the ACB and the VC

The Directorate General of Vigilance and Enforcement

The Directorate General of Vigilance and Enforcement is a relatively new enforcement agency set up through an executive order in June 1985 as part of the General Administration Department under an Additional Director General of Police with exofficio status of Principal Secretary to Government to conduct enquiries or investigations into specific allegations affecting public interest and to take effective measures on its own and with the help of other vigilance bodies, organisations and departments of government to prevent leakage of revenues, detect misuse or wastage of governemnt funds and resources, prevent of loss of State's wealth and natural resources; and losses, wastage and graft in public sector undertaking and government companies . The reports of the Directorate General of Vigilance and Enforcement having a vigilance angle are now required to be sent to government through the Vigilance Commission with his advise. Departments are required to take action on the enquiry reports and where vigilance aspect is involved to take into account the advise of the Vigilance Commission. The Commission received a list of 194 important cases of previous years pending with the departments to enable it to appraise itself of the status of enquiries by DG, V & E in the departments concerned upon the issue of orders bringing the DG, V&E within the ambit of the Commission. During the year 2003-2004, 62 enquiry reports were received from the DG V & E by the Commission.

The Andhra Pradesh Vigilance Commission

The Andhra Pradesh Vigilance Commission came into being in June, 1964, as an independent advisory body through an executive order to deal with prevention of corruption and maintenance of integrity in the public services, ensuring just and fair exercise of administrative powers vested in various authorities under the State Government. It has been in existence eversince except during the later part of the 1980s

till the middle of the 1990s. The Commission comprises a single member, designated as the Andhra Pradesh Vigilance Commissioner, appointed by a Warrant of Appointment by the Governor on the advice of the Government. The ACB and the DGV&E are functionally subordinate to the Commission in so far as all their reports go to departments through it with its advice. In the event it is proposed by the Government to deviate from the advice of the Commission the case has to be circulated to the Chief Minister for his approval through the Chief Secretary as contemplated in the Business Rules. The Annual Report of the Commission in which all cases where the Government did not accept its advice and cases of non-consultation shall be included has to be laid on the table of the Legislature together with a memorandum by the Government explaining the reasons for non-acceptance of the advice.

The Commissionerate of Inquiries hitherto functioning independently has now been brought under the administrative control of the Commission. It conducts disciplinary inquiries in respect of senior officers and grave cases entrusted to it on the advice of the Commission by the departments under the All India Services Discipline and Appeal Rules and the Andhra Pradesh Civil Services Classification, Control and Appeal Rules. The Commission used to deal almost exclusively with punitive vigilance. The original set up was not capable of undertaking preventive vigilance work even though it had been mentioned as a field of functioning. Hence the Commission secured sanction for a Chief Technical Examiner's organization under it, as in the case of the Central Vigilance Commission, to assist in the investigation and examination of vigilance cases involving works and supplies, to undertake concurrent technical audit of works, to do system studies to suggest measures to prevent corruption, to strive to eliminate leakages in public expenditure with jurisdiction co-extensive with that of the Commission. It has power to inspect any work in the State and to call for information and data to enable effective discharge of its functions. It may also assist the Director General, ACB and the Director General, Vigilance & Enforcement wherever necessary in cases investigated or enquired into by them. It may also be entrusted with enquiry into the complaints relating to corruption in public works. A Preventive Vigilance Wing has now been agreed to in the Commission, to examine practices and procedures in Government Departments and public bodies with a view to identifying areas of corruption and to suggest measures for prevention of corruption, in close association with the departments, public enterprises and other autonomous bodies. Realizing the need to enlist public support in the Government's drive to prevent corruption in administration and to educate the public in combating corruption, the Commission proposed, and the government agreed to a Community Relations Wing in the Commission. This wing will map out strategies for promoting public awareness of anti corruption work, disseminate anti corruption messages through the mass media and the educational institutions, engage in face-to-face contact with the public, and involve civil society bodies in promoting probity in public life.

The Scheme of the Vigilance Commission stipulates that there shall be a Chief Vigilance Officer for each Secretariat Department and Vigilance Officers in all offices of the Heads of Departments, Government Undertakings / Government Companies and such other Institutions as may be notified by the Government from time to time including in the regional and local levels. The District Collector of each District is supposed to function as the Chief Vigilance Officer within his jurisdiction. The preventive and punitive vigilance functions of the CVOs and VOs have been comprehensively dealt with in Government Order No 104 GA (Special B, department dated 4.4.03). A management information system has also been devised in respect of complaints, newspaper reports and CAG's findings on irregularities and corruption on the part of public servants, domestic enquiries, cases of corruption and criminal misconduct to monitor progress and to report to the Legislature. Presently except a hand full of officers, all CVOs and VOs are part-time officers appointed by the department concerned. Progressively there will have to be full

time officers in major departments appointed with the concurrence of the Vigilance Commission, being persons of unimpeachable integrity, lest the fence itself starts eating the crop.

The Institution of Lok Ayuktha and Upa Lokayuktha

The Institution of Andhra Pradesh Lokayuktha and Upa Lokayuktha was constituted under the Andhra Pradesh Lokayuktha and Upa Lokayuktha Act, 1983. The Institution is competent to investigate any 'action' taken by or with the general or specific approval of, or at the behest of a public servant any case where a complaint involving an allegation is made in respect of such action. After investigation it communicates its findings to the competent authority who is required to take action on the basis of recommendation within three months after furnishing a copy of the investigation report to the person enquired in order to make a representation. Where the recommendation is for imposing penalty or removal from office of an elected functionary government shall take action accordingly upon which he shall be ineligible for being elected to any office specified by government thereafter where the Lokayuktha or Upa Lokayuktha is not satisfied with the action taken by the competent authority, he may make a special report to the Governor and a copy thereof shall be placed before the Legislature by the government with an explanatory memorandum thereon. In the two decades of its existence there has been no report on any case of significant misdemeanor on the part of a public person of standing.

The Health, Medical & Family Welfare Department Structure

The HM&FW Department in the Secretariat under a Principal Secretary, reporting to the Health Minister, is at the apex of the medical and health infrastructure in the State consisting of five heads of departments viz., the Director of Medical Education, Commissioner Family Welfare, Director of Health, Commissionerate of Ayurveda, Yoga, Unani, Siddha and Homeopathy systems of medicine and the Director General Drug Control Administration; the Institute of Preventive Medicine; the statutory body Andhra Pradesh Vaidhya Vidhana Parishad; four Corporations and Societies viz., the State Aids Control Society, the Health, Medical, Housing and Infrastructure Development Corporation, the Yogadhyayana Parishad, the MNJ Institute of Oncology and Regional Cancer Centre; and three autonomous bodies viz., the NTR University of Health Sciences, the Nizam's Institute of Medical Sciences and the S V Institute of Medical Sciences. There are district societies in addition with a greater measure of autonomy than a regular district department office, in charge of certain special programmes like control of tuberculosis, blindness etc. The internal vigilance organization of the Department under a Deputy Secretary to Government in the Secretariat, who is designated as its Chief Vigilance Officer, with part time vigilance officers functioning in all but three of the above institutions. None of the appointments of the Vigilance Officers have been made with the concurrence of the Vigilance Commission.

Expenditure Review of Health, Medical & Family Welfare Department

The Institute of Public Enterprise, Hyderabad conducted an expenditure Review of Health, Medical & Family Welfare Department among others was undertaken for the period 1999-2004 which points out several shortcomings needing attention in order to realize value for money and to ensure better service to the people. This review throws light on the areas requiring attention in respect of the field agencies of the departments.

The following shortcomings were noticed in service delivery through the hospitals and dispensaries under the Department viz., unhygienic conditions in hospitals, short supply of essential drugs and consumables due to paucity of funds, pilferage of drugs and consumables, inflated diet charges, corrupt practice among health workers, non

maintenance of accounts of supply of drugs and consumables, poor supervision and control, absenteeism among doctors and other staff and illegal private practice by medical professionals. In regard to National Aids Control Programme, the study found non correlation of release with targets, non monitoring of functioning of NGOs, and non involvement of district committees in their functioning. Unreconciled expenditure of Rs 71.40 crores in 2001-02, Rs 253.43 crores in 2002-03, and Rs 59.69 crores in 2003-04 was noticed apart from non disbursement of incentive funds under National Maternity Scheme. 71,156 contingent bills for a total value of Rs 94.08 crores were pending at the end of 2003-04.

The Directorate of Drugs Control Administration is the regulatory authority in charge of administering the legislations relevant to the Department with oversight functions relating to manufacture, distribution and sale of drugs and cosmetics. It is charged with the crucial responsibility of ensuring regulation of manufacture and sale of standard quality drugs to the public at statutory minimum prices or at prices not more than the notified prices. The following shortcomings have been identified in this study viz., pendency of over 80% cases requiring prosecution due to lack of administrative will, inability to secure conviction in substantial number of cases and to prevent corruption, failure to and inordinate delays in the analysis of targeted number of samples within the stipulated period of taking the samples due to possible corruption, failure to prevent circulation of enormous number of 'not of standard quality' drugs circulating in the market including supplies to government, non constitution of anti spurious drug squads etc. The department which has been functioning with only 55 Drug Inspectors has decided to recruit some drug inspectors on contract terms to meet the shortage which is a very questionable proposition in view of high susceptibility to corruption among drug inspectors.

The same study has identified the following shortcomings in the functioning of the Andhra Pradesh Health, Medical and Housing Infrastructure Development Corporation viz., inordinate delays in procurement, non transparent processes, omission of essential clauses in tender stipulations, failure to ensure quality of supplies including cases of supply of spurious drugs and delay in the analysis of samples, non publishing list of blacklisted companies, delays in construction etc. This is an organization devoid of any procurement expertise in so far as drugs and other supplies are concerned. Acknowledged international best practices are yet to be put in place. Nearer home there is the example of the best practices followed by the Tamil Nadu Corporation endorsed for adoption by the National Commission on Macro Economics and Health as worthy of being emulated nationwide.

Review of Anti Corruption Efforts in the HM&FW Department

The following statistics was compiled with the help of the Chief Vigilance Officer of the department and the Andhra Pradesh Vigilance Commissioner in respect of anti corruption efforts pertaining to the department. There were 31 complaint petitions and 12 newspaper reports on irregularities pending at the beginning of the year 2005-2006. According to the CAG report there were, for the year ended March 2002, 54 cases of misappropriation reported to audit pending final action in the department for an aggregate sum of Rs 1.46 crores. There were 21 misappropriation cases, 83 cases of discreet and regular enquiries and registered cases, 63 cases of trap, 18 cases of disproportionate assets, and 63 cases of surprise checks by the Anti Corruption Bureau pending punitive follow up action at present in the Department. The surprise checks by the Anti Corruption Bureau related mainly surprise inspections of PHCs and other medical institutions, drug stores, etc. Among the cases under investigation by the Bureau include a serious case of lapses in local procurement of medicines during the decade of 1990s in nearly half of the districts of the State and a case relating to the procurement of drugs by the Corporation. The reports by the Director General of Vigilance & Enforcement pending at the beginning

of the year were 8. The Vigilance and Enforcement Inquiries related to irregularities in the purchase of equipment, lapse of funds and non disbursement of incentive amounts under the Sukhibhava Scheme, lapses in the expenditure of incentive amounts for family planning and corrective operations of physically handicapped, misappropriation of drugs, absence of medical officers and other medical personnel, lapses in regard to testing of blood smears for malaria, procurement of vaccines etc.

According to information furnished by the Commission, the Anti Corruption Bureau had submitted during the year 2004-05 four surprise check reports, 4 regular enquiry reports, 10 preliminary reports and 20 final reports in respect of trap cases involving acceptance of bribes, and a preliminary report and 3 final reports of amassing assets disproportionate to known sources of income by officers of this department. The Commission advised suspension of 8 Gazetted Officers and 3 Non Gazetted Officers based on these reports pending enquiries or investigation as the case may be, prosecution of 15 Gazetted Officers and 7 Non Gazetted Officers and disciplinary proceedings against 2 Gazetted Officers through the Commissioner of Inquiries. The special courts for ACB cases convicted 6 officers during the year 2003-04 for periods up to 2 years of rigorous imprisonment and fine viz., two professors, an assistant professor, a civil assistant surgeon, a deputy executive engineer and a health assistant. There are in all 400 cases covering all types of complaints and irregularities including disciplinary and criminal cases initiated as a result of enquiries/investigations by Directorate General of Vigilance & Enforcement and the Anti Corruption Bureau pertaining to the Medical and Health Department pending at present in the office of the Vigilance Commissioner.

