

# Chapter I

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## Overview

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## Chapter I - Overview

### 1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) contains matters arising from performance audit of Prisons Department (under Home Department) and compliance audit of transactions of various Departments of the Government of Telangana, Central and State plan schemes and audit of autonomous bodies of the State pertaining to General, Social and Economic Sectors.

The primary purpose of this Report is to bring to the notice of the State Legislature, significant results of audit. The findings of audit are expected to enable the Executive to take corrective action, to frame appropriate policies as well as issue directives that will lead to improved financial management of organisations and contribute to better governance.

This Chapter explains the planning and coverage of audit, response of Departments and Government to audit findings/observations made during audit of transactions and follow-up action on previous Audit Reports.

### 1.2 Profile of General, Social and Economic Sectors

A summary of the expenditure incurred by the Departments of Government of Telangana falling within the General, Social and Economic Sectors during the three-year period 2016-17 to 2018-19 is given below.

**Table-1.1**

(₹ in crore)

Sl. No.	Name of the Department	2016-17	2017-18	2018-19
<b>A</b>	<b>General Sector</b>			
1	Finance and Planning	40,977.31	57,568.37	58,732.81
2	General Administration	677.69	652.03	968.44
3	Home	5,176.55	5,619.09	6,212.21
4	Law	518.46	535.45	589.07
5	Revenue	2,970.84	1,868.95	2,258.11
6	State Legislature	98.93	114.72	103.72
	<b>Total (A)</b>	<b>50,419.78</b>	<b>66,358.61</b>	<b>68,864.36</b>
<b>B</b>	<b>Social Sector</b>			
1	Backward Classes Welfare	2,831.81	2,865.53	3,875.25
2	Consumer Affairs, Food and Civil Supplies	2,089.36	1,524.43	1,903.21
3	Health, Medical and Family Welfare	4,872.03	4,521.38	5,159.55

Sl. No.	Name of the Department	2016-17	2017-18	2018-19
4	Higher Education	1,765.14	1,754.79	1,719.63
5	Housing	555.90	865.80	1,601.12
6	Labour, Employment, Training and Factories	490.63	586.76	608.41
7	Minorities Welfare	842.06	983.48	1,265.71
8	Municipal Administration & Urban Development	3,111.31	3,150.57	3,012.95
9	Panchayat Raj and Rural Development	13,509.64	11,832.36	15,376.04
10	School Education	10,568.26	10,748.48	10,125.68
11	Scheduled Castes Development	3,172.43	7,624.56	9,023.65
12	Tribal Welfare	2,009.48	4,895.24	5,863.16
13	Women, Children, Disabled and Senior Citizens	1,204.04	1,314.75	1,207.27
14	Youth Advancement, Tourism and Culture	236.56	266.26	211.59
<b>Total (B)</b>		<b>47,258.65</b>	<b>52,934.39</b>	<b>60,953.22</b>
<b>C</b>	<b>Economic Sector</b>			
1	Agriculture & Co-operation	5,775.06	4,969.48	10,134.79
2	Rain Shadow Areas Development <sup>1</sup>			
3	Animal Husbandry & Fisheries	664.91	522.71	1,072.08
4	Energy	15,258.32	6,411.14	6,386.40
5	Environment, Forests, Science and Technology	430.06	485.81	476.51
6	Industries & Commerce	377.56	733.25	567.17
7	Information Technology, Electronics & Communications	158.19	129.44	219.03
8	Irrigation and Command Area Development	15,723.72	13,005.31	9,516.60
9	Public Enterprises	1.12	1.39	1.35
10	Transport, Roads and Buildings	4,463.44	3,499.98	3,019.27
11	Infrastructure & Investment <sup>2</sup>			
<b>Total (C)</b>		<b>42,852.38</b>	<b>29,758.51</b>	<b>31,393.20</b>
<b>Grand Total (A + B + C)</b>		<b>1,40,530.81</b>	<b>1,49,051.51</b>	<b>1,61,210.78</b>

**Source:** Appropriation Accounts of Government of Telangana for 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

### 1.3 Office of Accountant General (Audit)

Under the directions of the Comptroller and Auditor General of India (CAG), Office of the Accountant General (Audit), Telangana conducts audit of 32 Departments<sup>3</sup> and Local Bodies/ Public Sector Undertakings/Autonomous Bodies thereunder in the State of Telangana. Out of these, 31 Departments are covered under General, Social and Economic Sectors Audit.



