

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 selected programmes and Departments of Government of Telangana. It also covers Compliance Audit of transactions of its various Departments, Central and State plan schemes and audit of autonomous bodies of the State pertaining to General & Social Sector.

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

Compliance Audit refers to the examination of transactions of audited entities. Compliance Audit is carried out to ascertain whether provisions of the Constitution of India, applicable laws, rules and regulations are complied with. This will also ensure that various orders and instructions issued by competent authorities are being complied with. On the other hand, Performance Audit, besides including Compliance Audit, also examines whether objectives of programme/activity/Department are being achieved economically, efficiently and effectively.

This Chapter explains 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 and Social Sector

A summary of the expenditure incurred by Departments of Government of Telangana falling within General and Social Sector is given below.

Table-1.1

(₹ in crore)

Sl. No.	Name of the Department	2015-16	2016-17	2017-18
A	General Sector			
1	Finance and Planning	26,251.70	40,977.31	57,568.37
2	General Administration	553.45	677.69	652.03
3	Home	4,638.29	5,176.55	5,619.09
4	Law	488.17	518.46	535.45
5	Revenue	2,316.21	2,970.84	1,868.95
6	State Legislature	62.12	98.93	114.72
	Total (A)	34,309.94	50,419.78	66,358.61

Sl. No.	Name of the Department	2015-16	2016-17	2017-18
B	Social Sector			
1	Backward Classes Welfare	1,073.98	2,831.81	2,865.53
2	Consumer Affairs, Food and Civil Supplies	1,000.13	2,089.36	1,524.43
3	Health, Medical and Family Welfare	3,294.76	4,872.03	4,521.38
4	Higher Education	1,684.68	1,765.14	1,754.79
5	Housing	2,527.48	555.90	865.80
6	Labour, Employment, Training and Factories	516.56	490.63	586.76
7	Minorities Welfare	555.69	842.06	983.48
8	Municipal Administration and Urban Development	4,813.49	3,111.31	3,150.57
9	Panchayat Raj ^s	6,050.61	7,520.66	6,685.89
10	Rural Development ^s	5,610.97	5,988.98	5,146.47
11	School Education	8,987.31	10,568.26	10,748.48
12	Scheduled Castes Development	2,936.33	3,172.43	7,624.56
13	Tribal Welfare	2,148.84	2,009.48	4,895.24
14	Women, Children, Disabled and Senior Citizens	1,127.86	1,204.04	1,314.75
15	Youth Advancement, Tourism and Culture	250.66	236.56	266.26
	Total (B)	42,579.35	47,258.65	52,934.39
	Grand Total (A+B)	76,889.29	97,678.43	1,19,293.00

Source: Appropriation Accounts of Government of Telangana for relevant years
^sunder one Secretariat Department 'Panchayat Raj and Rural Development'

1.3 Office of Accountant General (Audit)

Under directions of the CAG, Office of the Accountant General (Audit), Telangana conducts audit of 32 Departments¹ and local bodies/public sector undertakings/autonomous bodies thereunder in the State of Telangana. Out of these, 20 Departments are covered under General & Social Sector Audit.



Offices of the Accountants' General

1.4 Authority for audit

Authority for audit by the CAG 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 General & Social Sector Departments of the Government as follows:

- **Audit of expenditure** under Section 13² of the DPC Act.
- As **sole auditor** in respect of **autonomous bodies** which are audited under

¹ including those pertaining to Economic Sector, Revenue Sector and Public Sector Undertakings

² Audit of (i) all transactions from Consolidated Fund of State (ii) all transactions relating to Contingency Fund and Public Account and (iii) all trading, manufacturing, profit & loss accounts, balance sheets and other subsidiary accounts kept in any Department of a State

