

# Chapter - I

## 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 the 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 the Economic Sector listed in Table 1.1.

### 1.2 Expenditure of Economic Sector Departments

Expenditure incurred by the Departments during the period 2011-16 is given in Table 1.1.

*Table 1.1: Table showing the expenditure\* during 2011-16*

(₹ in crore)						
Sl. No.	Name of the Department	2011-12	2012-13	2013-14	2014-15	2015-16
1	Agriculture & Co-operation	3334.54	3633.36	2874.65	5380.31	5668.08
2	Rain Shadow Areas Development <sup>1</sup>					
3	Animal Husbandry & Fisheries	729.58	830.61	839.18	325.17	543.00
4	Energy	4367.68	6249.03	7553.28	3504.49	5195.32
5	Environment, Forests, Science and Technology	343.01	391.25	399.56	211.75	364.71
6	Industries & Commerce	380.74	760.53	705.66	670.96	777.56
7	Information Technology, Electronics & Communications	57.72	199.37	155.10	136.40	87.33
8	Irrigation and Command Area Development	17787.39	19704.27	18760.67	8052.87	10978.72
9	Public Enterprises	1.46	1.40	1.44	0.54	0.80
10	Roads and Buildings	3043.04	4188.66	4948.75	2598.97	2917.20
11	Infrastructure & Investment <sup>2</sup>					
<b>Total</b>		<b>30045.16</b>	<b>35958.48</b>	<b>36238.29</b>	<b>20881.46</b>	<b>26532.72</b>

\* These figures represent the expenditure figures of the erstwhile composite AP State from 01 April 2011 to 31 March 2014 and expenditure figures of Telangana State from 02 June 2014 to 31 March 2016. 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)

<sup>1</sup> Expenditure of this Department is covered under Grant No. XXVII – Agriculture

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

Of the 11 Departments, with a total expenditure of ₹ 26532.72 crore, covered in this Report, a major portion of the expenditure was incurred by Irrigation and Command Area Development Department (41.38 *per cent*), Agriculture & Co-operation Department (21.36 *per cent*), and Energy Department (19.58 *per cent*) during 2015-16.

### **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 13<sup>3</sup> of the DPC Act. CAG is the sole auditor in respect of four<sup>4</sup> autonomous bodies which are audited under Sections 19(2)<sup>5</sup>, 19(3)<sup>6</sup> and 20(1)<sup>7</sup> of the DPC Act. In addition, CAG also conducts audit of other autonomous bodies under Section 14<sup>8</sup> of DPC Act which are substantially funded by the Government. Principles and methodologies for the various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the CAG.

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<sup>3</sup> 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

<sup>4</sup> 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

<sup>5</sup> 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

<sup>6</sup> 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

<sup>7</sup> 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

<sup>8</sup> 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

## **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. The audit findings are expected to enable the executive to take corrective action as also to frame policies and directives that will lead to improved management of the organisations, thus contributing to better governance.

The 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 2015-16, various Departments/ Organisations under the Economic Sector were audited and 153 Inspection Reports containing 954 paragraphs were issued.

## **1.6 Response to Audit**

### **1.6.1 Performance Audit and Compliance Audit observations**

One Performance Audit and four compliance audit paragraphs included in this Audit Report were forwarded demi-officially to the Principal Secretaries/ Secretaries of the Departments concerned between August and October 2016, with a request to send their responses. Government/ Department's responses were received for Performance Audit and two compliance audit paragraphs. 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 had 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 October 2016 on the paragraphs pertaining to Economic Sector Departments of the Telangana State, included in the Reports of the Comptroller and Auditor General of India, Government of Andhra

Pradesh and found that two<sup>9</sup> 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 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.

1944 IRs containing 7007 paragraphs issued upto 31 March 2016 were pending settlement as of 30 September 2016. The Department-wise details are given in *Appendix 1.1*.