*Offices of the Accountants' General*

### 1.4 Authority for audit

The CAG's authority for audit is derived from Articles 149 and 151 of the Constitution of India and CAG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). The CAG audits the Departments in General, Social and Economic Sectors of the Government as per the following provisions of the DPC Act:

- Audit of expenditure is carried out under Section 13 of the DPC Act;
- Audit of **autonomous bodies** is conducted under sections 19(2)<sup>4</sup>, 19(3)<sup>5</sup> and 20(1)<sup>6</sup> of the DPC Act;
- **Local bodies** are audited under Section 20(1) of the DPC Act;
- In addition, CAG also conducts audit of **other autonomous bodies**, which are substantially funded by the Government under Section 14<sup>7</sup> of the DPC Act.

Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, as well as other guidelines, manuals and instructions issued by or on behalf of the CAG.

<sup>3</sup> including Revenue Department under Revenue Sector

<sup>4</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>5</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

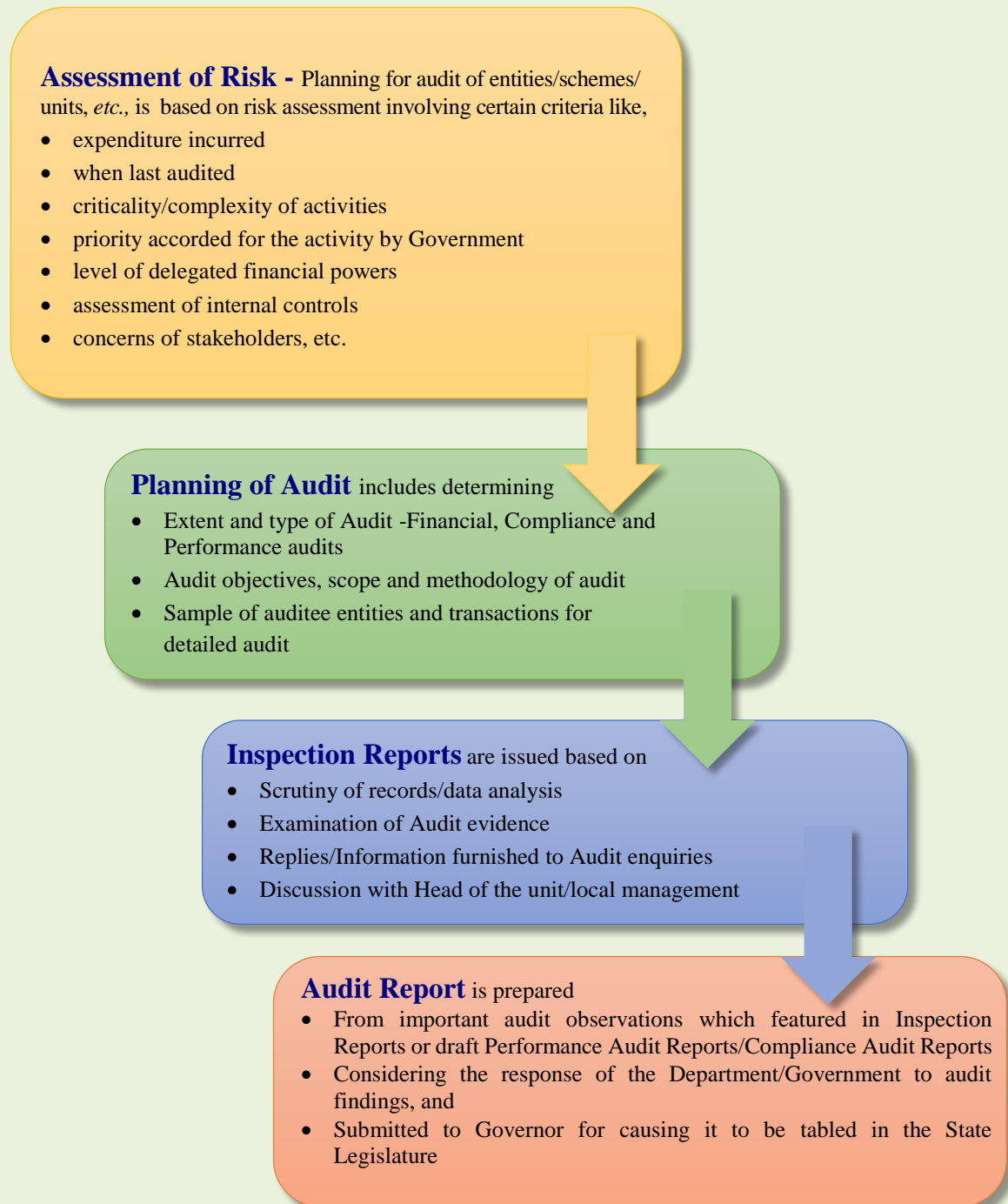
<sup>6</sup> Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the CAG and the Government

