

## CHAPTER II

### PERFORMANCE AUDIT REVIEWS AND LONG PARAGRAPHS

This chapter contains performance audit on National Employment Guarantee Scheme in Andhra Pradesh (2.1) Financial Management of Vijayawada Municipal Corporation including Information Technology Audit (2.3) and a long para on Functioning of Zilla Praja Parishads (2.2)

#### PANCHAYAT RAJ INSTITUTIONS

##### 2.1 National Rural Employment Guarantee Scheme in Andhra Pradesh

###### Highlights

Government of Andhra Pradesh(GOAP) launched the National Rural Employment Guarantee Scheme in February 2006 in 13 districts of the state, in accordance with the National Rural Employment Guarantee Act, 2005, enacted by the Government of India(GOI). The main objective of the scheme is to provide 100 days of guaranteed wage employment in every financial year to every rural household whose adult members volunteer to do unskilled manual work. A review on the implementation of the scheme in the state revealed the following:-

Employment Guarantee Scheme funds to the extent of Rs 38.08 crore were diverted to other schemes.

(Paragraph 2.1.9.4)

Of the 23.39 lakh rural households, who were provided employment during the period from February 2006 to March 2007, the targeted 100 days of employment in a financial year was achieved only in respect of 79,969 households (3 *per cent*) resulting in non-achievement of the main objective of the scheme.

(Paragraph 2.1.10.4)

Though payments of wages were delayed beyond 15 days to 53 *per cent* of the test checked labourers, no compensation was paid.

(Paragraph 2.1.10.5)

Out of the works shown as completed, it was observed that 45 *per cent* of works were closed after incurring expenditure of less than 50 *per cent* of their estimated cost. Closure of works after partial execution had adverse implications on creation of durable assets, a key objective of the scheme besides rendering the expenditure unfruitful.

(Paragraph 2.1.11.2)

**In the 13 districts (phase I), expenditure of Rs 147.38 crore was incurred on ineligible works during 2006-07.**

**(Paragraph 2.1.11.3)**

**Since statutory records at Mandal/GPs were either not maintained or incompletely maintained, audit could not ensure that the provision of legal guarantee of 100 days employment had been translated into action.**

**(Paragraph 2.1.12)**

**Social audits were not conducted at regular intervals thereby defeating the objective of public vigilance in evaluating the quality of the works.**

**(Paragraphs 2.1.13)**

### **2.1.1 Introduction**

To provide for the enhancement of livelihood security of households in rural areas, the Government of India (GOI) enacted (September 2005) the National Rural Employment Guarantee Act (NREG Act), 2005. For the purpose of giving effect to the provisions of the Act, it was envisaged that every State Government shall formulate a State Rural Employment Guarantee Scheme (REGS), which should conform to the minimum features specified under the Act. Government of Andhra Pradesh (GOAP), in accordance with the Act introduced Andhra Pradesh Rural Employment Guarantee Scheme (APREGS) in February 2006 in 13<sup>1</sup> districts. After the Act comes into force, all the rural households have the right to register themselves with the Gram Panchayats (GP) and seek employment under the Act. Work was to be provided within 15 days of the date of demand, failing which the State Government was to pay unemployment allowance at stipulated rates.

The Centrally Sponsored Scheme is on a cost sharing basis between the Centre and the States in the ratio of 90:10. Under NREG Scheme, GOI was to bear (i) the entire cost of wages to unskilled manual workers (ii) 75 per cent of the cost of material and wages to skilled and semi-skilled workers (iii) administrative expenses (two per cent during 2005-06 and 2006-07 and four per cent from 2007-08) and (iv) administrative expenses of the Central Employment Guarantee Council. The State Government was to bear

---

<sup>1</sup> Adilabad, Ananthapur, Chittoor, Kadapa, Karimnagar, Khammam, Mahaboobnagar, Medak, Nalgonda, Nizamabad, Ranga Reddy, Vizianagaram and Warangal  
Six more districts were covered under the scheme w.e.f. April 2007 and extended to the entire State w.e.f. April 2008

(i) 25 per cent of the cost of material and wages for skilled and semi-skilled workers (ii) expenses on unemployment allowance and (iii) administrative expenses of the State Employment Guarantee Council. Detailed Operational Guidelines have been issued by the Ministry of Rural Development, GOI and Department of Rural Development, GOAP under the provisions of the Act.

## **2.1.2 Objectives of the Programme**

### **2.1.2.1 Primary objectives**

The primary objectives of APREGS are to:

- provide legal guarantee for 100 days employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work; and
- create durable assets for Gram Panchayats.

### **2.1.2.2 Secondary objectives**

The secondary objectives of the programme are to:

- protect environment
- empower rural women; and
- reduce rural-urban migration and fostering social equity.

## **2.1.3 Organisational Structure**

The State Government formulated Rural Employment Guarantee Scheme in consonance with NREGA. It has set up State Employment Guarantee Council (SEGC) at State level (May 2006) and designated the Commissioner, Rural Development as State Employment Guarantee Commissioner (Commissioner) assisted by the Director, Employment Guarantee Scheme for ensuring all the activities required to fulfill the objectives of the Act, are carried out and to give administrative, financial and technical support to the District Programme Coordinators, Programme Officers(POs), Panchayat Raj Institutions (PRIs) and all other agencies involved in implementation. He is assisted by the Director, Strategy and Performance Innovation Unit (SPIU) in conduct of social audits.

The State Government designated the District Collector as the District Programme Coordinator (DPC) for the overall co-ordination and implementation of the scheme in the District. The programmes are implemented by District Water Management Agencies (DWMA) at the District level.

A full time officer was appointed as the Programme Officer at Mandal level. Programme Officer/Mandal Parishad Development Officer (MPDO) is primarily responsible for implementation of the scheme in the Mandal. They are also responsible for matching the works with labour demand, scrutinise GP plans, maintenance of

shelf of works and create awareness among wage seekers about their rights and entitlements under the Act.

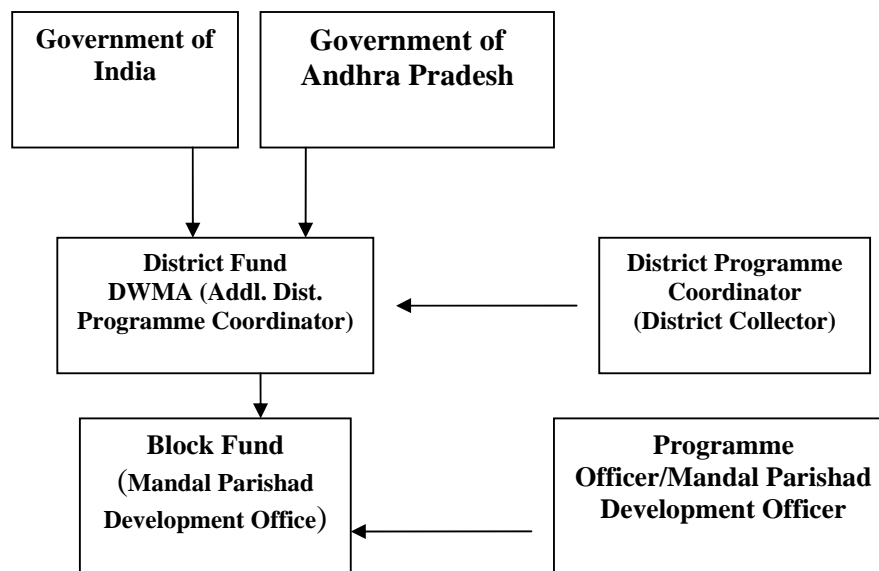
The GP has a pivotal role in the implementation of REGS. It is responsible for planning of works, registering households, issuing job cards, allocating employment, executing 50 *per cent* of the works and monitoring the implementation of the Scheme at the village level.

### **Funding Pattern**

- The DWMA receives GOI's share and State's share of funds through DRDAs<sup>2</sup>. The Project Directors, DWMA's release the funds to the MPDOs for implementation of the scheme at Mandal and GP level. The funds are kept in separate bank accounts opened for operating the scheme.

### **FUND FLOW CHART**

#### **Monitoring authorities**



#### **2.1.4 Audit Objectives**

Performance review of the Rural Employment Guarantee Scheme was conducted to examine whether:

- there exists proper planning for implementation of the scheme.
- funds were released to the implementing agencies and expenditure incurred there from as per guidelines.
- the scheme was implemented in true spirit and achieved its objectives.

---

<sup>2</sup> District Rural Development Agency

- there was effective and adequate mechanism at different levels for monitoring and evaluation of implementation of the scheme.

### 2.1.5 Audit criteria

The following criteria were adopted:

- NREG Act and notifications issued thereunder, operational guidelines issued by the GOI, Operational Manual 2006 issued by the State Government; and
- Circulars and instructions issued at State level.

### 2.1.6 Audit scope and sampling

Of the 13 districts implementing the scheme in the State, five<sup>3</sup> districts were selected using simple random sampling without replacement (SRSWOR) method, 17<sup>4</sup> rural Mandals in the five sample districts (using SRSWOR method) and four Gram Panchayats in each selected Mandal (using probability proportionate to size (PPS) method) were selected for detailed study. Audit test checked (May-August 2007 and March 2008) the records relating to the implementation of the scheme in the offices of Director, EGS; Project Directors, DWMA's at District level; MPDOs at Mandal level; and Gram Panchayats at GP Level during the period February 2006-March 2007. An entry conference was held in May 2007 with the Principal Secretary, Rural Development; Commissioner, Rural Development and Director, EGS wherein the methodology of Performance Audit was explained. An exit conference was held in September 2008 with the above officers. The replies furnished by the Government have been taken into account while formulating audit observations.

### 2.1.7 Audit findings

The audit findings are discussed in the succeeding paragraphs

#### 2.1.7.1 Preparatory Steps

#### **Rural Employment Guarantee Scheme and State Employment Guarantee Councils.**

As per Section 32 of the Act, the State Government is required to frame necessary rules in line with the provisions of the Act. It was noticed in audit that although the scheme was introduced in the State from February 2006, the State Government did not frame rules for

**State Government did not frame any rules during 2006-07**

<sup>3</sup> Kadapa, Karimnagar, Medak, Nizamabad and Warangal.

<sup>4</sup> Kadapa district – Ramapuram, Chinnamandem, Chitvel, Pengaluru, Nandalur Mandals.  
Karimnagar district – Bejjanki, Chigurumamidi, Koheda, Mutharam manthani, Ellanthakunta, Pegadapalle Mandals.  
Medak district – Kohir and Patancheru Mandals.  
Nizamabad district – Dichpalle and Dharpalle Mandals.  
Warangal District – Raghunathpalle and Sangam Mandals.

implementation of the scheme even after two years from the promulgation of the Act. Thus, the scheme was being implemented in the State without any legal framework. During the exit conference (September 2008), the State Government while accepting the non formulation of rules informed that employment guarantee fund rules and social audit rules have since been formulated.

For the purpose of regular monitoring and reviewing the implementation, the NREG Act stipulated that each State Government should constitute a State Employment Guarantee Council (SEGC). Though the State Government constituted the SEGC in May 2006, the Council is yet to identify the preferred works to be taken up under NREGA. The council has met only thrice instead of the mandatory six meetings in a year during 2006-07. In accordance with the Act, the SEGC prepared the annual reports for the years 2005-06 and 2006-07 which were presented to the State Legislature in November 2007. In the SEGC meetings<sup>5</sup> it had recommended (i) for submitting proposals to GOI for allowing the work of construction of basement for the housing programme as permissible works under NREGA (ii) for making wages fortnightly without any deviations (iii) for conduct of social audit in all EGS districts at Mandal level by NGOs instead of by the Gram sabhas as provided in the Act, as it was time taking process for Gram sabhas to acquire audit skills and (iv) for maintenance of Assets Register at GP level as many schemes are implemented a GP level.

