

Chapter - 1

Overview of Economic Sector

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1.1 Introduction

Telangana State has a population of 3.50 crore and a geographical area of 1,12,077 sq.kms. For purpose of Administration there are 32 Departments at the Secretariat level headed by Principal Secretaries/Secretaries who are assisted by Directors/Commissioners and Subordinate officers under them. This Report covers the functioning of 11 Departments of Economic Sector listed in Table 1.1. This is the first Audit Report on Economic Sector of the Telangana State after its formation. The Audit Report in respect of the Economic Sector of Andhra Pradesh State is being presented separately.

1.2 Expenditure of Economic Sector Departments

Expenditure incurred by the Departments during the period 2010-15 is given in Table 1.1.

Table-1.1 - Table showing the expenditure during 2010-15*

(₹ in crore)

Sl. No.	Name of the Department	2010-11	2011-12	2012-13	2013-14	2014-15
1	Agriculture & Co-operation	2270.40	3334.54	3633.36	2874.65	5380.31
2	Rain Shadow Areas Development ¹					
3	Animal Husbandry & Fisheries	567.70	729.58	830.61	839.18	325.17
4	Energy	3696.98	4367.68	6249.03	7553.28	3504.49
5	Environment, Forests, Science and Technology	277.56	343.01	391.25	399.56	211.75
6	Industries & Commerce	448.45	380.74	760.53	705.66	670.96
7	Information Technology, Electronics & Communications	24.53	57.72	199.37	155.10	136.40
8	Irrigation and Command Area Development	15710.87	17787.39	19704.27	18760.67	8052.87
9	Public Enterprises	1.28	1.46	1.40	1.44	0.54
10	Roads and Buildings	2272.95	3043.04	4188.66	4948.75	2598.97
11	Infrastructure & Investment ²					
Total		25270.72	30045.16	35958.48	36238.29	20881.46

* These figures represent the expenditure figures of the erstwhile composite AP State from 01 April 2010 to 31 March 2014 and expenditure figures of Telangana State from 02 June 2014 to 31 March 2015. Expenditure figures from 01 April 2014 to 01 June 2014 were depicted in Audit Report on Economic Sector Departments of Andhra Pradesh State

(Source: Appropriation Accounts of Government of Andhra Pradesh/Telangana for the relevant years)

¹ Expenditure of this Department is covered under Grant No. XXVII – Agriculture

² Expenditure of Infrastructure & Investment is covered under Grant No.XI – Roads, Buildings and Ports

Of the 11 Departments, with a total expenditure of ₹ 20881.46 crore, covered in this Report, a major portion of the expenditure was incurred by Irrigation and Command Area Development Department (38.56 per cent), Agriculture & Co-operation Department (25.77 per cent), and Energy Department (16.78 per cent) during 2014-15.

1.3 About this Report

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from the audit of 11 Government Departments and Autonomous Bodies under the Economic Sector. Compliance Audit covers examination of the transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with. Performance Audit examines whether the objectives of the programme/activity/Department are achieved economically, efficiently and effectively.

1.4 Authority for audit

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). CAG conducts audit of expenditure of the economic sector Departments of the Government of Telangana under Section 13³ of the DPC Act. CAG is the sole auditor in respect of four⁴ autonomous bodies which are audited under Sections 19(2)⁵, 19(3)⁶ and 20(1)⁷ of the DPC Act. In addition, CAG also conducts audit of other autonomous bodies under Section 14⁸ of DPC Act which are substantially funded by the Government. Principles and methodologies for

³ Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts kept in any Department of a State

⁴ Telangana State Electricity Regulatory Commission (TSERC) under Section 19(2), Telangana Khadi and Village Industries Board (TKVIB) under Section 19(3), Environment Protection Training and Research Institute (EPTRI) under Section 20(1) and Telangana State Compensatory Afforestation Fund Management and Planning Authority (TSCAMPA) under Section 20(1) of DPC Act

⁵ Audit of the accounts of Corporations (not being Companies) established by or under law made by the Parliament in accordance with the provisions of the respective legislations

⁶ Audit of accounts of Corporations (not being companies) established by or under law made by the State Legislature in accordance with the provisions of respective legislations

⁷ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the CAG and the Government

⁸ Audit of all receipts and expenditure of (i) any body or authority substantially financed by grants or loans from the Consolidated Fund and (ii) any body or authority where the grants or loans to such body or authority from the Consolidated Fund in a financial year is not less than ₹ one crore

various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the CAG.