Consequences of Corruption

Corruption in the health sector results in reduction in the resources earmarked for the department, lowers quality of drugs and services provided, adversely affects equity and causing more disproportionate disservice to the poor, imposes informal costs on the citizen for services expected to be provided free, reduces efficiency and decreases effectiveness of the department and severely impacts overall quality of service, retards the realization of millennium development goals and the goal of 'health for all'. Mitigation strategy to tackle the risk of corruption has as its objectives plugging of the leakage of revenue, realization of full value for resources earmarked, improved service delivery, better health and well being of the citizen and punishment of the guilty.

Risk Factors

The foregoing analysis helps one to identify the areas of potential risks of corruption in general which fosters corruption in the health sector and to devise suitable mitigation strategies to reduce fiduciary risk to and ensure better value for money and clean and corruption free service to the people. The following major factors need particular attention:

- Absence of political consensus and strong will to control corruption in public life;
- Political interference in day to day administration adversely affecting civil service neutrality and performance;
- Weakening of the effectiveness of legislative oversight of executive action;
- Enormous pendency of cases in courts, excessive delay in disposal, high cost of litigation and growing corruption in the subordinate judiciary;
- Interference in and questionable methods of recruitment, growing reliance on seniority rather than merit in promotions, interference in day to day personnel matters and consequential weakening of civil service discipline, ineffective enforcement of conduct rules and dilatory nature of disciplinary proceedings and progressive deterioration in supervision and control of subordinate staff;

- Excessive reliance on procedure and absence of performance orientation in public expenditure, execution of programmes and service delivery and progressive deterioration in quality of service and accountability for actions on the part of public servants;
- Unsatisfactory accounts keeping and financial management systems particularly in public enterprises and societies entrusted with functions of the State, virtual absence of internal audit, continued reliance on transaction based external audit and insufficient attention to rectification;
- Absence of a unified authority to guide government wide procurement including in public enterprises and the societies under the government and legislation to ensure transparent procurement and professionalization of procurement operations.

Mitigation Strategy

With regard to the above factors it should be clear that corruption in the health sector cannot be viewed as an isolated public service failure. “Addressing irregularities across the functions of the sector – construction, procurement and distribution of drugs and supplies, deployment of underpaid staff, under the table payments - requires an integrated mutually reinforcing anti corruption strategy with strong political backing and a willingness to take a position and follow through” .

“It may well require a government wide anti corruption agenda. Making clean government a priority allows irregularities to be identified and addressed, which bolsters efforts in the sector to put in place effective oversight and detection, and endorses disciplining corrupt practices once detected” (Maureen Lewis). Mitigation strategy should comprise a general government wide strategy for prevention, control and public awareness of corruption through preventive and punitive vigilance and a specific departmental strategy to secure corruption free medical and health services to the citizens.

Government Wide Anti Corruption Strategy

The elements of a general government wide anti corruption strategic frame should simultaneously pay attention to all three aspects of prevention of corruption, creation of public awareness against corruption and strict enforcement of punitive measures against those who found guilty of corruption and conflict of interest. Such measures would comprise action on the fronts of improving government effectiveness and strengthening voice of the citizen through participation and strict enforcement of accountability of the public servants; and strict monitoring and enforcement of the punitive law against the guilty.

Measures in this direction may comprise:

1. Clear demonstration of the firm commitment of government to take corrective steps through a White Paper presented in the Legislature setting forth the government wide anti corruption strategy which it intends to pursue;
2. Enactment of a civil service legislation to insulate public servants from political interference, ensure neutrality of the civil servant and probity in public life, avoid conflict of interest assure reasonable tenure in a post through Civil Service Boards, set forth guidelines and procedures for appointments duly recognizing the merit principles; weeding out corruption etc.;
3. Improved financial accountability should be built into the system through effective resource control and accounting and audit systems and swift and rigorous enforcement of rules and sanctions for financial misconduct. A state wide data

base for data matching and payment controls to identify and correct abuses in payment systems is a further step towards ensuring greater fiduciary safety;

4. Improving cash and asset management and accounting in government, stricter monitoring of payment procedures and fiscal accountability like timely bank reconciliation, prompt submission of detailed contingent bills for funds drawn in lump sum, monitoring of revenue receipts, prohibition of operation of unauthorized accounts to keep funds outside government account, monthly certification by heads of offices for having done due verification of these procedures holding them personally responsible, stricter monitoring of white collar crimes involving misappropriation, forgery etc to reduce scope of misappropriation of pay roll, subsidies etc;
5. There is need to enforce strictly the comprehensive government order issued by the General Administration Department on misappropriation of public funds to ensure timely reporting, as contemplated, of all cases of misappropriation above Rs 1000/- to the Accountant General, the Head of the Department and the special cell in the Finance Department in the Secretariat; prompt recovery, if need be, invoking the provisions of the Criminal Law Amendment Ordinance, 1944, simultaneous initiation of the disciplinary and criminal proceedings against the culprits and the person responsible for failure to supervise as a consequence of which the offence occurred, to expedite investigation, monitor progress and pursue conviction and penalty. This apart the review suggested at the level of the Head of the Department, Secretary and the Chief Secretary should be invariably conducted;
6. Upgradation, recodification and rigorous enforcement of standards of financial accounting, audit and accountability requirements in respect of public enterprises and more particularly the societies entrusted with welfare and development functions at the State and district levels required as many of these instrumentalities have failed to achieve the beneficial results expected of such autonomous bodies while relieving them of rigours of financial, administrative and personnel controls otherwise binding a government department. Instead these have become institutions without sound systems, procedures and checks and balances;
7. There is need to introduce audit committees of the Society's Management Board with independent directors over and above annual external audit in all PEs and societies including district units;
8. Providing statutory footing to the Vigilance Commission, duly bringing the investigating agencies in relation to corruption under it along with compliance of other directions of the Supreme Court in Vineet Narain Vs Union of India;
9. Strengthening internal vigilance in departments;
10. Establishing a computerized vigilance network connecting the Vigilance Commission, the investigating agencies, the departments of secretariat, the heads of departments and all instrumentalities under the departments concerned through their vigilance officers covering complaints, newspaper reports, AG's audit paras involving malpractices including misappropriation; surprise checks, enquiries, investigations, disciplinary proceedings, prosecutions, trials and court cases and writs connected therewith;
11. Ridding investigating agencies themselves of corrupt elements duly providing for independent selection of and fixed tenure for the heads of enforcement agencies;
12. Strengthening the sinecure Economic Offences Wing of the Criminal Investigation Department of the State Police to give due attention to this hitherto neglected area of white collar crimes;
13. Introduction of whistle blower protection legislation to facilitate fearless disclosure from within of information on irregularities and malpractices in administration, service provision, expenditure and procurement;

14. Annual survey of officers leading ostentatious life and maintenance of lists of officers of doubtful integrity and publishing names of officers punished for corruption and criminal misconduct including conducting life style checks on such officers;
15. Speeding up domestic enquiries particularly involving the 'big fish';
16. Honest voluntary adherence to the spirit of the Right to Information Act and sue motto publication of all information calculated to enhance transparency of government actions and accountability of public servants;
17. Measures to further improve service delivery by review of and stricter and constant implementation of citizen charters with punitive provisions for service default and making arrangements for reception and help desk at every office;
18. Speedier application of Information Communication Technologies for provision of information to citizen, interaction of citizen with the government and for expeditious redressal of grievances;
19. Recognizing the role of and actively encouraging civil society bodies in their advocacy, accountability and participative roles including dissemination of information, discussions in public fora and participation in policy formulation, budget discussions, programme implementation, social audit, etc;
20. Further encouraging 'rights' based service delivery including assigning increasing roles for Ombudsman, Consumer Courts, Lok Adalats etc;
21. Abolition, review and modification of all laws, rules and procedures which have outlived their utility and which are of a dilatory nature;
22. Simplification of procedures to speed up disposal and to reduce scope of corruption built into such systems and procedures;
23. Constitution of a government wide nodal procurement authority to guide and oversee implementation of a professional procurement policy which ensures least cost, quality and delivery within the framework of a transparent Procurement Act with wider application of eProcurement;

Health Sector Strategy

There is need to frame a department specific, mitigation strategy to improve medical and health service delivery within the framework of the general strategy outlined above. The following health sector specific, corruption control measures takes into account the special characteristics like information asymmetry, multiplicity of stakeholders, complexity of healthcare systems, etc. Recommendations are made under different groups as follows with reference to the nature of activity and type of corruption involved.

i. Payment Systems

1. Budget transparency involving full disclosure of all relevant fiscal information in a timely and systematic fashion contributes to better accountability and greater public participation in the management of health service delivery. Spreading budgetary literacy among citizens and encouraging participatory budgeting enables civil society monitoring of budget, encourages social audit, and facilitates public hearing and public expenditure tracking, all of which contribute to reducing fiduciary risk;
2. Social audit of works, supplies and service delivery should be made mandatory in all medical institutions;
3. There should be annual external audit of all corporate entities at the head quarters and the districts;
4. There should be effective supervisory check of selection of beneficiaries and incentive payments with insistence on wide publication of beneficiary lists;
5. There must be standardization of unit cost in respect of provision of reimbursable services to avoid excess billing and bogus billing for services not provided;

6. The medical officer's incharge of the primary health centres and the CHCs are blindly guided by the dealing assistants in financial matters which is resulting in cases of misappropriation. In order to enable them to understand the essential of financial prudence and accounting requirements and the supervisory role expected of them, there must be a preparatory training and period of attachment under an experienced officer to equip them in this regard to avoid pitfalls.

ii. Procurement

1. Procurement procedures may be streamlined on the lines indicated in the Report on Andhra Pradesh Health Sector Procurement Review;
2. As recommenced by the National Commission on Macroeconomics and Health, centralized pooled procurement which reduces government expenditures by over 30-50% may be introduced on the lines of the procedure adopted by the Tamil Nadu Medical Supplies Corporation. Even though Andhra Pradesh has also a corporation, it is primarily a construction agency and does not have procurement expertise or scientific transparent procurement procedures. It confines itself to procurement of part of the drugs and pharmaceuticals, consumables, surgicals, equipment, services etc of the department itself whereas the Tamil Nadu Corporation caters to medical requirements of all other departments including Jail, Welfare etc. Moreover, it should lay down guidelines for local procurement and oversee the same;
3. The Health Department should establish and maintain information systems on prices, price benchmarks, annual shopping list with quantities, short listed firms, blacklisted firms, manufacturers of 'not of standard' quality drugs, quality standards expected for supplies, list of registered suppliers with performance details, lists of pre qualified manufacturers meeting the requisite norms and standards, etc. Price information made available should be on the lines of the WHO International Price Guide including the National Drug Price Control Authority notified statutory prices, the rate contract rates approved and currently in force in the State so as to enable widest publicity to such information calculated to ensure full transparency in transactions, quality of products and secure the most competitive price;
4. There should be separate independent expert committees for registration, selection, procurement and quality assurance of products and strict enforcement of ethical standards on their part;
5. Transparent, independent and accountable monitoring mechanisms should be ensured at all levels of procurement through civil society participation;
6. There must be a scheme of rotation of procurement officers so as not to permit vested / conflict of interest with clear accountability norms for them;
7. Clear and transparent procurement rules, procedure and guidelines should be evolved that reduce discretionary powers, incorporate the Operational Principles for Good Pharmaceutical Procurement evolved by the World Health Organization, and offer clear documentation and public access to bidding results;
8. Intermediaries should be avoided in the course of purchase and direct purchase from manufacturers should be ensured;
9. There must be total prohibition of indefinite continuance of rate contracts;
10. The possibility of introduction of integrity pact between suppliers and department may be explored;
11. The unsuccessful bidders should be debriefed as a standard practice;
12. There must be joined surprise inspections by the Anti Corruption Bureau / the Vigilance & Enforcement, Drug Control, Drug Control Department and Weights & Measures of stores and distribution statements and patient records;
13. Effective complaint mechanisms should be built into the tender processes;
14. The essential drug lists should be subjected to constant scrutiny by experts and by civil society representatives;