### **2.1.8 Planning**

Planning is important for successful implementation of a scheme. A key indicator of success is the timely and adequate generation of employment while ensuring that the design and selection of works are such that good quality assets are created. The basic aim of the planning process is to ensure that each District is geared up in advance to offer productive employment on demand.

#### **2.1.8.1 District Perspective Plan (DPP)**

The District Perspective Plan (DPP) was to be prepared having a developmental perspective for the districts and linkages between the types of REGS works and long term employment generation and sustained development. Further, demand for employment in each district was to be drawn up based on decisions taken in the Grama Sabha meetings. It was, however, noticed that the DPPs were not prepared by any of the five test checked districts in the State for the year 2006-07. The Principal Secretary, PR & RD while accepting (September 2008) the audit observation on non preparation of DPPs stated that the list of works prepared in the Mandal Computer Centre (MCC) served the purpose till the DPPs were prepared. The fact remains that in the absence of DPPs, the long term perspective is missing.

---

<sup>5</sup> 14 August 2006 and 28 October 2006

### 2.1.8.2 Annual Plans

The Annual Plan is a working plan that identifies the activities to be taken up on priority in a year. This Annual Plan will indicate for each project (a) time frame (b) person days to be generated (c) full-cost (d) assets to be created etc. It was observed in audit that the Annual Plans in 5 test checked districts in the State did not indicate the timeframe for each project or the specification of physical assets and enduring outcomes. The State Government did not prescribe the time frame for each level i.e. GP, Mandal and District for proposing, scrutinising and approving REGS works. In the absence of specification of physical assets and enduring outcomes in the Annual Plans, no meaningful comparison of actual achievements *vis-à-vis* plans was possible. It was observed that 42,325 works were shown as completed (March 2007) though the expenditure incurred was less than 50 *per cent* of their estimated values. This indicated that either the works were abandoned midway resulting in non creation of durable assets or the works were completed but the initial planning was exaggerated with faulty estimates of quantities required for completion.

The State Government while admitting (October 2008) that the initial estimates were faulty, attributed the abandonment of works to reluctance of farmers to come forward for execution of work on their lands.

### 2.1.9 Fund Management

The total financial assistance provided by the GOI and GOAP up to 31 March 2007 was Rs 1083.93 crore. Of this, the State Government utilized Rs 640.88 crore (59 *per cent*), as detailed below:-

(Rupees in crore)	
<b>Opening balance</b>	Nil
Funds released by GOI for 2005-07	1028.12
Funds released by GOAP for 2005-07	55.81
Total funds available	1083.93#
Expenditure incurred (up to March 2007)	640.88
<b>Closing balance as on 31 March 2007</b>	<b>443.05*</b>

# for receipts, the inter district transfers and funds released under National Food For Work Programme (NFFWP) were not taken into account

\*Excludes balances available with Mandals

The expenditure under the scheme worked out to 59 *per cent* of the funds available during 2005-07. Scheme funds of Rs 443.05 crore remained unutilised (in bank accounts) as of March 2007 with the Additional District Programme Coordinators (PDs, DWMAAs).

The details of funds received from GOI and the State Government and expenditure incurred under the scheme as certified by the Chartered Accountants in the test checked districts during 2005-07 are given below:

(Rupees in crore)

	Kadapa	Karimnagar	Medak	Nizamabad	Warangal	Total
<b>Opening balance</b>	Nil	Nil	Nil	Nil	Nil	Nil
Funds received from GOI	111.42	119.31	31.17	115.18	17.78	394.86
Funds received from the State Government	12.35	0.98	1.20	0.73	1.95	17.21
Total funds available #	123.77	120.29	32.37	115.91	19.73	412.07
Expenditure up to March 2007	64.28	36.30	32.28	35.68	35.62	204.16
<b>Closing balance as of 31 March</b>	<b>59.49</b>	<b>83.99</b>	<b>0.09</b>	<b>80.23</b>	<b>(-) 15.89*</b>	<b>207.91</b>

# for receipts, the funds transferred from other districts and releases under NFFWP were not taken into account

\* excess expenditure was met out of NFFWP funds

It would be seen from above that the test checked districts could utilise only 50 *per cent* of the available funds during 2005-07. This was mainly due to non-completion of works and non provision of 100 days employment to all the registered house holds provided with employment as discussed in para 2.1.10.4.

### 2.1.9.1 State Employment Guarantee Fund

State  
Employment  
Guarantee  
Fund not  
established

NREGA stipulated establishment of “State Employment Guarantee Fund (SEGF)” by the State Government for the purpose of implementation of the scheme. State funds should be released within 15 days of the release of the central funds. It was noticed that the SEGF was not established so far. Even after a lapse of two years, the Central and State share of funds were released directly to the implementing agencies, i.e. Project Directors, DWMA through DRDAs. It was further observed that during 2006-07, there were delays ranging from 12 to 220 days in release of State share. Government attributed (October 2008) the delay to ‘exhaustion of State Budget’ in 2006-07.

### 2.1.9.2 Non release of matching share by State Government

Matching  
share not  
released by  
the State  
Government.

GOI released (December 2005) Rs 28.75 crore towards an advance grant for making preparatory arrangements and for smooth launching of NREGA during 2005-06 in 13 EGS districts (phase I, at Rs 25 lakh each for non recurring expenses, Rs 10 lakh for preparation of perspective plan and Rs 5 crore for starting of employment works in five<sup>6</sup> non NFFWP districts) with a stipulation for the State to contribute its share for works as applicable under NREGA guidelines. However, the State Government had not released its matching share of Rs 2.78 crore against the amount of Rs 25 crore released by GOI to the five non-NFFWP districts during

<sup>6</sup> Chittoor; Karimnagar; Medak; Nizamabad and Vizianagaram districts



2005-06. The Government while admitting the lapse stated (October 2008) that as the amount was released towards preparative arrangements, State's matching share was not provided. The reply is not tenable as the audit observation pertains to that part of funds provided by GOI for execution of works and not for the amount provided for preparation of District Perspective Plans.

### 2.1.9.3 Excess administrative expenditure

Rs 35.69 crore  
was incurred on  
administrative  
expenses in  
excess of  
permissible limit

The NREGA stipulates that the administrative cost of the scheme should not exceed 2 per cent of the total budget (inclusive of State share) spent on NREGA. During 2006-07, an amount of Rs 45.20 crore was expended towards administrative expenses in 12 out of 13 EGS (phase I) districts against the permissible limit of Rs 9.51 crore. This has resulted in excess administrative expenditure of Rs 35.69 crore as detailed in *Appendix-2*. The Government while accepting the audit observation stated (October 2008) that the high administrative expenditure was due to certain initiatives taken by the Government viz., establishment of Mandal Computer Centre, conducting of social audit, awareness and training programmes, etc. The reply is not tenable as the administrative cost over and above the prescribed limit should have been borne by the State Government.

### 2.1.9.4 Diversion of scheme funds:

Rs 38.08 crore  
was diverted to  
other schemes

Against Rs 263.79 crore released (GOI and GOAP) to three<sup>7</sup> EGS districts (up to March 2007) test checked, an amount of Rs 38.08 crore (14.44 per cent) was diverted to other schemes. Of this, an amount of Rs 19.31 crore was recouped in 2006-07 leaving Rs 18.77 crore unadjusted till the end of March 2007. The Government stated (October 2008) that the balance amount was also recouped in subsequent years. Audit observed that the recoupment was made with delays ranging from 8 to 20 months with corresponding adverse impact in generation of employment during the period (*Appendix-3*).

### 2.1.9.5 Advances pending adjustment

As of March 2007, Rs 29.94 crore advanced by DWMA's remained unadjusted with the executing agencies/individuals. Of this, an amount of Rs 13.08 crore<sup>8</sup> was adjusted with delays ranging from six to twenty four months leaving Rs 16.86 crore<sup>9</sup> unadjusted as of October 2008.

Similarly, as of March 2007, Rs 12.74 crore advanced by the Mandal authorities remained unadjusted with the executing agencies/individuals. In the test checked Mandals, against advances

<sup>7</sup> Kadapa, Karimnagar and Warangal

<sup>8</sup> Adjustment particulars in respect of Adilabad, Khammam, Rangareddy and Vizianagaram districts were not furnished

<sup>9</sup> It includes advances of Rs 6.76 crore released to post offices for one time deposit and Opening of SB accounts to wage seekers

of Rs 19.50 lakh pending adjustment as of March 2007, Rs 10.11 lakh was adjusted with delays ranging from 10 to 20 months, leaving Rs 9.39 lakh unadjusted as of October 2008.

## 2.1.10 Implementation of the scheme

### 2.1.10.1 Registration and Issue of Job Cards

The scheme is open to all rural households willing to undertake unskilled manual work. The entitlement of 100 days of guaranteed employment in a year is in terms of household which can be shared within the household. Those who register and apply for work are entitled to be provided with employment. The details of households registered under the scheme and provided employment as of March 2007 were as given below:-

District	No of rural households	No of households (in lakh)				Provided with job for 100 days	Maximum person days entitled	Person days provided	Expenditure (Rupees in lakh)
		Registered	Issued job cards	Demanded job	Provided with job				
Adilabad	3.90	3.02	3.02	1.44	1.44	6453	302	48.62	4319.43
Anantapur	5.89	5.43	5.43	2.41	2.41	15528	543	97.61	9299.42
Chittoor	6.70	5.13	5.13	2.37	2.37	17908	513	100.84	8297.30
Kadapa	4.63	3.81	3.81	1.97	1.97	9383	381	80.01	6428.21
Karimnagar	6.68	3.18	3.18	1.64	1.64	2899	318	41.88	3629.88
Khammam	4.87	4.49	4.49	1.80	1.80	2799	449	46.03	4290.28
Mahabubnagar	6.21	5.39	5.39	2.40	2.40	5841	539	63.09	5178.76
Medak	4.44	2.48	2.48	1.20	1.20	3272	248	36.24	3227.97
Nalgonda	6.32	5.45	5.45	2.59	2.59	4023	545	63.33	5673.73
Nizamabad	4.05	2.33	2.33	1.22	1.22	4613	233	39.37	3568.35
Rangareddy	3.26	1.71	1.71	0.72	0.72	2286	171	25.72	2756.47
Vizianagaram	4.23	3.65	3.65	1.58	1.58	2655	365	42.92	3856.42
Warangal	5.97	4.61	4.61	2.05	2.05	2309	461	46.74	3562.36
<b>Total</b>	<b>67.15</b>	<b>50.68</b>	<b>50.68</b>	<b>23.39</b>	<b>23.39</b>	<b>79969</b>	<b>5068</b>	<b>732.40</b>	<b>64088.58</b>

Source: Data collected from web reports

**Only 3 per cent of the households provided with 100 days of employment**

It would be seen from above that although 50.68 lakh rural households had registered under the scheme, only 23.39 lakh households had demanded and were provided with employment under the scheme. Out of the households provided with employment, only 0.80 lakh (3 per cent) were provided with job for 100 days. However, in the absence of maintenance of critical documents viz. Job Card Register, Employment Register, etc., the claim of the State Government to have provided employment to all those who applied for work could not be vouchsafed in audit. As the statutory registers were not/incompletely maintained, the issue of job cards within 15 days from the date of registration and provision of employment within 15 days could also not be assessed.

