

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 2,74,440 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 Subordinate officers under them. This report covers the functioning of 10 Departments of Economic Sector listed in the table 1.1.

Of the 10 Departments, with a total expenditure of ₹36,238.29 crore, covered in this Report, a major portion of the expenditure was incurred by Irrigation & Command Area Development (51.77 per cent), Energy (20.84 per cent), Roads and Buildings and Infrastructure and Investment (13.66 per cent) and Agriculture and Cooperation (7.93 per cent) Departments during 2013-14.

1.2 Trend of expenditure

Comparative position of expenditure incurred by the Departments during the period 2009-14 is given in Table 1.1.

Table-1.1 - Table showing the trend of expenditure during 2009-14

(₹ in crore)						
Sl. No.	Name of the Department	2009-10	2010-11	2011-12	2012-13	2013-14
1	Agriculture & Co-operation	1803.82	2270.40	3334.54	3633.36	2874.65
2	Animal Husbandry, Dairy Development & Fisheries	503.31	567.70	729.58	830.61	839.18
3	Energy	3259.28	3696.98	4367.68	6249.03	7553.28
4	Environment, Forests, Science and Technology	266.47	277.56	343.01	391.25	399.56
5	Industries and Commerce	297.62	448.45	380.74	760.53	705.66
6	Information Technology and Communications	18.92	24.53	57.72	199.37	155.10
7	Irrigation & Command Area Development	16712.71	15710.87	17787.39	19704.27	18760.67
8	Public Enterprises	1.04	1.28	1.46	1.40	1.44
9	Roads & Buildings ¹	2634.37	2272.95	3043.04	4188.66	4948.75
10	Infrastructure & Investment ¹					
Total		25497.54	25270.72	30045.16	35958.48	36238.29

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

¹ 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 30 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 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 13² of the DPC Act. CAG is the sole auditor in respect of four³ autonomous bodies which are audited under Sections 19(2)⁴ 19(3)⁵ and 20(1)⁶ of the DPC Act. In addition, CAG also conducts audit of 26 other autonomous bodies under Section 14⁷ 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 enable the Executive to take corrective action as also to frame policies and

² 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

³ AP Electricity Regulatory Commission (APEREC) 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

⁴ 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

⁵ 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.

⁶ 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

⁷ 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

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 2013-14, audit of various Departments/Organisations under Economic Sector were audited and 156 Inspection Reports containing 820 Paragraphs were issued.

1.6 Response to Audit

1.6.1 Performance Audit and Compliance Audit observations

Two Performance Audit reports and four Compliance Audit Paragraphs were forwarded demi-officially to the Principal Secretaries/Secretaries of the Departments concerned between July and September 2014 with a request to send their responses. Two Performance Audits⁸ and two Compliance Audit Paragraphs⁹ were responded to (though not fully). Exit Conferences were held in respect of two Performance Audits, with Government representatives in January/February 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 2014 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 12 recommendations pertaining to the audit paragraphs discussed by PAC.

⁸ Implementation of Environmental Laws and Rules by Andhra Pradesh Pollution Control Board and Functioning of Acharya N G Ranga Agricultural University

⁹ 'Construction and Maintenance of State Highways and Major District Roads' and 'Maintenance of National Highways'

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 sixty seven IRs containing 12340 paragraphs issued upto March 2014 were pending settlement as of 30 September 2014. 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

Implementation of Environmental Laws and Rules by Andhra Pradesh Pollution Control Board

AP Pollution Control Board is a statutory authority, vested with powers, to implement the provisions of Water Act, Air Act, EP Act and rules made there under for prevention, control or abatement of pollution in the State. The Board has a predominant role in monitoring of compliance with the provisions of these laws and rules by industries, municipal authorities, hospitals, etc. Performance Audit was conducted to evaluate the implementation of the Environmental laws and Rules by the Board during five year period 2009-14.