15. Manufacturers of 'not of standard quality' drugs must be blacklisted, prosecuted and prohibited from making any supplies;
16. A public database listing the protocols and results of all clinical drug trials needs to be developed by making report on clinical drug trials by the drug industry mandatory.

iii. Service Delivery

1. As advised by the National Commission on Macroeconomics and Health, performance based accountability should be increased by improving monitoring through sample surveys, social audit, and institutionalized community management at all levels through elected management committees in the village at the PHC and the CHC;
2. Standardization of treatment protocols and unit cost estimation should be taken up and a schedule of benefits published which could form the basis for public funding of health in both public and private facilities. This measure recommended by the National Commission will enable people to get an idea of how much a service ought to cost and protect them from being exploited;
3. Funds released to an institution, stocks of medicines etc, waitlists for in patients, list of operations pending should be published at the facility and in larger institutions where there is facility on the Net for wide access and transparency and possible complaint in the event of being aggrieved;
4. Rigorous implementation of the provisions of the Right to Information Act in every institution connected with the department including hospitals, dispensaries duly publishing suo motto all information relevant to the clients is urgently needed to operationalize the Act;
5. Patients rights must be clearly stipulated and published on notice boards, websites, and included in the citizen charter;
6. Help desk with effective complaint and grievance redress mechanism should be introduced to ensure stricter implementation of citizens charter;
7. Exit survey of patients may be undertaken to evaluate service quality;
8. There should be joint surprise inspections by ACB and Directorate General of Vigilance and Enforcement and by the departmental officers to contain absenteeism and lapses in service delivery;
9. Code of conduct may be evolved for private practice duly avoiding conflict of interest and making penal provisions in the even of contravention;

iv. Personnel

1. There should be a full time Chief Vigilance Officer, whose integrity is beyond doubt, appointed with the concurrence of the Vigilance Commissioner in the department to discharge the functions envisaged for him in the job chart issued by the Vigilance Commissioner;
2. The internal vigilance system in the department including its field agencies should be made fully functional in accordance with the standing instructions;
3. Daily monitoring of complaints and newspaper reports should be done by the Chief Vigilance Officer and Vigilance Officers. Prompt follow-up action should be taken to respond to the grievance or adverse report, as the case may be, to enquire into and redress the grievances or complaints;
4. Rotation of officers manning focal points having scope for corruption at systematic intervals should be mandatory;
5. Effective decentralized personnel powers in respect of lower subordinates of the health department to the respective institutional heads may be ensured to secure full accountability;
6. Facilities may be provided to the medical personnel and the health staff in order to force them to stay at Head Quarters;

7. All cases of unauthorized absence of medical officers should be strictly dealt with in order to curb absenteeism;
8. Joint surprise inspections may be undertaken to curb absenteeism;
9. Local bodies having jurisdiction should be assigned a greater say in the management of medical institutions serving their area to facilitate accountability to them and the clientele served by them;
10. Life style checks on health professionals and senior administrators who have come to adverse notice may be taken up on priority;
11. There is need to enforce strict enforcement of management supervision and control of district level societies entrusted with national programmes;
12. The functioning of the drugs control department should be streamlined having regard to the observations in the IPE study;
13. A thorough review of functioning of all corporate entities and societies should be undertaken to facilitate streamlining of processes, systems and procedures with a view to enhance management efficiency and improve probity among public servants.

Appendix 11: Overview of District Financial Accountability

In pursuance of the observations made at the stakeholder workshop to review the Draft Report on Fiduciary Risk Assessment, a further study of the financial accountability and functional delivery issues at the District and Sub-District level was deemed necessary. Three districts were selected for field visits to PHC/CHC/Area Hospital/District Hospital for this purpose – Warangal, Nalgonda and Krishna.

Warangal was selected as it is a backward district which includes a large tribal population/ agency area (that comes under the ITDA). There are about 15 PHCs that are located in the ITDA region. Nalgonda is a backward district in close proximity to Hyderabad. Both these are located in the Telengana Region.

Krishna is located in a relatively well developed Andhra Region. The team felt that these districts would help form a balanced view regarding district level operations as they are in differing stages of socio-economic development and varied levels of geographical dis/advantage.

In this process the following officers were interviewed:

Health Centre/ hospital	Official Interviewed
Warangal District	
DM&HO Office	Dr.Prasada Rao, DM&HO
	Mr .Veera Swamy
	Dr Ravi
	Dr Purnachander Rao
	Dr G S Narasimhan
PHC, Govinda Rao Peta	Dr G Satyanarayana, Dy DM&HO and In-charge Medical Officer
	Mr Bashir Khan , Senior Asst
PHC, Chenchupally	Dr Ramesh , Medical Officer
	Mr Shanker Rao, Senior Asst
CHC Eturu Nagaram	Mr. V Vishnu Mohan, In charge MO
Nalgonda District	
DM&HO Office	Dr M.Raj Mohan Rao, DM&HO
DCHS Office	Dr S Venkateswarulu, DCHS
	Mr M.Ramulu, Accounts Officer
PHC, Chityal	
CHC, Choutappal	
Krishna District	
DM&HO Office	Dr A Rama Prasad, DM&HO
	Mr Krishna Kumar, Admn Officer
	Dr Jay Prakash, PO, DTT
	Dr Sarmista, District Immunisation Officer

Health Centre/ hospital	Official Interviewed
	Dr B Sashidar Kumar, District TB Control Officer
DCHS, Machilipatnam	Dr P Rama Rao, DCHS
	Mr B V Ravi Kumar, (Dietician) In charge Asst Finance Office
Area Hospital, Gudivada	Dr Ramnath, Superintendent
PHC, Gudlavalleru	Dr Ratan Babu, Dy DM&HO and In chage Medical Officer
	Mr G Laxman Rao, Senior Assistant
PHC, Pedana	Dr K Bharati, Medical Officer,
	Mr. K Suresh Babu, Senior Assistant

District level Organisational Structure

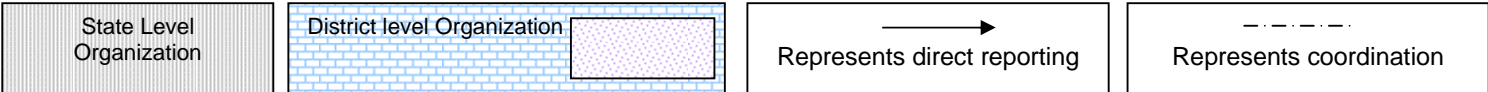
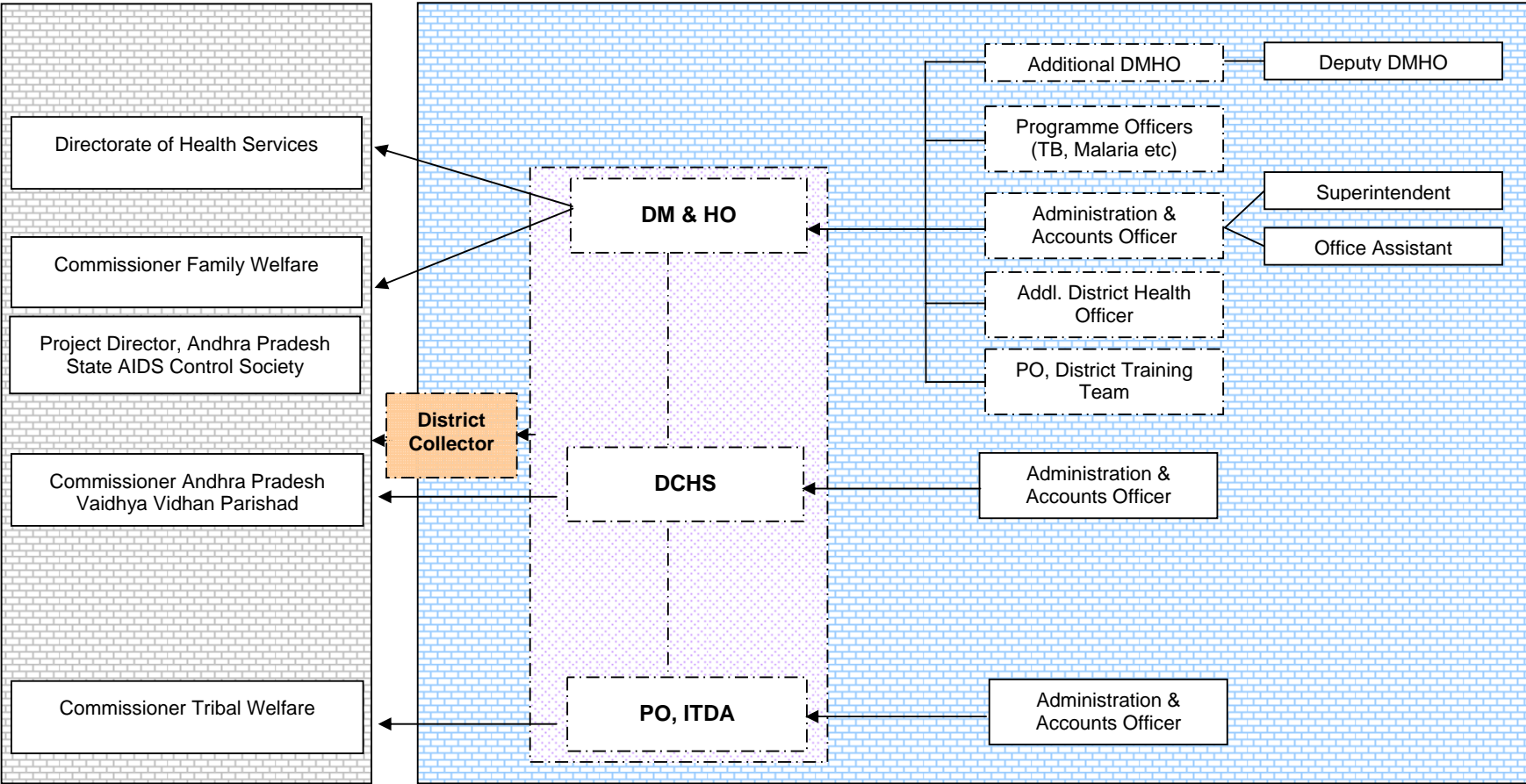
The District Medical and Health Officer (DM&HO) is assisted by an Additional DM&HO at the district level in implementation of family welfare activities and one Deputy DM&HO at each of the revenue divisions in the district. The DM&HO is assisted by an Administrative Officer in accounts and administration functions.

In addition there are individual Programme Officers for the vertical programs like Malaria, TB Control, Leprosy Control/ AIDS Control, Immunization and District Training. These Officers while carrying forward the functional service delivery, report to DM&HO for administrative purposes and on functional and administrative matters to the concerned HoDs offices like CFW/ APSACS/ DHS at the state level. They also report to the District Collector, who is the Chairman of various Societies at the district level and is the overall coordinator for health service delivery at the district level.

The secondary level health service delivery is primarily provided through District Hospitals, Area Hospitals and Community Health Centres which are under the supervision of the APVVP. At the district level these institutions are under the direct supervision of the District Coordinator of Hospital Services (DCHS). The DCHS is assisted by an administrative and accounts officer for all financial functions. The DCHS reports to the Commissioner APVVP at the state level. As HIV/AIDS testing centres are situated in district hospitals the DCHS is also responsible for ensuring timely reporting of the testing centres to APSACS. The DCHS and the DM&HO typically are expected to work in coordination with each other to ensure service delivery at various levels.

The District Collector is also linked to the health functionaries for monitoring and performance review. In case of Tribal Areas under the Integrated Tribal Development Agency (ITDA) the Programme Officer, ITDA also has a role in administrative control over the health functionaries.

