

# **Chapter - 1**

## **Overview of Economic Sector**

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#### 1.1 Introduction

Andhra Pradesh is one of the largest States of India with a population of 8.46 crore and a geographical area of 2,74,400 sq.kms. For purpose of Administration there are 33 Departments at the Secretariat level headed by Principal Secretaries/Secretaries who are assisted by Directors/Commissioners and Sub-ordinate officers under them.

Government functioning is broadly classified as General Services, Social Services and Economic Services. This report covers the functioning of 10 Departments of Economic Sector listed in the table given below.

Of the 10 Departments, with a total expenditure of ₹35958.48 crore, covered in this Report, a major portion of the expenditure was incurred by Irrigation & Command Area Development (54.80 *per cent*), Energy (17.38 *per cent*), Roads and Buildings and Infrastructure and Investment (11.65 *per cent*) and Agriculture and Cooperation (10.10 *per cent*) Departments during 2012-13.

#### 1.2 Trend of expenditure

Comparative position of expenditure incurred by the Departments during the period 2008-13 is given in Table 1.1.

*Table-1.1 - Table showing the trend of expenditure during 2008-13*

(₹ in crore)						
Sl. No.	Name of the Department	2008-09	2009-10	2010-11	2011-12	2012-13
1	Agriculture & Co-operation	2994.73	1803.82	2270.40	3334.54	3633.36
2	Animal Husbandry & Fisheries	536.56	503.31	567.70	729.58	830.61
3	Energy	3659.38	3259.28	3696.98	4367.68	6249.03
4	Environment, Forests, Science and Technology	305.40	266.47	277.56	343.01	391.25
5	Industries and Commerce	350.03	297.62	448.45	380.74	760.53
6	Information Technology and Communications	331.68	18.92	24.53	57.72	199.37
7	Irrigation & Command Area Development	12635.25	16712.71	15710.87	17787.39	19704.27
8	Public Enterprises	0.90	1.04	1.28	1.46	1.40
9	Roads & Buildings <sup>1</sup>	2698.66	2634.37	2272.95	3043.04	4188.66
10	Infrastructure & Investment <sup>1</sup>					
<b>Total</b>		<b>23512.59</b>	<b>25497.54</b>	<b>25270.72</b>	<b>30045.16</b>	<b>35958.48</b>

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

<sup>1</sup> Both departments are covered under Grant No. XI – Roads, Buildings and Ports

### **1.3 About this Report**

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from audit of 10 Government Departments (*Appendix–1.1*) and 28 Autonomous Bodies under the Economic Sector (*Appendix–1.2*). 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 also 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 13<sup>2</sup> of the DPC Act. CAG is the sole auditor in respect of four<sup>3</sup> autonomous bodies which are audited under Sections 19(2)<sup>4</sup> 19(3)<sup>5</sup> and 20(1)<sup>6</sup> of the DPC Act. In addition, CAG also conducts audit of 24 other autonomous bodies under Section 14<sup>7</sup> of DPC Act which are substantially funded by the Government. Principles and methodologies for 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

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<sup>2</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>3</sup> AP Electricity Regulatory Corporation (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

<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 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

enable the Executive to take corrective action as also to frame policies and directives that will lead to improved Financial Management of the Organizations, 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. Departments 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.

## **1.6 Response to Audit**

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

Three Performance Audit reports and four Compliance Audit Paragraphs were forwarded demi-officially to the Principal Secretaries/Secretaries of the Departments concerned between February and October 2013 with a request to send their responses. Replies were received from Government in respect of two Performance Audits and two Compliance Audit observations. In respect of one Performance Audit and two Compliance Audit observations, replies were received from Departments. Government/Departments replies have been incorporated in the Audit Report at appropriate places. In respect of two Performance Audits, Exit Conferences were held with representatives of Government between June 2013 and February 2014 and views expressed in the conference have been included in the Report, wherever applicable.