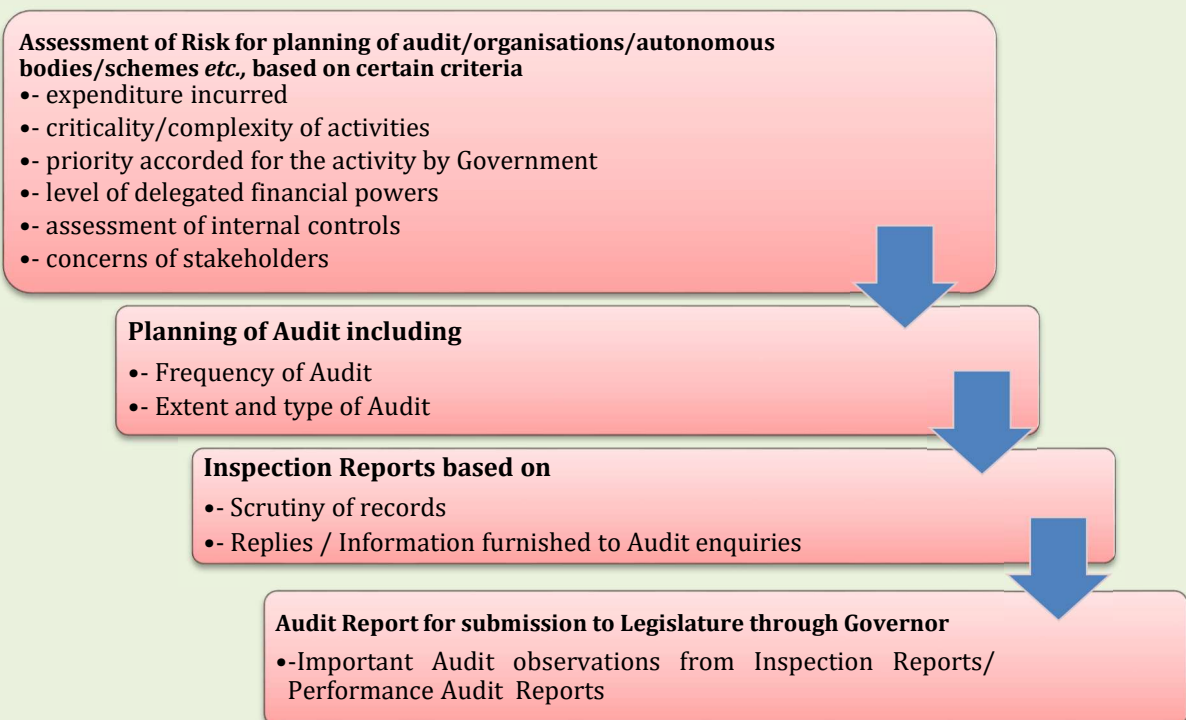
Sections 19(2)³ and 20(1)⁴ of the DPC Act.

- **Local bodies** which are audited under Section 20(1) of the DPC Act.
- In addition, CAG also conducts audit under Section 14⁵ of the DPC Act, of **other autonomous bodies** which are **substantially funded** by the Government.

Principles and methodologies for various audits are prescribed in Auditing Standards and Regulations on Audit and Accounts, 2007 issued by the CAG.

1.5 Planning and Conduct of audit

The following flowchart depicts the process of planning and conduct of audit:



After completion of audit of each unit, Inspection Report (IR) containing audit findings is issued to head of the unit with a request to furnish replies within one month of receipt of 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 processed for inclusion in 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 State Legislature.

³ Audit of accounts of Corporations (not being Companies) established by or under law made by State Legislature in accordance with provisions of the respective legislations

⁴ Audit of accounts of any body or authority on request of Governor, on such terms and conditions as may be agreed upon between CAG and Government

⁵ 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

1.6 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 observations contained in IRs and take appropriate corrective action. Audit observations communicated in IRs are also discussed in meetings at district/State levels by officers of the Accountant General's office with officers of the concerned Departments.

As of 30 September 2018, 595 IRs containing 8,187 paragraphs pertaining to previous years were pending settlement as detailed below. Of these, first replies have not been received in respect of 230 IRs (3,341 paragraphs). Department-wise details are given in *Appendix-1.1*.

Table-1.2

Year	Number of IRs/Paragraphs pending settlement as of 30 September 2018		IRs/Paragraphs where even first replies have not been received as of 30 September 2018	
	IRs	Paragraphs	IRs	Paragraphs
2014-15 & earlier years	144	1,829	9	128
2015-16	135	1,907	37	629
2016-17	148	2,113	72	1,017
2017-18	168	2,338	112	1,567
Total	595	8,187	230	3,341

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 process of governance, inefficient and ineffective delivery of public goods/services, fraud, corruption and loss to public exchequer.

Audit reviewed the outstanding paragraphs pertaining to Health, Medical and Family Welfare (HM&FW) and Municipal Administration and Urban Development (MA&UD) Departments. As at the end of September 2018, 21 IRs (518 paragraphs) pertaining to HM&FW Department and 58 IRs (1,131 paragraphs) pertaining to MA&UD Department were outstanding (refer *Appendix-1.1*). Of these, some serious irregularities commented upon in these IRs which remained unsettled as of 30 September 2018 are tabulated below:

Table-1.3

Sl. No.	Nature of Irregularities	Number of Paragraphs	Amount (₹ in crore)
Health, Medical and Family Welfare Department			
1	Non-utilisation/locking up of funds	24	2,250.36
2	Loss/non-realisation of revenue	9	132.48
3	Non-realisation/non-recovery of Government dues	4	25.00
4	Infructuous/unfruitful expenditure	6	11.50
5	Non-remittance into Government account	9	10.94
6	Irregular/inadmissible/unauthorised payments	14	6.33