District Health Administration Structure

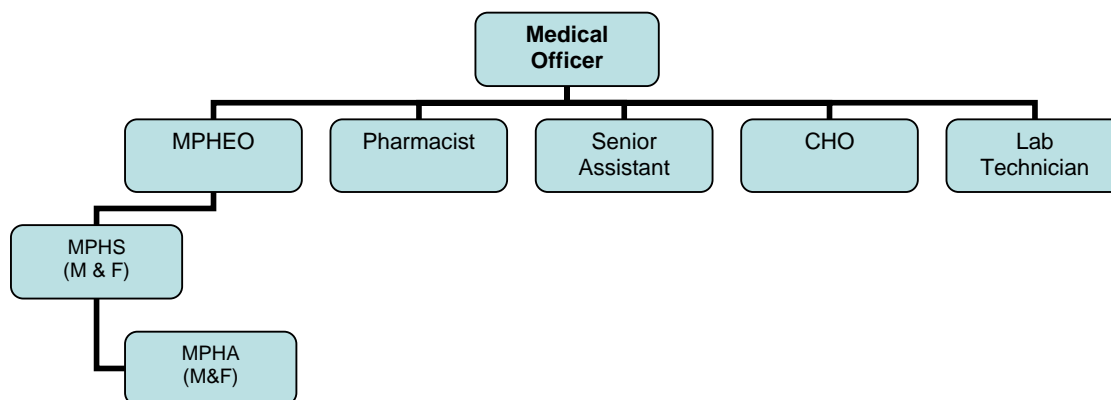


During discussion with the DM&HOs the following areas of conflict in the administrative structure came to light:

- Administrative structure does not follow functional lines;
- It is fragmented, duplicative, and multiplicative in terms of functional responsibility;
- There is multiple accountability of all the Programme Officers at the district level as they report to DM&HO for administrative purposes, to Heads of Department (such as CFW, DHS, APSACS); State Program Officers (such as Joint Director – NTBCP, NBCP etc) as well as the District Collector for functional service delivery;
- Non integrated, ad hoc coordination is seen at the district level similar to that existing at state level;
- Collector plays a critical role for implementation/review of various schemes as the chairperson for most of the Societies, and for control of epidemics. Major issue identified is the lack of time devoted by the Collector for monitoring health programme activities;
- As the joint signatory for all programmes the Collector is also a key person for release of funds. Unlike other district officers who have some financial limits for independent financial sanction (e.g. PD, District Water Management Agency/Indira Kranthi Padhakam has upto Rs 1 Lakh) the DM&HO and POs have no powers of financial sanction enabling their effective functioning

An added dimension at PHC Chenchupally that came to light was the linkage between the Tribal Welfare and Health department officials in ITDA areas. The PHCs located in Tribal Areas come under the administrative control of the Project Officer (ITDA) who reviews the implementation of programmes in the ITDA region. Also as per the information gathered all the functionaries in the ITDA come under the administrative control of Project Officer (ITDA), who in turn reports to the Principal Secretary, Tribal Welfare at the State Level.

PHC level Organization set up



On a sample check basis the following records were checked at the PHCs to assess status of record keeping and financial accountability.

1. General Cash Book
2. Acquittance Register
3. Sukheebhava Cash Book

4. Status of Pending AC/DC bills
5. Receipt of Budgeted Amounts
6. Reconciliation of account with STO
7. Reconciliation of accounts with Banks (for RCH,JSY,FW, SACs,etc)
8. Status of Audit and pending audit paras
9. Problems in Treasury operations
10. Status of Family Welfare Health Information Management System (FHIMS)
11. Family Planning Sterilization Cash Book

Observations from the field:

1. Warangal

1.1. DM&HO Office

In Warangal District, Dr Prasada Rao who is the Additional DM&HO is holding the charge of DM&HO in the absence of the regular DM&HO (who is yet to be given a posting).

The following issues came up during the meeting with the in-charge DM&HO and various Programme Officers (Disease control programmes):

- Operations with District Treasury Office by and large are satisfactory. No delay was reported in drawal of funds;
- Reconciliation with DTO is up-to-date and satisfactory;
- Responses to audit paras were being given and no pending audit paras were noticed;
- Budgets for 3rd and 4th quarters had not been received;
- No internal audit system present except post audit by CAG;
- Goods received under National Programmes like Malaria Control are checked on a random basis. This indicates a weakness in terms of quality control for various drugs and accessories received under National Programmes;
- Audit and response to audit paras is generally satisfactory;
- Asymmetric/ erratic distribution of essential/ epidemic drugs was noticed indicating weak inventory planning and control.

The accounts pertaining to national level vertical programmes are maintained by the District Officers with the help of local firm of Chartered Accountants who provide the necessary certification as per the guidelines mandated by the national level authorities.

Invariably the District Collector is the joint signatory for bank account operations along with DM&HO for issue of cheques. This feature sometimes leads to delays in fund disbursements as the Collector is preoccupied and is not able to focus on all the respective Society activities. When queried on this aspect one DM&HO felt that he merely signs on papers leaving the responsibility on district level programme officer. Actual review of activities is left to the Joint Director at the State Level.

1.2 PHC, Govindarao Peta

The Sample check of accounting records was done and it was observed that maintenance of books and record keeping was found to be satisfactory.

- General Cash Book: Record Keeping is done properly and cash balance was checked to confirm;
- AC/DC bills: No AC/DC bill was pending which confirms impact of GO 507 in terms of improving status of outstanding AC bills pending conversion;
- Reconciliation: Reconciliation was done upto Feb'2006;

- Bank Accounts: The existing bank accounts were closed due to non availability of budgets. The disbursement of funds under RCH - JSY has been transferred to ANMs. Under the revised scheme the ANMs are given the responsibility to disburse funds directly to the beneficiaries after checking the identity and status certified by Village Sarpanch, and obtaining the Proof of Institutional Delivery from hospital authorities;
- The Medical officer informed us that no audit paras were subsisting as on date;
- FHIMS is not been put to full use as the pharmacist who has undergone a one week general training and 5 day intensive technical training feels the training was inadequate and finds no specific reason for not entering the regular data.

When specifically questioned about their difficulties in operations with Sub Treasury Office the staff said that except the delay in receipt of BROs from District Office there were no problems and disbursement from STO was being done regularly after submission of bills.

The PHC is expected to be inspected by the Dy DM&HO but it had not been done recently. Stock register maintained in the pharmacy was also not indicative of details regarding drugs issued to patients or the stock balances maintained and this is a weak area indicating scope for pilferage.

1.3 PHC, Chenchupally

This PHC located in a remote Tribal Area was selected specifically to assess service delivery and problems at the grassroots level and in an area that is geographically disadvantaged. It was observed that a Citizen Charter was displayed at the entrance and all the services that are available were properly displayed for the people.

Dr Ramesh, a young doctor is in charge of operations and is assisted by Mr Shanker Rao, Senior Assistant for accounts and book keeping. When asked, the senior assistant was able to produce the accounts records and answer questions on their status.

- General Cash Book: All the balance were properly drawn and a physical balance of Rs 500, being AC bill balance was verified;
- AC Bills : Only one AC bill was pending;
- Budgets: 3rd and 4th quarter had not been received and they were waiting for instructions from District Office;
- Reconciliation : it was done upto January 2006;
- Audit Para: No audit paras were pending indicating satisfactory book keeping;
- Bank Accounts: Bank account operations were found to be satisfactory and there was no balance in the accounts pertaining to FW, Janani Suraksha Yojana or RCH;
- It was also noted that disbursement under JSY had been changed to ANMs recently.

The pharmacist who was trained has specific reasons for not using the FHIMS. He finds the module on drugs as cumbersome in comparison to manual records and finds problems in entry of data into employee masters and lab masters for which he plan to seek advice from the software engineer at the DM&HO office who joined recently.

Pharmacy

Inventory maintenance is satisfactory. Drug issue register, out patient register, and pass book from APHMHIDC were test checked and found to be satisfactory. The staff is not involved in budget formulations and drugs are obtained from Central Drug Store based on previous experience and practice as may be decided by the APHMHIDC. Asymmetric and ad hoc distribution of drugs from district drug store was observed. There is a need to introduce periodical inspections at the district level for monitoring drug receipts and issues. There was no supervisory inspection in recent times from district head quarters. The pharmacist informed us that they do not have transport facility to move drugs from the

Drug Store and are presently able to carry on the operations with the transport provided by PO (ITDA) office.

Dr Ramesh, Medical Officer told us that one bottleneck he faces is with reference to transport as POL budget is not forthcoming. After the end of the APERP they do not receive any funds for fuel for the Ambulance at the PHC. As on date they are able to use the ambulance with support from the PO (ITDA).

An interesting aspect of the Health Department functionaries located in ITDA is that they are subject to review, control, and superintendence of the PO (ITDA) as well as the usual Health Department officials and the District Collector linked to all the programmes. This therefore adds another layer in the already complex administrative structure at the district level. It may be noted that PO (ITDA) reports to Principal Secretary Tribal Welfare at the state level.

The Medical Officer also pointed out that the incentive amount for medical officers at the PHC in ITDA is not being disbursed promptly due to certain administrative delays. The team was of the opinion that there is justification for the increase in incentive from Rs 2000 per month to a higher level in order to attract medical officers to tribal areas. Another incentive could be to enhance quota for in-service doctors at the PHCs in ITDA areas for admission to Post Graduate courses.

1.4 CHC, Eturu Nagaram

This is a 30 Bedded CHC hospital at Eturu Nagaram in the ITDA area. This is under the control of the APVVP which operates outside the treasury system and comes under the direct administrative jurisdiction of the DCHS Jangaon. This hospital is located at about 4km away from Eturu Nagaram village which is stated to be the reason for the low occupancy rate of about 30%.

At present Dr V Vishnu Mohan, Medical Officer of Mulug CHC is acting as in charge Medical Officer. During discussion it was pointed out that the location of the hospital being away from the village has affected occupancy and it was informed that based on maximum flood levels in view of the threat of inundation the village was expected to be moved. However, the same has not been materialized due to the reluctance of the villagers to move away from their farm lands. Project Officer ITDA could not be contacted for comments. It was stated that there had not been any review of the CHC by the PO, ITDA in the last year – it was given to understand that the PO, ITDA does not have any administrative control over APVVP institutions.

The hospital is presently running on a monthly budget of about Rs 1.50 lakhs for establishment and Rs.0.20 Lakhs for non salary expenses. For the last two years there was no departmental audit undertaken by the Society. They receive funds through a bank account by transfer from state level head quarters office.

When asked about his experience in drawing funds from the society bank account the in-charge Medical Officer felt that delay is inevitable as there are delays in release of funds from the head office to the DCHS. The hospital receives funds from the DCHS and felt that operations through the sub treasury may be more operationally convenient for them. It is seen that even in non treasury system, through the society mode, delays persist as the route is through the DCHS, who again contributes to the procedural hassles in scrutiny, assessment, ad hoc inter-head adjustment, and disbursement to the ultimate field location. Therefore there remains little flexibility in this non treasury mode.

There is no audit of transactions. They draw drugs from the APMHIDC with a budget of about Rs 50,000 per quarter. Emergency drugs are purchased locally on an as-is-where-is basis without any defined procedure.

In this hospital all the positions of specialists like Gynecologist, Pediatrician, Anesthetist, are vacant as no doctor is willing to work in this location.

The following difficulties were informed:

- No Ambulance is provided to the hospital which affects service delivery in emergencies
- No Compound Wall for the hospital
- No Security for the staff from extremists and wild animals
- 3 sweepers were appointed under HDS funds however due to non allocation in lieu of HDS funds they were unable to pay their salaries

These things have been brought to the notice of the Commissioner APVVP but no significant action has been taken. The Medical Officer felt that the entire authority is centralized at the State Head Quarters either for the funds management or administration, which debunks the flexibility issue in the society administrative systems.

2. Krishna District

2.1 DM&HO Office, Machalipatnam

Mr Krishna Kumar, Administrative officer is in charge of accounts and administration at the DM&HO Office. He is assisted by 3 superintendents in the sub departmental level for accounts, establishment, and general administration. One Senior Assistant and 3 Junior Assistants look after the record keeping.

The following registers were examined - Treasury bills register, Acquittance register, Budget watch register, Cash Book ,service registers for employees and others.

- The book keeping was satisfactory but indicated lack of awareness of overall transaction cycle;
- There was no AC/DC bills pending in view of strict enforcement of GO 507 in stopping release of third bill at the treasury office if subsisting AC bills are not regularized;
- Test check of Cash book maintenance was found to be satisfactory;
- AO stated that all the stipulated monthly progress reports and calendar of returns were being sent regularly;
- There is no internal audit except post audit by CAG;
- No pending audit paras and all the pending paras were responded to promptly.

For the national level vertical programmes the Programme Officers maintain separate bank accounts which are audited by a local chartered accountant. In respect of TB Control Society it was seen that the local chartered accountant has certified compliance with adequate documentation for Statement of Expenditures to facilitate reimbursements under various GOI guidelines and heads of account stipulated by the Director of Health, State TB Society. These financial statements were prepared by the District TB Control Officer and counter signed by the DM&HO and District Collector.

