

Chapter – I

Overview of Economic Sector

1.1 Introduction

The State of Telangana came into existence (2 June 2014) through Andhra Pradesh State Reorganisation Act, 2014. The State covers an area of 1.12 lakh square kilometres. It has a population of 3.50 crore as per 2011 Census. Telangana State earlier had 10 Districts and 464 Mandals. Government of Telangana reorganised them to 31 Districts and 584 Mandals in October 2016.

Government of Telangana consists of 32 Departments at the Secretariat level headed by Special Chief Secretaries/Principal Secretaries/Secretaries. Officers are assisted by Commissioners, Directors and sub-ordinate Officers. Of these 32 Departments, 11 come under the jurisdiction of Economic Sector.

1.2 Authority for Audit

Comptroller and Auditor General of India (CAG) derives authority for audit from Articles 149 and 151 of the Constitution of India and the CAG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). CAG audits Economic Sector departments of the Government as per the following:

- **Audit of expenditure**, as per section 13¹ of the DPC Act;
- **Financial audit** of four autonomous bodies (ABs)² under Economic Sector, as per sections 19(2)³, 19(3)⁴ and 20(1)⁵ of the DPC Act; and
- **Audit of other ABs**, which are substantially funded by the Government, as per section 14⁶ of the DPC Act.

¹ Departments delivering economic services, which include (i) General Economic Services; (ii) Agriculture and allied services; (iii) Industry and Minerals; (iv) Water and Power Development; and (v) Transport and Communications.

² (i) Telangana State Electricity Regulatory Commission (TSERC) under Section 19(2), (ii) Telangana Khadi and Village Industries Board (TKVIB) under Section 19(3), (iii) Environment Protection Training and Research Institute (EPTRI) under Section 20(1) and (iv) Telangana State Compensatory Afforestation Fund Management and Planning Authority (TSCAMPA) under Section 20(1) of DPC Act

³ 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

⁴ 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

⁵ 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

⁶ 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

Regulations on Audit and Accounts - 2007 and Auditing Standards of the CAG, lay down the principles and methodologies for audits.

1.3 About this Report

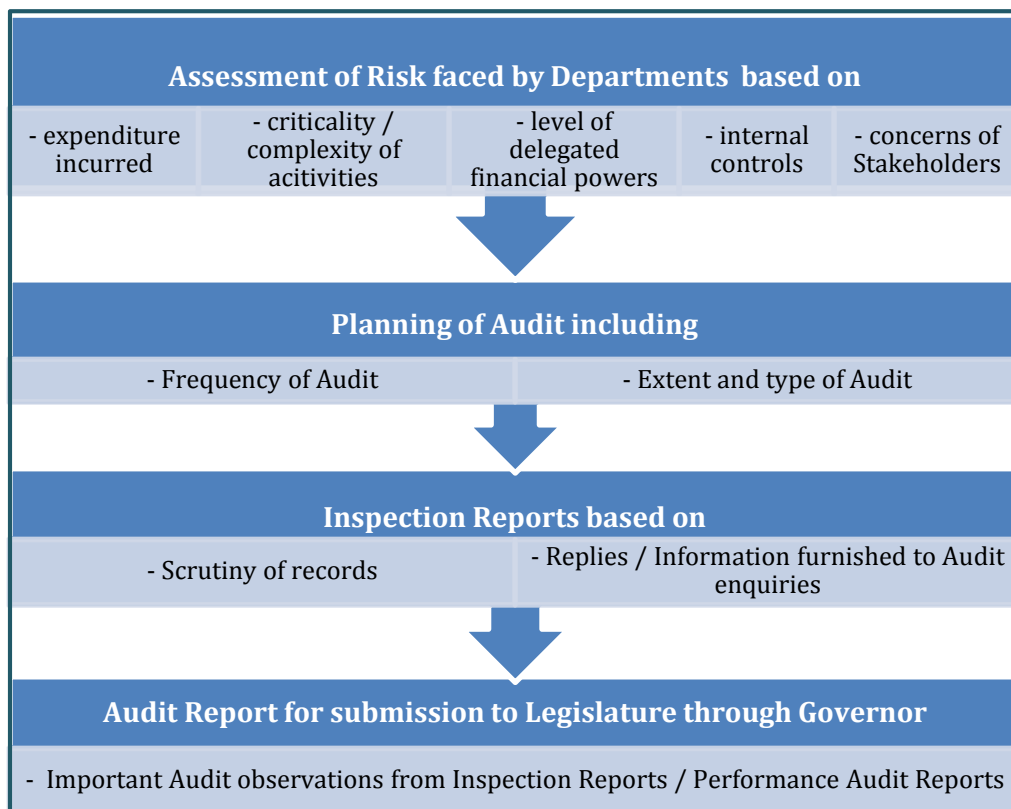
Primary purpose of Audit Reports is to bring important results of audit to the notice of the State Legislature. Audit findings enable the executive to take corrective action in cases of lapses / deficiencies. They also help to frame directives for better governance.

