

Chapter - I

Overview of Economic Sector

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1.1 Introduction

Andhra Pradesh State has a population of 4.95 crore with a geographical area of 1,62,760 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.

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 ¹	3334.54	3633.36	2874.65	9258.24	3868.44
2	Rain Shadow Area Development					
3	Agriculture Marketing & Co-operation					
4	Animal Husbandry, Dairy Development & Fisheries	729.58	830.61	839.18	715.35	933.49
5	Energy, Infrastructure & Investment ²	4367.68	6249.03	7553.28	14476.96	3852.32
6	Environment, Forests, Science and Technology	343.01	391.25	399.56	290.60	307.23
7	Industries and Commerce	380.74	760.53	705.66	2464.64	398.95
8	Information Technology, Electronics and Communications	57.72	199.37	155.10	127.02	402.56
9	Water Resources ³	17787.39	19704.27	18760.67	9378.12	9596.41
10	Public Enterprises	1.46	1.40	1.44	1.22	0.87
11	Roads & Buildings ⁴	3043.04	4188.66	4948.75	5969.18	4076.03
Total		30045.16	35958.48	36238.29	42681.33	23436.30

* 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 ₹ 23436.30 crore, covered in this Report, a major portion of expenditure was incurred by Water Resources (40.95 *per cent*), Roads and Buildings and Infrastructure and Investment (17.39 *per cent*), Agriculture (16.51 *per cent*) and Energy (16.44 *per cent*) Departments 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 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 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 194 Inspection Reports containing 1339 Paragraphs were issued.

1.6 Response to Audit

1.6.1 Performance Audit and Compliance Audit observations

One Performance Audit 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 October 2016, with a request to send their responses. Government/Department's responses have not been received for any of them so far (December 2016).

1.6.2 Follow-up on Audit Reports

The 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 December 2016 on the paragraphs pertaining to Economic Sector Departments included in the Reports of the Comptroller and Auditor General of India, Government of Andhra Pradesh 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 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 are required to promptly address 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.

2311 IRs containing 7866 paragraphs issued upto March 2016 were pending for 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 Lift Irrigation schemes

Lift Irrigation Schemes are major sources for supply of water for irrigation, domestic and industrial uses and cater to the needs of drought prone areas. A Performance Audit (PA) of implementation of four lift irrigation schemes (LIS) - viz., Guru Raghavendra, Pulikanuma, Pattiseema and Pushkara LIS, was conducted (March to June 2016) to assess whether (i) planning for the LI Schemes was comprehensive and the schemes were formulated properly; (ii) tendering and contract management, at all stages of the project implementation, followed the canons of financial propriety and transparency and (iii) the LI schemes were executed within the time and cost budgeted and the envisaged target of creation of irrigation potential was achieved.

The major audit findings are summarized below:

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

- *In Guru Raghavendra and Pulikanuma Projects, non-conducting of feasibility studies for 12 out of the 13 individual LI schemes and non-preparation of a comprehensive Detailed Project Report (DPR) for the entire project led to discrepancies/inconsistencies in levels in some of the sub-schemes subsequently, leading to non-release of water to the intended ayacut.*
- *In Pushkara Lift Irrigation Scheme (LIS), preparation of DPR without proper investigations led to several major changes during execution and delay in completion of the project.*
- *Pattiseema LIS was taken up without completion of Polavaram Right Main Canal (RMC) and its distributaries and without identifying the industrial and domestic water users. This, coupled with increase in project cost, resulted in adverse Benefit Cost Ratio.*
- *In Pattiseema LIS, relaxation of ceiling on tender premium and award of work at higher premium without completion of Polavaram RMC and its distributary system resulted in avoidable additional burden of ₹199 crore. Audit also observed avoidable extra expenditure of ₹138.18 crore due to unwarranted change in construction methodology (₹106.17 crore) and reimbursement of Central Excise Duty on pipes despite availability of exemption (₹32.01 crore).*
- *Incorrect reimbursement of Labour Welfare Cess, though not required under the agreement, led to undue benefit of ₹14.22 crore to the contractor in Pattiseema LIS.*
- *Absence of suitable clauses in the Engineering, Procurement and Construction (EPC) contracts led to non-accrual of saving to Government to the tune of ₹20.62 crore as a result of reduction of capacity of pumps/motors in Pattiseema LIS and ₹4.12 crore due to reduction in diameter/length of pressure mains in Guru Raghavendra and Pulikanuma Projects.*
- *In the canal package of Pushkara LIS, audit observed extension of undue benefit of ₹21.81 crore to the contractor due to payment of price escalation contrary to agreement conditions and avoidable additional expenditure of ₹27.09 crore due to deletion of bridge works from the scope of contract and executing them as deposit works.*
- *Similarly, in the pump house work at Purushothapatnam, there was undue benefit of ₹1.57 crore to the contractor due to payment of price escalation for the work completed five years ago.*

