

Chapter - 1

Overview of Economic Sector

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1.1 Introduction

Andhra Pradesh State has a population of 4.96 crore with geographical area of 1,62,970 sq.kms. For the purpose of administration, there are 33 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 AP State after the State's bifurcation. The Audit Report in respect of the Economic Sector of Telangana 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 ¹					
2	Rain Shadow Area Development	2270.40	3334.54	3633.36	2874.65	9258.24
3	Agriculture Marketing & Co-operation					
4	Animal Husbandry, Dairy Development & Fisheries	567.70	729.58	830.61	839.18	715.35
5	Energy, Infrastructure & Investment ²	3696.98	4367.68	6249.03	7553.28	14476.96
6	Environment, Forests, Science and Technology	277.56	343.01	391.25	399.56	290.60
7	Industries and Commerce	448.45	380.74	760.53	705.66	2464.64
8	Information Technology, Electronics and Communications	24.53	57.72	199.37	155.10	127.02
9	Water Resources ³	15710.87	17787.39	19704.27	18760.67	9378.12
10	Public Enterprises	1.28	1.46	1.40	1.44	1.22
11	Roads & Buildings ⁴	2272.95	3043.04	4188.66	4948.75	5969.18
	Total	25270.72	30045.16	35958.48	36238.29	42681.33

* These figures represent the expenditure figures of the erstwhile composite AP State from 01 April 2014 to 01 June 2014 and of residuary AP State from 02 June 2014 to 31 March 2015

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

¹ The expenditure of Agriculture, Rain Shadow Area Development and Agriculture Marketing is covered under Grant No. XXVII – Agriculture and the expenditure of Co-operation Department is covered under Grant No. XXX

² These figures represent the expenditure on Energy only. The expenditure of Infrastructure & Investment is covered under Grant No. XI – Roads, Building and Ports

³ formerly the Irrigation & Command Area Development Department

⁴ These figures also include the expenditure on Infrastructure & Investment

Of the 11 Departments with a total expenditure of ₹ 42681.33 crore covered in this Report, the major portion of expenditure was incurred by the Energy Department (33.92 *per cent*), the Water Resources Department (21.97 *per cent*), the Agriculture (21.69 *per cent*) and the Roads and Buildings and the Infrastructure and Investment (13.99 *per cent*) Departments 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 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 Andhra Pradesh under Section 13⁵ of the DPC Act. CAG is the sole auditor in respect of four⁶ autonomous bodies which are audited under Sections 19(2)⁷ 19(3)⁸ and 20(1)⁹ of the DPC Act. In addition, CAG also conducts audit of other autonomous bodies under Section 14¹⁰ of DPC Act which are substantially funded by the Government. Principles and methodologies for

⁵ 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

⁶ AP Electricity Regulatory Commission (APERC) under Section 19(2), AP Khadi and Village Industries Board (APKVIB) under Section 19(3), Environment Protection Training and Research Institute (EPTRI) under Section 20(1) and AP Compensatory Afforestation Fund Management and Planning Authority (AP State CAMPA) under Section 20(1) of DPC Act

⁷ 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

⁸ 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.

⁹ 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

¹⁰ 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, the 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 153 Inspection Reports containing 978 Paragraphs were issued.

1.6 Response to Audit

1.6.1 Performance Audit and Compliance Audit observations

One Performance Audit report and five 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 three 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 Andhra Pradesh State) and found that two Departments¹¹ 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.

2172 IRs containing 6854 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

¹¹ Water Resources Department: 5 ATNs and Animal Husbandry, Dairy Development and Fisheries Department: 2 ATNs

cattle and buffaloes by way of breed upgradation, providing preventive and 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 animals 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' to encourage rural youth to take up dairying activities were discontinued after 2013-14 without any recorded reasons, indicating lack of long term objective/planning 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 7681 (91 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, 66 per cent of the approved beneficiaries did not establish the units and non-sanction of loans to the selected beneficiaries by banks was one of the main reasons for non-achievement of targets under the scheme.*
- *In implementation of MDUs scheme, deficiencies like beneficiaries taking back their contribution due to non-supply of animals at the agreed rates, 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 wrong selection of beneficiaries and failure of the Department to facilitate bank loans to the selected beneficiaries. As a result, only 6 units were established in test*

checked districts against a target of 84 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 in the first year after enrolment and non-supply of feed in second year, 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 Offices

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 six 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 ₹ 171.39 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 112 works contrary to Government orders. The present system of monitoring of BGs was found to be deficient and not protective of Government interest, as the PAOs simply returned 1078 BGs valuing ₹ 275.83 crore to the respective Departments for renewal, but did not watch their actual renewal.*
- *In the test checked PAOs, Miscellaneous Public Works Advances of ₹ 43.61 crore, Land Acquisition advances of ₹ 18.80 crore and PWD Deposits of ₹ 97.28 crore were pending clearance and there was no monitoring/pursuance by the PAOs with the respective Departments in this regard.*
- *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 1318 Audit Notes issued by the Accountant General involving ₹ 130.12 crore were pending for want of remedial action/replies by the PAOs.*

[Paragraph 3.1]

- *In distribution of Zinc Sulphate by AP State Co-operative Marketing Federation Limited, there were deficiencies like non-maintenance of beneficiary details, issue of zinc in excess of the prescribed ceiling and furnishing of Utilisation Certificates without actual distribution, indicating lack of transparency/monitoring over zinc distribution.*

[Paragraph 3.2]

- *Post tender waiver of tender discount for both the additional works as well as the original work contrary to codal provisions in the work of 'Providing road connectivity from Venkatachalam to Krishnapatnam Port' vitiated the spirit of competitive bidding and resulted in extra expenditure of ₹ 19.26 crore to Government and undue favour to contractor.*

[Paragraph 3.3]

- *Post tender alteration to the agreement clauses relating to recovery of Value Added Tax in 11 contracts pertaining to Krishna Delta Modernisation works, resulted in unwarranted financial commitment of ₹ 12.12 crore on public exchequer and undue benefit to the contracting agency.*

[Paragraph 3.4]

- *Not considering the saving of ₹ 8.24 crore due to post tender reduction in canal length and allowing additional payment of ₹ 5.19 crore for controlled blasting in Package No.17 of Handri Niva Sujala Sravanthi project (Phase-II) resulted in undue benefit to the agency and extra expenditure to the Department.*

[Paragraph 3.5]