

# 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 1.63 lakh square kilometres. Government of Andhra Pradesh consists of 30 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 30 Departments, nine 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 13<sup>1</sup> of the DPC Act;
- **Financial audit** of four autonomous bodies (ABs)<sup>2</sup> under Economic Sector, as per Sections 19(2)<sup>3</sup>, 19(3)<sup>4</sup> and 20(1)<sup>5</sup> of the DPC Act; and
- **Audit of other ABs**, which are substantially funded by the Government, as per Section 14<sup>6</sup> of the DPC Act.

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

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</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>4</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>5</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>6</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.

### 1.3 About this Report

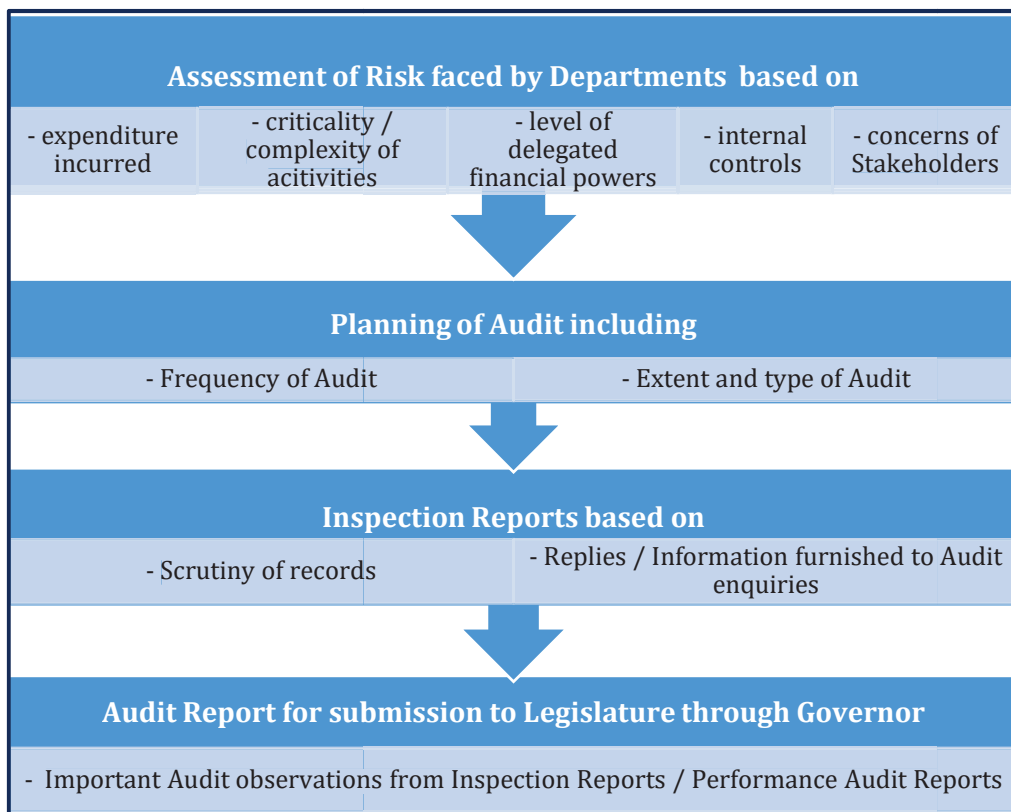
Primary purpose of Audit Reports is to bring important results of audit to the notice of the State Legislature. Audit findings enable the executive to take corrective action in cases of lapses / deficiencies. They also help to frame directives for better governance.

This Report on Economic Sector relates to matters arising from Performance Audit<sup>7</sup> and Compliance Audit<sup>8</sup> 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*



Audit conducted inspection of various Departments / Organizations under the Economic Sector in 2016-17 and issued 144 Inspection Reports with 916 paragraphs.

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

<sup>8</sup> 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.