## **1.7 Significant Audit Findings**

### ***Performance Audit***

#### **Implementation of selected Medium Irrigation Projects**

The Government had taken up (2005) nine Medium Irrigation (MI) projects with a cost of ₹ 888 crore to create an Irrigation Potential (IP) of 1.1 lakh acres in two years. Performance Audit of five selected MI projects was conducted (from January to June 2016) to assess (i) whether planning for the projects was comprehensive and individual projects were formulated properly; (ii) whether the execution of the project packages was systematic and in accordance with relevant provisions and (iii) whether the intended benefits were achieved.

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<sup>9</sup> Irrigation and Command Area Development Department: 5 ATNs and Animal Husbandry and Fisheries Department: 2 ATNs

Major audit findings are summarised below:

- *Though all the five projects were targeted to be completed within two years, only two were completed, except for some ancillary works. The remaining projects were not completed due to improper planning, delays in submission and approval of designs, rehabilitation and resettlement activities, obtaining forest clearances etc. Irrigation Potential (IP) of 13900 acres only was achieved (May 2016) against the targeted 52000 acres.*
- *There were consistent savings (₹319.02 crore) across the projects and across the years. There were also reductions (₹224.56 crore) from original grants through re-appropriations in at least six years.*
- *Despite receiving almost full grants under Accelerated Irrigation Benefit Programme (AIBP), three projects viz., Gollavagu, Neelwai and Peddavagu at Jagannathapur were yet to be completed even after 11 years. There were shortfalls in utilization of AIBP funds in respect of Gollavagu (₹2.24 crore) and Peddavagu at Jagannathapur (₹41.53 crore). Since none of the projects were completed within the time stipulated by AIBP, possibility of conversion of grants to loans cannot be ruled out.*
- *Suggestions of the Central Water Commission (CWC), relating to adoption of rainfall – runoff relationship of Kaddam project to these projects, to review flood discharges and establish gauzing stations at dam sites were not complied with. As a result, audit could not verify the scientific basis for calculation of dependable yield for the projects.*
- *Irrigation Potential to be created in each village, as prescribed in Public Works Department Code, was not contemplated in the Detailed Project Reports (DPR). In three projects, only mandal-wise IP was stipulated to contracting agencies. Though, village-wise IP was stipulated in the agreement in case of Mathadivagu project, the contracting agency did not comply with the stipulation, resulting in leaving out two villages and reduction of the proposed IP in six villages.*
- *In Mathadivagu and Peddavagu at Jagannathapur projects head regulators were planned and constructed without corresponding canal systems.*

- *There were cases of delays in survey and investigation (S&I) activities by the contracting agencies, non-submission of S&I reports as envisaged, delay in submission of proposal for forest land, defective S&I leading to deletion of IP, improper S&I resulting in delay in execution etc.*
- *There were delays in submission and approval of designs, non-compliance with Government instructions in respect of timelines in finalisation of designs.*
- *Estimates were not prepared by the agencies as stipulated in the agreements. Payment schedules were revised several times without justifications / recorded reasons.*
- *There were cases of non extension or delay in extension of benefits of Rehabilitation and Resettlement (R&R) to the project affected families, resulting in delays in execution of projects.*
- *There were instances of accepting changes in basic project parameters without corresponding changes in the cost of the agreement, leading to undue benefits to contracting agencies.*
- *Drinking water facilities to villages en-route, as envisaged, were not ensured.*

[Paragraph 2.1]

## ***Compliance Audit***

### **Development of Textile and Apparel Parks**

Textile and Apparel Parks were established with an objective of increasing the textile exports and to generate employment opportunities in handloom and textile sector. Audit of selected four Parks, out of eight Parks in Telangana were conducted during May-June 2016 to ascertain the reasons behind delay in completion of parks and non-achievement of specified targets.