Major Audit findings are summarised below:

- ***Board did not prepare Annual Action Plans from 2012-13 onwards for prevention, control and abatement of pollution. Despite availability, the Board could utilise funds to the extent of 12.87 to 17.1 per cent during 2009-14, resulting in accumulation of funds.***
- ***None of the five zonal laboratories have necessary equipment essential to conduct all the mandatory tests and there was shortage of staff in some laboratories.***

- *Many industries, health care establishments, municipal bodies and slaughter houses were operating without valid Consent For Operation (CFO) from the Board.*
- *In test checked regions, 86 out of 87 Municipalities, 4 out of 12 Municipal Corporations, 116 out of 213 Health Care Establishments and 69 out of 73 slaughter houses were operating without sewage treatment facilities.*
- *There was more than 69 per cent shortfall in inspection of highly polluting 'Red' category industries by the Board.*
- *The Respirable Suspended Particulate Matter (RSPM) levels in 53 out of 74 air quality monitoring stations in the State were higher than the prescribed standards. The Board neither conducted any studies (except in Hyderabad) to identify the causes for air pollution nor prepared any action plan to mitigate pollution levels in the State.*
- *Only four out of 99 Urban Local Bodies (ULBs) in test checked regions have waste treatment facility and none of them have scientific landfill facilities.*
- *Only 23 per cent of the total Municipal Solid Waste (MSW) generated in the State was processed. Only eight per cent MSW was segregated into biodegradable and non-biodegradable wastes and disposal of MSW through landfills was negligible.*
- *Less than 12 per cent of the total e-waste generated in Hyderabad, Vijayawada and Visakhapatnam was being handled by authorised recyclers. Inventorisation of e-waste generated in the remaining parts of the State was not done.*
- *Only 28.67 to 36.46 per cent of hazardous waste generated by industries was disposed off during 2009-13 and there was little monitoring on the remaining hazardous waste.*
- *Board was merely issuing notices and directions to the violators of environmental laws and was not initiating legal action against persistent violators.*
- *There was acute shortage of manpower in the Board. Even the legal section at the Board's Head Office did not have qualified legal officers.*

[Paragraph 2.1]

Functioning of Acharya N G Ranga Agricultural University, Hyderabad

Andhra Pradesh Agricultural University, later renamed as Acharya N.G.Ranga Agricultural University (ANGRAU), was established through Andhra Pradesh Agricultural University Act, 1963 with an objective of providing education in agriculture and to promote research, field and extension programmes in

agriculture and agricultural production. Performance Audit was conducted covering the functioning of ANGRAU during 2009-14.

Major Audit findings are summarised below:

- *The University did not adopt 'Model Act' communicated by ICAR even after five years.*
- *There was 32 per cent shortage of teaching staff in the test checked Agricultural Colleges, resulting in increase in work load on existing staff. New colleges were established without adequate teaching staff and infrastructure facilities.*
- *University did not establish distance education centres though recommended (2006) by ICAR.*
- *Vacancies of research Scientists ranged between 29 and 34 per cent during 2009-13. In absolute terms, vacancies increased from 165 posts in 2009-10 to 188 posts in 2012-13.*
- *There were cases where research work was stopped due to non-release of funds/for want of farm land, non-development of hybrid Sorghum seed due to frequent transfer of scientists, and non release of new hybrid rice seed (BPT 2295) due to non-convening of meeting of State Varietal Release Committee (SVRC) after 2012.*
- *The breeder seed and foundation seed produced by the research stations were not lifted by the indenting agencies and became unfit for seed purpose.*
- *Non lifting of seed by indenting agencies and improper storage of breeder seed resulted in loss of germination and consequent loss of ₹2.20 crore. An amount of ₹1.76 crore toward cost of seed was pending realisation from indenting agencies.*
- *Though University released 66 new varieties of seeds during 2009-2013, production of breeder seed was 'nil' for nine varieties while demand was low in respect of 25 varieties. There was no mechanism to review/analyse the reasons for lack of demand for some of the new varieties and to take appropriate measures to popularise them in coordination with Agriculture Department.*
- *There were large variations between the budget estimates and actual expenditure/receipts of the University.*
- *There was no inventorisation of the assets available with colleges, research stations, etc. of the University located across the State.*

[Paragraph 2.2]

Compliance Audit

Andhra Pradesh Khadi and Village Industries Board

Andhra Pradesh Khadi and Village Industries Board was established with an objective to plan, organise, promote marketing and implement programmes for development of Khadi and Village Industries. Audit of the Board was conducted covering its activities during the period from 2009-14.