## **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 2,393 IRs consisting of 8,428 paragraphs, issued up to March 2017, which were not settled (Department wise break up is given in *Appendix 1.1*). Of these, Audit did not receive even first replies in respect of 2419 paragraphs in 430 IRs (year-wise break up is given in *Appendix 1.2*).

Out of nine Departments under Economic Sector, Water Resources Department and Agriculture, Cooperation and Rain Shadow Area Development Department had highest number of unsettled audit observations as of 30 September 2017. Water Resources Department had 1,137 IRs with 3,608 paragraphs and Agriculture, Cooperation and Rain Shadow Area Development Department had 499 IRs with 1,899 paragraphs. Of these, 346 IRs with 661 paragraphs on Water Resources Department and 185 IRs with 328 paragraphs on Agriculture, Cooperation and Rain Shadow Area Development Department were outstanding for more than ten years (year-wise details are in *Appendix 1.3*).

Audit recommends that the Government may strengthen procedures to ensure:

- a) prompt action by officers to send replies to 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, two performance audit and six compliance audit paragraphs to the Special Chief Secretaries/ Principal Secretaries/ Secretaries of the Departments during June 2017 to November 2017. The Government provided responses to all the proposed paragraphs which have been suitably incorporated in the report.

### 1.5.3 Response to recommendations of the Public Accounts Committee

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.

All the Departments have furnished ATNs as of 30 November 2017, except Water Resources and Animal Husbandry, Dairy Development & Fisheries Department in respect of seven<sup>9</sup> recommendations.

### 1.6 Expenditure by Departments in Economic Sector Grants

Expenditure incurred by Economic Sector Departments during the last five years is given in below:

*Table 1.1: Table showing expenditure incurred by Economic Sector Departments*

(₹ in crore)

S. No.	Name of the Department	2012-13	2013-14	2014-15*	2015-16	2016-17
1	Agriculture <sup>10</sup> and Cooperation					
2	Rain Shadow Area Development	3633.36	2874.65	9258.24	3868.44	6687.98
3	Animal Husbandry and Fisheries	830.61	839.18	715.35	933.49	1235.73
4	Energy, Infrastructure & Investment	6249.03	7553.28	14476.96	3852.32	11838.45
5	Environment, Forests, Science and Technology	391.25	399.56	290.60	307.23	305.30
6	Industries and Commerce	760.53	705.66	2464.64	398.95	711.34
7	Information Technology, Electronics and Communications	199.37	155.10	127.02	402.56	330.34
8	Water Resources <sup>11</sup>	19704.27	18760.67	9378.12	9596.41	10637.24
9	Public Enterprises	1.40	1.44	1.22	0.87	1.53
10	Roads & Buildings	4188.66	4948.75	5969.18	4076.03	3469.82
<b>Total</b>		<b>35958.48</b>	<b>36238.29</b>	<b>42681.33</b>	<b>23436.30</b>	<b>35217.73</b>

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

\* 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.