### 2.1.10.2 Door to door survey not conducted

Door to door survey was required to be conducted to enumerate all the families and their adult members who are eligible to register.

This enumeration was to help in prevention of registration of fictitious/ineligible names.

The Government stated (October 2008) that door to door campaign was conducted informing the people about the legal entitlements guaranteed under the Act. The massive enrolment during January-March 2006 was a result of such campaign. The reply is not acceptable as the purpose of door to door survey was not just to create awareness but to enumerate the willing and eligible households.

### 2.1.10.3 Photographs not affixed

**Only 59 per cent of job cards were affixed with photographs**

NREGA stipulates that photographs of adult member applicants have to be attached to the job cards. This was important not only for the identification of wage seekers but also to arrest the natural tendency of bogus job cards getting circulated. During the scrutiny of the job cards in the test checked districts, most of the job cards were not affixed with photographs of the adult members of each registered household. In a sample of 40 job cards in the test checked GPs during 2006-07, the photographs were affixed only in 5 to 10 job cards. The Government issued orders for affixation of photographs on job cards belatedly in April 2007 i.e. after a lapse of over a year of implementation of the scheme and instructed for utilisation of photographs from ration card data base for their affixation on job cards instead of taking fresh photographs to minimise chances of ghost job cards. As against 62,26,179 job cards issued (September 2007) in the 13 districts under Phase-I, the photographs were affixed<sup>10</sup> on only 36,67,168 job cards (59 per cent). In the test checked districts the affixation of photographs on job cards ranged from 46 per cent (Medak) to 63 per cent (Kadapa). PDs, DWMAAs attributed non-affixation of photographs on the remaining job cards to non-receipt of photographs from Civil Supplies Department and non-availability of the job cardholders in the village. Non affixation of photographs is a serious flaw in the implementation of the scheme with potential ramifications for fraudulent payments.

The Government stated (October 2008) that, as a measure of economy and efficiency, photographs already collected by the State Government as a part of issue of ration cards are utilised for affixation on job cards. The reply overlooks the fact that non affixation of photographs does not result in any economy as the expenditure on bogus cards would be much more than the savings so effected.

### 2.1.10.4 Provision of employment

The NREGA provides that every adult member of registered household whose name appears in the job card shall be entitled to apply for unskilled manual work under the scheme. All the persons belonging to a household shall be entitled to employment in

<sup>10</sup> Photo affixation was taken up in May 2007 and September 2007

accordance with the provision of this act, for as many days as each applicant may request, subject to a maximum of one hundred days per household in a given financial year. The applicant has to be provided employment within 15 days of receipt of application or from the date, he/she seeks work in case of advance application which ever is later, else the applicant is entitled for daily unemployment allowance as fixed by the State Government.

Audit observed that none of the test checked GPs had either obtained applications from the households demanding wage employment or maintained any record for registering the demand for wage employment and the employment provided. In the absence of such records there is no assurance that all persons demanding employment were provided employment for 100 days as stipulated in the Act. The Government stated (October 2008) that record maintenance in all GPs was being checked regularly to ensure that they are maintained up to date and further stated that it is not correct to presume that non maintenance of records at GP will lead to lack of information on how many households demanded employment and how many of them are provided employment and for how many days.

The reply is not tenable as during the period from February 2006 to March 2007, as against 67.15 lakh rural households in 13 EGS phase I districts, job cards were issued to 50.68 lakh rural households to provide 50.68 crore mandays in a financial year @ 100 mandays to each registered house hold. Audit observed that 23.39 lakh (46 *per cent* of registered households) rural households were only provided employment to the extent of 7.32 crore mandays (14 *per cent* of projected mandays). The targeted 100 days of employment to each rural household was stated to have been achieved only in respect of 79,969 rural house holds (3 *per cent* of total registered house holds). Incidentally, it was also noticed that no unemployment allowance was paid in the State during 2006-07.

Agricultural activity needs labour only for part of the year. It is, therefore, inconceivable that a person who has a job card would have sought employment less than 100 days. The more possible cause is that despite demand for employment, faulty planning led to lack of identification of suitable works to engage the job card holders for the full hundred days. On the other hand, since idle wages have to be borne by the State Government there has apparently been not much enthusiasm for maintaining a record of those applied.

### 2.1.10.5 Delay in payment of wages

No compensation was paid for the delayed payment of wages

NREGA stipulates that wages should be paid on time. In case of delay beyond 15 days, workers are entitled to compensation as per the provisions of the Payment of Wages Act, 1936. It was noticed that as against the test checked 95.34 lakh labourers for whom pay orders were generated to the end of March 2007, 50.46 lakh<sup>11</sup> labourers (53 *per cent*) were paid wages beyond the stipulated period of 15 days. However, no compensation was paid towards delay in payment of wages. Delayed payment of wages is not only against the provisions of the Act, but also defeats the objective of NREGA of providing livelihood security. The Commissioner, while accepting the audit observations assured (January 2008) to take steps to reduce the delays to minimum. The State Government replied (October 2008) that modalities for payment of compensation were under examination.

### 2.1.10.6 Wages paid below minimum rate

Payments made were less than minimum wage rate

According to the provisions of NREGA, every person working under the Scheme is entitled to wages at the minimum wage rate fixed by the State Government for agricultural labourers. Wages may be paid either at a time rate or piece rate basis. The NREGA Operational Guidelines further stipulate that the States should prepare exhaustive and detailed list of tasks required for undertaking works under REGS in different geo-morphological conditions. The productivity norms for the District Schedule of Rates (DSRs) should be worked for each locale in such a way that seven hours of normal work earns minimum wages on a piece rate basis. It was noticed that out of test checked 34.35 lakh labourers who were provided employment during the period from February 2006 to March 2007, 12.60 lakh<sup>12</sup> labourers (37 *per cent*) were paid wages less than the minimum wage rate of Rs 80 per day. The Commissioner stated (January 2008) that the payment of wages were linked to out-turn of work and hence there may be instances of low wages. The reply is not tenable as the State Government should have fixed the productivity norms in such a way that a person working for seven hours should earn the minimum wages.

## 2.1.11 Works Management

### 2.1.11.1 Worksite facilities

The NREGA Operational Guidelines stipulate that worksite facilities are to be ensured by the implementing agency. It was, however, observed that worksite facilities viz. shade and crèche were not provided in any of the test checked GPs in the selected districts. The Government accepted (October 2008) the fact of non-provision

<sup>11</sup> 26.57 lakh labourers were paid wages with delays between 16 to 30 days

23.89 lakh labourers were paid wages with delays beyond 30 days

<sup>12</sup> Less than Rs 25- 28927; Rs 25 to Rs 50 – 287896; Rs 50 to Rs 75 - 943199

of these worksite facilities and stated that this aspect would be monitored regularly.

**Expenditure on completed works without creation of durable assets**

### 2.1.11.2 Unfruitful expenditure on ‘completed’ works

The objective of the scheme was to strengthen the livelihood resource base of the rural poor besides creation of durable assets. The details of the completed works (up to March 2007) with their estimated values and the actual expenditure incurred there on are as follows:-

(Rupees in crore)

Percentage of utilisation w.r.t. estimated values	No. of works shown as completed (percentage)	Total estimated value	Total actual expenditure incurred
Less than 25 per cent	21,796(23)	218.03	23.24
25 to 50 per cent	20,529(22)	125.05	42.38
50 to 75 per cent	16,401(18)	70.96	40.85
75 to 100 per cent	34,345(37)	127.74	118.20
<b>Total</b>	<b>93,071</b>	<b>541.78</b>	<b>224.67</b>

Out of those shown as completed, it was observed that 45 per cent of works were closed even without incurring expenditure of 50 per cent of their estimated values as already discussed in paragraph 2.1.8.2.

### 2.1.11.3 Execution of inadmissible works

**Irregular expenditure of Rs 147.38 crore on ineligible works**

In the 13 districts (phase I) in the State, an amount of Rs 147.38 crore was incurred during 2006-07 for construction of houses (basement level) for 4,60,558 beneficiaries under a housing programme. The district wise details are given in *Appendix-4*. These works are not included in the list of works stipulated in the Act.

The Government in its reply (October 2008) stated that it had issued orders rescinding earlier Government Orders which permitted the housing payments. As regards to expenditure already incurred on housing, the Government contended that they are not ineligible works as the State Government has incurred expenditure by releasing State share. The reply overlooks the fact that NREGS is to be funded both by GOI and the State Government and hence it had no right to divert the funds for works not contemplated in the guidelines prescribed by GOI.

### 2.1.12 Maintenance of records

**Deficiencies in maintenance of records**

Maintenance of records under NREGA is critical to ensure verifiable compliance with the legal guarantee of 100 days of employment on demand and payment of unemployment allowance. Operational Guidelines of NREGA and APREGS have specified details of records and registers to be maintained at different levels. In particular, the most important records are the Application Registration Register, Job Card Register, Employment Register, Asset Register, Muster Rolls, MR Issue/ Receipt Registers and Complaint Register. Audit scrutiny revealed that the statutory

records at Mandal /GPs were either not maintained or incompletely maintained. In the absence of maintenance of critical registers, especially at the GP level, information on demand and provision of employment could not be ascertained as already pointed out in the previous paragraphs.

The Government replied (October 2008) that non maintenance of records will not lead to lack of information relating to employment demanded and employment provided. The reply is not tenable as, in the absence of the records relating to provision of employment, there is no assurance that the objective of providing legal guarantee of 100 days of employment has been effectively translated into executive action.

### **2.1.13 Social Audit**

NREGA gives a central role to “social audits” as a means of continuous public vigilance. The process of social audit should include public vigilance and verification of 11 stages right from registration of families to evaluation and mandatory social audit in the Gram Sabha.

Audit scrutiny revealed that as against 13,232 Gram Panchayats in 656 Mandals in the 13 EGS districts (phase I), social audits were conducted only in respect of 2564 GPs (19 *per cent*) in 155 Mandals during 2006-07. The deficiencies noticed in social audits related to inclusion of names of ghost wage seekers in the muster rolls, the malpractices committed by the Field Assistant/Branch Post Master in payment of wages to the wage seekers and in opening of savings bank accounts in post offices. Besides these financial irregularities, the social audits also pointed out other irregularities in registration, issue of job cards, demand for employment, non/delay in payment of wages, non provision of worksite facilities, non creation of awareness among wage seekers about the scheme and utilisation of machinery, etc.

The shortfall in conduct of social audits not only deprived the public in evaluating the quality of the works as well as the services rendered by the programme staff in time but also in taking remedial measures thereon.

The Government while accepting that there was shortfall in conduct of social audits stated (October 2008) that the concept of social audit was itself new in the country and pioneering efforts were taken up in the State and also stated it took more than one year of sustained effort and experimenting to institutionalise the process of social audit and assured compliance hence forth.

