

# Chapter I

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## Overview

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## Chapter I - Overview

### 1.1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) contains matters arising from audit of accounts and transactions of various Departments of Government of Andhra Pradesh, Central and State plan schemes and audit of autonomous bodies of the State pertaining to General, Social and Economic Sectors.

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.

This Chapter explains the planning and coverage of audit, response of the 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 Andhra Pradesh falling within General, Social and Economic Sectors during the three-year period 2016-17 to 2018-19 is given below.

**Table-1.1: Expenditure incurred by Departments under General, Social & Economic Sectors**

(₹ in crore)

Sl. No.	Name of the Department	2016-17	2017-18	2018-19
<b>A</b>	<b>General Sector</b>			
1	Finance and Planning	60,991.55	85,551.07	1,06,146.68
2	General Administration	187.10	725.29	1,041.75
3	Home	4,726.52	5,101.18	5,636.08
4	Law	610.94	651.09	726.38
5	Revenue	2,680.61	3,646.53	3,382.87
6	State Legislature	101.50	114.01	109.67
	<b>Total (A)</b>	<b>69,298.22</b>	<b>95,789.17</b>	<b>1,17,043.43</b>
<b>B</b>	<b>Social Sector</b>			
1	Backward Classes Welfare	4,117.68	4,919.33	2,824.84
2	Consumer Affairs, Food and Civil Supplies	2,560.59	3,241.75	697.68
3	Health, Medical and Family Welfare	6,331.63	6,140.67	7,229.62
4	Higher Education	2,465.32	2,811.59	2,106.57
5	Housing	589.13	2,905.74	3,189.59

Sl. No.	Name of the Department	2016-17	2017-18	2018-19
6	Labour, Employment, Training and Factories	304.40	444.00	671.21
7	Minorities Welfare	635.33	651.12	653.67
8	Municipal Administration and Urban Development	5,073.21	4,246.59	6,566.24
9	Panchayat Raj and Rural Development	18,574.47	21,582.68	28,406.55
10	School Education	14,995.38	16,978.12	17,506.20
11	Social Welfare	2,499.07	3,135.98	1,050.20
12	Tribal Welfare	1,219.85	1,738.45	1,136.57
13	Women, Children, Disabled and Senior Citizens	1,551.15	1,546.32	1,997.89
14	Sports and Youth Services	285.12	352.91	74.56
<b>Total (B)</b>		<b>61,202.33</b>	<b>70,695.25</b>	<b>74,111.39</b>
<b>C</b>	<b>Economic Sector</b>			
1	Agriculture <sup>1</sup> & Co-operation Rain Shadow Areas Development <sup>2</sup>	6,687.98	6,036.24	8,163.30
2	Animal Husbandry, Dairy development & Fisheries	1,235.73	1,371.42	1,355.78
3	Energy, Infrastructure & Investment <sup>3</sup>	11,838.45	3,948.72	2,883.29
4	Environment, Forests, Science and Technology	305.30	352.20	364.20
5	Industries & Commerce	711.34	1,549.01	1,480.87
6	Information Technology, Electronics & Communications	330.34	302.28	463.99
7	Water Resources <sup>4</sup>	10,637.24	8,936.59	14,355.21
8	Public Enterprises	1.53	1.84	(-) 49.96
9	Transport, Roads and Buildings <sup>5</sup>	3,469.82	2,366.31	2,502.63
10	Tourism, Art and Culture	111.44	301.74	154.07
<b>Total (C)</b>		<b>35,329.17</b>	<b>25,166.35</b>	<b>31,673.38</b>
<b>Grand Total (A+B+C)</b>		<b>1,65,829.72</b>	<b>1,91,650.77</b>	<b>2,22,828.20</b>

Source: Appropriation Accounts of Government of Andhra Pradesh for relevant years

### 1.3 Office of Principal Accountant General (Audit)

Under the directions of the Comptroller and Auditor General of India (CAG), Office of the Principal Accountant General (Audit), Andhra Pradesh conducts audit of 39 Departments and Local Bodies/ Public Sector Undertakings/Autonomous Bodies there under in the State

<sup>1</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>2</sup> expenditure of this Department is covered under Grant No. XXVII – Agriculture

<sup>3</sup> these figures represent the expenditure on Energy only. The expenditure on Infrastructure & Investment is covered under Grant No. XI- Roads, Buildings and Ports

<sup>4</sup> formerly Irrigation & Command Area Development Department

<sup>5</sup> these figures also include the expenditure on Infrastructure & Investment

of Andhra Pradesh. Out of these, 30 Departments are covered under General, Social and Economic Sectors Audit.