The prime responsibility for book keeping is with the District Programme Officer but the Society does not have an Accounts Officer/Assistant much less an internal audit system. The Chartered Accountant is required to give his assessment of the financial management system against selected parameters. In respect of District TB Control Society it was observed that the stock register for drugs, consumables, and printed materials was not

maintained upto date and the physical verification of the cash was not done. The same is the case with physical verification of the assets. The matter will be pursued with state/central nodal officer in due course according to District TB Control Officer.

With reference to operational convenience the district officers expressed view that both District Treasury Office and bank account operation under the independent society system have their drawbacks. As the District Collector is the chairman and joint signatory for all bank operations with DM&HO they felt that obtaining approvals and getting the cheques signed contributes to inordinate procedural delays as both District Collector and DM&HO are preoccupied. According to them further decentralisation and delegation of powers to district level functionaries would be helpful. But in the absence of proper internal audit system that may not be desirable.

AO felt that treasury controls are satisfactory for second check and with proper documentation procedural delays in obtaining funds at treasury office can be managed and in his opinion there is no difficulty in coordination and dealing with District Treasury Office for drawl of funds. It is observed that budgets for 3rd and 4th quarter were so far not received at the district.

In respect of joint schemes with contribution of both Centre and State funds, release needs to be synchronized to avoid delays in disbursement of scheme funds to beneficiaries. This was noticed in case of the JSY scheme wherein symmetry was noticed in clubbing central and state components. Recently the disbursement function is delegated directly to ANMs at the village level by the CFW for JSY scheme to ensure speedy releases. But according to DM&HO they are finding it difficult to monitor the vast number of ANMs.

2.2 DCHS Office and District Hospital, Machilipatnam

The DCHS was well experienced in hospital administration and accounts. Mr Ravi Kumar is a Dietician by qualification but in the absence of a regular finance officer is looking after accounts and administrative functions. This DCHS has 8 area hospitals under his control located at Gudivada, Nuziveedu, Avanigadda, Tiruvuru, Mylavaram, Nandigama, and Vuyyuru.

The APVPP Commissionarate releases funds through bank transfer and DCHS in turn releases funds to the area hospitals. Though DCHS sends budget estimates the Commissionarate exercises its discretion and sanction and release for various budget heads. The salaries are paid through bank accounts, and non salary payments are made through account payee cheques and demand drafts from the bank account. There is on line transfer of funds from Head Quarters after budgets are cleared and there are no delays in funds transfer. All the payments at the DCHS and area hospital are done through dual signatories by DCHS and AFO.

DCHS follows quarterly detailed account with head wise budget for releases, and monitors the budget utilization through monthly review meetings among heads of area hospitals. The following are checked during the review meeting with area hospital:

- Variance between budget estimates and actuals
- Outstanding balances under various sub-heads of the budget
- Bank reconciliation
- Challan reconciliation
- Cadre strength and vacancy position
- Drug stock position under APVPP and CDS
- Short supply and availability of essential drugs
- equipment status and need for repair

- Hospital Development Committee decisions and action thereof
- Pending audit paras
- Performance review

The DCHS operations were seen to be satisfactory except for the absence of internal audit. Even though there are some delays in communication of budget sanctions from Commissionarate they felt that the society system is better as compared to the treasury system in terms of operational hassles.

2.3 Area Hospital, Gudivada

This is an area hospital under the jurisdiction of DCHS Machilipatnam. It has a 100 bed capacity but according to the Superintendent occupation level is about 50%.

Administrative officer is under transfer so the post is lying vacant. Against sanctioned posts of 10 Medical Officers under different specializations 4 posts are yet to be filled. As regards budget it was informed that there is no delay in receipt of salary budget through bank account where as non salary payments are sent by DCHS quarterly. The drug register was verified by the superintendent to check receipt, issue, and balance stocks. Test check was done and found to be satisfactory.

The Hospital Development Committee is in operation headed by the local MLA as it's chairman, and members drawn from NGO, and social service activists.

As regards internal control the same is non existent and inspections by the Commissionarate were undertaken rarely. The Superintendent felt that budgets were subject to vetting by DCHS and head wise adjustment was made by DCHS at the District Level who rationalizes distribution among various centres and hospitals under his control.

2.4 PHC, Gudlalleru

This PHC is located on the main road and has an outpatient intake of about 150 per day. We observed that a detailed citizen charter was displayed at the entrance indicating various services. At present there is no Medical Officer posted to the PHC and the present medical officer is only holding additional charge. The Medical officer is assisted by one senior assistant for accounts and administration. There are 11 sub-centres operated by ANMs under this PHC.

A Random check of the following accounts records was done - Cash Book (Family Planning), Cash Book (Sukheebhava), Main Cash Book, Acquittance Register, AC/DC Bills Register, Budget Watch Register and Treasury Bill Register.

- Book keeping was found to be satisfactory;
- Reconciliation was up to date;
- There were no AC/DC bills pending
- The pharmacist maintained the stores record reasonably well. But there was no inspection of the stocks indicating a lack of supervision;
- It was pointed out that FTA for ANM was not released by the STO as there was no budget approval;
- The Medical Officer had a fair understanding of the accounts/ bill passing procedures and stated that there were no problems in drawing from the sub treasury, as well as in dealing with the DM&HO office at district headquarters.

There is a problem in disbursing salaries under 020 - wages head under to the contingent employees under RCH programme due to lack of budget release.

Even though there is no Hospital Development Committee there is an PHC advisory committee consisting of

- Shri K. Dhanunjay , President , Mandal Praja Parishad
- Shri J. Mohan Rao, ZPTC
- Shri K. Venkatadri Chowdary, Ex-Chairman Marketing Yard
- Shri V. Babu Rao, Social , Social Activist
- Shri R. Subba Rao, President, Gram Panchayat
- Smt.B. Ratna Kumari, MPTC,
- Smt K. Venkatasai Rama Tulasi MPTC
- Shri S. V. Ratan Babu, Medical Officer PHC (Convener)

It was reported that the advisory committee plays an active role in monitoring activities of the PHC. By and large book keeping and service delivery (as opined by one of the patients) at the PHC was found to be satisfactory.

2.5 PHC, Pedana

This PHC located on the highway has about 200 outpatient intake per day. The citizen charter was well displayed at the entrance of the Centre. The Medical Officer is assisted by a Senior Assistant, Staff Nurse, Pharmacist, ANM (OP) MPHS (M), MPHS (F) and Multipurpose Health Educator. It has 3 sub centres in rural and 5 sub centres in urban areas.

The following records were test checked and found to be well maintained - Acquittance register, Cash Book, Cash Book – Sukheebava Scheme, and Cash Book – Family Planning. The Senior Assistant was well versed with sub treasury procedures.

They operate about 4 bank accounts for various schemes. Reconciliation is being done regularly. 2 AC bills pertaining to December 2005 were pending. The cheques were issued under joint signatures. The Medical Officer who is the DDO told us that there are no problems in sub treasury operations and in operation of the bank accounts under central schemes.

3. Nalgonda district

The organisation set up is similar to other districts In the absence of DM&HO, Administrative Officer, produced the records pertaining to - Main Cash Book, Treasury Bill Register, Budget Watch Register, Service Registers, AC/DC bills register and others.

Reconciliations were done up to January 2006 and confirmation certificate was obtained from DTO. 2 AC bills were pending pertaining to January and February 2006. The various bank accounts maintained under RCH, FP schemes could not be checked as the concerned Programme Officers were not available and reported to be on field duty.

It is observed that in locations close to State Head Quarters tendency for absenteeism is on the higher side and concerned employees tend to stay at other locations. This seems to be a general trend.

The drug store was checked to see record keeping but was found that issue register was not done properly and pass book maintained with APHMHIDC needs verification and reconciliation with the drug store.

Summary

Based on the visits to the three districts the following conclusions have been drawn. While there are some differences between districts due to the level of economic development of the region and the issues of remoteness and accessibility more or less the administrative issues were found to be similar.

- Multiple reporting lines are in existence at the district level similar to the state level;
- DM&HOs report to DHS, CFW, PD-APSACS, District Collector, Central Government, Regional Director of Health, and in some districts the Project Officer, ITDA;
- District level departmental structure is fragmented, duplicative, multiplicative and non-integrated, therefore functional review, business process reexamination and re-organisation would help to improve service delivery and accountability;
- District Collector is the key player in programme implementation and monitoring;
- In respect of ITDA, functionaries are subject to superintendence by Project Officer (ITDA) who in turn reports to Principal Secretary Tribal Welfare at the state level;
- No coordination between various societies at the district level and compartmentalisation was observed; For eg., in the Blindness Control Program it was observed that the district –level program officer is a civil surgeon ophthalmologist in the district hospital/ teaching hospital and is quite isolated from the DM&HO.
- Secondary health care system is run by APVVP without any link to the other parts of the department. Proper linkages need to be explored without losing track of flexibility in operational management;
- There is need to define and formalize the coordination link between the DCHS and DM&HO;
- As on date within the existing framework the field level outfits are able to carry on operations though there is scope for improvement in the following areas:
 - Internal Control and Internal Audit
 - Integration and harmonization required in multiple accounting records being maintained
 - Poor supervision / inspection
 - Drug inventory record keeping patient-wise to enable proper assessment trends and accurate indenting
 - Inadequate staffing and training gaps
 - Inadequate capacity to handle various documentation requirements for proper information flow to heads of department. Activation of FHIMS by giving training and supervision for generation of MIS reports in short term would be helpful
 - Flexibility or otherwise is common to treasury as well as non treasury society systems as opinion at the district level is divided and more in favour of decentralisation and delegation of authority for administrative and accounts functions either in departmental treasury system or society system operated through commercial banking channels
 - Functionaries at the District Level do not consider treasury control systems a hindrance to operations and programme implementation
 - Those operating under the non-treasury society route have stated that controls are centralized at the state level and delay in decision making and funds transfer are common even though commercial banks are quick in response after the decisions are communicated by the state level authority
 - Review of primary accounting record did not reveal any major procedural irregularities even though in some centres record keeping is not up to date as functionaries were not posted
 - There is substantial improvement in clearance of pending AC/DC bills and status of back log in reconciliations showing impact of treasury reform measure initiated by finance department

Appendix 12: Draft Procurement Law

Draft Bill to Provide for ensuring Transparency in Public Purchase of Goods and Services in Selecting Tenders or Inviting , Processing and Acceptance of Tenders by procuring Entities, and for Matters Connected Therewith or Incidental Thereto

Introduction:

Comprehensive Procurement Reforms is given high priority by GoAP as a part of its Governance Reform Agenda to improve transparency, bring in accountability and enhance public confidence in the Departments / Public Bodies.

The level of public procurement in the State is estimated to be about Rs. 800 crores for Government Departments which includes Transport, Roads and Buildings, Irrigation, PR&RD, MA&UD, Health, Education and WD, CW & DW Departments. If the procurement of Public Sector undertakings, Boards, Societies and Local Bodies etc. is also taken into account, the estimated cost of procurement may work out to around Rs.1400 Crores.

Enactment of Procurement Law by the State Legislature in the form of an Act to govern public procurement of goods, works and professional services is therefore considered imperative to:

- Establish a sound legal framework not amendable for change by administrative actions.
 - Substantially improve transparency, reduce abuses and misuses;
 - Bring in accountability; and
 - Enhance public confidence in the system.