### **2.1.14 Monitoring**

The scheme guidelines envisaged verification and quality audit by external monitors at both State and District level. The State Government was to designate State Quality Monitors (SQMs) with

**Only 19 per cent  
of the GPs were  
covered by social  
audits**

the approval of SEGC. Similarly, the ZPPs were to identify District Quality Monitors (DQMs) with the approval of State Government. It was observed that SQMs and DQMs were not designated/identified at the State and District level. The Commissioner stated (September 2008) that the monitoring committees would be constituted.

The GOAP had issued instructions from time to time for inspection of works at 2 *per cent* by State level officers, 5 *per cent* by District level officers and 10 *per cent* by Mandal level officers. In the absence of documentary evidence on records, conduct of regular inspections could not be ascertained in audit.

The SEGC was to ensure that all the activities required to fulfill the objectives of the scheme were carried out. The Council was also responsible for overall supervision and monitoring the implementation of the scheme and identifying the preferred works to be taken up under NREGA. However, it was noticed in audit, that the SEGC had not identified the preferred works and it also failed to convene SEGC meeting regularly and provide inputs for proper implementation of the scheme. This rendered the monitoring mechanism ineffective.

#### **2.1.15 Conclusions**

Review on implementation of REGS conducted in five districts revealed that 16.41 lakh job cards were issued in these districts and as against Rs 412.07 crore released for the implementation of the scheme, the districts incurred a total expenditure of Rs 204.16 crore (50 *per cent*).

While the State Government/districts had reported that 732.40 lakh mandays of employment was generated in the State *vis-à-vis* the demand, the claim of the State Government could not be verified in Audit in the absence of maintenance of documents containing details of employment demanded, provided etc. In the absence of these critical documents, the quantum of funds required for payment of unemployment allowance also remained unascertained. Instances of delay in payment of wages, lacunae in preparation of job cards, excess administrative expenditure, diversion of funds and execution of non-permissible works were also noticed in audit.

An innovative feature of the scheme was to ensure its transparency through regular meetings of the Grama Sabha and conduct of Social Audits. However, it was noticed that social audits were not conducted at regular intervals thereby defeating one of the objectives of the scheme. Impact assessments were not conducted and the monitoring mechanism was also not in place.



### **2.1.16 Recommendations**

- There is a compelling need to ensure that house hold survey is conducted for enumerating all eligible adults in each house hold. This is to be further strengthened by issue of photo identity cards as a safeguard against ghost job cards. These two recommendations are important in the light of vulnerability considerations.
- Government should frame Rules for implementation of NREGA.
- The Process of planning should be strengthened so as to enable the PRIs to provide employment for 100 days to all registered households.
- Delay in payment of wages should be avoided.
- All activities starting from planning to payment of wages should be monitored properly and the scheme should be implemented in the State as envisaged in the Act.
- Social audits should be conducted regularly to enable the beneficiaries to evaluate the impact of the scheme.

## **.2 Functioning of two Zilla Praja Parishads**

### **2.2.1 Introduction**

The Zilla Praja Parishad (ZPP) is the apex body of PRIs and was constituted under Section 177 of Andhra Pradesh Panchayat Raj Act, 1994. The ZPP at the district level coordinates functions of Mandal Praja Parishads (MPPs) and Gram Panchayats (GPs).

The powers and functions of ZPPs *inter alia* were to:

- Examine and approve the budgets of MPPs.
- Distribute the funds allotted to the district by the Central or State Government to the MPPs and GPs in the district.
- Prepare District plan for the entire district in coordination with the MPPs.
- Generally supervise the activities of the MPPs.
- Perform such of the powers and functions delegated by the Government.
- Publish statistical information on the activities of the local self Government.

### **2.2.2 Scope and methodology of audit**

The performance of the two<sup>13</sup> ZPPs out of 22 was reviewed during the months of April-June 2008 for the five year period from 2002-03 to 2006-07, besides the records of five<sup>14</sup> PR divisions, four<sup>15</sup> RWS divisions and eleven<sup>16</sup> out of 108 MPPs in two districts were test checked.

Important points noticed during the course of review are summarised in the succeeding paragraphs.

### **2.2.3 Planning process**

In terms of Article 243-ZD of the Constitution, District Planning Committees (DPCs) are to be constituted by the State Government so as to consolidate the development plans formulated by the local bodies based on planning at the grass root level. However, in respect of test checked districts, DPCs were not constituted during 2002-07. In respect of ZPP General

---

<sup>13</sup> East Godavari and Warangal districts

<sup>14</sup> East Godavari district- (i) Kakinada, (ii) Rajahmundry, (iii) Amalapuram; and Warangal district- (iv) Warangal and (v) Mahabubabad

<sup>15</sup> East Godavari District - (i) Kakinada (ii) Rajahmundry and Warangal District -(iii) Warangal (iv) Mahabubabad

<sup>16</sup> East Godavari district - (i) Kakinada (Rural), (ii) Rajahmundry (Rural), (iii) Amalapuram (Rural), (iv) Karapa, (v) Tallarevu, (vi) Samalkot and Warangal district-(vii) Mahabubabad, (viii) Jangaon, (ix) Parkal, (x) Narasampet and (xi) Hanmakonda

Fund works, plans involving individual beneficiaries are not being prepared and works are being sanctioned based on the proposals put forth by the elected representatives. Thus, the objective of preparing consolidated development plan for the district as a whole was not achieved. In the absence of a DPC, there was no formal mechanism to make recommendations to the Government for the integrated development of the district.

#### **2.2.4 Execution of works**

Works sanctioned out of ZPP General Fund and executed by the PREDs during the period covered by audit i.e., during 2002-03 to 2006-07 were laying of roads, repairs to roads, construction of community halls in SC and ST localities, construction of Anganwadi buildings, construction of Mahila Mandal buildings, laying of pipelines for supply of drinking water, construction of class rooms, etc.

##### **2.2.4.1 Incomplete works despite availability of funds**

**Works were not completed despite availability of sufficient funds**

An amount of Rs 33.22 lakh representing unspent balance out of the Operation Black Board (OBB) and OBB (FFW) grant of Rs 69.83 lakh (including interest and unclaimed deposits) released by the CEO, ZPP, Warangal district was lying in two saving bank (SB) accounts operated by the EE, PR Division, Mahabubabad at the end of March 2007. Despite availability of funds, 54 works (class rooms and compound walls) remained incomplete as of May 2008. Of the said incomplete works, 27 works were not started and 27 works remained incomplete at various stages after incurring expenditure of Rs 11.15 lakh. It was also observed that proposal for additional fund of Rs 17.60 lakh for completing the incomplete works was placed (July 2004) with the CEO, ZPP, Warangal even though unspent balance of Rs 33.22 lakh was available with the division.

##### **2.2.4.2 Non-adjustment of works advance**

**Works advances amounting to Rs 45.34 lakh remained unadjusted**

Out of Rs 1.78 crore advanced to Assistant Engineers (AEs)/Assistant Executive Engineers (AEEs)/Mandal Engineering Officers (MEOs) as detailed in *Appendix-5* during years from 2002-03 to 2006-07 for execution of works in East Godavari district, a sum of Rs 45.34<sup>17</sup> lakh remained unadjusted in respect of 109 incomplete works as on date (June 2008).

MPDOs of test checked MPPs and Executive Engineers of test checked PREDs stated (May/June 2008) that action will be taken to adjust the advances after verifying the records.

<sup>17</sup> 2002-03 - Rs one lakh; 2003-04 - Rs 14.90 lakh; 2004-05 - Rs 4.36 lakh; 2005-06 - Rs 14.58 lakh and 2006-07 - Rs 10.50 lakh.

#### **2.2.4.3 Unfruitful expenditure on abandoned ZPP staff quarters**

**Abandonment of construction of ZPP staff quarters has resulted in unfruitful expenditure of Rs 36.78 lakh in addition to forgoing anticipated**

Chief Executive Officer and Chairperson ZPP, Warangal approved (November 2003) construction of CEO quarter, staff quarters, etc., (A type, C type and C type II block) at Hanmakonda of Warangal district, the execution of which commenced during November 2003 and February 2004. The work was abandoned after incurring an expenditure of Rs 36.78 lakh due to non-availability of funds. These works were to be completed by November 2004. Executive Engineer, PR division, Warangal stated (May 2008) that proposal for additional requirement of Rs 70.00 lakh was being prepared to complete the work. Abandonment of works for more than three years rendered the expenditure incurred so far unfruitful in addition loss of HRA paid amounting to Rs 27.48 lakh and non-achievement of intended benefit to the staff.

#### **2.2.4.4 Diversion of SGRY scheme funds**

**SGRY Scheme funds amounting to Rs 63.52 lakh were diverted for inadmissible purposes**

SGRY funds amounting to Rs 35.79 lakh<sup>18</sup> released to East Godavari district were utilised for inadmissible items like purchase of cell phones, bicycles, construction of office buildings, repairs/improvements to office buildings, guest houses, school buildings, kalyana mandapams, meeting halls etc., in contravention of scheme guidelines.

ZPP, Warangal district diverted an amount of Rs 13.40 lakh from SGRY funds during the period 2002-03 to 2007-08 towards purchase of new vehicle, renovation of R&B guesthouse and construction of GP office building. Similar diversion of SGRY funds amounting to Rs 14.33 lakh was observed in three<sup>19</sup> out of five test checked MPPs.

MPDOs of test checked MPPs stated (May 2008) that amounts would be recouped to the SGRY fund.

#### **2.2.4.5 Unfruitful expenditure on idle PR wireless grid**

**Expenditure of Rs 52.32 lakh remained unfruitful due to non-functioning of PR wireless grid**

With a view to make decentralised system of Administration more effective and also for effective monitoring of Government programmes and policies being implemented at GP level, it was decided (May 2003) to install a system of 'PR Wireless Grid' which would ensure network connectivity between ZPP, MPP, and GPs.

---

<sup>18</sup>ZPP EG District – Rs 7.32 lakh, MPDO Kakinada (Rural) – Rs 2.55 lakh, MPDO, Karapa – Rs 1.25 lakh, MPDO, Amalapuram (Rural) – Rs 0.10 lakh, MPDO, Tallarevu – Rs 0.60 lakh, PR Division, Kakinada – Rs 23.97 lakh

<sup>19</sup>Janagaon – Rs 6.18 lakh, Mahabubabad – Rs 1.15 lakh and Narasampet – Rs 7.00 lakh.

PR Wireless Grid project consists of two sub-projects namely, pilot project at MPP, Sangam and wireless network in Warangal district. The pilot project provides wireless connectivity to all GPs with the MPP and the district network provides wireless connectivity between all MPPs and ZPP including Engineering Divisions. The project at a cost of Rs 52.32 lakh was installed in July 2003 with the aim of effective monitoring of Government programmes and policies in PRIs. A sum of Rs 8.08 lakh was spent towards Annual Maintenance Contract (AMC) for the period covering from July 2004 to July 2005 in respect of pilot project at MPP, Sangam and upto July 2006 in respect of district network. However, above wireless grids did not function from July 2005 (MPP Sangam) and July 2006 (Wireless network) due to non-renewal of AMCs for want of funds. CEO, ZPP Warangal, in reply (April 2008) stated that AMCs were not renewed due to shortage of funds and the wireless grid was not functioning from the date of expiry of concerned AMC. Thus non-functioning of wireless grid resulted in unfruitful expenditure of Rs 52.32 lakh besides not achieving the objective.