This Report on Economic Sector relates to matters arising from Performance Audit ⁷ and Compliance Audit ⁸ of selected programmes and activities of Departments coming under Economic Sector.

1.4 Planning and conduct of audit

The following flow chart depicts planning and conduct of audit:

Chart 1.1: Planning and conduct of audit



⁷ Performance Audit examines whether the objectives of the programme / activity / Department are achieved economically, efficiently and effectively

⁸ Compliance Audit covers examination of transactions relating to expenditure of audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities are being complied with

Audit conducted inspection of various Departments / Organisations under the Economic Sector in 2016-17 and issued 100 Inspection Reports with 826 paragraphs.

1.5 Response of Government Departments

1.5.1 Response to past Inspection Reports

The following process is adopted in respect of Inspection Reports.

- Principal Accountant General (PAG) issues Inspection Reports (IRs) to the heads of offices inspected with a copy to the next higher authority.
- Heads of offices and next higher authorities are required to rectify the defects and omissions mentioned in IRs and report compliance to PAG.
- Half yearly reports of pending IRs are sent to Secretaries of Departments concerned to monitor outstanding audit observations.

As of 30 September 2017, there were 2,029 IRs issued up to March 2017 and consisting of 7673 paragraphs, which were not settled (Department wise break up is given in *Appendix 1.1*). Of these 2,029 IRs (7,673 Paragraphs), Audit did not receive even first replies in respect of 690 paragraphs in 76 IRs (year-wise break up is given in *Appendix 1.2*).

Out of 11 Departments under Economic Sector, Irrigation and Command Area Development (I&CAD) Department and Agriculture & Cooperation (A&C) Department had highest number of unsettled audit observations as of 30 September 2017. I&CAD had 769 IRs with 2,502 paragraphs and A&C Department had 437 IRs with 2,020 paragraphs. Of these, 207 IRs with 361 paragraphs (I&CAD Department) and 163 IRs with 389 paragraphs (A&C Department) were outstanding for more than ten years (year-wise details are in *Appendix 1.3*).

Audit further analysed responses of these two Departments. I&CAD Department did not furnish even initial replies (to be forwarded within one month) in respect of 21 offices for 123 paragraphs issued in 2016-17. Similarly, A&C Department also did not furnish initial replies in respect of 30 offices for 382 paragraphs issued in 2016-17.

Further, 39 paragraphs involving ₹83.69 crore pertaining to I&CAD Department and 115 paragraphs involving ₹341.61 crore pertaining to A&C Department were outstanding as of 30 September 2017 (details are given in *Appendix 1.4*). This indicated lack of prompt action on the issues pointed out in audit.

Audit recommends that the Government may strengthen procedures to ensure

- (a) prompt action by officers to send replies to Inspection Reports (IRs) / paragraphs as per the prescribed time schedule;
- (b) recovery of loss/outstanding advances/over payments in a time bound manner.

1.5.2 Response to present Performance Audit and Compliance Audit reports

Audit forwarded one draft Performance Audits and three Compliance Audits to the Special Chief Secretary / Principal Secretaries concerned during August to October 2017. The Government provided response to all the proposed paragraphs, which have been suitably incorporated in the Report.

1.5.3 Response to recommendations of the Public Accounts Committee

Finance and Planning Department had issued (May 1995) instructions to all Departments for submission of Action Taken Notes (ATNs) on the recommendations of the Public Accounts Committee (PAC) relating to paragraphs included in the Audit Reports. The Departments were to submit ATNs within six months. All the Departments have furnished ATNs as of 30 November 2017, except Irrigation and Command Area Development Department in respect of two⁹ recommendations.