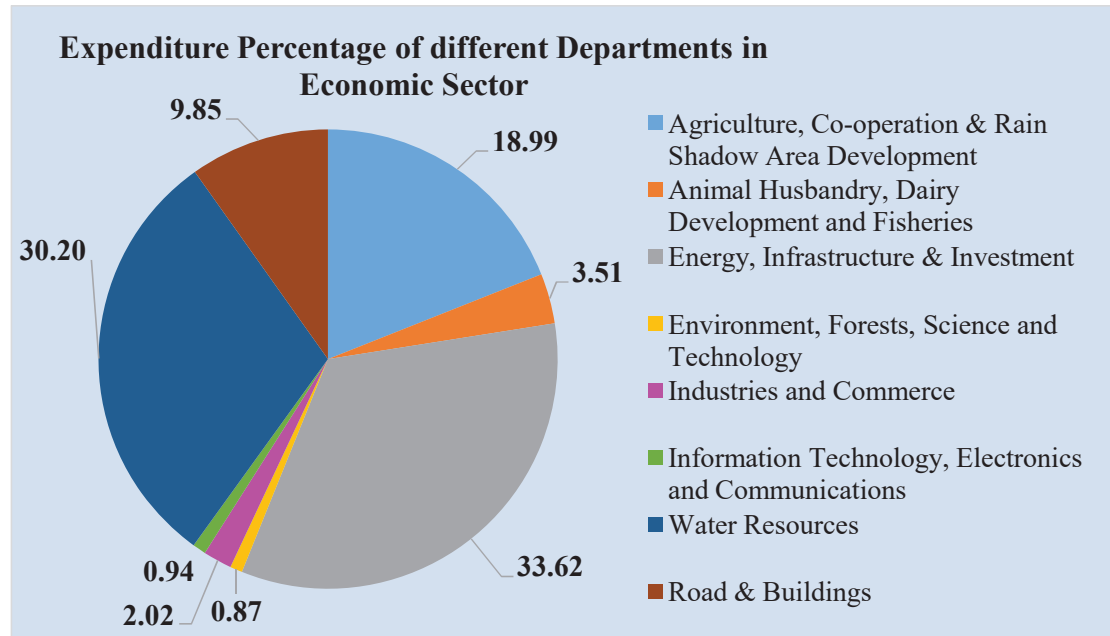
<sup>9</sup> Water Resources Department – 5 ATNs and Animal Husbandry, Dairy Development and Fisheries – 2 ATNs.

<sup>10</sup> The expenditure of Agriculture, Rain Shadow Area Development is covered under Grant No. XXVII – Agriculture and the expenditure of Co-operation Department is covered under Grant No. XXX.

<sup>11</sup> Formerly the Irrigation & Command Area Development Department.

The sectoral distribution of expenditure in Economic Services Sector in 2016-17 is shown in Chart 1.2. Outlay on two Departments viz., Energy, Infrastructure & Investment and Water Resources Departments comprised 64 per cent of total expenditure on Economic Services.

*Chart 1.2 - Expenditure share of different Economic Sector Departments*



## 1.7 Significant Audit Findings

### *Performance Audits*

#### **Polavaram Irrigation Project**

The Polavaram Irrigation Project is Multi-purpose Project constructed on the river Godavari to provide water supply for i) irrigation benefits ii) Generation of Hydro Electric Power, iii) domestic and industrial uses in four districts. Audit was conducted (May to August 2017) to assess whether i) the GoAP planned the Project in accordance with the guidelines of Central Water Commission; ii) the GoAP executed the Project in an economic, efficient and effective manner; and iii) adequate monitoring mechanism existed and was effective during implementation.

The major audit findings are summarized below:

- *The Department submitted the Detailed Project Report (DPR) to Central Water Commission (CWC) in 2005. It took four years in rectifying the deficiencies and could obtain CWC's approval only in the year 2009. The Head works were awarded before approval of the DPR by CWC. Subsequent changes in design parameters as suggested by CWC led to pre-closure of the works and consequent cost and time overrun.*

[Paragraphs 2.1.7 and 2.1.10 (i)]

- *The Department could not acquire and provide required land to the contractors within agreement period in any of the 15 canal package works. The Department was yet to acquire 36,009 acres of land in the submergence areas and a further 26,830 acres of land required for Rehabilitation & Resettlement of the Project Affected Families.*

[Paragraph 2.1.9.1 (i)]

- *The Department could rehabilitate only 4,069 (4 per cent) out of the 1,05,601 Project Displaced Families (PDFs) in the last 12 years. It was yet to finalize Rehabilitation & Resettlement (R&R) plans in respect of 192 (52 per cent) villages out of 371 villages.*

[Paragraph 2.1.9.2 (ii)]

- *There was no progress in construction of protective embankments to prevent submergence in Odisha and Chhattisgarh States.*

[Paragraph 2.1.9.2 (v)]

- *Non-submission of details of expenditure incurred on Land Acquisition (LA) and R&R by the Department led to non-disbursement of ₹1,407.64 crore by Government of India (GoI).*

[Paragraph 2.1.8 (i)]