<sup>7</sup> Audit of all (i) receipts and expenditure of a body/authority substantially financed by grants or loans from Consolidated Fund of State and (ii) all receipts and expenditure of any body or authority where grants or loans to such body or authority from Consolidated Fund of State in a financial year is not less than ₹one crore

## 1.5 Planning and Conduct of audit

The following flowchart depicts the process of planning, conduct of audit and preparation of Audit Reports:

**Figure-1.1: Planning, conduct of audit and preparation of Audit Reports**



After completion of compliance audit of each unit, an Inspection Report (IR) containing audit findings is issued to the head of the unit with a request to furnish replies within one month of receipt of the IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in Government, are issued as draft

paragraphs to the Government for their responses, before possible inclusion after due consideration of the responses, in the Audit Reports. In addition, draft Compliance Audits and Performance Audits on specific themes, topics or schemes are also issued to the Government for their responses, before possible inclusion in the Audit Reports. These Audit Reports are submitted to the Governor of Telangana under Article 151 of the Constitution of India for causing them to be laid on the Table of the State Legislature.

## 1.6 Response of Departments to audit findings

### 1.6.1 Response to previous Inspection Reports

Heads of Offices and next higher authorities are required to respond to the observations contained in IRs and take appropriate corrective action. Audit observations communicated in IRs are also discussed at periodical intervals in meetings at District/State levels by officers of the Accountant General's office with officers of the concerned Departments.

As of 31 December 2019, 2903 IRs containing 19,280 paragraphs pertaining to previous years were pending settlement as detailed below. Of these, first replies have not been received in respect of 399 IRs (4,250 paragraphs). Department-wise details are given in *Appendix-1.1*.

**Table-1.2**

Year	Number of IRs/Paragraphs pending settlement as of 31 December 2019		IRs/Paragraphs where even first replies have not been received as of 31 December 2019	
	IRs	Paragraphs	IRs	Paragraphs
2014-15 & earlier years	1,663	6,084	2	32
2015-16	267	2,579	12	141
2016-17	246	2,891	11	113
2017-18	281	3,081	77	729
2018-19	446	4,645	297	3,235
<b>Total</b>	<b>2,903</b>	<b>19,280</b>	<b>399</b>	<b>4,250</b>

*Source: Records maintained by the O/o AG(Audit), Telangana*

Lack of action on IRs and audit paragraphs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports. It may also result in dilution of internal controls in the governance process, inefficient and ineffective delivery of public goods/ services, fraud, corruption and loss to public exchequer. State Government therefore, needs to institute an appropriate mechanism to review and take expeditious action to address the concerns flagged in these IRs and audit paragraphs.