Major Audit findings are summarised below:

- *The Board did not prepare a comprehensive annual programme of schemes/works during the last five years.*
- *Operations of the Board during 2009-14 were limited to implementation of the centrally sponsored scheme of 'Prime Minister's Employment Generation Programme (PMEGP)' and did not cover the other functions envisaged in the APKVIB Act-1958.*
- *In implementation of PMEGP, high percentage of rejection of applications without recorded reasons, low rate of sanction of units out of the selected applications, shortfall in employment generation vis-à-vis Margin Money sanctioned and low coverage of special category groups like SC, ST, etc., were noticed.*
- *Loan amount of ₹ 49.47 crore given under 'Pattern Approach Programme' implemented up to 1994-95 and ₹ 46.16 crore given under the 'Consortium of Bank Credit' programme implemented during 1997-98 was still pending recovery.*
- *Non-constitution of full Board for five years (2008-13) deprived the Board of expertise of persons with active interest in Khadi and Village industries.*

[Paragraph 3.1]

Implementation of Resettlement and Rehabilitation in selected major irrigation projects

Government of Andhra Pradesh pronounced a 'Policy on Resettlement and Rehabilitation (R&R) for Project Affected Families (PAFs) – 2005' (R&R Policy) to address the issue of displacement with care, human touch and forethought. Audit of implementation of R&R was conducted in ten selected major irrigation projects.

Major Audit findings are summarized below:

- *Delays occurred at every stage of the R&R process, i.e. conducting Socio-Economic Survey, publication of draft survey details in the Gram Panchayats, forwarding of final survey details to the District Collectors by the Project Administrators.*

- *Project wise comprehensive R&R plans were not prepared in any of 10 the test checked projects, only village wise cost estimates were being prepared without details like list of PAFs/PDFs and even the village wise estimates were not comprehensive/not completed.*
- *Out of 439 R&R centers contemplated in 10 test checked projects, land acquisition was completed only for 174 R&R centres, infrastructure facilities were developed in only 97 centres and only 12091 out of the total of 74169 PDFs (excluding Polavaram project) have been resettled so far even after more than eight years since commencement of the projects.*

[Paragraph 3.2]

Construction and maintenance of State Highways and Major District Roads

State Highways (SHs) and Major District Roads (MDRs) constitute the secondary system of road network after National Highways. Transport, Roads and Buildings Department is responsible for construction and maintenance of these roads. Audit of construction and maintenance of SH and MDRs was conducted covering the five year period 2009-14.

Major Audit findings are summarized below:

- *There was no system of preparation of Annual Action Plans and budget estimates based on inputs from Circles/Divisions in respect of SHs and MDRs.*
- *The department did not have a proper system/documentation of conducting periodical inspections and taking traffic census on all the roads to ensure that all necessary works are identified, prioritized and taken up.*
- *In Nizamabad district, construction of a bypass road without initiating action for construction of a Road Over Bridge over a railway line resulted in unfruitful expenditure of ₹16.85 crore.*
- *Lack of coordination between two wings of the Department in respect of a flyover work in Miryalaguda town resulted in unnecessary financial burden of ₹18 crore on Government.*
- *Awarding works without acquiring lands/finalizing designs/obtaining forest clearance, resulting in delays in their completion and non-achievement of intended objectives.*
- *There were cases of non-execution of road safety works and lack of prompt action on rectification of accident prone 'Black Spots'.*

[Paragraph 3.3]

Maintenance of National Highways

National Highways (NHs) constitute primary system of transportation connecting major cities across the country. Ministry of Road Transport and Highways, Government of India (MoRTH) provides funds for development and maintenance of NHs in the State and the NH Wing of the State TR&B Department executes these works. Audit of maintenance of NHs by the State TR&B Department was conducted covering the period 2009-14.

Major Audit findings are summarized below:

- *There was no documentation in the department to ensure that inspections of roads are conducted at regular intervals for identification of maintenance works.*
- *There were cases of non-adherence to MoRTH guidelines and short recovery of interest of ₹ 1.07 crore on mobilization advance by the department.*
- *There was short realization of Agency Charges of ₹ 1.49 crore from GoI. The Department was not reconciling these receipts with Regional Pay and Accounts Officer/Principal Accountant General (A&E).*

[Paragraph 3.4]