- *Progress of works, taken up during the years 2004-2006, was only 31 per cent in headworks, 55 per cent in connectivities, 65 per cent in left main canal and 91 per cent in right main canal, as of July 2017. Slow progress was mainly due to changes in designs and delays in land acquisition, finalization of alignments/designs/drawings and in shifting of public utilities.*

[Paragraphs 2.1.10 and 2.1.11]

- *Several concessions amounting to ₹1853.08 crore were allowed to the contractor of Head Works in relaxation of the agreement conditions for timely completion of the work. Yet, the progress was not in tandem with the scheduled completion time.*

[Paragraph 2.1.11.2]

- *Despite slow progress and delays attributable to the contractors, Department failed to levy liquidated damages on contractors.*

[Paragraph 2.1.11.3 (ii)]

- *The State and Project Level Monitoring Committees (to review and monitor progress of R&R implementation) had not held the required number of meetings as stipulated in the State's Resettlement & Rehabilitation Policy.*

[Paragraph 2.1.12.1 (i)]



- *The monitoring in respect of compliance of Forest/Environmental clearance conditions was weak and the stipulated conditions were yet to be adhered to.*

[Paragraph 2.1.12.2]

## **Conclusion**

*Progress of execution of Polavaram project which had commenced in the year 2004 had been slow mainly due to improper planning, delays in finalization of designs, land acquisition and R&R, and also due to the Department's inability to enforce the contract conditions. As a result, the possibility of completion of the project and achievement of intended objectives by the target date of 2019 appears improbable.*

## **Development of Information Technology and Communication Infrastructure by the Information, Technology, Electronics and Communications Department**

The Information Technology, Electronics & Communications Department plays a crucial role in policy formulation in IT sector, conceptualizing and initiating various IT enabled services through proactive measures and providing a strong communication backbone in the State. Audit was conducted (February to August 2017) to assess whether i) the formulation of selected initiatives was comprehensive and in accordance with objectives and policies of the Government; ii) Whether the selected initiatives/ projects and facilities were implemented as planned and those under implementation were progressing as scheduled; iii) Whether the completed initiatives/ projects and facilities were serving the intended objectives and whether there was a plan in place to accommodate future needs; and iv) Whether the Department had developed adequate infrastructure, on its own or through other organizations, to cater to the needs of the other Departments.

The major audit findings are summarized below:

- *Out of the 25 IT units that were allotted lands by the Department, during 2006 to 2012, two allotments were cancelled and only 14 units had completed construction and commenced operations. In eight cases, the projects were at different stages of construction and one unit did not commence construction as of July 2017, despite time over run of 22 months to 101 months.*

[Paragraph 2.2.7.3 (i)]

- *These units created a total of only 4,326 jobs (as of July 2017) as against the total employment generation target of 10,809 jobs as per the MoUs concluded with the 23 units.*

[Paragraph 2.2.7.3 (ii)]

- *Lack of proper monitoring mechanism was noticed. The Department did not have a system of obtaining periodical status/progress reports from APIIC or the IT units on implementation of the IT projects by the units.*

[Paragraph 2.2.7.4]

- *The intention of Government to develop common facilities in the IT-SEZ, Madhurawada, Visakhapatnam remained unrealized even after 10 years, due to allotment of unsuitable land to the Developer initially and delay in allotment of alternative piece of land.*

[Paragraph 2.2.8]

- *Against the total space of 79,530 Sft. available in the three Incubation Centres at Visakhapatnam, Tirupati and Kakinada, space of 23,774 Sft. (8,774 Sft. in Tirupati and entire 15,000 Sft. in Kakinada) remained unutilized as of May 2017.*

[Paragraph 2.2.9.1]

## **Conclusion**

*The Department's monitoring on implementation of IT projects and performance of Incubators was poor. As a result, there were abnormal delays in implementation of IT projects by IT Units. The Department had not been able to put to use the space created in Incubation Centres. Thus, there was no assurance that the objective of promoting IT industry/start-up companies and creation of employment was achieved as intended.*