1.6 Expenditure by Departments in Economic Sector Grants

Expenditure incurred by Economic Sector Departments during the last three years is given in *Table 1.1*:

Table 1.1: Table showing expenditure incurred by Economic Sector Departments
(₹ in crore)

Sl. No.	Name of the Department	2014-15*	2015-16	2016-17
1	Agriculture & Co-operation	5,380.31	5,668.08	5,775.06
2	Rain Shadow Areas Development ¹⁰			
3	Animal Husbandry & Fisheries	325.17	543.00	664.91
4	Energy	3,504.49	5,195.32	15,258.32
5	Environment, Forests, Science and Technology	211.75	364.71	430.06
6	Industries & Commerce	670.96	777.56	377.56
7	Information Technology, Electronics & Communications	136.40	87.33	158.19
8	Irrigation and Command Area Development	8,052.87	10,978.72	15,723.72
9	Public Enterprises	0.54	0.80	1.12
10	Roads and Buildings	2,598.97	2,917.20	4,463.44
11	Infrastructure & Investment ¹¹			
Total		20,881.46	26,532.72	42,852.38

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

* These figures represent for the period from 02 June 2014 to 31 March 2015. Expenditure figures from 01 April 2014 to 01 June 2014 were depicted in Audit Report on Economic Sector, Government of Andhra Pradesh

⁹ (i) Para 24.4 and 24.5 in 13th report of X Legislative Assembly and (ii) Para 3.4 in 8th report of XII Legislative Assembly

¹⁰ Expenditure of this Department is covered under Grant No. XXVII – Agriculture

¹¹ Expenditure of Infrastructure & Investment is covered under Grant No. XI – Roads, Buildings and Ports

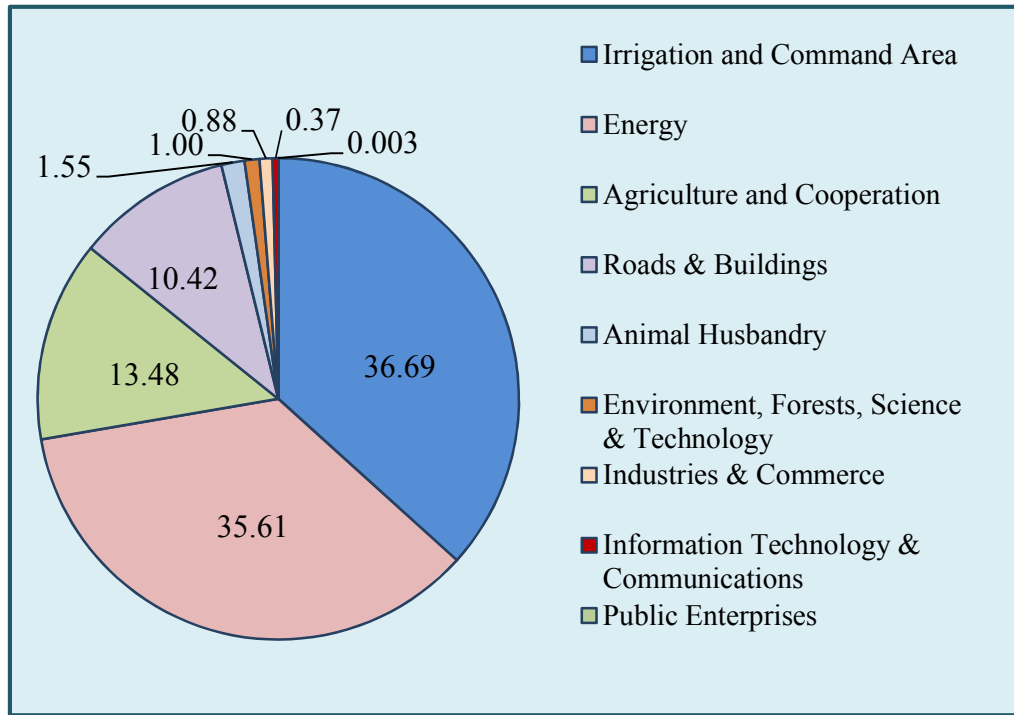
The outlay of the Government on Economic Sector increased in 2016-17 by 61 per cent over previous year (2015-16). The increase was mainly due to increase in:

- (i) Energy Department (194 per cent) due to investments in Power Discoms (₹10,498 crore); and
- (ii) Irrigation and Command Area Development Department (43 per cent) due to taking up of Kaleshwaram project¹², on which ₹5,072 crore was spent in 2016-17.