Salient Features of the proposed Draft Bill:

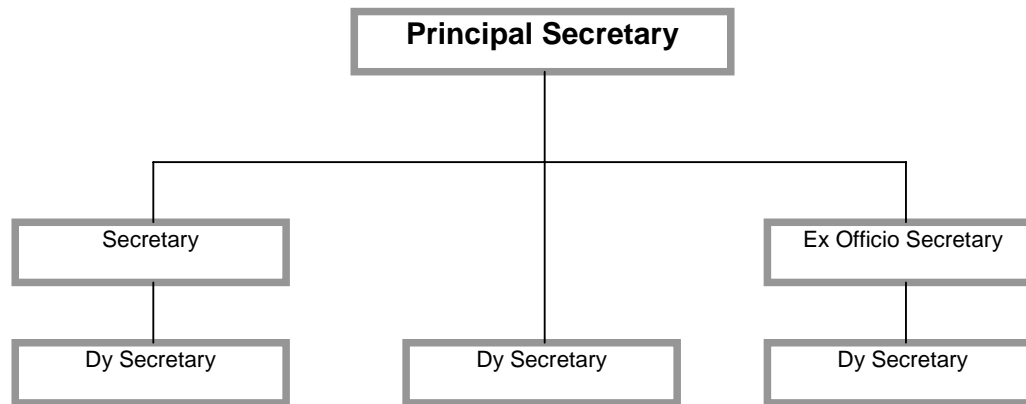
The proposed Draft Bill

- covers the entire gamut of procurement of goods and services by all Government Departments, State Government Undertakings, Local Self Government Institutions, any authority body or corporation established under Law and owned or controlled by the Government.
- Covers Procurement of all goods and services which includes all materials, articles and commodities including Computer Software, Electricity, goods as goods or in some other form involved in the execution of work contracts and also those goods used in the construction, fitting out, improvement or repair of movable or immovable property and includes growing of crops and things attached to or farming part of the land etc.
- Covers specifically all transactions through e-Procurement for purchase of goods and obtaining of services by procuring entities using the tools of Information Technology.

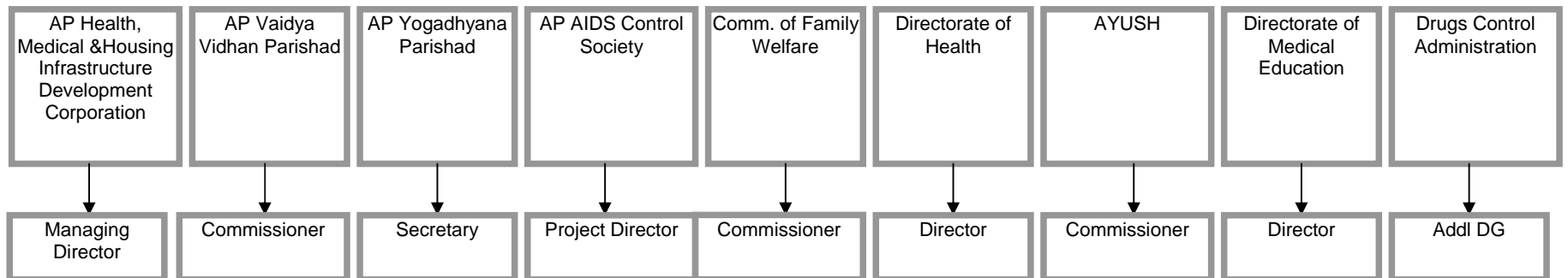
- Stipulates that no procuring entity shall procure goods and services except by following the provisions of the Act. and the detailed procedure prescribed there under.
- Provides for constitution of a Procurement Regulatory Authority chaired by an Officer in the rank of Spl. Chief Secretary to Govt. and professional experts as members
 - a) to frame policy and rules relating to procurement applicable to all Procuring entities with the approval of the Government.
 - b) To oversee the implementation of the Act.
 - c) To receive feedback and periodical reports on the progress of implementation of the Act.
- Empowers the Government to give appropriate directions to the procuring entities, obtain information, call for records in order to secure and maintain transparency at any stage of the process of procurement. It shall be the duty of the procuring entities to comply with the directions issued from time to time.
- Provides for imposing penalties which includes imprisonment upto 3 years or with a fine which may extend upto Rs. 50, 000/- or with both following the procedure laid down in CRPC /1 PC for contravention of the provisions of the Act or the rules made there under and for intentionally delivering to the Tender inviting authority a false copy of a document, map or plan or for impersonation or does any other act in any proceeding or enquiry under this Act.