- *Though the Guru Raghavendra and Pulikanuma projects were taken up for serving an ayacut of 85,790 acres, the ayacut served during 2011-16 ranged from 7,092 acres (in 2011-12) to 23,490 acres (in 2014-15), mainly due to improper planning, non-acquisition of lands, non-commissioning of lifts, lack of power supply arrangements, non-enhancement of distributaries of Tungabhadra Low Level Canal, etc.*
- *Non-installation of pipes and electro mechanical equipment due to non-acquisition of land in Pulakurthy LIS of Guru Raghavendra Project resulted in blocking up of ₹ 48.55 crore.*
- *In Pushkara LIS, though an ayacut of 1.86 lakh acres was to be created by the year 2006, the targeted ayacut has not been fully created even after time overrun of 10 years. Only 49 per cent of the field channels were completed, 44 structures on the distributaries were still incomplete and the ayacut of 1.45 lakh acres, stated to have been created, had not been authenticated through localisation process.*

[Paragraph 2.1]

Compliance Audit

Implementation of Reforms in Agriculture Marketing System and use of Regulatory Fees collected by State Agricultural Produce Market Committees

The AP (Agricultural Produce and Livestock) Markets Act, 1966 was enacted for regulation of agricultural marketing in the State. There are 191 Agricultural Market Committees (AMCs) and 324 notified markets in the State. The Government of India (GOI) had proposed a Model Act in the year 2003, which was to act as a template for legislation in the States. Audit was conducted (January – May 2016) in the office of the Commissioner & Director of Agricultural Marketing and four selected district offices to assess whether necessary amendments in the State Act have been effected to adopt the reforms suggested by the GOI in Model Act, 2003 and whether the provisions of the State Act have been implemented effectively at field level.

The major audit findings are summarized below:

- *Though the State Act was amended to incorporate some major reforms viz. Private Markets, Contract Farming, Direct Purchase Centres, as suggested by the Government of India in the Model Act, to promote competitive marketing, no efforts were made to implement these provisions.*

- *There are only 301 market yards in the State, against the requirement of 2000 markets, as per the recommendations of the National Commission on Farmers. The existing market yards did not have required infrastructure. No trading was conducted during 2011-16 in 90 out of the 99 market yards in the test-checked districts.*
- *The proportion of sale in the market yards was meagre. In East Godavari district, only 0.50 per cent of the total agricultural produce was traded in the market yards and in Krishna district, no trading took place in the market yards of AMCs. There was no mechanism to monitor the trading that takes place outside market yards. The Director of Marketing did not have even the details of trading that took place inside and outside the market yards.*
- *Though the Model Act stipulated that no commission agent should act in any transaction on behalf of an agriculturist-seller, the State Act/Rules have not been amended to this effect. During 2011-16, the farmers paid commission charges of ₹466.67 crore to the commission agents in four AMCs in the test-checked Districts.*
- *Though, e-Trading was introduced in 10 markets in the State as suggested in the Model Act, these markets did not have essential facilities like grading, quality certification, etc. The present system does not allow the traders from other parts of the State/Country to participate in e-trading thereby preventing healthy competition. In Guntur AMC, 93.35 per cent of Chilli trade was done through single bids.*
- *Though the Model Act provides for the direct election of members of the AMCs, the State Act had not been amended to incorporate this provision and the Chairmen and members of AMCs were being nominated by the Government and the role of the Marketing Department in the process was negligible. The nomination process also lacked transparency, as most of the members nominated under 'Trader Members' category had made no transactions prior to their nomination.*
- *A major portion of the Central Market Funds (CMF) and AMC funds was being utilised for establishment expenditure and construction of godowns and only marginal amounts of funds were utilised for promoting agricultural marketing and reforms. There were cases of diversion of substantial amounts as loans/grants to other Departments/agencies.*

[Paragraph 3.1]

Andhra Pradesh Road Sector Project

The Government of Andhra Pradesh had taken up the AP Road Sector Project with loan assistance from the International Bank for Reconstruction and Development (IBRD) and Government of India (GoI). The project comprises four components - (a) Road Improvement, (b) PPP facilitation support, (c) Institutional Strengthening and (d) Road Safety. Audit of implementation of the Project was conducted (December 2015 – June 2016) to ascertain whether the Project components were effectively implemented in a timely manner and the objective of providing better quality, higher capacity and safe roads to the users in a sustainable manner through enhanced institutional capacity had been achieved.