The sectoral distribution of expenditure in Economic Sector in 2016-17 is shown in **Chart 1.2**. Outlay on two Departments viz., I&CAD and Energy Departments comprises 72 per cent of total expenditure on Economic Sector.

Chart 1.2 : Expenditure share of different Economic Sector Departments

(in percentage)



(Source: Appropriation Accounts of Government of Telangana)

¹² After formation of Telangana State, Pranahita Chevella Sujala Sravanthi Project was re-engineered as two separate projects viz., Kaleshwaram and Pranahita projects. Kaleshwaram Project plans to utilise 160 tmc of Godavari waters with a cost of ₹81,000 crore

1.7 Significant Audit Findings

Performance Audit

Development of Information Technology and Communications infrastructure by ITE&C Department

Information Technology (IT) sector is considered as a growth engine of the State. Telangana accounted for around 13 *per cent* (₹40 thousand crore) of total software exports from India. Two policies (Information and Communication Technology policy and Electronic Hardware Policy) formed the basis of framework for development of IT sector in the State. After formation of Telangana State, the Government pronounced a new set of policies in April 2016.

Significant audit findings are summarised below:

- Land parcels offered by the Department lacked basic amenities; hence, firms did not come forward for setting up IT industries. Consequently, no land allotments took place during the last five years.

[Paragraph 2.1.10.4]

- The Department did not monitor development of infrastructure by IT firms in respect of land already allotted. The IT firms held the land allotted without development for years.

[Paragraph 2.1.11.2]

- Irregularities in selection of consultants for construction of T-Hub, Phase-II and Innovation in Multimedia, Animation, Gaming and Entertainment (IMAGE) Tower led to extra financial burden of ₹16.70 crore. Change in payment clause with consultant while concluding agreement, resulted in additional financial commitment of ₹ 5.04 crore in IMAGE tower.

[Paragraph 2.1.10.3 and 2.1.10.6]

- Constructing agency of T-Hub Phase II received undue benefit of ₹13.11 crore during execution, due to post agreement changes. The total cost impact was ₹16.43 crore. The matter needs to be investigated and responsibility fixed.

[Paragraph 2.1.10.3]

- Telangana State Industrial Infrastructure Corporation (TSIIC) closed the contract of an existing consultant for IMAGE Tower for reasons not on record and appointed a new consultant. This resulted in extra commitment of ₹15.14 crore.

[Paragraph 2.1.10.6]

- In two cases, Andhra Pradesh Industrial Infrastructure Corporation (APIIC) transferred land ‘Title Deeds’ to a firm even before completing the project. One firm did not commence the project and surrendered the land. Another firm built up only 1.5 lakh square feet (sft.) of office space as against stipulated 10 lakh sft.

[Paragraph 2.1.11.2 (i) and (iii)]

- Andhra Pradesh Industrial Infrastructure Corporation (APIIC) allowed a firm to surrender the land without imposing penalties. This resulted in undue benefit to the firm to the tune of ₹13.75 crore. The objectives of generation of employment and IT development were not achieved.

[Paragraph 2.1.11.2 (i)]

- The Department allotted 101.03 acres of land to a firm. Of this, 49.61 acres were not suitable for development, due to environmental issues. The Department did not take any action, though the firm utilised only nine out of the remaining 51.42 acres.

[Paragraph 2.1.11.2 (ii)]

The Department did not ensure basic amenities before offering land parcels. Consequently, no land allotments were made during the last five years. Minimum use of allotted land for IT activities was not stipulated. There was no mechanism to monitor the development by IT firms within the time schedules. Prescribed procedures were not followed in the selection of consultants for T-Hub and Innovation in Multimedia, Animation, Gaming and Entertainment (IMAGE) Tower. Undue benefits were extended to the consultant and constructing agency in T-Hub.

