

Chapter I

General

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1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) contains matters arising from the compliance audit of transactions of various Departments of the Government of Telangana, Central and State plan schemes and audit of autonomous bodies of the State pertaining to General, Social and Economic Sectors during the period 2019-20 and 2020-21.

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

Compliance audit refers to the examination of transactions of the audited entities to ascertain whether provisions of the Constitution of India, applicable laws, rules and regulations and various orders and instructions issued by competent authorities are being complied with.

This Chapter explains the 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, Social and Economic Sectors

A summary of the expenditure incurred by the Departments of Government of Telangana falling within the General, Social and Economic Sectors during the five year period from 2016-17 to 2020-21 is given below.

Table-1.1

(₹ in crore)

Sl. No	Name of the Department	2016-17	2017-18	2018-19	2019-20	2020-21
A	General Sector					
1	Finance	40,977.31	57,568.37	58,732.81	79,876.98	1,14,014.79
2	Planning					
3	General Administration*	677.69	652.03	968.44	802.77	459.89
4	Home	5,176.55	5,619.09	6,212.21	6,275.54	6,442.08
5	Law	518.46	535.45	589.07	582.02	621.93
6	Revenue	2,970.84	1,868.95	2,258.11	4,027.32	5,522.27
7	State Legislature	98.93	114.72	103.72	119.74	116.46
	Total (A)	50,419.78	66,358.61	68,864.36	91,684.37	1,27,177.42
B	Social Sector					
1	Backward Classes Welfare	2,831.81	2,865.53	3,875.25	3,220.85	3,023.02
2	Consumer Affairs, Food and Civil Supplies	2,089.36	1,524.43	1,903.21	1,435.24	1,048.42
3	Health, Medical and Family Welfare	4,872.03	4,521.38	5,159.55	6,217.42	5,952.24
4	Higher Education	1,765.14	1,754.79	1,719.63	1,758.44	1,720.64

5	Housing	555.90	865.80	1,601.12	1,450.18	1,390.76
6	Labour, Employment, Training and Factories	490.63	586.76	608.41	383.72	407.64
7	Minorities Welfare	842.06	983.48	1,265.71	1,324.69	1,208.30
8	Municipal Administration & Urban Development	3,111.31	3,150.57	3,012.95	2,847.61	5,036.60
9	Panchayat Raj ^s	7,520.66	6,685.89	8,725.66	7,359.50	8,726.06
10	Rural Development ^s	5,988.98	5,146.47	6,650.38	7,407.14	9,393.94
11	School Education	10,568.26	10,748.48	10,125.68	10,879.03	10,934.03
12	Scheduled Castes Development	3,172.43	7,624.56	9,023.65	9,056.96	9,191.50
13	Tribal Welfare	2,009.48	4,895.24	5,863.16	6,081.41	6,288.45
14	Women, Children, Disabled and Senior Citizens	1,204.04	1,314.75	1,207.27	1,273.07	1,524.29
15	Youth Advancement, Tourism and Culture	236.56	266.26	211.59	142.48	166.59
Total (B)		47,258.65	52,934.39	60,953.22	60,837.74	66,012.48
C	Economic Sector					
1	Agriculture & Cooperation	5,775.06	4,969.48	10,134.79	11,673.66	14,127.30
2	Rain Shadow Areas Development ¹					
3	Animal Husbandry, Dairy Development & Fisheries	664.91	522.71	1,072.08	1,528.37	1,604.60
4	Energy	15,258.32	6,411.14	6,386.40	6,339.44	8,166.60
5	Environment, Forests, Science and Technology	430.06	485.81	476.51	840.65	797.91
6	Industries & Commerce	377.56	733.25	567.17	544.39	699.97
7	Information Technology, Electronics & Communications	158.19	129.44	219.03	181.06	144.96
8	Irrigation and Command Area Development	15,723.72	13,005.31	9,516.60	10,530.59	11,368.65
9	Public Enterprises	1.12	1.39	1.35	1.20	1.07
10	Transport, Roads and Buildings	4,463.44	3,499.98	3,019.27	2,963.88	3,900.24
11	Infrastructure & Investment ²					
Total (C)		42,852.38	29,758.51	31,393.20	34,603.24	40,811.30
Total (A + B + C)		1,40,530.81	1,49,051.51	1,61,210.78	1,87,125.35	2,34,001.20

*includes Governor's Secretariat

^sunder one Secretariat Department 'Panchayat Raj and Rural Development'

Source: Appropriation Accounts of Government of Telangana for relevant years

¹ Expenditure of this Department is covered under Grant No. XXVII – Agriculture

² Expenditure of Infrastructure & Investment is covered under Grant No. XI – Roads, Buildings and Ports

1.3 Office of Accountant General (Audit)

Under the directions of the Comptroller and Auditor General of India, Office of the Accountant General (Audit), Telangana conducts audit of 32 Departments and local bodies/ public sector undertakings/autonomous bodies thereunder in the State of Telangana.