#### 2.2.4.6 Diversion of SSFC funds

**SSFC funds amounting to Rs 26.50 lakh were utilised for inadmissible purposes**

As per Second State Finance Commission (SSFC) guidelines, construction of MPP buildings, providing toilets and drinking water facilities in MPP schools and alteration to old MPP primary schools are only admissible items of expenditure out of SSFC grants. In contravention of the guidelines, SSFC funds amounting to Rs 26.50 lakh<sup>20</sup> lakh were utilised by MPPs and PREDs during the years 2003-04 to 2006-07 for inadmissible purposes viz., construction of incomplete elementary school buildings, laying of roads, repairs to roads, purchasing of wooden furniture, inverter, repairs to cattle ramps, construction of incomplete bridges, etc. This had resulted in diversion of SSFC funds and the objectives specified by the SSFC were not achieved.

MPDOs of test checked MPPs and EEs of test checked PREDs stated (May/June 2008) that ratification orders would be obtained from the Government.

<sup>20</sup> EE, PR Division Amalapuram Rs 15.5 lakh, EE, PR Division Kakinada, Rs 6.04 lakh, MPDO, Kakinada Rural Rs 3.61 lakh, MPDO, Tallarevu Rs 0.75 lakh, MPDO Karapa Rs 0.35 lakh, MPDO Amalapuram (Rural) Rs 0.25 lakh.

#### **2.2.4.7 Departmental execution of works**

**Works were taken up departmentally instead of through contractors in violation of codal provisions**

According to the provisions<sup>21</sup> of Andhra Pradesh Public Works Department (APPWD) Code and Government orders<sup>22</sup>, departmental execution of works shall be taken up in exceptional circumstances and if it is considered desirable in the interest of the public either on account of its urgency or of its special nature etc. However, during 2002-07, 1721 works sanctioned out of ZPP General Fund of East Godavari district with estimated cost of Rs 28.04 crore for laying of roads, construction of buildings viz., Community halls, Anganwadi buildings, Mahila Mandal buildings, additional class rooms for ZPP high schools etc, were executed departmentally by providing advances to the departmental Engineers. Further, the completion of works and adjustment of work advances were delayed abnormally ranging from one month to more than three years due to non-stipulation of the time schedule for completion of work. Consequently, Government money was lying with the departmental Engineers over a period of more than three years. Further, non adoption of tender process for awarding the works to contractors resulted in loss of potential benefits that would have accrued from the competitive bids and realisation of statutory deductions in the form of Sales Tax on the cost of tender schedules, Income Tax, Value Added Tax and Building Fund etc.

MPDOs of test checked MPPs and EEs of test checked PREDs stated (May/June 2008) that the works were got executed departmentally as per the instructions of District Collector and also as per the resolutions passed by the MPPs. The reply is not tenable as non-stipulation of time schedule for completion of departmentally executed works resulted in delays ranging from one month to more than three years and consequent blockade of funds with departmental Engineers.

#### **2.2.4.8 Release of ZPP General Fund, East Godavari district to PR/RWS divisions directly instead of through PAO**

**Grants were released by the ZPP directly to the PREDs instead of through the PAO**

Government of Andhra Pradesh in March 2001<sup>23</sup> ordered that no cheques shall be issued and no cash book shall be maintained by the EEs of PREDs and all work bills shall be paid by the Pay and Accounts Officers (PAOs) after pre-audit. Instructions were issued in June 2004<sup>24</sup> to the CEOs of all the ZPPs for depositing the funds allocated to PR/RWS divisions from ZPP General Fund with PAO for scrutinising the works bills forwarded by the EEs of the divisions and making payment to the contractors through cheques. However, it was observed that grants are being

---

<sup>21</sup> Para 150 of APPWD Code

<sup>22</sup> GO Ms. No.589, PR&RD, dated 29-9-1989

<sup>23</sup> GO Ms. No.60, Finance & Planning (FW.BG) department, dated 30-3-2001

<sup>24</sup> GO Ms. No.28, PR&RD (Accts.IV) department, dated 1-6-2004

released directly to the PR/RWS divisions by ZPP, East Godavari instead of depositing the funds with PAO in contravention of the orders of the Government. Consequently, the desired scrutiny and regulation of payments were defeated.

CEO, ZPP stated (June 2008) that in order to get the ZPP General Fund accounts audited by the State Audit Department as per sub section 1 of section 266 of AP PR Act, 1994, the ZPP General Funds were being released to the PREDs for execution of works under various heads and the audit observation would be brought to the notice of the Government.

Reply of the CEO, ZPP is not tenable as the Government at the time of directing the CEO to deposit the General Funds with the PAO, had considered the existing provisions of the PR Act.

### 2.2.5 Financial Management

Sources of revenue for ZPPs are i) grants released by the Government of Andhra Pradesh like per capita grant, seignorage fee grant, salary grant in respect of staff, TA & contingent grant, etc., ii) assigned revenues like sand auction proceeds, surcharge on stamp duty etc and iii) own revenues like rent receipts from shopping complexes, guest houses, staff quarters, ferry rentals, T & P charges, petty Supervision Charges, hire charges of department road rollers, etc.

The details of the receipts and expenditure in the test checked ZPPs during the years 2002-03 to 2006-07 are detailed below:

(Rupees in crore)

District	2002-03		2003-04		2004-05		2005-06		2006-07	
	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure	Receipts	Expenditure
East Godavari	68.56	61.86	110.58	72.29	194.96	196.65	81.53	82.33	108.20	100.07
Warangal	113.09	119.66	317.73	316.08	170.37	285.67	119.37	107.22	185.36	115.37

(Source: - State Audit Department)

#### 2.2.5.1 Delay in submission of Provident Fund (PF) interest claims

**Provident Fund interest for the year 2003-04 onwards has not yet been reimbursed by the Government due to delayed submission of claims by the ZPP**

In accordance with the orders<sup>25</sup> of Government of Andhra Pradesh, claims for reimbursement of interest credited to individual PF accounts of employees of Panchayat Raj (PR) department were required to be preferred by ZPPs to the Government every year through State Audit Department after the interest is credited in the month of May every year.

However, the claims to be submitted in May 2004, May 2005 and May 2006 in East Godavari district for the years 2003-04 (Rs 690.94 lakh), 2004-05 (Rs 732.50 lakh) and 2005-06

<sup>25</sup> G.O.Ms.No.317 PR (Accounts – I) Department, dated:-13-7-1984

(Rs 790.11 lakh) respectively, were submitted only in May 2008 to the State Audit Department for scrutiny and onward submission of claim to the Government for reimbursement. The reimbursement claim for the year 2006-07 has not yet been prepared as on date (June 2008). Thus, the inordinate delay in submission of claims to the Government resulted in non-reimbursement of interest from the Government as on date (June 2008).

#### **2.2.5.2 Non reimbursement of pension paid to provincialised employees**

**Amount of Rs 6.39 crore paid pension to the provincialised PR employees was not reimbursed**

As per the recommendations of the First State Finance Commission read with order dated 3-11-2003<sup>26</sup> of the GOAP, pension paid by the ZPPs to retired provincialised employees was to be reimbursed by the Government.

Out of Rs 28.84 crore paid from the ZPP General Fund of East Godavari district towards pension to the provincialised PR employees in the district for the period from 1997-98 to 2002-03, a sum of Rs 22.45 crore was only reimbursed by the Government leaving a balance amount of Rs 6.39 crore yet to be reimbursed.

#### **2.2.5.3 Receipt of pension contribution from Gram Panchayats**

**Pension contributions were not collected from GPs**

In accordance with the orders<sup>27</sup> of Government of Andhra Pradesh, ZPP collects pension contribution from the GPs in respect of non provincialised PR employees working in the GPs.

Out of Rs 39.82 crore to be paid as pension contribution by the GPs in the EG district for the years 1997-98 to 2006-07, a sum of Rs 3.12 crore only was contributed. Pension payment of Rs 38.90 crore was paid to the retired employees by diverting Rs 35.78 crore from the ZPP GF. Thus, non-receipt of pension contribution from the GPs resulted in diversion of Rs 35.78 crore from ZPP General Fund.

#### **2.2.5.4 Revenues pending realisation**

**Revenue amounting to Rs 23.99 lakh was not realised**

Rents and auction proceeds amounting to Rs 23.99 lakh as detailed in *Appendix-6* (East Godavari: Rs 22.50 lakh and Warangal: Rs 1.49 lakh) were pending realisation from the occupants/lessees.

---

<sup>26</sup> Govt., Memo No.15659/CPR – H1/2002-2 PR&RE, dated: 3-11-2003

<sup>27</sup> G.O.Ms.No.89 PR I, dated: 17-2-66 and Govt. Memo.No.27459/Accounts II/2002 PR&RD, dated: 19-9-2002



### 2.2.5.5 ZPP revenues not remitted by the Panchayat Raj Engineering Divisions

**ZPP revenues were retained by the PREDS without remitting to the ZPPGF**

A sum of Rs 19.24 lakh<sup>28</sup> being ZPP revenues from hire charges/auction proceeds of Departmental Road Rollers, Tools & Plant charges, Petty Supervision charges, fines on Extension of Agreement Time and cost of tender schedules collected and recovered prior to April 2002 from the work bills by the PREDS of East Godavari district was not remitted to the ZPP General Fund.

EEs of the test checked PREDS, while accepting audit comment agreed (May 2008) to remit the amounts to ZPP General Fund.

### 2.2.5.6 Reimbursement of honorarium of elected members of ZPP

**Honorarium paid to elected members of ZPP was not reimbursed by the Government due to non submission of claims**

As per the order<sup>29</sup> of Government of Andhra Pradesh, an amount of Rs 2750 per month is to be borne by the Government, out of Rs 5000 per month payable to ZPP Chair Person towards honorarium. The remaining amount of Rs 2250 is to be met from the General Fund of ZPP concerned.

As against the Government share of Rs 84.41 lakh to be paid towards the Honorarium to the elected members of ZPP EG district for the period from May 1999 to March 2007, a sum of Rs 44.24 lakh was only released by the Government leaving a balance of Rs 40.17 lakh yet to be reimbursed as of June 2008. The main reason for non-reimbursement was (i) non-submission of claims by the ZPP in time (ii) not making the provision in the Annual Budget Estimates and (iii) non-pursuance of the matter with the Government.

### 2.2.5.7 Lapse of Education contingent grant

**Education contingent grant of Rs 82.33 lakh was lapsed due to non-utilisation**

It was noticed (March 2007) by the CEO, ZPP, Warangal that out of the Education Contingent Grant of Rs 111.88 lakh for the year 2006-07 released by the District Educational Officer (DEO), Warangal to the ZPP high schools, an amount of Rs 29.55 lakh was only drawn for utilisation. Out of this, Rs 14.55 lakh was utilised towards payment of wages. The balance amount of Rs 15.00 lakh was deposited in a saving bank account, of which a sum of Rs 12.69 lakh was misappropriated as noticed by the ZPP authorities. An amount of Rs 2.31 lakh was lying in the Saving Bank account. The misappropriation case was under investigation. Even the amount lying in Saving Bank account was not reflected in the Annual Accounts. Thus, the balance of the grant amounting to Rs 82.33 lakh was lapsed due to non-

<sup>28</sup> PR Division, Rajahmundry – Rs 3.56 lakh, PR Division, Amalapuram – Rs 11.02 lakh and RWS Division, Kakinada – Rs 4.66 lakh.

<sup>29</sup> G.O.Ms.No.223/PR & RD Department, dated:-27-05-1999

drawal within the financial year. As a result, the intended purpose of maintenance of ZPP high schools was not served.