### 1.6.2 Response of Government to audit observations

All Departments are required to send their responses to draft audit paragraphs proposed for inclusion in CAG's Report within six weeks of their receipt. During the year 2019-20, 19 draft compliance audit paragraphs were forwarded to the Special Chief Secretaries/ Principal Secretaries/ Secretaries of the Departments concerned, drawing their attention to

the audit findings and requesting them to send their response within six weeks. It was brought to their personal attention that these paragraphs were likely to be included in the Audit Report of the CAG of India, which would be placed before the State Legislature and it would be desirable to include their comments/responses to the audit findings. Despite this, five Departments<sup>8</sup> did not furnish reply to eleven draft compliance audit paragraphs as on the date of finalisation of this Report. The fact of non-receipt of Government responses was also brought to the notice of the Chief Secretary to the Government in June 2020. The responses of the Government, wherever received, have been appropriately incorporated in the Report.

### **1.6.3 Response of Government to audit paragraphs that featured in earlier Audit Reports**

Administrative Departments are required to submit Explanatory Notes on paragraphs and reviews included in Audit Reports, within three months of their presentation to State Legislature duly indicating action taken or proposed to be taken. For this purpose, the Departments are not required to wait for any notice or call from the Public Accounts Committee. Explanatory Notes<sup>9</sup> were yet to be received from 11 Departments in respect of 19 paragraphs/performance audit review that featured in the Audit Reports for the years 2014-15 to 2016-17 as of 31 December 2019. Explanatory Notes were also yet to be received from 13 Departments in respect of 29 paragraphs/performance audit review relating to the period prior to bifurcation<sup>10</sup> of the erstwhile State of Andhra Pradesh, as of 31 December 2019. Details are given in *Appendix-1.2*.

### **1.6.4 Response of Government to recommendations of the Public Accounts Committee**

Administrative Departments are required to submit Action Taken Notes (ATNs) on recommendations of Public Accounts Committee (PAC) within six months from the date of receipt of recommendations. As of 31 December 2019, two ATNs<sup>11</sup> in respect of two Departments exclusively pertaining to Telangana and seven ATNs<sup>12</sup> in respect of four Departments were yet to be received. Details are given in *Appendix-1.3*.

## **1.7 Significant audit observations**

This Report contains findings of audit in respect of performance audit on '*Management of Prisons in Telangana*' and 12 compliance audit paragraphs from a test-check of accounts and transactions of seven Departments<sup>13</sup> of Government of Telangana.

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<sup>8</sup> Environment, Forests, Science & Technology; Health, Medical & Family Welfare; Higher Education; Municipal Administration & Urban Development and Panchayat Raj & Rural Development

<sup>9</sup> with regard to the issues exclusively pertaining to the State of Telangana

<sup>10</sup> of the erstwhile State of Andhra Pradesh (i.e., those featured in Audit Reports for the years 2009-10 to 2013-14)

<sup>11</sup> with regard to the issues exclusively pertaining to the State of Telangana

<sup>12</sup> of the erstwhile State of Andhra Pradesh

<sup>13</sup> Backward Classes Welfare; Health, Medical & Family Welfare; Higher Education; Home; Irrigation & Command Area Development; Municipal Administration & Urban Development and Panchayat Raj & Rural Development



Significant results of audit that featured in this Report are summarised below.

### **1.7.1 Management of Prisons in Telangana**

Prisons Department of Telangana (under Home Department), since the formation of the State in June 2014, has undertaken various initiatives for prisoners such as providing hygienic living conditions, recreation and sports facilities, better diet and increased interaction with their families. However, issues of overcrowding (within prisons) and non-segregation of women convicts and undertrials still persist. Industrial training for skill development and employment opportunities to facilitate their rehabilitation are not available to prisoners and the wages paid are not rationalised. Vacancies in the Prisons Department are 30 *per cent*, suggesting lack of adequate manpower for prison administration and management. The State has not yet approved its own Prison Manual, which could have provisions for inclusive participation and prisoners' welfare such as Prisoners' Panchayat and Board of Visitors.