#### 1.4 Authority for audit

The CAG's authority for audit is derived from Articles 149 and 151 of the Constitution of India and Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). The CAG audits the Departments in General, Social and Economic Sectors of the Government as per the following provisions of the DPC Act.

- ❖ Audit of expenditure is carried out under Section 13 of the DPC Act;
- ❖ Audit of *autonomous bodies* is conducted under sections 19(2)<sup>6</sup>, 19(3)<sup>7</sup> and 20(1)<sup>8</sup> of the DPC Act;
- ❖ *Local bodies* are audited under Section 20(1) of the DPC Act;
- ❖ In addition, CAG also conducts audit of *other autonomous bodies*, which are substantially funded by the Government under Section 14<sup>9</sup> of the DPC Act.

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

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<sup>6</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>7</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

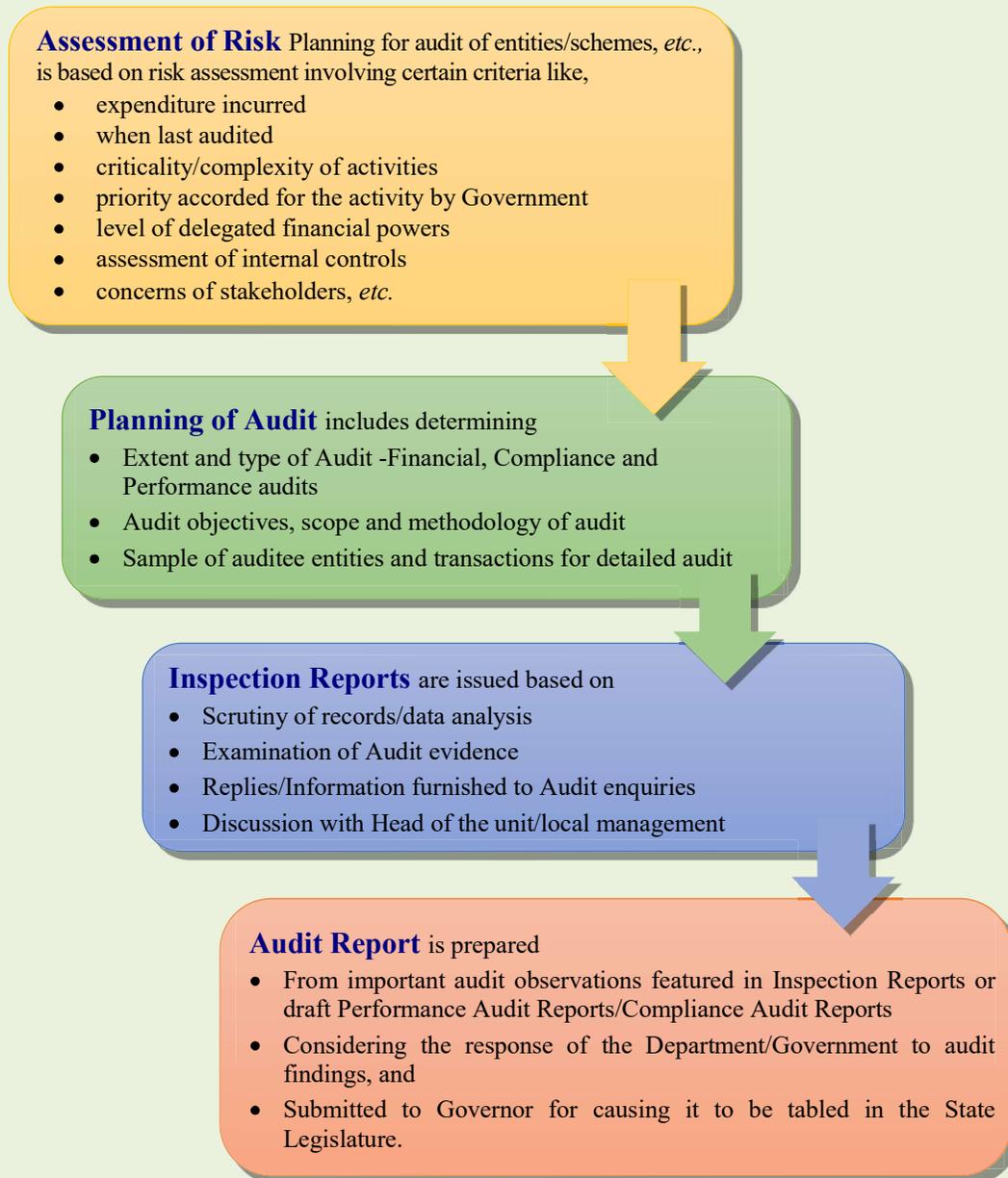
<sup>8</sup> Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the CAG and the Government

<sup>9</sup> 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, conduct of audit and preparation of Audit Reports

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 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 Andhra Pradesh 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 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 at periodical intervals in meetings at District/State levels by officers of the Principal Accountant General's office with officers of the concerned Departments.