#### **2.2.5.8 Non-utilisation of Education Contingent grant**

**Education contingent grant of Rs 87.89 lakh was not utilised**

The District Educational Officer, EG district released contingent grant of Rs 168.31 lakh to the ZPP during the years 2004-05 to 2006-07. The grant was to be transferred to the ZPP High schools in the district for meeting the contingent and maintenance expenditure viz., wages to contingent employees, repairs to furniture, electricity consumption charges, etc. Out of the grant released, an amount of Rs 80.42 lakh was only utilised and the balance amount of Rs 87.89 lakh was lying unutilised as of June 2008.

CEO, ZPP EG district while accepting audit comment stated (November 2008) that unspent balance would be utilised/ surrendered in due course.

#### **2.2.5.9 Creation of Education Endowment Fund**

**Education Endowment Fund of Rs 25.04 lakh was created unauthorisedly**

As per Rules<sup>30</sup>, there shall be no creation of Endowment Fund for establishment of new schools or up gradation of the existing schools under the control of Government/ local body, where own buildings are provided or necessary land is acquired.

It was observed that the CEO, ZPP, Warangal district had collected an amount of Rs 25.04 lakh during 1992-93 to 2000-01 from the School Education Committees (SECs) towards Endowment Fund and the same was kept in separate SB account in the name of Deputy CEO, ZPP, Warangal. The purpose of collection was up gradation of higher classes in respect of ZPP schools. The fund accumulated to Rs 30.08 lakh as of April 2006 including interest accrued. However, creation of Endowment Fund by the local bodies for educational institutions run by them was not covered by the rules stated *ibid*. Thus, creation of Endowment fund was unauthorised. Further, this amount was also not reflected in the Annual Accounts of the ZPP upto 2005-06.

#### **2.2.5.10 Diversion of sand auction proceeds**

**Sand auction proceeds amounting to Rs 1.44 crore has not been collected**

(a) Sand auctions are held for the packages/reaches of Godavari river in East Godavari District. The auction proceeds are to be remitted through challan to ZPP General Fund directly by the bidders. However, in contravention of this, the District Panchayat Officer, East Godavari district received an amount of Rs 26.13 crore as against the auctioned amount of Rs 27.25 crore towards sand auction proceeds for the years 2004-05, 2005-06 and 2006-07. Thus, there was a short collection of sand auction

---

<sup>30</sup> Rule 7(5) of the G O Ms No.524 Education (Rules) Department Dt:20-12-88

proceeds amounting to Rs 1.12 crore as of June 2008 as detailed below.

(Rupees in crore)

Sl. No.	Year	Amount receivable	Amount received	Balance amount not received	Reasons for balance
1.	2004-05	6.66	6.48	0.18	Specific reply was not furnished by the ZPP
2.	2005-06	7.55	7.55	--	
3.	2006-07	13.04	12.10	0.94	
	<b>Total</b>	<b>27.25</b>	<b>26.13</b>	<b>1.12</b>	

The details with regard to accepted bids, collection of auction proceeds for the years 2002-03 and 2003-04 were not made available to audit.

Similarly, in respect of ZPP, Warangal also, there was a short collection of Rs 31.41 lakh towards sand auction proceeds in the reaches of Eturunagaram Mandal for the year 2003. No auctions were conducted during the period January 2004 to March 2007 in Eturnagaram Mandal.

**Sand auction proceeds were diverted for ineligible purposes**

(b) As per the provisions of Andhra Pradesh Panchayat Raj (Auction of Sand in the water courses vesting in Gram Panchayat) Rules, 2000 and Andhra Pradesh Minor Mineral Concession Rules, 1966<sup>31</sup>, the Sand auction proceeds remitted to ZPP General Fund shall be distributed among ZPP, MPPs and GPs in the ratio of 25:50:25 on a quarterly basis. However, DPO, EG district without remitting the sand auction proceeds to the ZPP General Fund during the years 2004-05 and 2005-06, utilised the same to ineligible works like construction of Road over Bridges and other works related to R&B Department. The balance amount was released to PRIs. Thus, the legitimate share of the PRIs was reduced by Rs 3.83 crore<sup>32</sup> as detailed below.

(Rupees in lakh)

Year	Total amount collected	Municipal Share	Net proceeds	Distribution among									Total (7+10+13)
				ZPP			MPP			GP			
				To be released at 25 per cent	Actually released	Short release	To be released at 50 per cent	Actually released	Short release	To be released at 25 per cent	Actually released	Short release	
1	2	3	4	5	6	7	8	9	10	11	12	13	14
2004-2005	647.48	49.31	598.17	149.54	100.00	49.54	299.09	83.93	215.16	149.54	133.95	15.59	280.29
2005-2006	754.78	58.94	695.84	173.96	147.82	26.14	347.92	295.99	51.93	173.96	149.06	24.90	102.97
<b>Total</b>	<b>1402.26</b>	<b>108.25</b>	<b>1294.01</b>	<b>323.50</b>	<b>247.82</b>	<b>75.68</b>	<b>647.01</b>	<b>379.92</b>	<b>267.09</b>	<b>323.50</b>	<b>283.01</b>	<b>40.49</b>	<b>383.26</b>

<sup>31</sup> Rule 9H of Andhra Pradesh Mineral Concession Rules, 1966.

<sup>32</sup> ZPP – Rs 75.68 lakh; MPPs – Rs 267.09 lakh and GPs – Rs 40.49 lakh

During the year 2006-07, GOAP permitted the ZPP, East Godavari district to utilise an amount of Rs 5 crore from the sand auction proceeds for purchase of furniture for ZPP schools in excess of the ZPP's legitimate share of Rs 3.02 crore (25 per cent of Rs 12.10 crore to be distributed among all the PRIs). As a result, Rs 1.98 crore pertaining to the MPPs and GPs was reduced with adverse implication on their developmental works.

Audit further observed that an amount of Rs 11.72 crore released by the DPO, East Godavari in the months of February-March 2007 to ZPP, EG district towards sand auction proceeds for the year 2006-07, was neither accounted for in ZPP GF nor exhibited in the Annual Accounts for the year 2006-07.

#### **2.2.5.11 Deficiencies in maintenance of HBA loan account.**

**Particulars of recovery of HBA were not available on record**

(a) ZPPs sanction House Building Advances (HBA) to the eligible provincialised<sup>33</sup> non-teaching employees of ZPPs and MPPs in the district from the amounts released from time to time by the Government. For repayment of principal/interest of the loan to the Government by the ZPP every year as per the Government order<sup>34</sup>, recovery towards principal/interest of HBA paid to the employees have to be effected from them by the ZPP regularly. The following deficiencies were observed by audit.

- Particulars of recovery of Rs 17.21 lakh being HBA paid in respect of 6 deceased, 6 retired and 11 working Panchayat Raj (PR) employees of East Godavari district were not available in the records.
- Receipts and payments of HBA were not attested and plus or minus memoranda not recorded by the treasury authorities in the treasury pass book of the Personal Deposit (PD) account of HBA.
- HBA ledgers were not properly maintained.

CEO, ZPP stated (June 2008) that records would be made available after computerization of all the details. It was also agreed that all records would be made up-to-date and complete and procedures followed in future.

**Non-repayment of HBA loan to Government by the ZPP**

(b) Government of Andhra Pradesh released repayable interest bearing HBA loan of Rs 117.25 lakh to the ZPP, Warangal during the period from 1989-90 to 2003-04. Interest payable by ZPP Warangal to the Government at 8.5 per cent per annum to

---

<sup>33</sup> In respect of provincialised employees, pay and allowances are paid by ZPPs from the salary grant released by the Government. In case of non-provincialised employees, pay and allowances are paid by ZPPs from ZPP General Fund.

<sup>34</sup> GO Ms. No.685, PR&RD (Accts.I) department, dated 28-12-1989

the end of March 2008 worked out to Rs 90.57 lakh. Out of this, the ZPP, Warangal repaid a sum of Rs 42.93 lakh in three instalments so far leaving a balance of Rs 164.89 lakh (Principal: Rs 74.32 lakh; Interest: Rs 90.57 lakh). This was mainly due to non recovery of Rs 16.33 lakh from 73 retired employees and 15 deceased employees and arrears in recovery of Rs 78.42 lakh from serving employees. As a result of non repayment of HBA loan to the Government as per schedule, the ZPP had to accumulate its liability on interest which could have been avoided.

CEO, ZPP Warangal stated (May 2008) that action was being taken to write off the amount in case of deceased employees. In case of retired employees, action was being taken to recover the due amount from the pension.

## **2.2.6 Internal controls**

### **2.2.6.1 Maintenance of records**

#### **Delay in preparation of Annual Accounts**

**Earmarking of ZPP revenues was delayed due to delay in preparation of Annual Accounts**

As per the provisions of Section 266 of the Andhra Pradesh Panchayat Raj Act, 1994, Annual Accounts are to be prepared by the ZPP. After preparation they are to be submitted before 15 May every year to the State Audit department.

There was delay of five to twelve months in preparation of Annual Accounts by the ZPP, East Godavari, in respect of financial years 2003-04 to 2006-07. As a result earmarking of ZPP revenues was delayed.

#### **Delay in submission of Annual Administrative Reports**

**Submission of AARs to Government was delayed**

Annual Administrative Reports (AARs) on the activities of the ZPP were to be submitted to the Government by 15 July of the succeeding financial year. There was a delay of one to 29 months in submission of AARs in respect of ZPP, EG district for the years 2002-03 to 2006-07. The reason cited for delay was delayed submission of AARs by MPDOs.

#### **Non reconciliation of departmental figures with treasury figures**

**Departmental figures were not reconciled with treasury figures**

Drawing and Disbursing Officers are responsible for reconciliation of departmental figures with treasury figures in order to detect any misappropriation/excess drawal of funds and to ensure proper classification of the expenditure.

It was observed that, ZPP, EG district had not conducted any treasury reconciliation in respect of General Fund (GF) Account during April 2002 and October 2006. Consequently as of March 2007, the treasury balances were lower than the cash book balances by Rs 3.2 crore. The CEO, ZPP, EG district assured (June 2008) to undertake reconciliation.

Similarly, in respect of ZPP, Warangal, as of March 2007 there was a variation of Rs 17.00 lakh between PF cash book and treasury pass book and Rs 15.75 crore in respect of Education Fund and treasury pass book. CEO, ZPP Warangal, while agreeing with audit, stated (April/May 2008) that action was being taken to reconcile the differences.

### 2.2.6.2 Monitoring mechanism

#### Utilisation Certificates (UCs) not obtained

Grants were released though UCs for earlier years were not obtained

UCs along with expenditure statements for Rs 4.58 crore released during 2002-03 to 2006-07 as detailed in the *Appendix-7* were not obtained by the ZPP, EG district. It was also observed that grants for subsequent years were released without obtaining UCs for the earlier grants.

#### Conducting of inspection by the Commissioner of PR&RE

Annual inspection of the ZPPs was not conducted by the higher authorities

Andhra Pradesh Panchayat Raj Officers Delegation of Powers Rules 2000 stipulates that the Commissioner, Panchayat Raj & Rural Employment (CPR&RE) shall inspect all ZPPs once in a calendar year and submit copies of inspection notes for review by Government. However, inspection of the ZPP, EG district was not conducted by the CPR&RE, Andhra Pradesh, Hyderabad for the calendar years of 2004, 2005, 2006 and 2007 and inspection of ZPP, Warangal was pending from 2005-06 onwards.