### **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 2013 on the paragraphs included in the Reports of the Comptroller and Auditor General of India, Economic Sector, Government of Andhra Pradesh, and found that departments did not submit ATNs for 70 recommendations pertaining to the audit paragraphs discussed by PAC.

### **1.6.3 Outstanding replies to Inspection Reports**

The Accountant General (E&RSA), Andhra Pradesh (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 Government.

Three thousand eight hundred and seven IRs containing 11439 paragraphs issued upto March 2013 were pending settlement as of 30 September 2013. The department wise details are given in *Appendix-1.3*. 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*

#### **State Horticulture Mission Programme**

The State Horticulture Mission (SHM) was launched in 2005-06 to give new momentum to the development of horticulture, generate employment and enhance farm income through holistic growth of horticulture sector, with 100 *per cent* assistance from Government of India (GoI) up to 2006-07 and with 85:15 sharing between GoI and GoAP from 2007-08. SHM was implemented in 18 focused districts in the State.

Major audit findings on implementation of SHM are as follows:

- *Annual Action Plans (AAPs) for 2005-06 to 2010-11 were prepared without conducting Base Line Survey contrary to GoI guidelines.*
- *While funds requirement for the programme as per AAPs for the period from 2008-09 to 2012-13 was ₹776.18 crore, GoI and GoAP together released only ₹602.03 crore.*
- *Audit noticed shortfall in establishment of nurseries, non-functioning of nurseries, low production, non-production of required plant material and absence of control mechanism to ensure quality of plant material produced by nurseries.*

- *While there was shortfall in establishment of new gardens, survival of plants in new perennial fruit gardens at the end of third year was only 78 per cent as against stipulated 90 per cent.*
- *In rejuvenation of old and senile orchards, Audit noticed several deficiencies like, selection of beneficiaries without required data, sanction of assistance to ineligible farmers, non-collection of yield data for impact assessment, etc.*
- *Audit also noticed deficiencies like sanction of community farm ponds to individual farmers without identifying co-beneficiaries, non-completion of ponds, delayed/ non-establishment and non-operation of laboratories, non-conducting of technology dissemination trainings to farmers, low coverage of SC/ST farmers under the programme and shortfall in capacity building training programmes to staff.*
- *Initiatives under post harvest management were insufficient as creation of storage facilities was not commensurate with horticulture production in the State, and there was substantial shortfall in creation of market yards, etc.*

(Paragraph 2.1)

### **Minor Irrigation**

Minor Irrigation (MI) sector in Andhra Pradesh consists of 76,465 tanks and 1209 other sources with a total irrigation potential of 45.49 lakh acres. MI wing of Irrigation and Command Area Development Department deals with conceptualization, investigation, execution, maintenance, revival and restoration of MI schemes. The Andhra Pradesh State Irrigation Development Corporation (APSIDC) deals with execution of lift irrigation schemes (LISs) in areas that cannot be irrigated by gravity flow. Performance Audit was conducted on activities relating to MI during 2008-09 to 2012-13.

Major audit findings are summarized below:

- *Department does not have a comprehensive database of tank wise information on their physical, technical and functional aspects, essential for planning its activities, and preparation of tank memoirs and development of Tank Information System, though initiated, was not completed.*
- *No shelf of works was maintained; there was no assurance that all necessary works are identified, prioritized and high priority works are sanctioned and taken up for execution; deficiencies in selection of works were noticed.*
- *Progress of implementation of various schemes lagged behind as works were delayed due to improper selection/planning, land acquisition, forest clearance problems, etc., resulting in non/partial achievement of intended objective of providing irrigation to targeted beneficiaries. Loan assistance of ₹114.94 crore under RIDF was foregone due to non-completion of works within stipulated loan period.*