*(Chapter 2)*

### **1.7.2 Payment of Scholarships to ineligible students**

Scholarships amounting to ₹1.90 crore were paid to ineligible students among Backward Classes under 'Mahatma Jyothiba Phule BC Overseas Vidya Nidhi' scheme.

*(Paragraph 3.1)*

### **1.7.3 Implementation of e-Hospital Management System in Telangana**

The e-HMS pilot project has highlighted major issues in electronic management of medical data. Certain Modules of e-HMS lacked validation controls and accepted incorrect data input. The inability/reluctance of hospital staff to capture real-time data coupled with simultaneous continuance of manual processes defeated the envisaged objective of e-HMS. Though the pilot project has been live since May 2016, the problems have not been resolved. The State wide roll out of the system has also not been implemented.

*(Paragraph 3.2)*

### **1.7.4 Maintenance of Bio-medical Equipment in the State**

Maintenance of critical equipment was not ensured on time and to the envisaged service levels by the third party service providing Agency, impacting critical medical services in the hospitals. The objective of the programme to ensure uninterrupted services from bio-medical equipment, was not achieved due to poor service delivery from the Agency. Despite the Agency's poor service levels, Government gave the Agency a long rope and terminated the contract only in December 2019.

*(Paragraph 3.3)*

### **1.7.5 Infertuous expenditure of ₹1.61 crore**

Kakatiya University closed construction works after incurring an expenditure of ₹1.61 crore due to paucity of funds, inadequate planning and poor contract management.

*(Paragraph 3.4)*

### **1.7.6 Irregular retention and refund of Service Tax**

Service tax to the tune of ₹31.69 crore was retained in Public Works Deposits Account instead of remitting to Government Account in violation of Finance Act, 2006. Further, an undue benefit was given to the contractors by releasing an amount of ₹22.88 crore out of it to them.

*(Paragraph 3.5)*

### **1.7.7 Loss of potential revenue due to non-assessment and levy of vacant land tax**

Non-assessment and non-levy of Vacant Land Tax on vacant lands by Greater Warangal Municipal Corporation and four Municipalities led to loss of potential revenue.

*(Paragraph 3.6)*

### **1.7.8 Wasteful expenditure of ₹2.53 crore**

Construction of intermediate pumping station even after initiation of water supply to Sircilla Municipality under Mission Bhagiratha, resulted in wasteful expenditure of ₹2.53 crore.

*(Paragraph 3.7)*

### **1.7.9 Unfruitful expenditure on construction of shopping complex**

Construction of a shopping complex at Gunj Maidan, Sangareddy remained incomplete even after six years due to award of work ignoring a pending court case. The expenditure of ₹72.33 lakh incurred on the work remained unfruitful.

*(Paragraph 3.8)*

### **1.7.10 Blocking of Funds**

A shopping complex constructed at a cost of ₹3.65 crore could not be leased for almost two years due to indecision leading to blocking of funds.

*(Paragraph 3.9)*

### **1.7.11 Government indecision on Hyderabad Habitat Centre (HHC)**

Idle expenditure of ₹62.50 lakh due to indecision of Government.

*(Paragraph 3.10)*

### **1.7.12 Undue favour to contractor**

Non-enforcement of contractual provisions by HMWS&SB resulted in undue favour of ₹1.05 crore to the contractor.

*(Paragraph 3.11)*

### **1.7.13 Abnormal delay in providing road connectivity**

Commencement of road works without obtaining forest clearances led to non-completion of works.

*(Paragraph 3.12)*

## **1.8 Acknowledgement**

The Office of the Accountant General (Audit), Telangana wishes to acknowledge the co-operation and assistance rendered by the officials of the State Government, especially Telangana Prisons (Home Department) and various other Departments during the course of conduct of audit.