Appendix 13: Organograms of DoHM&FW

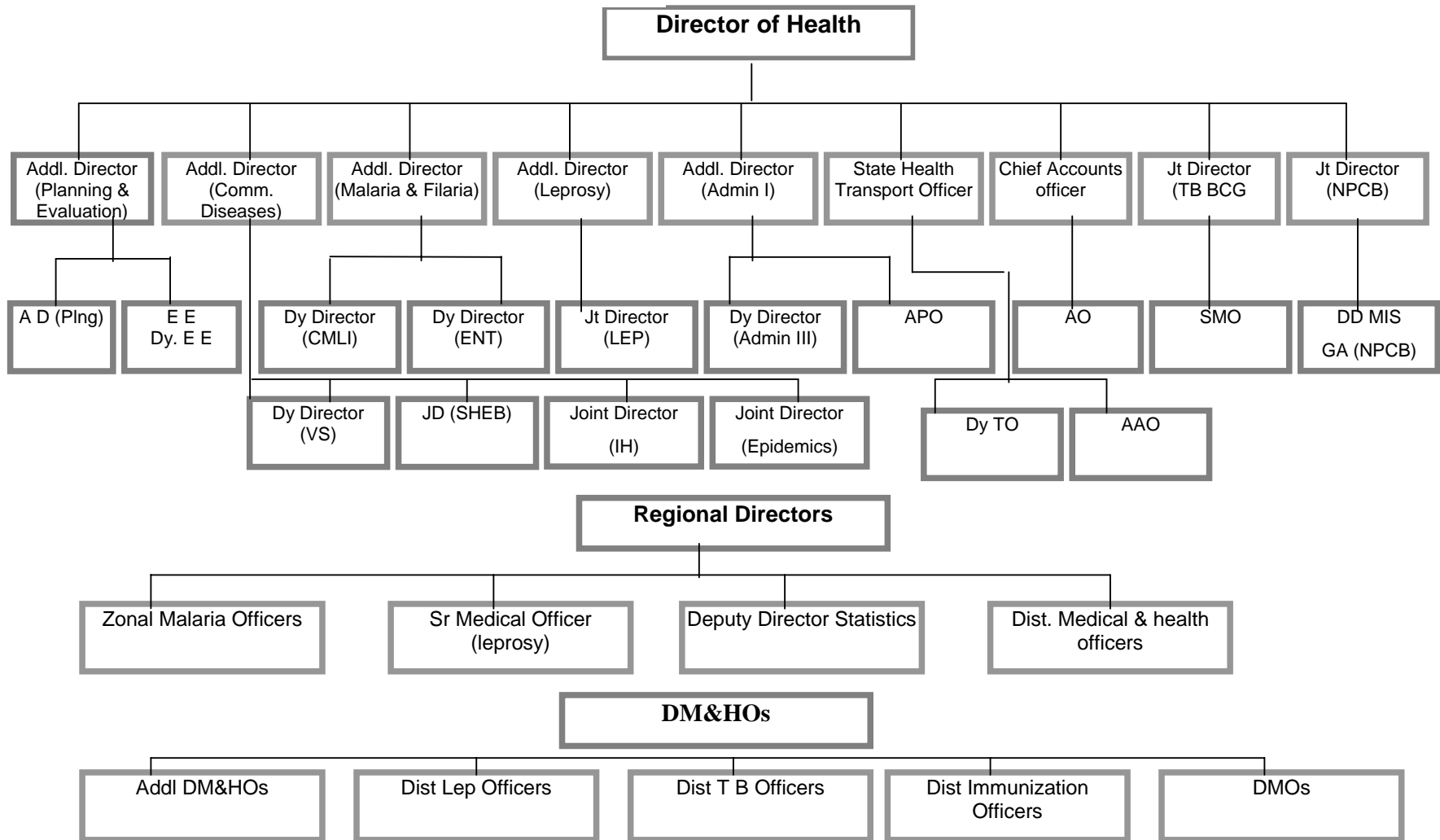
I. Health Medical and Family Welfare



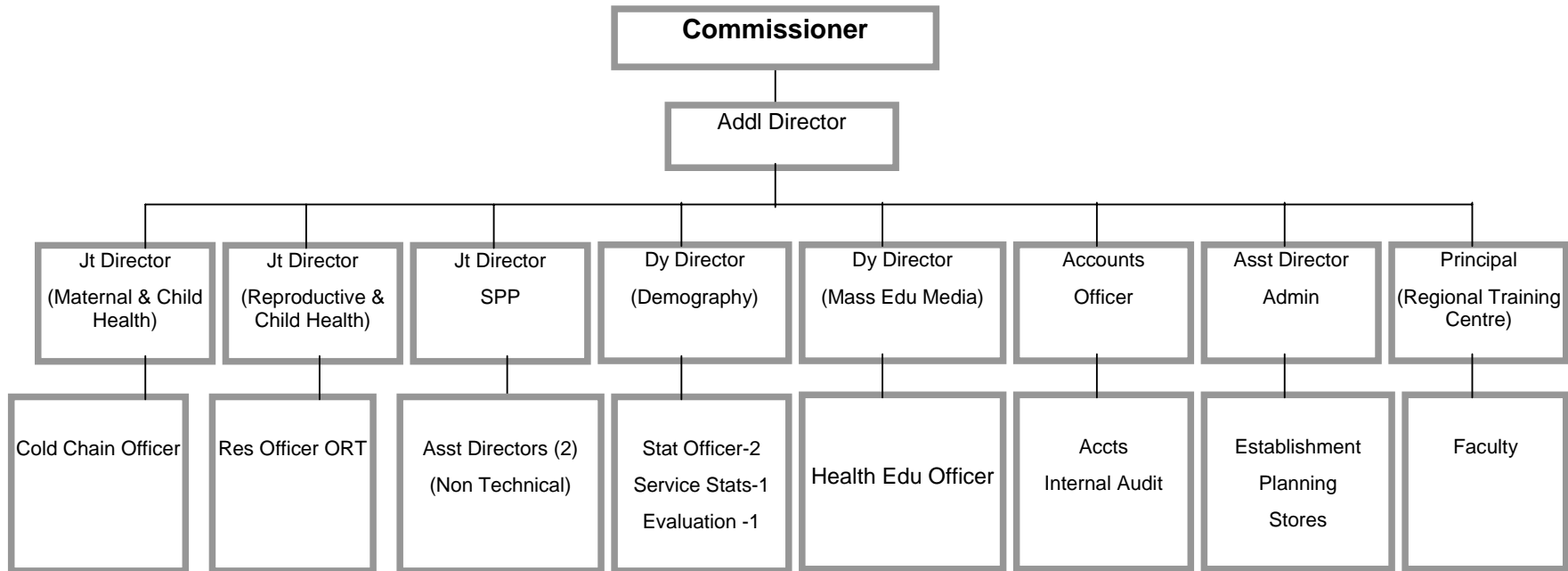
Head of the Departments



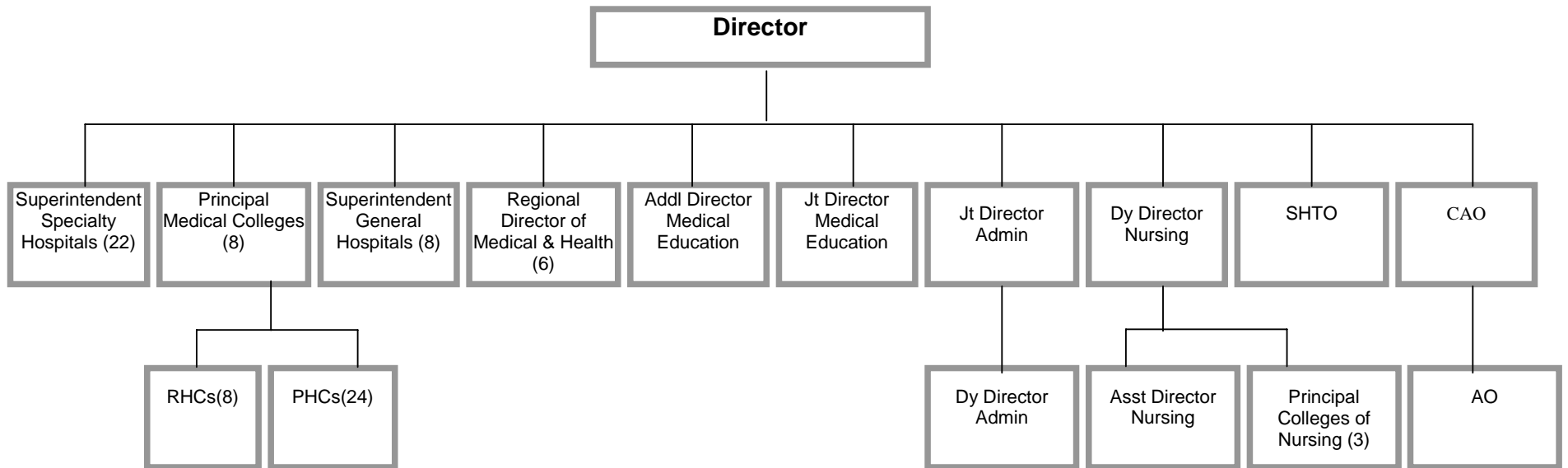
II. Directorate of Health Services



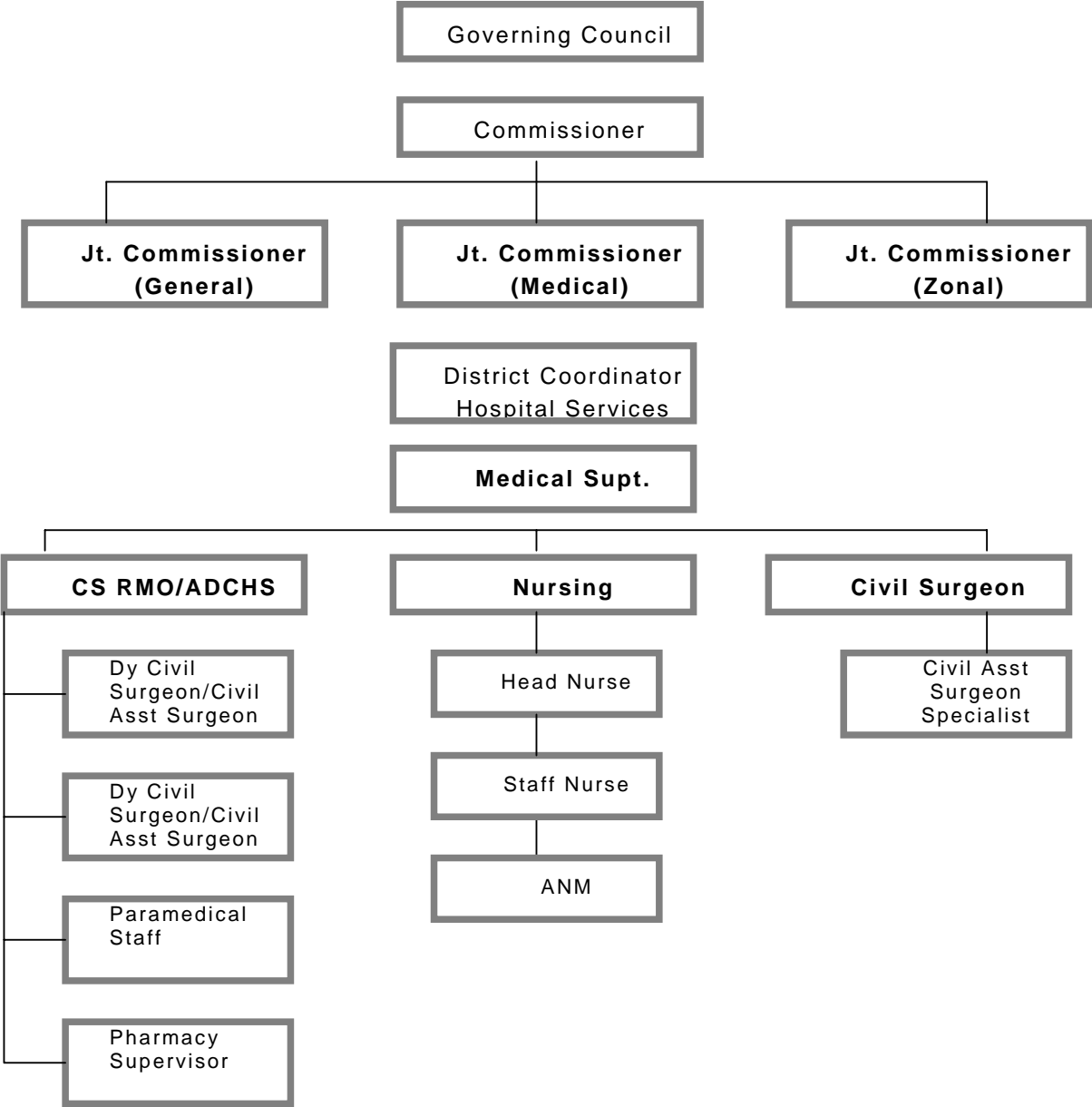
III. Commissionerate of Family Welfare



IV. Directorate of Medical Education



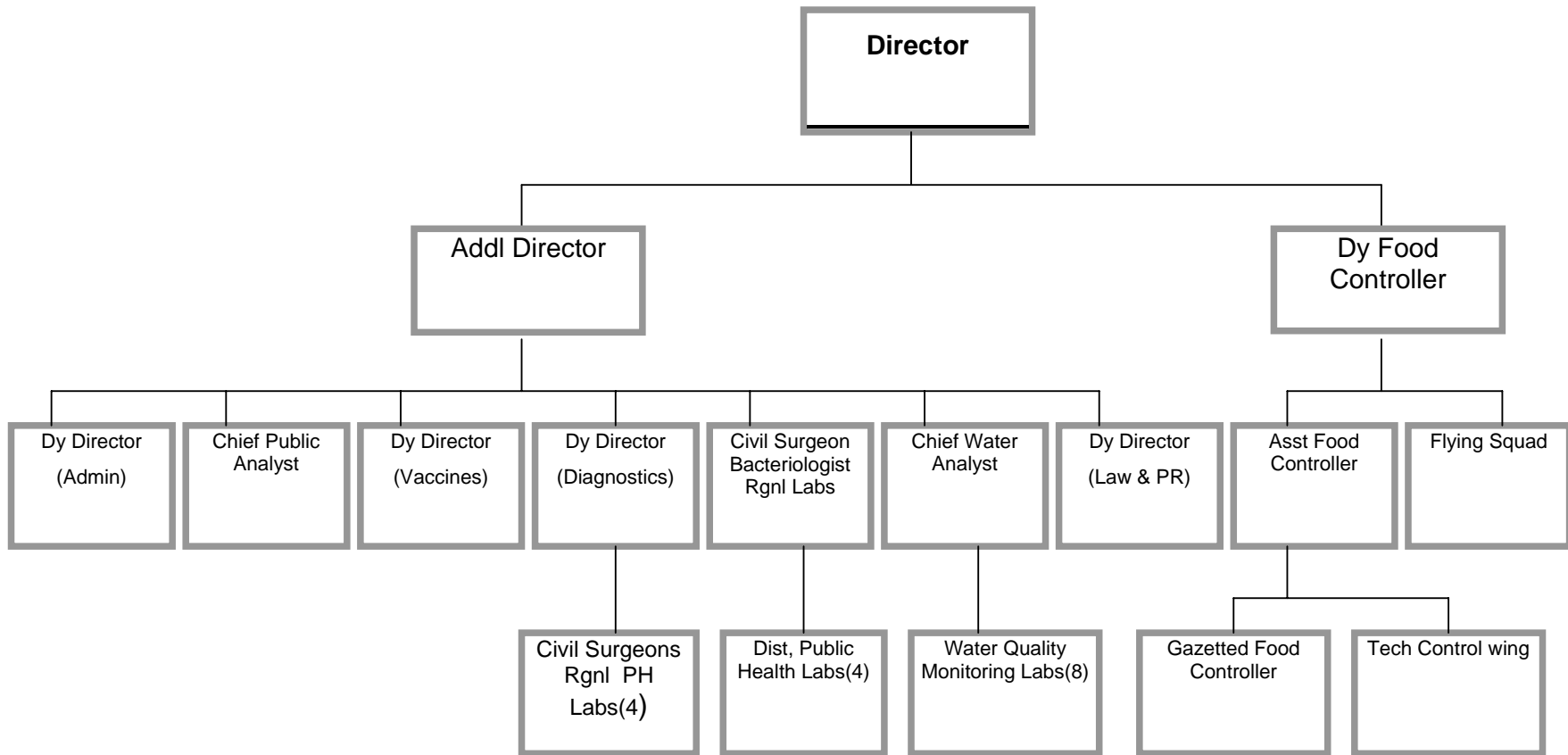
V. Andhra Pradesh Vaidya Vidhana Parishad