Major audit findings are summarised below:

- *There were significant time overruns in completion of the Parks ranging from seven months to 151 months.*
- *The expenditure so far incurred by the State Government (₹6.04 crore) and GoI (₹14.34 crore) could not yield expected results in respect of Textile Park, Siricilla and Whitegold Integrated Spintex Park Private Limited (WISPL).*



- *In Textile Park, Siricilla, the Department had incurred an expenditure of ₹5.86 crore on power supply, water supply and internal road network against the originally approved cost of ₹1.64 crore.*
- *There were no export sales in respect of Textile Park, Siricilla and WISPL against the targets of ₹10 crore and ₹650 crore per annum respectively. In Handloom Park, Pochampally, the export sales were ₹1.53 crore (upto 2015-16) against targeted ₹17.50 crore per annum.*
- *There was shortfall in establishment of units in the Parks ranging from zero to 100 per cent and, in respect of employment generation, it ranged from 81 to 100 per cent.*
- *Due to delay in creation of the infrastructure for the Textile Park, Siricilla, the Department had lost the Government of India assistance to the extent of ₹1.04 crore.*
- *In the Textile Park, Siricilla, the Common Effluent Treatment Plant constructed at a cost of ₹1.04 crore was not functional and Common Waste Water Treatment Plant constructed in Apparel Export Park, Gundlapochampally was not functioning since November 2011.*
- *In Apparel Export Park, Gundlapochampally, 53 per cent of the total units belong to non-textile/apparel manufacturers, the Park had not achieved its intended purpose of being an apparel hub.*

[Paragraph 3.1]

### **Implementation of Crop Loan Waiver Scheme**

Government of Telangana had introduced (August 2014) Crop Loan Waiver Scheme to alleviate the hardship of the farmers due to their indebtedness. The scheme covered short term production loans and crop loans disbursed by banks to farmers against gold. Each farmer family was eligible for waiver of crop loan amount which had been disbursed and was outstanding as of 31 March 2014, together with applicable interest on outstanding loan, up to 31 August 2014 or ₹ one lakh per farmer family, whichever was lower.

Major audit findings are summarised below:

- *Verification of beneficiaries under 'farmer family' norm was conducted without Aadhar numbers, despite being mandatory in the scheme guidelines. No social audit was conducted to eliminate duplicate/multiple financing of beneficiaries.*

- *The Department did not verify the crop loans taken by farmers from other district bank branches on agriculture lands in multiple districts/mandals.*
- *Crop loans to Rythu Mitra Groups/ Rythu Mitra Sangams were waived, against the scheme guidelines to treat farmer families as units.*
- *Banks claimed excess interest of ₹183.98 crore on the total outstanding crop loan of beneficiaries. Some of the banks did not claim interest, though stipulated in the scheme guidelines, resulting in eligible farmers being deprived of waiver of interest to an extent of ₹66.16 crore.*
- *There was delay in remittance of unspent amount into Government account both by Joint Directors of Agriculture and banks, mainly due to delayed reconciliation of accounts by banks.*
- *There were unspent balances with the nodal banks and also with the bank branches, even after furnishing of utilization certificates to Department.*

[Paragraph 3.2]

### **Telangana Road Sector Project**

In order to reduce the growing funding gap in the road sector, a loan agreement (January 2010) was entered into between International Bank for Reconstruction and Development (IBRD) and Government of India. After bifurcation, the loan was divided and a separate Project Agreement was concluded between IBRD and Government of Telangana, fixing Telangana's loan at 66.5 Million USD. The objective of the project was to provide better quality, capacity and safe roads to users in a sustainable manner through enhanced institutional capacity of the Government in road sector.

Major audit findings are summarised below:

- *In one upgradation package, the Roads and Buildings (R&B) Department had not levied delay damages of ₹19.23 crore while granting extension of time, despite dismal progress of the work*
- *The R&B Department deleted some road stretches from the scope of contract due to their conversion as National Highways or having been taken up under other State schemes, resulting in short utilization of the loan. No efforts were made by the Department to fill the gaps by identifying alternate roads in lieu of the deleted stretches.*

- *The PPP component of the Project remained underutilised, as only one road was identified to be executed under PPP mode, prior to bifurcation of the Andhra Pradesh State. After bifurcation, the R&B Department had not conducted any further studies to identify more roads to be developed under PPP mode.*
  
- *The formulation of Road Safety Action Plan was lagging behind the schedule as the works related to demonstration corridor were yet to be completed and in only two out of ten black spots improvement works were completed.*

[Paragraph 3.3]

- *Department incorrectly adopted 'total value of the work' for computation of fuel factor, leading to excess payment of ₹4.74 crore towards price escalation for fuel and lubricants.*

[Paragraph 3.4]