Offices of the Accountants' General

1.4 Authority for audit

The CAG's authority for audit 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 conducts audit of the Departments in General, Social and Economic Sectors of the Government as follows:

- Audit of expenditure is carried out under Section 13³ of the DPC Act;
- Audit of autonomous bodies is conducted under Sections 19(2)⁴, 19(3)⁵ and 20(1)⁶ of the DPC Act;
- **Local bodies** are audited under Section 20(1) of the DPC Act;
- In addition, the CAG also conducts audit of **other autonomous bodies**, which are substantially funded by the Government under Section 14⁷ of the DPC Act.

Principles and methodologies for various audits are prescribed in Auditing Standards and Regulations on Audit and Accounts, as well as other guidelines, manuals and instructions issued by the CAG.

³ 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

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

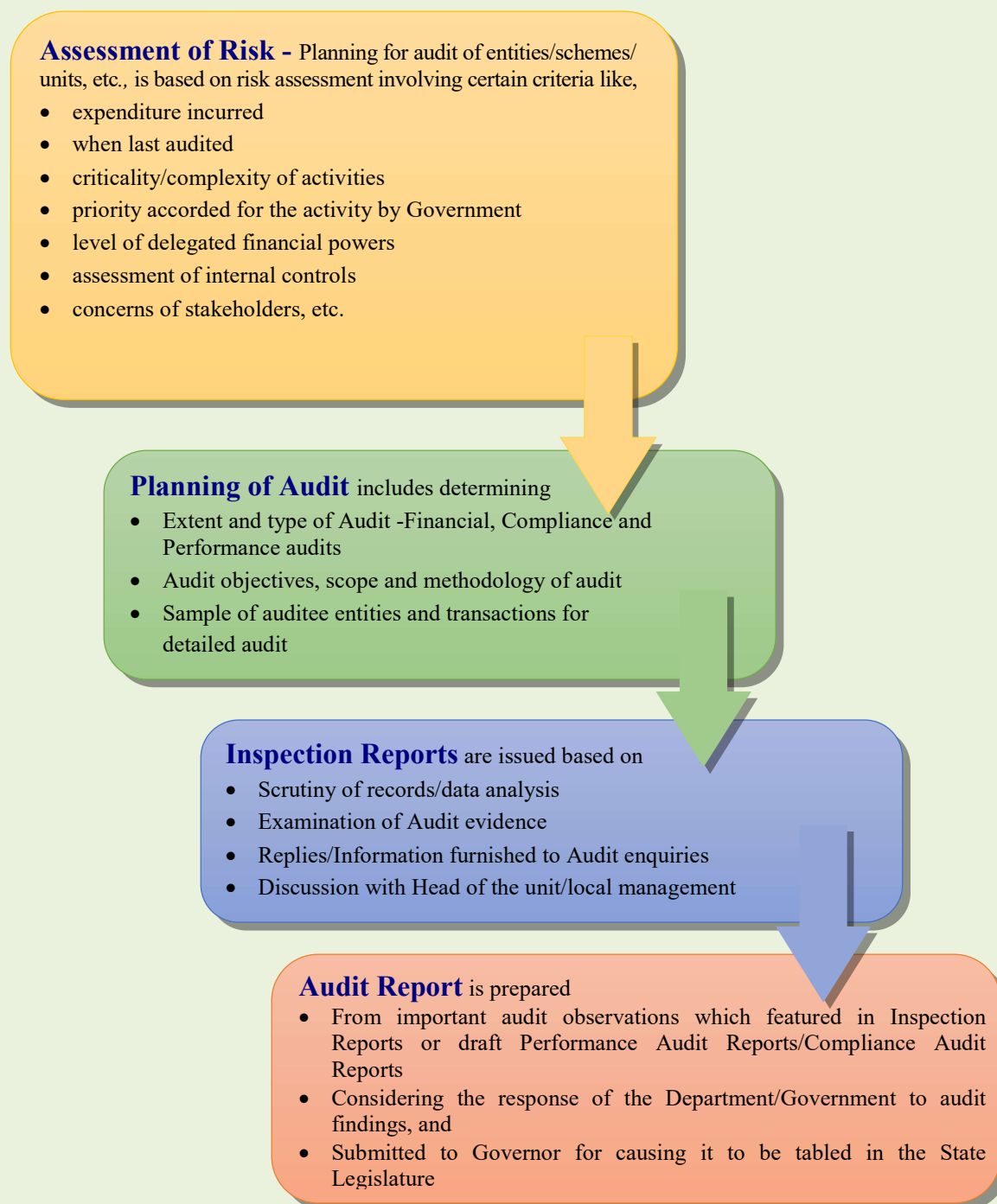
⁶ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the CAG and the Government