As of 31 December 2019, 3,110 IRs containing 27,577 paragraphs in respect of General and Social Sector, and 2,473 IRs containing 8,627 paragraphs in respect of Economic Sector pertaining to the previous years were pending settlement as detailed in **Table 1.2**. Department-wise details are given in **Appendix-1.1**. Of these, first replies have not been received in respect of 871 IRs (8,434 paragraphs).

**Table-1.2: Details of IRs and Paragraphs pending settlement /first replies not received**

Year	Number of IRs/Paragraphs pending settlement as of 31 December 2019		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
2014-15 & earlier years	4,377	23,589	352	2,956
2015-16	345	3,497	179	2,523
2016-17	356	3,171	150	1,250
2017-18	226	2,683	116	1,028
2018-19	279	3,264	74	677
<b>Total</b>	<b>5,583</b>	<b>36,204</b>	<b>871</b>	<b>8,434</b>

*Source: Records maintained by the office of Principal Accountant General (Audit), Andhra Pradesh*

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 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 required to send their responses to draft audit paragraphs proposed for inclusion in CAG's Report within six weeks of their receipt. During the year 2019-20, 19 draft compliance audit paragraphs were forwarded to the Special Chief Secretaries/Principal Secretaries/Secretaries of the Departments 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, five Departments<sup>10</sup> did not furnish reply to 17 draft compliance audit paragraphs as on the date of finalisation of this Report. 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 Reports, 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 Notes<sup>11</sup> were yet to be received from 17 Departments in respect of 31 paragraphs/performance audit reviews that featured in the Audit Reports for the years 2014-15 to 2016-17 as of 31 December 2019. Explanatory Notes were also yet to be received from 12 Departments in respect of 29 paragraphs/performance audit reviews relating to the period prior to bifurcation<sup>12</sup> of the erstwhile State of Andhra Pradesh, as of 31 December 2019. 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 within six months from the date of receipt of recommendations. As of 31 December 2019, 14 ATNs in respect of six Departments exclusively pertaining to Andhra Pradesh and 24 ATNs<sup>13</sup> in respect of ten Departments pertaining to the period prior to bifurcation 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<sup>14</sup> Departments of Government of Andhra Pradesh during 2018-19. Significant results of audit that featured in this Report are summarised below.

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<sup>10</sup> Higher Education, Industries and Commerce, Information & Public Relations under General Administration Department, Municipal Administration & Urban Development (MA&UD) and Panchayat Raj & Rural Development (PR&RD)

<sup>11</sup> with regard to the issues exclusively pertaining to the State of Andhra Pradesh

<sup>12</sup> of the erstwhile State of Andhra Pradesh (*i.e.*, those featured in Audit Reports for the years 2006-07 to 2013-14)

<sup>13</sup> of the erstwhile State of Andhra Pradesh

<sup>14</sup> Higher Education, Industries and Commerce, Information & Public Relations under General Administration Department, Municipal Administration & Urban Development(MA&UD); Panchayat Raj & Rural Development (PR&RD) and Youth Advancement, Tourism and Culture (Sports)

## Part 1

### 1.7.1 Promotion of Sports in Andhra Pradesh

Sports promotion activities in the State lacked the required impetus in terms of organisational structures, finances and implementation. There was no proactive planning for achieving the goals of the policies. Sports Authority of Andhra Pradesh (SAAP) did not display leadership in coordinating with other Departments for either increasing resources or implementing various initiatives. Financial management was not effective as even the meagre budget allocation made by the Government was not utilised optimally. Resource mobilisation from other Departments was not ensured to improve financial resources.

Creation of infrastructure was ridden with lot of delays and poor planning. There were deficiencies in utilisation of infrastructure and community involvement in utilisation, revenue generation and maintenance are still a distant dream. The Government of India (GoI) funds were also not properly utilised for undertaking infrastructure projects. The initiative displayed in grounding the projects was not shown in completing the projects. Most of the incomplete projects were due to bad planning by the DSAs and inadequate follow up by them with the executing agencies.