Sl. No.	Nature of Irregularities	Number of Paragraphs	Amount (₹ in crore)
7	Diversion of funds	7	5.23
8	Excess payments/ Over payments	8	3.04
9	Excess Expenditure	7	2.56
10	Avoidable expenditure	5	2.31
Total		93	2,449.75
Municipal Administration and Urban Development Department			
1	Loss/non-realisation of revenue	36	1,706.94
2	Avoidable expenditure	43	474.19
3	Wasteful expenditure/unfruitful overlay	2	224.52
4	Undue benefit	8	141.17
5	Infructuous/unfruitful expenditure	10	88.29
6	Excess expenditure	25	80.99
7	Non-recovery/short recovery towards cost of materials/sales tax/seigniorage charges/security deposits/penalties	17	64.90
8	Diversion of funds	16	75.78
9	Non-realisation/non-recovery of Government dues	7	24.55
10	Excess payments	14	35.82
Total		178	2,917.15

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

1.6.2 Response of Government to audit observations

All Departments are required⁶ to send their responses to draft audit paragraphs proposed for inclusion in CAG's Report within six weeks of their receipt. During the year 2018-19, two draft Performance Audits and twenty draft Compliance Audit paragraphs were forwarded to the Special Chief Secretaries/Principal Secretaries/Secretaries of the Departments⁷ 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 and Performance Audits were likely to be included in the Audit Report of the CAG of India, which would be placed before the State Legislature. Accordingly, it would be desirable to include their comments/responses to the audit findings. Despite this, five Departments⁸ did not furnish reply to five 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 January 2019. The responses of the Government, wherever received, have been appropriately incorporated in the Report.

⁶ as per paragraph 4.7 of Finance Department's Handbook of Instructions

⁷ Backward Classes Welfare; Environment, Forest, Science & Technology; General Administration; Health, Medical & Family Welfare; Home; Irrigation & Command Area Development; Municipal Administration & Urban Development; Planning; Revenue; Youth Advancement, Tourism & Culture; and Panchayat Raj & Rural Development

⁸ Environment, Forest, Science & Technology; General Administration; Health, Medical & Family Welfare; Irrigation & Command Area Development; and Revenue

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 Performance Audit reports included in Audit Reports⁹, 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 Public Accounts Committee. Explanatory Notes¹⁰ were yet to be received from nine Departments¹¹ in respect of 19 paragraphs/Performance Audit reports that featured in the Audit Reports for the years 2014-15 to 2016-17 as of 30 September 2018. Explanatory Notes were also yet to be received from eight Departments¹² in respect of 17 paragraphs/ Performance Audit reports relating to the period prior to bifurcation¹³ as of 30 September 2018. 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 months¹⁴ from the date of receipt of recommendations. As of 30 September 2018, one ATN¹⁵ in respect of one Department¹⁶ and eight ATNs¹⁷ in respect of four Departments¹⁸ were yet to be received. Details are given in *Appendix-1.3*.

1.7 Significant audit observations

This Report contains findings of audit from a test-check of accounts and transactions of six Departments¹⁹ of Government of Telangana during 2017-18.

One Performance Audit report *Water Supply in Hyderabad Agglomeration* concerning Municipal Administration and Urban Development Department and fourteen Compliance Audit paragraphs have been included in this Report.

⁹ as per instructions issued by Finance and Planning Department vide U.O.No.23810-c/200/PAC/93-2 dated 03 November 1993

¹⁰ with regard to the issues exclusively pertaining to the State of Telangana

¹¹ Women, Children, Disabled & Senior Citizens; Health, Medical & Family Welfare; Higher Education; Home; Information Technology, Electronics & Communications; Municipal Administration & Urban Development; Revenue; School Education; and Youth Advancement, Tourism & Culture

¹² Women, Children, Disabled & Senior Citizens; Finance; Health, Medical & Family Welfare; Home; Minority Welfare; Panchayat Raj & Rural Development; Tribal Welfare; and Youth Advancement, Tourism & Culture

¹³ of the erstwhile State of Andhra Pradesh (i.e., those featured in Audit Reports for the years 2009-10 to 2013-14)

¹⁴ as per instructions issued by Finance and Planning Department vide U.O.No. 1576-A/32/PAC/95 dated 17 May 1995

¹⁵ with regard to the issues exclusively pertaining to the State of Telangana

¹⁶ Health, Medical & Family Welfare

¹⁷ of the erstwhile State of Andhra Pradesh

¹⁸ Backward Classes Welfare; Health, Medical & Family Welfare; Labour, Employment, Training & Factories; and Panchayat Raj & Rural Development

¹⁹ Backward Classes Welfare; Health, Medical & Family Welfare; Municipal Administration & Urban Development; Panchayat Raj & Rural Development; Planning; and Youth Advancement, Tourism & Culture