Inspection by the Secretary to Government, Panchayat Raj and Rural Development department, Government of Andhra Pradesh required under Chapter 68 of Panchayat Raj Zilla Parishads Functionary Manual was not conducted during the period covered by review.

#### Shortfall in inspection of MPPs by the CEO

Shortfall in inspection of MPPs by CEOs, ZPP

Chapter 68 of Panchayat Raj Zilla Parishads Functionary Manual prescribes that the CEO, ZPP should draw up programme to visit all the MPPs in the district once in a year. However, it was observed that there was heavy short fall in inspection of offices of Mandal Parishad Development Officers (MPDOs) in the EG, district by the CEO, ZPP, EG district as detailed below.

Year	Number of offices to be inspected	Number of offices inspected	Shortfall
2002-03	57	14	43
2003-04	57	8	49
2004-05	57	10	47
2005-06	58	14	44
2006-07	58	25	33

## 2.2.7 Other points of interest

### 2.2.7.1 Non utilisation of grant by PR division

**Earmarked funds released by the ZPP for works were not utilized by the PR division**

Grants amounting to Rs 14.11 lakh released from ZPP General Fund, EG district to PR division, Amalapuram during 2005-06 to 2006-07 for execution of works viz., construction of community halls, laying of roads in ST localities, construction of Mahila Mandal and DWACRA buildings were neither utilised nor refunded to the grant releasing authority. The details are given below.

Sl No	Name of the PRED`	Amount released by the ZPP Rs	Grant	Stage
1	PR,Division, Amalapuram	32,000	6% ST Welfare (2005-06)	Not utilised yet
		50,000	6% ST Welfare (2006-07)	Not utilised yet
		13,29,193	15% Women & Children Welfare (Total grant (06-07) released was Rs 28,90,000)	Short Utilised
		<b>14,11,193</b>		

EE, PR Division, Amalapuram replied (May 2008) that unutilised ST welfare grant would be refunded and balance grant in respect of Women and Children Welfare would be utilised.

### 2.2.7.2 Transfer of unutilised balances of earmarked funds

**Unutilised balances of the EMF were not transferred to the respective Finance Corporations**

As per the provisions of the Andhra Pradesh Panchayat Raj Act, 1994<sup>35</sup>, all the unspent balances out of 15 *per cent* of the Earmarked amounts towards Welfare of Women and Children at the end of the financial year, if any, shall be made over to the Andhra Pradesh Women and Child Welfare Cooperative Finance Corporation Ltd, Hyderabad (WCWCFCL).

In ZPP, EG district Rs 3.13 lakh being 15 *per cent* earmarked amounts lying unutilized at the end of financial years from 2002-03 to 2006-07 were not transferred to WCWCFCL in contravention of the Act provisions.

Similarly, in respect of ZPP, Warangal, the unspent balance of Rs 39.40 lakh out of the earmarked fund of Rs 128.55 lakh for the period 2002-03 to 2006-07 was not transferred to WCWCFCL.

<sup>35</sup> Sub section (1) of Section 197 and Sub section (1) of Section 268 of Andhra Pradesh Panchayat Raj Act 1994

### **2.2.7.3 Retention of grants and non-apportionment of ferry auction proceeds**

**Grants and ferry auction proceeds were retained by the ZPP without distribution to PRIs**

Grant amounting to Rs 1.97 lakh released by the Government during 2002-03 towards TA and contingent grant for being passed on to the MPPs and ferry auction proceeds of Rs 16.61 lakh<sup>36</sup> to be apportioned prior to April 2002 among ZPP, MPPs and GPs were retained in General Fund of ZPP, EG district instead of distribution to PRIs in contravention of Government orders.

CEO, ZPP (June 2008) stated that necessary action would be taken to apportion the grants.

### **2.2.7.4 Purchase of vehicles at rate in excess of the limit fixed by the Government.**

**Vehicles were purchased by the ZPP without obtaining prior approval of the Government**

ZPP, EG, district had purchased three vehicles at a cost of Rs 5.95 lakh, Rs 9.25 lakh and Rs 11.86 lakh in December 2004, September 2006 and October 2007 respectively.

The prior approval of the Government was not obtained though the cost of the vehicles purchased in September 2006 and October 2007 exceeded the ceiling limit of Rs 6.50 lakh and Rs 8 lakh respectively. CEO, ZPP stated (May 2008) that Government of Andhra Pradesh was addressed for according ratification orders.

### **2.2.7.5 Non-functioning of Tailoring Training Centre at Hanmakonda**

**Objective in establishment of TTC was not achieved due to non-functioning of tailoring centre**

As a policy of devolution of functions listed in the Eleventh Schedule of 73<sup>rd</sup> Constitutional amendment, the subject "Tailoring Training Center (TTC)" under the control of Social Welfare department was transferred to the ZPP along with staff members in July 2000. The administrative supervision of the center was entrusted to the MPDO Hanmakonda. The objectives of the TTC were to impart training to rural women in tailoring and garment making. But it had not been functioning since April 2005 and there was an unproductive expenditure of Rs 12.62 lakh being the pay and allowances on idle establishment of TTC. There was failure on the part of the MPDO Hanmakonda to popularise the scheme and to deliver intended benefit to the rural women of the district. Thus the objective of establishment of TTC was not achieved although expenditure of Rs 12.62 lakh was incurred towards pay and allowances on idle staff.

---

<sup>36</sup> 2004-05 – Rs 10.48 lakh 2005-06 – Rs 5.35 lakh 2006-07 – Rs 0.78 lakh.



### 2.2.7.6 Non collection of user charges

**User charges amounting to Rs 2.25 crore were not collected from the beneficiaries**

Guidelines of Twelfth Finance Commission (TFC) stipulate that 50 *per cent* of Operation & Maintenance (O&M) charges spent on water supply schemes should be collected from the beneficiaries as user charges.

It was observed in audit that an amount of Rs 2.25 crore<sup>37</sup> being 50 *per cent* of O&M charges of Rs 4.50 crore spent during 2005-06 and 2006-07 on protected water supply schemes was not collected towards user charges from the beneficiaries in EG district.

Executive Engineers of RWS Divisions, Rajahmundry and Kakinada stated (May 2008) that action was being taken to raise the demand notices for collection of user charges.

### 2.2.7.7 Diversion of ZPP, EG district General Fund by PR/RWS divisions

**ZPP General funds were diverted by the PREDS for inadmissible purposes**

Government provides every year budget provision for meeting contingent expenditure by the PREDS. However, an amount of Rs 13.19 lakh<sup>38</sup> was incurred in excess of the grants released by the Government during the years from 2002-03 to 2006-07 towards electricity consumption charges, telephone charges and hire charges of private vehicles. The excess amount was diverted from the funds released by the ZPP, EG district for upgradation/maintenance/ restoration of existing assets including minor irrigation schemes, drinking water in emergencies and unforeseen contingencies such as activities of public welfare, contribution to sports festival, cultural programmes, etc.

Executive Engineers stated (May 2008) that the amounts were diverted to meet the demand and action is being taken to address the issue.

### 2.2.7.8 Non-remittance of statutory deductions

**Statutory deductions were not remitted to the Government account**

It was observed that Seignorage charges amounting to Rs 4.03 lakh<sup>39</sup> deducted from the work bills of SGRY scheme was not remitted by the MPPs in EG district to Mines & Geology department as on date (June 2008) though the scheme account was closed in April 2007. It was stated (May 2008) that the amounts would be remitted to the Mines and Geology Department.

<sup>37</sup> RWS Division, Kakinada Rs 1.83 crore; RWS Division, Rajahmundry Rs 42.30 lakh;

<sup>38</sup> PR Division, Kakinada Rs 0.76 lakh; PR Division, Amalapuram Rs 9.21 lakh; PR Division, Rajahmundry, Rs 2.66 lakh; RWS Division Kakinada Rs 0.56 lakh

<sup>39</sup> MPP, Kakinada Rural (Rs 1.20 lakh); MPP, Karapa (Rs 0.08 lakh); MPP, Tallarevu (Rs 1.19 lakh); MPP, Amalapuram Rural (Rs 1.56 lakh)

### **2.2.8 Conclusions**

The District Planning Committee was not yet constituted in both the districts as such objective of preparing consolidated development plan for the ZPP was not achieved. Proper monitoring and vigorous pursuance was not made in respect of collection of own revenues, realisation of the revenues retained by the PREDs and also reimbursement of dues from the Government. Instances of diversion of scheme funds, unfruitful expenditure, and abandonment of works were noticed. The works were carried out departmentally in contravention of codal provisions. There was delay in preparation of Annual Accounts. The monitoring was not proper as the desired level of inspections of MPPs and PREDs have not been conducted.

### **2.2.9 Recommendations**

- District Planning Committee should be constituted on priority basis
- Steps should be taken to augment revenues of ZPPs.
- The reconciliation of departmental figures with treasury figures should be carried out monthly as stipulated
- Annual Accounts should be prepared as per the time schedule prescribed.
- Vigorous pursuance should be made to obtain utilisation certificates for the grants released.
- Steps should be taken to raise demands for own revenue in time and collection thereof, obtaining of ZPP revenues retained by the PREDs and timely preparation and submission of claims for obtaining reimbursement due from the Government.
- Regular inspections and monitoring of ZPPs/MPPs should be conducted.

## **URBAN LOCAL BODIES**

### **2.3 Financial Management of Vijayawada Municipal Corporation including Information Technology Audit**

#### **Highlights**

*The Municipality of Vijayawada was constituted on 1 April 1888 with an area of 30 sq km, and was upgraded into a Corporation on 6 June 1981. With the merger of the surrounding villages in 1985, the total area of the Corporation (VMC) increased to 58 sq km. Performance Audit of the financial management and Information Technology system of VMC revealed the following deficiencies:*

**VMC has not compiled the Annual Accounts since 2005-06. It failed to submit the audited accounts to the State Legislature though stipulated under the provisions of Hyderabad Municipal Corporation Act.**

**(Paragraph 2.3.6)**

**The maintenance of cash books was deficient with regard to posting of DDs/cash, periodic closing of cash books. Reconciliation of cash book figures with those of bank statements was never carried out.**

**(Paragraph 2.3.6.1)**

**Stock Registers were not maintained properly and physical verification of stock at the end of each year was not done.**

**(Paragraph 2.3.6.2)**

**Financial management was deficient as budget estimates were not being prepared on a realistic basis. VMC failed to realise its share of auction proceeds (Rs 7.85 crore) in respect of sand bearing areas. The construction of shopping complexes suffered due to deficit planning resulting in loss of revenue of Rs 7.39 crore.**

**(Paragraphs 2.3.7.1, 2.3.7.3 and 2.3.8.1)**

**Works were undertaken without first ensuring acquisition of land and other clearances and this resulted in number of works remaining incomplete for several years with consequential blockage of funds of Rs 5.64 crore.**

**(Paragraph 2.3.9.4)**

**The Management of waste was far from satisfactory. Despite incurring an expenditure of Rs 4.61 crore on Sewerage Treatment Plant, the basic objective of treating sewerage scientifically was not achieved as no sewerage was treated.**

**(Paragraphs 2.3.10.1 and 2.3.10.2)**

**Due to inefficient pumping system, there was excess consumption of electricity towards supply of water to the city. During the year 2006-07, the extra expenditure worked out to Rs 1.26 crore.**

**(Paragraph 2.3.10.4)**

**Instances of non-remittance of Seignorage charges to the Government, Library cess to the Zilla Grandhalaya Samstha, deductions made on behalf of National Academy of Construction were noticed.**

**(Paragraph 2.3.11)**

#### **INFORMATION TECHNOLOGY AUDIT**

**VMC has not evolved foolproof mechanism to ensure that meter readings are properly taken in respect of all meter connections and where meter readings are taken, the demands are promptly and correctly issued.**

**(Paragraphs 2.3.14.3 and 2.3.14.4)**

**Lapses were noticed in accounting of bounced cheques.**

**(Paragraph 2.3.16.2)**

**The data in VOICE was incomplete and lacked integrity due to absence of validation checks.**

**(Paragraph 2.3.17)**

**Lack of segregation of duties and absence of logs were not conducive to fixing responsibility in case of unauthorised manipulation and loss of data.**

**(Paragraph 2.3.18.2)**

### 2.3.1 Introduction

The Municipality of Vijayawada was constituted on 1 April 1888 with an area of 30 sq km, and was upgraded into a Corporation on 6 June 1981 and the provisions of the Hyderabad Municipal Corporation (HMC) Act, 1955 including the provisions relating to the levy and collection of any tax or fee were made applicable mutatis mutandis with certain exceptions. With the merger of the surrounding villages in 1985, the total area of the Vijayawada Municipal Corporation (VMC) increased to 58 sq km., having population of 1.10 million and it is the third largest city in the State.