Both the Sports Policies have articulated the importance of the coaches and supportive measures to the sports persons. However, SAAP and the Department have failed in providing these measures to these key stakeholders for development of sports. SAAP does not have a database of upcoming sports persons. All the winners in various events were also not identified by SAAP. The incentive structure was implemented arbitrarily without any basis. Strategic goals aimed in the year 2000 *viz.*, universalised participation in sports, sports infrastructure, excellence in sports performance, *etc.*, were not achieved even after two decades. Implementation of Sports Policy, 2017 also leaves a lot to be desired.

*(Paragraph 2.1)*

### 1.7.2 Idle equipment

Equipment procured by Rajiv Gandhi University of Knowledge Technologies for Idupulapaya campus at a cost of ₹1.75 crore to create high end research facilities remained idle for more than five years without benefiting the students.

*(Paragraph 2.2)*

### 1.7.3 Sanction of incentives to ineligible food processing industries

Irregular sanction of incentives to ineligible industry resulted in avoidable expenditure of ₹76.39 lakh.

*(Paragraph 2.3)*

#### **1.7.4 Financial imprudence**

The Department of Information and Public Relations failed to avail the lowest unit rate due to splitting of orders in three spells, resulting in avoidable expenditure of ₹2.12 crore.

*(Paragraph 2.4)*

#### **1.7.5 Avoidable expenditure on interest and penalty**

Failure of the Urban Local Bodies (ULBs) to ensure timely remittance of statutory contributions to Employees' Provident Fund resulted in avoidable expenditure of ₹16.18 crore towards penalty and interest.

*(Paragraph 2.5)*

#### **1.7.6 Irregular alienation of Government land to a private party**

Government land was alienated to a private party below the market value without due diligence, in deviation of the Land Policy, resulting in a loss of ₹one crore.

*(Paragraph 2.6)*

#### **1.7.7 Loss of revenue of ₹92.67 lakh due to incorrect fixation of upset price**

Fixation of upset price by Greater Visakhapatnam Municipal Corporation in deviation from the Government order governing the lease of immovable property resulted in loss of revenue of ₹92.67 lakh.

*(Paragraph 2.7)*

#### **1.7.8 Loss of revenue due to non-collection of rents/fees from lessees**

Ananthapuramu Municipal Corporation failed to collect the auction dues of ₹1.57 crore from the lessees due to non-enforcement of the conditions of market auction and the provisions of AP Municipal Corporations Act, 1994.

*(Paragraph 2.8)*

#### **1.7.9 Non-recovery of mobilisation advance**

Greater Visakhapatnam Municipal Corporation (GVMC) failed to recover the outstanding mobilisation advance of ₹9.11 crore from the contractor due to non-renewal of validity of Bank Guarantees. The intended benefit of providing 24x7 metered water supply to the targeted areas of GVMC was also not ensured due to abandonment of water supply works midway.

*(Paragraph 2.9)*

#### **1.7.10 Unfruitful expenditure due to substandard quality pipes**

Ichapuram Municipality executed water supply works with substandard quality pipes supplied by the contractor resulting in unfruitful expenditure of ₹1.18 crore.

*(Paragraph 2.10)*

### **1.7.11 Incomplete transfer of Profession Tax to Greater Visakhapatnam Municipal Corporation**

GVMC could not receive an amount of ₹218.23 crore towards its share in Profession Tax (PT) collections in its jurisdiction as per the devolution provided in the AP Tax on Professions, Trades, Callings and Employments Act, 1987 and subsequent Government orders.

*(Paragraph 2.11)*

### **1.7.12 Non-compliance with rules for accounting of receipts**

Non-compliance with prescribed procedures for accounting of moneys received and absence of related internal controls by a Gram Panchayat of Visakhapatnam District resulted in temporary misappropriation of ₹12.91 lakh.

*(Paragraph 2.12)*

### **1.7.13 Unfruitful expenditure towards construction of summer storage tank**

Summer Storage Tank constructed by Rural Water Supply & Sanitation Division could not be used due to seepage of water from the bed carpet resulting in unfruitful expenditure of ₹82.99 lakh.