⁷ Audit of all (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

1.5 Planning and Conduct of audit

The following flowchart depicts the process of Planning, Conduct of audit and preparation of Audit Reports:

Figure-1.1: Planning, Conduct of audit and preparation of Audit Reports



After completion of compliance audit of each unit, an Inspection Report (IR) containing audit findings is issued to the Head of the unit with a request to furnish replies within one month of receipt of the 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 the Government, are issued as

draft paragraphs to the Government for their responses, before possible inclusion after due consideration of the responses, in the Audit Reports. In addition, draft Compliance Audits and Performance Audits on specific themes, topics or schemes are also issued to the Government for their responses, before possible inclusion in the 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 the State Legislature.

1.6 Response of Government/Departments to audit findings

1.6.1 Response to previous Inspection Reports

Heads of Offices and next higher authorities are required to respond to the observations contained in IRs and take appropriate corrective action. Audit observations communicated in IRs are also discussed at periodical intervals in meetings at District/State levels by officers of the Accountant General's Office with officers of the concerned Departments.

As of 30 September 2021, 3606 IRs containing 25,817 paragraphs pertaining to previous years were pending settlement as detailed below. Of these, first replies have not been received in respect of 670 IRs (7,334 paragraphs). Department-wise details are given in *Appendix-1.1*.

Table-1.2

Year	Number of IRs/Paragraphs pending settlement as of 30 September 2021		IRs/Paragraphs where even first replies have not been received as of 30 September 2021	
	IRs	Paragraphs	IRs	Paragraphs
2016-17 & earlier years	2,199	11,330	27	363
2017-18	292	2,955	67	649
2018-19	466	4,579	164	1,552
2019-20	479	4,851	282	3,185
2020-21	170	2,102	130	1,585
Total	3,606	25,817	670	7,334

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 as pointed out in these reports. It may also result in dilution of internal controls in the governance process, inefficient and ineffective delivery of public goods/services, fraud, corruption and loss to public exchequer. State Government therefore, needs to institute an appropriate mechanism to review and take expeditious action to address the concerns flagged in these IRs and audit paragraphs.

1.6.2 Response of Government to audit observations

All Departments are required⁸ to send their responses to draft audit paragraphs proposed for inclusion in the CAG's Report within six weeks of their receipt. During the year

⁸ as per Paragraph 4.7 of Finance Department's Handbook of Instructions

2021-22, 14 draft compliance audit paragraphs were forwarded to the Special Chief Secretaries/Principal Secretaries/Secretaries of 12 Departments⁹ 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 were likely to be included in the Audit Report of the CAG of India, which would be placed before the State Legislature and it would be desirable to include their comments/responses to the audit findings. Despite this, seven Departments¹⁰ did not furnish reply to nine 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 September 2022. The responses of the Government, wherever received, have been appropriately incorporated in the Report.

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 reviews included in Audit Reports¹¹, 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 the Public Accounts Committee. Explanatory Notes¹² were yet to be received as of 30 September 2021 from 8 Departments in respect of 22 paragraphs/performance audit reviews that featured in the Audit Reports for the years 2015-16 to 2018-19. Explanatory Notes were also yet to be received as of 30 September 2021 from 12 Departments in respect of 28 paragraphs/performance audit reviews relating to the period prior to bifurcation¹³. 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 the recommendations of Public Accounts Committee (PAC) within six months¹⁴ from the date of receipt of recommendations. As of 30 September 2021, one ATN in respect of one Department with regard to the issues exclusively pertaining to the State of Telangana and seven ATNs in respect of four Departments¹⁵ with regard to issues pertaining to the combined State of Andhra Pradesh were yet to be received. Details are given in *Appendix-1.3*.

⁹ Agriculture and Cooperation; Animal Husbandry, Dairy Development and Fisheries; Finance; Housing; Labour, Employment, Training and Factories; Minorities Welfare; Municipal Administration and Urban Development; Panchayat Raj and Rural Development; Planning; School Education; Women, Children, Disabled & Senior Citizens and Youth Advancement, Tourism & Culture

¹⁰ Agriculture and Cooperation; Finance; Municipal Administration and Urban Development; Panchayat Raj and Rural Development; School Education; Women, Children, Disabled & Senior Citizens and Youth Advancement, Tourism & Culture

¹¹ as per instructions issued by Finance and Planning Department vide U.O. No.23810-c/200/PAC/93-2 dated 3 November 1993

¹² with regard to the issues exclusively pertaining to the State of Telangana

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 Agriculture & Cooperation; Backward Classes Welfare; Health, Medical & Family Welfare and Panchayat Raj & Rural Development

1.7 Significant audit observations

This Report contains findings of audit in respect of 10 compliance audit paragraphs from a test-check of accounts and transactions of nine Departments¹⁶ of the Government of Telangana during 2019-21.