## **Detailed Compliance Audits**

### **Implementation of Biological Diversity Act, 2002 by Andhra Pradesh State Biodiversity Board**

India is rich in biological diversity and associated traditional knowledge. The Government of India enacted (February 2003) Biological Diversity Act, 2002 (Act) for conservation of biological diversity, regulation of access to/ sustainable use of biological resources, etc. Functional bodies at three different levels are responsible for implementation of the Act. They are - (1) the National Biodiversity Authority (NBA) at Central level; (2) the State Biodiversity Board at State level; and (3) Biodiversity Management Committees at Local Bodies level. Audit was conducted (June - July 2017) to assess the effectiveness of the role played by the Board and

the Biodiversity Management Committees in carrying out the functions prescribed in the Biological Diversity Act and Rules.

The major audit findings are summarized below:

- *The Biodiversity Management Committees (BMCs) have a vital role in implementation of the Act. However, only 2908 (i.e. 21 per cent) out of a total of 13725 local bodies in the State had formed BMCs as of June 2017. Even in areas where Red Sanders are grown, BMCs were not formed by all local bodies. Representatives from Panchayat Raj and Municipal Administration departments were not being nominated as ex-officio members of the Board to speed up formation of BMCs.*

[Paragraph 3.1.3]

- *The BMCs were to prepare People's Biodiversity Registers (PBRs) to document the information of local biological resources and related traditional knowledge. However, a total of only 75 PBRs had been prepared so far. In the absence of PBRs in all the local bodies, the Board could not build any database of biological resources available in the State.*

[Paragraph 3.1.4]

- *Two areas of Biodiversity importance identified in 2008 and 2012 have not been notified as Biodiversity Heritage Sites (BHS) till date.*

[Paragraph 3.1.5]

- *State Bio-diversity Conservation strategy and Action Plan to facilitate the implementation of the Biological Diversity Act and Rules has not been prepared by the Board so far.*

[Paragraph 3.1.6]

- *The Government had not sanctioned any regular posts and the Board was wholly depending on outsourced personnel (most of them were Data Entry Operators, office subordinates and drivers) for its day to day functioning.*

[Paragraph 3.1.7]

- *Adequate funds were not provided by Government, causing hindrance for the constitution of BMCs/preparation of PBRs, etc. which are vital for the implementation of the Act.*

[Paragraph 3.1.8]

## **Conclusion**

***Even after a decade since formation of AP State Biodiversity Board, the State had not attained the level of preparedness necessary for Implementation of the Biological Diversity Act.***

## **Implementation of Andhra Pradesh Single Desk Policy 2015 in Industries & Commerce Department**

The Andhra Pradesh Single Desk Policy 2015 was made to provide all clearances required for starting and operating an industry within 21 working days at single point through Information Technology (IT) enabled platform with an aim to improve the ease of doing of business in the state. In furtherance of the Policy, the Industries and Commerce Department launched (April 2015) a web based Single Desk Portal (SDP).

The major audit findings are summarized below:

- *The SDP did not have input validations regarding the dates of receipt of applications. In 802 (4 per cent) out of 19,837 approvals given through SDP, the date of receipt of application was one to 347 days prior to the date of submission of application by the applicant.*

[Paragraph 3.2.3.2]

- *The SDP did not have adequate provision to enable the entrepreneurs to enter details of already existing approvals in the Common Application Form. This was leading to incorrect list of approvals yet to be taken by entrepreneurs.*

[Paragraph 3.2.4]

- *The Commissioner of Industries was not ensuring that the grievances of entrepreneurs were resolved within the stipulated period of 30 days. There were 28 grievances that were pending for 108 to 606 days.*

[Paragraph 3.2.5]

- *The line Departments were not given privileges to change the status of clearances in cases where an application was rejected/additional information called for initially and approval was given later. Audit found two instances where the SDP data was showing that approvals were pending whereas the approvals were already given.*

[Paragraph 3.2.6]

- *The Portal did not have a provision to display the unit wise list of approvals applied for, issued and pending.*