*(Paragraph 2.13)*

## **Part 2**

### **1.7.14 Functioning of State Public Sector Undertakings (PSUs)**

As on 31 March 2019, all 93 Public Sector Undertakings in Andhra Pradesh (including 90 Government Companies and three Statutory Corporations) were under the audit jurisdiction of the Comptroller and Auditor General of India (CAG). Of the 93 PSUs, nine PSUs relate to Power Sector and 84 relate to sectors other than Power. Of these, nine in Power Sector and 64 (all three Statutory Corporations and 61 Companies) in Non-Power Sector are working PSUs and 20 were inactive. None of the PSUs was listed on the stock exchange.

As on 30 September 2019, only 11 PSUs submitted their accounts for the year 2018-19 and the financial statements of 62 working PSUs were in arrears with 158 accounts outstanding. 12 PSUs had not submitted even the first accounts since their inception. Of these, three PSUs had submitted their first accounts and 26 working PSUs had submitted their accounts for different years after 30 September 2019. For the purpose of analysis presented in this report, only 50 PSUs whose accounts have arrears of less than three years have been considered. Eight of these PSUs belong to the Power Sector while 42 belong to the Non-Power Sector.

As per their latest finalised accounts, the State PSUs registered an annual turnover of ₹61,107.37 crore, which was equal to 6.55 *per cent* of the Gross State Domestic Product (GSDP) of Andhra Pradesh during 2018-19. As on 31 March 2019, the investment of the Central and State Governments and Others in equity and long-term loans in PSUs was

₹80,013.19 crore. Out of this, the Power Sector received an investment of ₹53,170.99 crore (66.45 per cent).

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### **1.7.15 Functioning of Power Sector PSUs**

As on 31 March 2019, there were nine Power Sector PSUs in Andhra Pradesh. During 2018-19, the aggregate turnover of eight PSUs was ₹42,800.97 crore, which constituted 4.59 per cent of the GSDP of Andhra Pradesh. The total investment in these PSUs on historical cost basis was ₹53,175.60 crore.

The overall loss incurred by the five PSUs was ₹12,841.88 crore during 2018-19. During 2018-19, out of the eight, two PSUs (APTRANSCO and New & Renewable Energy Development Corporation of Andhra Pradesh Limited ) earned a profit of ₹69.68 crore and six PSUs incurred a loss of ₹12,911.56 crore. During the years 2014-19, Rate of Real Return on investment in Power Sector PSUs was negative and ranged between (-)0.08 per cent and (-) 249.98 per cent. Huge losses of the DISCOMs (APSPDCL and APEPDCL) contributed to overall losses of Power Sector PSUs.

As against total Shareholders' funds of ₹9,213.08 crore, the accumulated losses reported by the five PSUs were ₹30,288.40 crore, resulting in negative net worth of ₹21,075.32 crore as on 31 March 2019.

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### **1.7.16 Functioning of Non-Power Sector PSUs**

As on 31 March 2019, 84 PSUs including 20 inactive PSUs in AP pertained to other than Power Sector. The 64 working PSUs included 61 Government Companies and three Statutory Corporations. During 2018-19, the aggregate turnover of working PSUs was ₹17,435.77 crore and total investment was ₹16,135.41 crore.

During 2018-19, 42 working PSUs (excluding 22 out of 64 working PSUs) incurred an aggregate loss of ₹1,001.67 crore. Further, out of these PSUs, 14 PSUs earned profit of ₹138.18 crore and 26 PSUs had incurred loss of ₹1,139.85 crore while remaining two PSUs reported neither profit nor loss. Major profit making PSUs were APSFC (₹89.08 crore) and Andhra Pradesh State Beverages Corporation (₹16.05 crore). These profits were off-set by the loss of ₹961.28 crore reported by APSRTC and ₹70.63 crore reported by AP State Skill Development Corporation.

During the year 2018-19, the Rate of Real Return on investment in the 42 working PSUs was negative. Huge losses of APSRTC and AP State Skill Development Corporation during the period contributed to the overall losses of the State PSUs.

As against total Shareholders' funds of ₹2,396.31 crore, the accumulated losses reported by these PSUs were ₹7,276.58 crore, resulting in a negative net worth of ₹4,880.27 crore as on 31 March 2019. Shareholders' funds had been eroded completely in respect of 12 PSUs, of which, the maximum net worth erosion was in APSRTC (₹6,810.34 crore), APGIC (₹62.51 crore) and APSMFCL (₹21.07 crore).

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## **1.8 Acknowledgement**

The Office of the Principal Accountant General (Audit), Andhra Pradesh wishes to acknowledge the co-operation and assistance rendered by the officials of the State Government, especially the Youth Advancement, Tourism and Culture (Sports) Department and various other Departments during the course of conducting audit.