- *Out of 1876 Lift Irrigation Schemes (LISs) commissioned by APSIDC, 235 LISs were partially functional, 380 defunct and 185 were abandoned and there was shortfall ranged between 37.17 per cent and 54.85 per cent in utilization of irrigation potential during last five years. In test checked districts, 37 LISs remained defunct for want of repairs depriving irrigation benefits to an ayacut of 17410 acres.*
- *AP Farmers' Management of Irrigation Systems Act-1997 was not fully implemented as Water Users Associations (WUAs) were formed in respect of only 8012 out of 11479 MI tanks; elections to WUAs were not held since 2008; and there were deficiencies in departmental monitoring over the functioning of WUAs.*
- *Performance of department is affected due to shortage of man power. The man power requirement was neither re-assessed nor increased even after eight years since taking over nearly 66000 tanks from Panchayat Raj Department.*
- *Efforts for prevention, detection and eviction of encroachments in MI systems were deficient.*

(Paragraph 2.2)

### **Creation of Infrastructure for National e-Governance Plan (NeGP) and delivery of services to common citizens through Common Service Centers**

National e-Governance Plan (NeGP) was approved by Government of India in 2003 with a primary vision to make all Government services accessible to the common man in his locality, through common service delivery outlets at affordable costs. Implementation of NeGP in the State involved creation of Core infrastructure consisting of State Wide Area Network (SWAN), State Data Centre (SDC) and State Service Delivery Gateway (SSDG); and establishment of Common Service Centres (CSCs) in rural areas covering all Districts/ Mandals in the State to provide intended services to citizens.

Audit findings are summarized below:

- *Partial Acceptance Test of SWAN was delayed by more than seven months and GoAP did not declare completion of Final Acceptance Test for SWAN, resulting in non-levy of penalty.*
- *Non-connectivity (downtime) penalty of ₹5.76 crore was not levied on SWAN operator, though connectivity was below prescribed levels.*
- *Though GoAP planned to roll out 4687 CSCs, actual number of CSCs rolled out was only 2416 (52 per cent).*
- *Failure of Service Centre Agencies (SCAs) in sharing capital/revenue expenditure in CSC as required under agreement resulted in financial burden on Village Level Entrepreneurs making the CSCs unviable and thus adversely affected the objective of scheme.*

(Paragraph 2.3)

## **Compliance Audit**

### **Public Private Partnership (PPP) projects in Roads Sector**

Public Private Partnerships (PPPs) are aimed at involving the private sector in raising capital required for public sector projects, build the projects and deliver quality goods/services. Transport, Roads and Buildings (TR&B) Department was to implement 33 PPP projects in roads sector with an estimated project cost of ₹8349.73 crore. Out of these, nine projects with a total project cost of ₹5379.63 crore were test checked in audit.

Major audit findings are summarized below:

- *Department did not have a standard policy / procedure for identification of Projects to be taken up under PPP mode and those to be taken up with budgetary support.*
- *Widening of Kadapa-Pulivendula road to four lanes was taken up though traffic on this road was low and would reach the prescribed design volume only in the year 2026.*
- *Hyderabad-Karimnagar-Ramagundam (HKR) road and Narketpally-Addanki-Medarmetla (NAM) road projects were awarded though Grants quoted by lowest bidders were ₹362 crore and ₹204.02 crore higher than reasonable Grants, resulting in additional financial burden on Government.*
- *Change in design from well foundation to pile foundation in major bridge across river Godavari near Rajahmundry and under-projection of toll revenues in high level bridge across river Musi on Miryalguda – Kodad Road resulted in additional toll burden of ₹2519.55 crore and ₹69.09 crore respectively, on road users.*
- *In the absence of suitable mechanism in agreements, Concessionaires obtained large amounts of loans by projecting high project costs to banks and awarded project works to inexperienced agencies.*
- *HKR road, NAM road and Kadapa-Pulivendula road projects were not completed on time due to non-handing over of the lands and non-shifting of utilities resulting in non-achievement of intended objective.*

(Paragraph 3.1)

### **Diversion of Forest land for non-forest purposes, Compensatory Afforestation and CAMPA**

Forest (Conservation) Act, 1980 (Act) enacted by GoI and Forest (Conservation) Rules, 2003 (Rules) issued thereunder prohibit diversion of forest land for non-forest purposes, except with prior approval of GoI. Such approvals are granted in two stages after fulfilment of various conditions including (i) providing non-forest land for Compensatory Afforestation (CA)



in lieu of the forest land diverted and (ii) payment of Net Present Value (NPV) of forest land diverted, cost of CA, etc. by user agency. Ad-hoc Compensatory Afforestation Fund Management and Planning Authority (Ad-hoc CAMPA) was created (May 2006) at Central level into which the amounts paid by user agencies towards CA and NPV of the forest land being diverted are to be deposited. Funds received by Ad-Hoc CAMPA are released to State CAMPA for utilization as per approved Annual Plan of Operations (APOs).