[Paragraph 3.2.7]

- *SDP did not have provision to utilize the online information already available/maintained by the Government Departments to minimize input by applicants.*

[Paragraph 3.2.8]

## Conclusion

*The Single Desk Portal had gaps in the software which were causing hindrances in achievement of the objective of providing single window clearances to industrial units through a user friendly online environment.*

## Implementation of irrigation schemes under Accelerated Irrigation Benefits Programme

Government of India launched the Accelerated Irrigation Benefits Programme (AIBP) in the year 1996-97 with an objective to accelerate implementation of projects which were beyond resource capability of the States or were in advanced stage of completion. Government of India assisted the ongoing Major/Medium projects which are in advanced stage of completion based on the fulfillment of specified criteria. Audit was conducted (May 2017 – August 2017) to assess whether the projects were effectively implemented in a timely manner and objective of creation and utilization of Irrigation Potential had been achieved.

The major audit findings are summarized below:

- *In case of Tadipudi Lift Irrigation Scheme and Tarakarama Thirtha Sagaram project, the State Government could not spend the Central assistance within the stipulated period. As a result, GoI did not release further funds for these projects and the State had forgone Central assistance of ₹ 79.04 crore.*

[Paragraph 3.3.3]

- *Under Gundlakamma Reservoir Project, there was a shortfall of 11,112 acres (13.88 per cent out of the target of 80,060 acres) in creation of ayacut even after 13 years since commencement of work due to incomplete land acquisition and Rehabilitation & Resettlement (R&R).*

[Paragraph 3.3.4.1 (i)]

- *Incorrect computation of rates payable for distributary network in Gundlakamma Reservoir Project resulted in extra commitment of ₹ 1.49 crore.*

[Paragraph 3.3.4.1 (i)]

- *In Tadipudi Lift Irrigation Scheme, electro-mechanical equipment procured in 2007 at a cost of ₹ 1.90 crore had not been put to use so far due to non-completion of distributary network.*

[Paragraph 3.3.4.1 (ii)]

- *In Tarakarama Thirtha Sagaram Project, though the Department awarded the work in May 2006, the work remained incomplete even after lapse of 11 years due to delayed land acquisition and forest clearance. This resulted in*

*cost overrun to a tune of ₹251.20 crore and time overrun of nine years, besides non creation of ayacut.*

[Paragraph 3.3.4.2 (ii)]

- *Two minor irrigation tanks - viz. Maddileru river (Kurnool District) and Bhavanasi (Prakasam District) were not completed even after 10 years from Administrative approval due to delayed land acquisition. The delay resulted in non-serving of intended ayacut and rendering the expenditure of ₹34.13 crore unfruitful.*

[Paragraph 3.3.4.3]

## **Conclusion**

***Progress of the projects under Accelerated Irrigation Benefits Programme suffered due to delays in land acquisition, forest clearance, etc. As a result, the objective of taking up these projects under AIBP had not been achieved fully.***

## **Compliance Audits**

- *In the work of 'Modernisation of Prakasam Barrage and Head works, etc.' in Krishna District (Package-1), the Department incorrectly worked out the amount to be deducted from agreement value for the portion of work deleted from the scope of contract. This resulted in extra financial burden of ₹22.60 crore on the public exchequer.*

[Paragraph 3.4]

- *In Handri Neeva Sujala Sravanthi project, the delays in payment of electricity bills of pumps and motors for the period 2012-13 to 2016-17 resulted in avoidable expenditure of ₹14.33 crore. A further liability of ₹17.90 crore towards late payment charges was incurred, which was yet to be paid.*

[Paragraph 3.5]

- *Due to failure of the Department to finalize the designs for more than seven years, the work of 'Restoration of the existing Rajukalva flood bank from Km 1.000 to Km 6.300 and formation of new flood bank from Km 6.300 to Km 9.500' was not completed. As a result, the intended objective of providing protection to the Lankevanidibba village from floods was not achieved.*

[Paragraph 3.6]