Compliance Audits

Implementation of Accelerated Irrigation Benefits Programme

Government of India launched (1996-97) Accelerated Irrigation Benefit Programme (AIBP) to fund major and medium irrigation projects, which were left incomplete due to resource constraints. The Ministry of Water Resources, River Development and Ganga Rejuvenation (MoWR, RD&GR) in GoI was responsible for laying down policy guidelines. The State Government in Irrigation and Command Area Development (I&CAD) Department implemented the irrigation projects under AIBP.

Significant audit findings are summarised below:

- There was a shortfall in receipt of Central Assistant (CA) in respect of J Chokka Rao Devadula Lift Irrigation Scheme (₹496.04 crore) and Sriramsagar Project Stage II (₹31.34 crore). This was due to slow progress in

incurring expenditure and utilisation of CA. The main reasons for slow progress were delay in land acquisition, inter- departmental issues.

[Paragraph 3.1.2]

- There was shortfall in availability of water in J Chokka Rao Devadula Lift Irrigation Scheme and Sriramsagar Project Stage II due to improper planning. Improper assessment of water availability led to taking up of additional schemes / constructions with financial burden.

[Paragraph 3.1.3.1]

- Irrigation Potential (IP) was not fixed definitely as prescribed in Public Works Department Code. As a result, there were overlaps with other projects. The targeted IP was reduced in J Chokka Rao Devadula Lift Irrigation Scheme, Sriramsagar Project Stage II and Indiramma Flood Flow Canal.

[Paragraph 3.1.3.2]

- There were excess payments of ₹10.57 crore due to (i) improper calculations in price variation, (ii) short recoveries in seigniorage charges, (iii) non-recovery of mobilisation advance and (iv) payment towards survey and investigation works without execution etc.

[Paragraph 3.1.5]

- No Irrigation facilities were created in Indiramma Flood Flow Canal despite receipt of full Central Assistance by 2008-09 and incurring expenditure of ₹4711.01 crore. This was due to non-completion of required reservoirs. Utilisation of Irrigation Potential (IP) in respect of J Chokka Rao Devadula Lift Irrigation Scheme and Sriramsagar Project Stage II was 18 and zero per cent respectively. This was due to shortfall in availability of water.

[Paragraph 3.1.6]

The main objective of inclusion of sampled irrigation projects under AIBP was to complete the projects in two years. However, the sampled projects remained incomplete even after lapse of more than a decade. Additional items of works had to be taken up due to shortage of availability of water, which increased financial burden. Changes in the scope of the work increased the cost of the project. Creation of irrigation facilities ranged from zero to 74 per cent. Creation of irrigation facilities was nil in respect of Indiramma Flood Flow Canal. Utilisation was also less with only 18 per cent in J Chokka Rao Devadula Lift Irrigation Scheme and zero per cent in Sriramsagar Project Stage II due to shortage of availability of water.

Restoration of minor irrigation tanks under Mission Kakatiya

Government of Telangana took up Mission Kakatiya to revive tank irrigation by restoring all the 46 thousand tanks in a span of five years. The objective of the mission was to enhance development of minor irrigation infrastructure and strengthen community based irrigation management. The main components of Mission Kakatiya works were (i) De-silting, (ii) restoration of feeder channels, (iii) re-sectioning of irrigation channels, (iv) repairs to bunds, weirs etc.

Significant audit findings are summarised below:

- Target for Phase I was unrealistic. There were delays in completion of Phase I works ranging from 20 to 549 days. Consequently, progress in Phase II and Phase III of the Mission was low with 14 and zero per cent respectively.

[Paragraph 3.2.3]

- An important aim of the Mission was to bring back Gap Ayacut (i.e., difference between irrigation potential created and utilised) of 10 lakh acres into irrigation. However, there was no mention of details of Gap Ayacut in the estimates of individual works.

[Paragraph 3.2.6]

- Removal of silt was one of the main components under the Mission Kakatiya. There was an average shortfall (33 per cent) in removal of silt in 27 test checked tanks.

[Paragraph 3.2.4]

- Prioritisation of works was not in accordance with guidelines. Non-priority works were also taken up in Phase I and Phase II.

[Paragraph 3.2.5]