The major audit findings are summarized below:

- *Out of seven upgradation works taken up under the project, only one work was completed and the remaining six works were delayed with progress ranging from 5 to 90 per cent. With the current pace of execution, some of the works are unlikely to be completed within the loan closure period and there is a risk of under-utilization of IBRD loan assistance.*
- *Liquidated damages to the tune of ₹34.82 crore were not levied in respect of three upgradation works. In two terminated packages, cost of balance works of ₹159.96 crore was yet to be realised from the contractors. In one package, mobilization advance of ₹30.08 crore remained blocked with the contractor due to slow progress.*
- *Road stretches for Long Term Performance Based Maintenance Contracts (LTPBMC) were identified without any specified criteria. Out of the 2011 Km of road length covered under the test-checked LTPBMC works, road stretches of 472.208 Km were deleted from the scope of contracts due to improper selection and alternate roads were not taken up in lieu of the deleted stretches.*
- *Delays in collection of road data resulted in non-establishment of Road Management System besides increasing the cost thereon.*
- *The demonstration corridor taken up on Renigunta-Rayalacheruvu road as a model corridor with multi sector road safety measures was not completed due to delays in procurement of goods/works and lack of co-ordination among line Departments. The Department was yet to formulate the Road Safety Policy and the objectives of Road Safety component were not achieved.*

[Paragraph 3.2]

Development of Textile and Apparel Parks

Government of Andhra Pradesh contemplated establishment of Textile and Apparel Parks with an objective of increasing the textile exports and to generate employment opportunities in handloom and textile sector. Out of 11 Parks, Audit examined (May – June 2016) implementation of five Parks to ascertain the reasons behind delay in completion of parks and non-achievement of specified targets.

The major audit findings are summarized below:

- *There were significant time overruns ranging from 23 to 156 months in completion of the five test-checked Parks.*
- *The shortfall in establishment of units ranged from 24 to 100 per cent in these Parks while the shortfall in employment generation ranged from 74 to 100 per cent.*
- *Three Parks viz., Textile Park, Mylavaram; Textile Park, Rayadurg and Apparel Export Park, Proddutur have not been completed, due to non-transfer/delay in transfer of lands in the name of Handloom and Textiles Department.*
- *No units were established in Mylavaram and Proddutur Parks, while only one unit was set up in Textile Park, Rayadurg and the infrastructure developed at a cost of ₹7.63 crore in these Parks remained largely idle.*
- *Infrastructure has not been fully developed in these Parks. Textile Park, Mylavaram did not have assured water supply. In Textile Park, Rayadurg, Water Treatment Plant and widening of approach road were yet to be taken up. In Apparel Export Park, Proddutur, facilities like water supply and electricity, common facilities centre, drainage/sewage, medical and training centre, etc. were not taken up due to non-release of funds. In Vizag Apparel Export Park, the developer did not establish Common Effluent Treatment Plant.*
- *In respect of M/s Brandix India Apparel City Private Limited, Visakhapatnam, lease rentals at prevailing rates were not collected on the land proportionate to employment not created, as infrastructure agreed to by the Government had not been developed fully and the commitment fulfilment date had not been notified.*

[Paragraph 3.3]

- *Non-reduction of the agreement value despite reduction in the scope of work in Package No.53 of Handri Niva Sujala Sravanthi Project (Phase-II) led to non-accrual of savings of ₹6.47 crore to the public exchequer.*

[Paragraph 3.4]

- *Front loading of payments for excavation tunnel/approach channel in the payment schedules by reducing the provision for lining work, which was not executed by the contractor, in Package No.6 and Package No.10 of Handri Niva Sujala Sravanthi Project (Phase-II), resulted in excess payment of ₹4.97 crore to the agency.*

[Paragraph 3.5]