Significant results of audit that featured in this Report are summarised below.

1.7.1 Implementation of Two Bedroom Housing Scheme in Greater Hyderabad Municipal Corporation

The Government of Telangana launched (2015) Two Bedroom Housing Scheme (2BHK Housing Scheme) with 100 *per cent* subsidy to provide dignified housing to the Urban and Rural poor. The financial management of the scheme had shortfalls. Loan amounts drawn were kept idle/parked for some time, funds were diverted to other schemes/institutions and Telangana State Housing Corporation Limited (TSHCL) had to repay other loans not related to the 2BHK Housing Scheme. In Greater Hyderabad Municipal Corporation (GHMC) Area, out of one lakh houses sanctioned in GHMC, construction of 48,178 (48 *per cent*) houses were completed and 45,735 houses were in progress while 6,087 houses were stopped/yet to be taken up. Construction of houses by the end of six years (2020-21) was only 48,178 which was less than 50 *per cent* of the envisaged target of 1,00,000 houses. Ninety-six *per cent* of the completed houses (46,442) remained unoccupied for a period ranging from less than 6 to more than 36 months, as the State Government failed to identify beneficiaries for the scheme rendering the expenditure of ₹3,983.68 crore incurred on these houses so far wasteful. Thus, the objective of providing Two Bedroom houses to the poor as envisaged could not be achieved, even after elapse of four years.

(Paragraph 2.1)

1.7.2 Suspected fraud in implementation of Sheep Rearing Development Scheme (SRDS)

During test-check of implementation of the Sheep Rearing Development Scheme in seven Districts, Audit found serious irregularities including suspected fraud/doubtful transactions involving financial implication of ₹253.93 crore. These included payments made on manipulated transport invoices (₹68.23 crore) for transportation of sheep and invoices containing fake/passenger/non-goods vehicles (₹27.20 crore); cases where more than two sheep units were shown as transported in small goods vehicles and tractors (₹17.06 crore) and more than six sheep units were shown as transported in heavy goods vehicles (₹46.03 crore); assigning of duplicate ear tags to multiple sheep (₹92.69 crore), etc.

(Paragraph 2.2)

¹⁶ Agriculture and Cooperation; Animal Husbandry, Dairy Development and Fisheries; Housing; Minorities Welfare; Municipal Administration and Urban Development; Panchayat Raj and Rural Development; Planning; School Education and Youth Advancement, Tourism & Culture

1.7.3 Avoidable expenditure due to payment of Goods and Services Tax (GST) on exempt service

Failure of the Agriculture Department in availing exemption from Goods and Services Tax on the insurance premium payable to the insurance agency under Farmers Group Life Insurance Scheme resulted in avoidable extra expenditure of ₹445.03 crore.

(Paragraph 2.3)

1.7.4 Commercial Building remaining idle

Improper planning on the part of Waqf Board coupled with lack of directions from Government, led to a structure constructed at a cost of ₹10.30 crore remaining idle even after seven years of its completion.

(Paragraph 2.4)

1.7.5 Inordinate delay in completion of Sewage Treatment Plants

Sewage Treatment Plants along with Underground Drainage (UGD) network were not completed in Suryapet Municipality even after a lapse of 12 years due to delay in alienation/acquisition of land and non-receipt of permission from National Highways Authority of India (NHAI). The inordinate delay in completion of the project has deprived the people of Suryapet Municipality of UGD facility and the expenditure of ₹52.33 crore incurred on the work so far remains wasteful.

(Paragraph 2.5)

1.7.6 Avoidable expenditure due to delayed remittances of Employees' Provident Fund (EPF) contributions

Delayed remittance of Employees' Provident Fund contributions resulted in avoidable expenditure of ₹5.81 crore towards damages and interest.

(Paragraph 2.6)

1.7.7 Fraudulent claims and payments

Non-verification of the genuineness of the claim before making payments for the works for which bills were submitted twice with two different measurement books, resulted in fraudulent payment of ₹32.83 lakh.

(Paragraph 2.7)

1.7.8 Wasteful expenditure on implementation of Bio-metric Attendance System

Implementation of Aadhaar Based Bio-metric Attendance System (ABAS) to capture teacher-students attendance in schools without due feasibility study and assessing technical data requirement, resulted in wasteful expenditure of ₹28.96 crore.

(Paragraph 2.8)

1.7.9 Issue of unauthorised Advertisements by the Department

Failure of the Department to verify the genuineness of the advertisement claims made by an Advertising Agency led to fraudulent payment of ₹1.84 crore.

(Paragraph 2.9)

1.7.10 Infertuous expenditure on sound and light show at Basara

Failure of the Government to complete the pre-requisite civil works led to idling of the equipment procured at a cost of ₹0.73 crore.

(Paragraph 2.10)