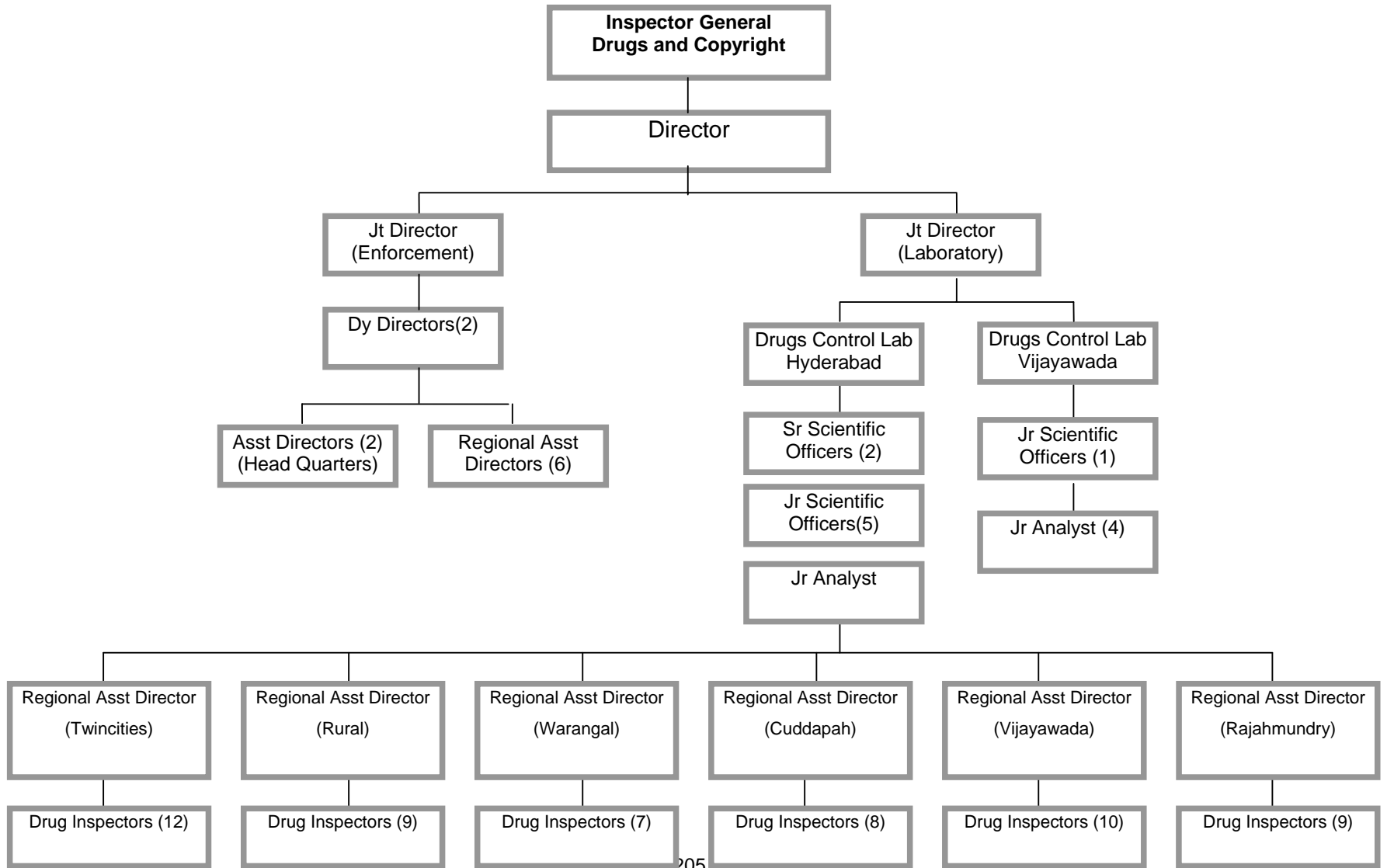
VI. AP State AIDS Control Society



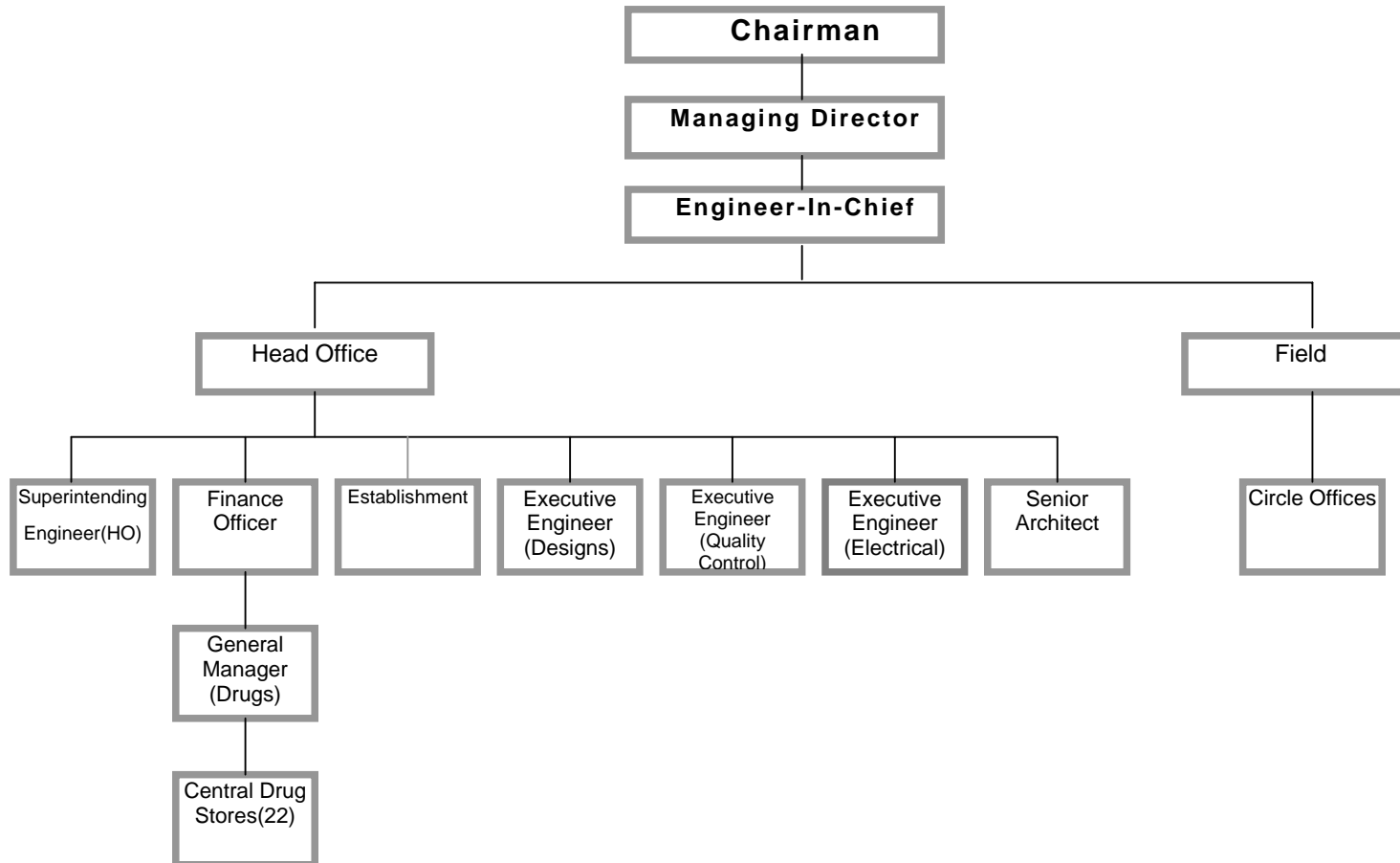
VII. Institute of Preventive Medicine



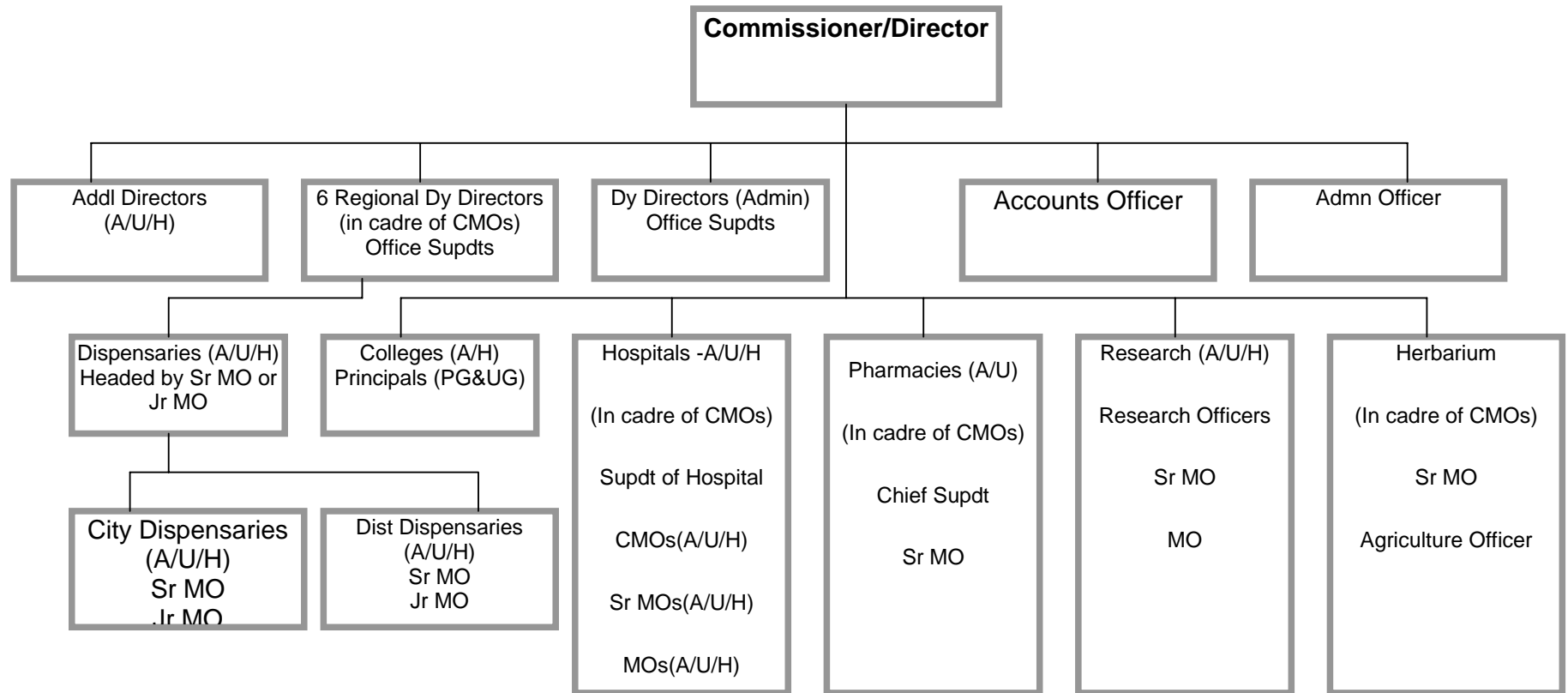
VIII. Drugs Control Administration



IX. AP Health Medical and Housing Infrastructure Development Corporation



X. AYUSH



Appendix 14: Key recent and ongoing PFM Reforms in AP

Reform content	Benefits of reform
Ongoing revision of the budget manual	Increased clarity and compliance
Development of Departmental and Functionary Manuals for many departments	Increased clarity about roles and responsibilities
Government Order 507: targets key accounting controls with which compliance is low Links compliance with requirements (via the submission of regular signed statements of compliance) to the release of further funds	Increased compliance noted since introduction in April 2002
Treasury department Performance Monitoring Evaluation System (PMES)	Management information about performance of Treasury departments in key areas
Medium Term Fiscal Framework	Strategic framework for budget, moving away from only incremental approach to revenue forecasting to include GSDP and tax buoyancies
Establishment of Revenue Reform Committee	To consider how to strengthen tax forecasting and potential for enhancing tax collection
Cabinet sub-committee setting development priorities	Strategic framework for budget for development of line department expenditure strategies
Draft Performance Review and Budget process to review performance and set departmental expenditure strategies	Enhanced line department ownership and accountability for budgets
Pilot Medium Term Expenditure Frameworks in primary health and education	First steps towards developing costed expenditure strategies at the departmental level
Cabinet approved expenditure ceilings provided to line departments	Enhanced flexibility and predictability for line departments
Brought off-budget borrowings on to the budget	Strengthened comprehensiveness of the budget
Publication of Budget in Brief since 2001-02	Improved user-friendliness of budget documentation

Reform content	Benefits of reform
Simplification of the classification system: merging similar schemes into generic programmes to reduce the heads of account and weeding out obsolete and redundant heads of account	Increased transparency of the classification system
A computerised financial management system, an Oracle based system currently called the Resources Expenditure Information System (REINS), is under development to enable electronic submission of Budget Estimates but will not be functioning in the next couple of years	Enhanced efficiency and accuracy of budget preparation, as well as line department accountability for budgets
Increased scope for departmental re-appropriations	Increased departmental flexibility
Advance release of budget spending authority for the first six months of the year, followed by quarterly releases.	Increased timeliness and predictability of departmental funding
Procurement reforms	Increased transparency of procurement
Implementation of scheme of payment of salaries to staff through banks	Reduced scope for irregularities that are possible under the current cash payment system
GO 507 strengthening range of accounting controls	Increased compliance and reduced fiduciary risk
Strengthening controls and transparency of Personal Deposit accounts	Reduced scope for diversion of funds for irregular purposes
GoAP has asked Gol to channel directly funded Centrally Sponsored Schemes through GoAP in future, although there is no indication that this will happen as yet	Strengthened budget comprehensiveness, Treasury control and transparency
The GASAB has been convened to formulate standardised Government Accounting Standards for India (Gol reform)	Enhance clarity of accounting principles and standards
Integrated Financial Information System (IFIS), including e-khazana, integrated application software that can address all the functions of the Treasury departments and migrate the data and functionalities to the new system	Increased transparency, efficiency, integrity and timeliness of accounting information, providing efficient transfer, storage and retrieval of financial information

Reform content	Benefits of reform
Production of Accounts at a Glance since 1998-99	Increased transparency of financial reporting
GOAP appointed a Cabinet Sub Committee on Asset Management in 2001	More productive use of dormant government assets like land and buildings
Setting of debt objectives as part of the MTFF and debt limit	Represents a more proactive approach to debt management
GoAP has appointed two consultants from ICICI Bank (under the aegis of the Fiscal Reforms Implementation Committee (FRIC)) to advise the Government on debt strategies and to explore possibilities of debt/interest swaps, and other debt management issues	Enables GoAP to take advantage of falling interest rates to replace earlier high-cost debt (other than Central Loans) with lower coupon debt
GoAP plans to establish a Debt Management Cell in the Finance Department	Strengthened capacity for debt management
Inclusion of off-budget borrowings as at the end of 1999-2000 in the Public Debt of the State in the Accounts of 2000-01	Strengthened comprehensiveness and transparency of the budget
Guarantee Redemption Fund instituted in 2001-02	Supports management of risk associated with contingent liabilities
GoAP has also taken action to initiate a Pension Fund in which a certain proportion of the total pension liability of the year would be set apart from the Consolidated Fund and credited into the Fund account	Support movement to self-financing pension scheme
Development of Internal Audit Manual, as first step towards introducing internal audit function in GoAP.	Strengthened internal control monitoring, evaluation and compliance
Establishment of internal audit cell in Finance Department to undertake internal audits across GoAP	Strengthened internal control monitoring, evaluation and compliance
GO 507: DTOs not paying bills until the DDO submits a certificate that at least 50% of the pending audit paras for years up to and including 2000-01 have been replied to	Increased departmental responsiveness to audit paragraphs is key to accountability
PAC now devoting half its time henceforth to examining previous year's Audit Reports	Significant enhancement of accountability

Reform content	Benefits of reform
Draft Rights to Information Bill	Increased transparency
Publishes the Budget and makes key budget documents accessible through GoAP's web site	Increased transparency
Publishes a AP Budget in Brief document	Increased transparency and user-friendliness of budget documentation
Published, for the first time in 2001-02 a draft budget (Annual Fiscal Framework)	Increased transparency and facilitates public consultation on the budget
Public participation and feedback sought during draft Performance Budget exercise	Increased civil society to examine budget execution and hold government to account
Establishment of COPE	Avenue for grievance hearing

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