Major audit findings are as follows:

- *CA land of 339.34 Ha accepted by department in lieu of diverted forest land was found to be an un-notified forest land already in possession of Forest Department, resulting in diversion of forest land without obtaining equivalent non-forest land.*
- *Cases of unauthorised diversion of 102.80 Ha of forest land (non-collection of NPV of ₹7.2 crore), non/short collection of NPV of ₹41.82 crore, acceptance of disputed/ encroached lands (45.75 Ha) in lieu of forest land diverted, non/partial afforestation in the CA lands obtained by department, non-fulfilment of project specific conditions stipulated by GoI, etc. were noticed.*
- *Non-forest lands accepted for CA were not notified as Reserve/Protected Forest even after delays ranging upto 20 years though the Act stipulates such notification within six months, thereby denying intended higher protection to these lands.*
- *Delays in remittance of amounts received from user agencies into Ad-Hoc CAMPA resulted in loss of interest of ₹2.64 crore.*

(Paragraph 3.2)

### **Modernization of Irrigation Systems**

Government of Andhra Pradesh (GoAP) accorded administrative approval (May 2006 to May 2009) for modernization of eight irrigation systems in the State to stabilize 55.76 lakh acres of ayacut under these systems at a cost of ₹15,001 crore.

Major audit findings are as follows:

- *Progress of works was poor mainly due to department's inability to provide sufficient working period to contractors and only four modernization works were completed even though agreement period was over in 87 packages, resulting in non-achievement of objectives despite spending ₹2528.66 crore.*
- *GoAP took up widening of Tungabhadra Project High Level Canal (TBPHLC) on one side of border at a cost of ₹463.50 crore, without obtaining acceptance from neighbouring State for widening of the canal on other side and even after more than six years, no agreement is*

*reached and the utility of the expenditure of ₹161.62 crore already incurred is doubtful.*

- *Due to delayed taking up of modernization of Krishna Delta System and its non-completion, the objective of saving 20 TMC of water has not been achieved and this would have an adverse impact on availability of water for Rajiv Bhima Lift Irrigation Scheme and Pulichintala project and put strain on other projects in Krishna Basin.*

(Paragraph 3.3)

### **Flood Banks**

Government of Andhra Pradesh (GoAP) took up restoration of existing flood banks on five rivers and formation of two new flood banks in order to minimize the damages to human lives, property and crops and have safe disposal of flood waters. During January 2007 to July 2008, 1322.34 kilometres of flood bank works at a cost of ₹2312.77 crore were taken up. Out of flood bank 85 packages proposed, 66 were awarded, out of which 39 packages were test checked in audit.

Major audit findings are as follows:

- *Though Government sent proposals for Central assistance (to the tune of ₹844.35 crore) for Godavari, Vamsadhara and Nagavali flood banks, department's failure to furnish replies to comments of Central Water Commission resulted in non-availing of Central assistance.*
- *Despite completion of agreement period on or before December 2012, 48 out of 66 flood bank works were not completed, due to delay in land acquisition, non-finalization of designs, non-eviction of encroachments/utilities, etc. and the main objective of providing protection from submergence and inundation with flood waters was not achieved despite expenditure of ₹927.53 crore on these projects.*
- *In respect of Vamsadhara Flood Banks, though contractors suspended the works during June 2010 – March 2011 due to ambiguity in the maximum flood discharge to be adopted for designs, department had not yet taken any decision in the matter.*

(Paragraph 3.4)