1.5 Planning and conduct of audit

The primary purpose of this Report is to bring to the notice of the State Legislature, important results of Audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. Findings of Audit are expected to enable the Executive to take corrective action as also to frame policies and directives that will lead to improved Financial Management of the Organisations, thus contributing to better governance.

Audit process starts with the assessment of risks faced by various Departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous Audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of Audit are decided.

After completion of Audit, Inspection Reports containing Audit findings are issued to the heads of Departments, who are requested to furnish replies to the Audit findings within one month of receipt of the Inspection Reports. Whenever replies are received, Audit findings are either settled or further action for compliance is advised. Important Audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports which are submitted to the Governor of the State under Article 151 of the Constitution of India. During 2014-15, audit of various Departments/Organisations under Economic Sector were audited and 134 Inspection Reports containing 811 Paragraphs were issued.

1.6 Response to Audit

1.6.1 Performance Audit and Compliance Audit observations

One Performance Audit report and three Compliance Audit Paragraphs included in this Audit Report were forwarded demi-officially to the Principal Secretaries/Secretaries of the Departments concerned between September and November 2015 with a request to send their responses. Government/Department's responses had been received for Performance Audit and two Compliance Audit Paragraphs. An Exit Conference was held in respect of the Performance Audit with Government representatives in December 2015. Responses of Government/Departments have been taken into account while finalising this Report.

1.6.2 Follow-up on Audit Reports

Finance and Planning Department issued (May 1995) instructions to all Administrative Departments to submit Action Taken Notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) relating to the paragraphs contained in Audit Reports within six months. Audit reviewed the outstanding ATNs as of 31 December 2015 on the paragraphs pertaining to Economic Sector Departments included in the Reports of the Comptroller and Auditor General of India, Government of Andhra Pradesh (paragraphs pertaining to the present Telangana State) and found that two⁹ Departments did not submit ATNs for the recommendations pertaining to seven audit paragraphs discussed by PAC.

1.6.3 Outstanding replies to Inspection Reports

The Accountant General (E&RSA), Andhra Pradesh and Telangana (AG) arranges to conduct periodical inspections of the Government Departments to test check transactions and verify maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher Authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through replies. Serious financial irregularities are reported to the heads of Departments and the Government.

1835 IRs containing 6335 paragraphs issued upto March 2015 were pending settlement as of 30 September 2015. The Department wise details are given in *Appendix-1.1*. This large pendency of IRs, due to non-receipt of replies, was indicative of the fact that heads of offices and heads of Departments did not initiate appropriate and adequate action to rectify the defects, omissions and irregularities pointed out by audit in the IRs.

1.7 Significant Audit Findings

Performance Audit

Implementation of Schemes in Animal Husbandry Department

The Animal Husbandry (AH) Department implements several schemes for development of livestock and providing veterinary healthcare. The activities of the Department are oriented towards improving the production potential of cattle and buffaloes by way of breed upgradation, providing preventive and

⁹ Irrigation and Command Area Development Department: 5 ATNs and
Animal Husbandry and Fisheries Department: 2 ATNs

curative health care to livestock, and spreading awareness among farmers on profitable livestock production/rearing. Performance Audit was conducted to evaluate the implementation of (i) Supply of milch animal schemes, (ii) Calf feed/rearing programmes and (iii) Sheep and goat development schemes covering the five year period 2010-15.

Major Audit findings on implementation of schemes are as follows:

- *Adequate publicity was not given for generating awareness among potential beneficiaries about the schemes despite availability of funds and display centres were not set up to reduce travel cost to beneficiaries. As a result, some of the animal development schemes did not attract adequate response from potential beneficiaries.*
- *Despite good response from beneficiaries, schemes like 'Supply of 1+1 Milch Animals' and 'Supply of two Milch Animals' aimed at providing sustainable income to BPL families, and 'Mini Dairy Units Scheme' and promoting entrepreneurship in rural youth and augmenting milk production were discontinued after 2013-14 without any recorded reasons, indicating lack of long term planning/vision on part of the Department in implementation of these schemes.*
- *In 'Supply of 1+1 Milch Animals' scheme, the Department supplied only one animal to 6702 (94 per cent) beneficiaries and the objective of providing sustainable income generation to the BPL beneficiaries by supplying two animals was not fulfilled.*
- *In Mini Dairy Units (MDUs) scheme, 65 per cent of the targets were not achieved due to non-sanction of loans to the selected beneficiaries by banks.*
- *In implementation of MDUs scheme, deficiencies like short supply of cattle feed to the inducted animals and non-enrolment of female calves of the beneficiaries were noticed.*
- *The Medium Dairy Units scheme, which was aimed at developing model dairy farms/ commercial dairy enterprises and increasing milk production in the State, was largely a failure due to high investment required of the beneficiaries coupled with failure of the Department to facilitate bank loans to the selected beneficiaries. As a result, only seven units were established in test checked districts against a target of 50 and the scheme was discontinued while unutilised funds were diverted to other schemes.*
- *The Department introduced 'Calf Rearing (Sunandini) Programme' in 2013-14 with a view to increase the number of lactations and milk production by bringing early maturity in female calves through supply of nutritional feed. Only nine per cent of the calves born from artificial*

insemination were covered under the scheme and no fresh enrolments were made thereafter to cover the remaining 91 per cent calves, indicating lack of long term planning to achieve the intended objective.

- *Though timely supply of the stipulated quantities of nutritional feed to the calves was the key for achievement of the objective under the ‘Calf Rearing (Sunandini) Programme’, Audit noticed deficiencies like delayed/short supply of feed, non-recording of growth pattern of enrolled calves, etc., due to which the objective of the scheme was defeated.*
- *There was shortage of veterinary staff which was adversely affecting the functioning of the Department and implementation of livestock schemes at ground level.*

[Paragraph 2.1]

Compliance Audit

Finance Control Mechanism in Pay & Accounts Office

Pay and Accounts Officers (PAOs)/Assistant PAOs (APAOs) conduct pre-check of bills submitted by the Drawing and Disbursing Officers (DDOs) of various Public Works Departments, make payments, compile monthly accounts and render the same to the Accountant General (A&E). The PAO system was to enforce financial discipline in Government expenditure through adherence to financial rules, budgetary controls and by ensuring that expenditure is incurred in accordance with sanctions of the Legislature. Audit examined functioning of four selected PAOs covering the five years period 2010-15.

Major Audit findings are summarised below:

- *Though one of the important functions of PAOs was to see that no payment is made in excess of the funds released, the test checked PAOs paid bills amounting to ₹ 81.07 crore in excess of the Letters of Credit issued by the Heads of Departments.*
- *The PAOs accepted Bank Guarantees (BGs) instead of Demand Drafts for works costing less than ₹ 50 lakh in 147 works valuing ₹ 0.99 crore contrary to Government orders.*
- *Contrary to the rules, PAOs, Hanamkonda and Nizamabad admitted 18 bills amounting to ₹ 36.44 crore without appropriate quality control certificate.*
- *PAO, Nirmal admitted and paid work bills amounting to ₹ 91.25 lakh without obtaining labour amenities certificate.*
- *In the test checked PAOs, Miscellaneous Public Works Advances of ₹ 4.72 crore, Land Acquisition advances of ₹ 9 crore and PWD Deposits*

of ₹ 135.72 crore were pending clearance and there was no monitoring/pursuance by the PAOs with the respective Departments in this regard.

- *Building and other Construction Workers' Welfare Cess of ₹ 14.29 crore recovered from work bills was not remitted to Building and Other Construction Workers Welfare Board.*
- *Internal control in the PAO system was deficient as there were shortfalls in inspections of subordinate offices by the Director and Joint Directors of Works Accounts and inspection of DDOs by the PAOs, and 1103 Audit Notes issued by the Accountant General involving ₹ 66.56 crore were pending for want of remedial action/replies by the PAOs.*

[Paragraph 3.1]

- *Failure of Telangana State Cooperative Marketing Federation Limited to formulate marketing plan even two years after commissioning the Feed Mixing Plant, Karimnagar resulted in the plant remaining underutilised and the objective of supplying nutritionally qualitative feed remained largely unachieved.*

[Paragraph 3.2]

- *Procurement of 23933 MTs of maize by Telangana State Cooperative Marketing Federation Limited not conforming to Fair Average Quality resulted in a loss of ₹18.88 crore as the same was not reimbursable by Government of India under Minimum Support Price scheme.*

[Paragraph 3.3]