The obligatory duties of the VMC *inter alia* include

- Defining the limits of the city;
- Watering, scavenging and cleaning of all public streets and places and removal of garbage;
- Construction and maintenance of drains /streets /bridges/ culverts /greenery of the city etc;
- Lighting the public streets and municipal markets/ public places;
- Management and maintenance of municipal water works;
- Naming and numbering of streets/ premises;
- Regulation of Dangerous and Offensive trades (D&O) or practices; and
- Registration of births and deaths.

In addition, VMC was distributing Social security pensions, managing Schools and Health centres and other social schemes of Union as well as State under these provisions.

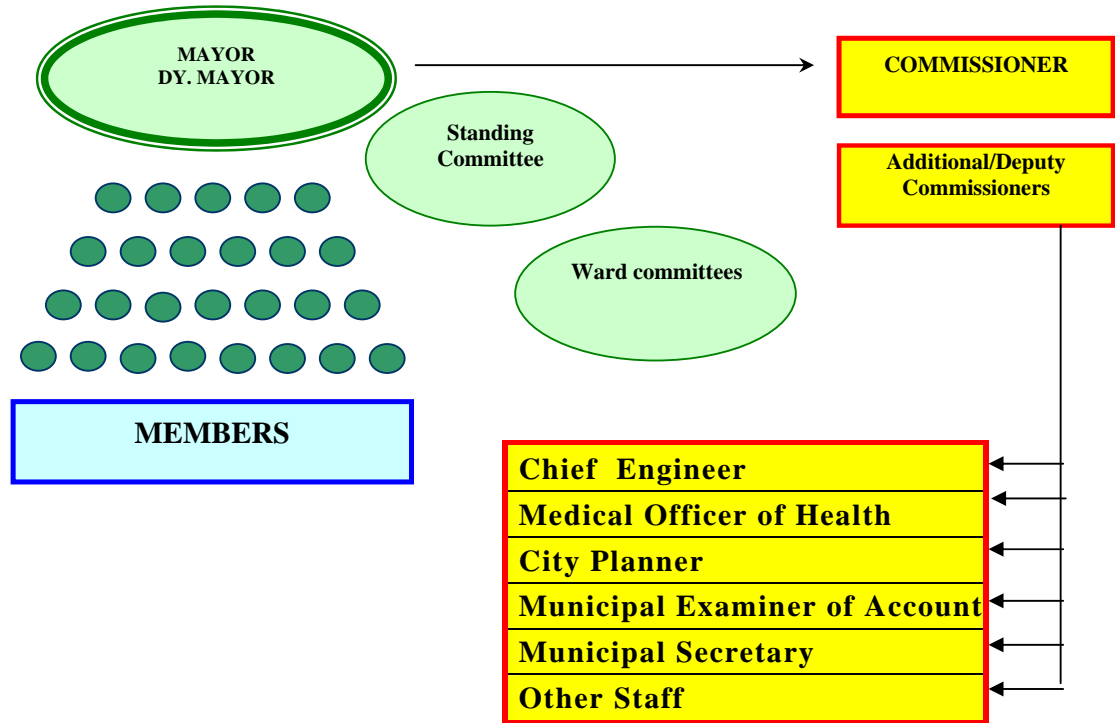
Towards improving the Government-Citizen interface, the State Government identified several projects under the “Electronic Governance” initiative, one such being the setting up of a Community Information System for VMC. VMC is implementing the project from 31 December 1999 and it was named as “Vijayawada Online Information Centre” (VOICE).

### 2.3.2 Organisational setup

For executing the functions of the VMC, there is an elected Standing Committee consisting of the Chairpersons of the ward committees, headed by elected Mayor and Dy. Mayor. The VMC functions under Housing, Municipal Administration and Urban Development Department (Municipal Administration) under the supervision of the Commissioner and Director, Municipal Administration (CDMA). The Commissioner is the executive head and is responsible for the daily administration of the VMC. The Commissioner is assisted by City Engineer, City Planner, Medical Officer of Health, Examiner of

Accounts and Addl. / Dy. /Asst. Commissioners for discharging various duties and responsibilities. The city is divided into 59 wards with elected councillors. The power of each agency and functionary is outlined in the HMC Act.

**MUNICIPAL CORPORATION**



The IT wing of VMC is headed by an Additional Commissioner (Projects), who is assisted by a Jr. Assistant, Bill collector, Record Assistant and a Sanitary Maistry for implementing and maintaining the IT applications/ software/ hardware.

**2.3.3 Audit objectives**

The audit objectives were to assess/evaluate the following activities:

- Whether the maintenance of accounts was as per codal provisions; and
- Whether the financial management with regard to execution of works, collection and utilisation of revenues was effective.

IT Audit of VMC had the following objectives:

- Whether the task of revenue collection relating to taxes and other non-tax revenues under the jurisdiction of the VMC was effectively performed;
- Whether completeness, integrity, reliability, accuracy and security of the data was ensured; and

- Whether the general and environmental controls and IT application controls were adequate.

#### **2.3.4 Audit criteria**

The audit criteria adopted for the Performance Audit were as follows:

- Rules, Bylaws and provisions under the Hyderabad Municipal Corporation (HMC) Act, 1955;
- Instructions issued by the Government of India (GOI) and Government of Andhra Pradesh; from time to time; and
- Instructions issued and rates adopted by the VMC.

The criteria adopted for IT audit were:

- Rules and provisions under the Hyderabad Municipal Corporation (HMC) Act, 1955;
- Instructions issued by the GOI and Government of Andhra Pradesh from time to time;
- Instructions issued and rates adopted by the VMC; and
- Best practices for a computerised system.

#### **2.3.5 Scope and methodology of Audit**

The accounts of the Commissioner, VMC for the financial years 2002-03 to 2006-07 were examined in general during the performance audit undertaken in selected areas of interest. An entry conference was held in November 2007 with the active participation of the Commissioner and other officers of VMC.

The IT Audit was conducted by examining the controls and review of IT related practices. Data pertaining to VOICE project consisting of Revenue Taxation module (covering Property Tax, Water and Sewerage Tax, Vacant Land Tax, Water Meter Charges), Births & Deaths module, Commercial Complexes module, Dangerous and Offensive (D&O) Trades module, Complaints monitoring module was analysed for the period 1999-2007 (as of August 2007) using IDEA<sup>40</sup>, a software package. The exit conference was held during September 2008. The views of the VMC were also taken into account while formulating the audit conclusions. The results of the review are discussed in the succeeding paragraphs. The results of the IT Audit are discussed in para 2.3.13 to 2.3.18 in a separate section of this review report.

---

<sup>40</sup> Interactive Data Extraction and Analysis.

## Audit findings

### 2.3.6 Accounts

VMC has not compiled the Annual Accounts since 2005-06. It also failed to submit the audited accounts to the

Under the Act<sup>41</sup>, the Commissioner is required to forward a Statement of receipts and disbursements of the Municipal Fund pertaining to the previous year with closing balances to the Municipal Administration Department for placing before the Legislative Assembly of the State.

As of October 2008, VMC compiled the Annual Accounts upto 2004-05 and the compilation of accounts for 2005-06 onwards was in arrears. VMC has not submitted the compiled accounts for the years 2001-02 to 2004-05 to the State Legislature though stipulated under the Act. Under the provisions of the Act<sup>42</sup>, the Director, State Audit has been entrusted with the task of certification of Annual Accounts. The Director, State Audit has engaged the services of Chartered Accountants for audit of the accounts.

#### 2.3.6.1 Maintenance of Cash books

Cash books closings were not done. Reconciliation of cash book figures with those of bank statements was never carried out.

The cash book is the primary record for knowing the funds position and forms source material for the Annual Accounts. VMC is maintaining 30 bank accounts in three nationalised banks and one private bank<sup>43</sup>. The maintenance of cash books in respect of these accounts was deficient as detailed in the table below.

Subject	Audit findings
<b>Posting on the receipt side of cash books</b>	As per the codal provisions, the DDs/Cash should soon after their receipt be posted in the cash book and then sent to bank for credit. Scrutiny revealed that DDs/Cash received by VMC were being sent to banks without posting in the cash books. VMC wholly relied on the credits shown in the bank statements by the banks. Thus, there was no assurance that all the cheques/ cash deposited in banks were being fully credited to VMC's account.
<b>Closings</b>	As per the codal provisions, cash books should be closed regularly and at the end of each financial year. The cash books maintained by the Accounts Branch were not being closed either daily, monthly or annually. The balances were arrived at periodically and were carried forward since April 2002 onwards. There was no system of any internal check by an official other than the writer of the cash book. The balances have not been carried forward from April 2005 onwards. As a result, the balances available under the respective accounts were not ascertainable.

<sup>41</sup> Section 181 of HMC Act 1955.

<sup>42</sup> Section 3 of Andhra Pradesh State Audit Act. 1989

<sup>43</sup> Under the provisions of HMC Act, VMC was required to open bank account for General Fund in the State Bank of Hyderabad only.



<b>Reconciliation</b>	As per the codal provisions, the cash book figures should be reconciled with bank statements monthly and at the end of each year. Audit observed that reconciliation of cash book figures with bank statements was not being done in the Accounts wing in any of the 30 bank accounts since 1 April 2001. The cash books were not maintained properly and hence reconciliation was not possible. In the absence of reconciliation, the correctness or otherwise of the amounts credited to bank was not ensured.
-----------------------	--

The Commissioner, VMC assured (October 2008) that steps would be taken for proper maintenance of the cash books and for periodical reconciliation.

### 2.3.6.2 Stock Registers

Physical verification of stock at the end of each year was not done.

State Government issued orders<sup>44</sup> (November 1992) for conducting physical verification of stock at least once in a year before close of the financial year. The Stock Registers of VMC had the following deficiencies:

- The Stock Registers were not periodically closed to arrive at the balances at the end of each financial year; and
- Physical verification of stores and stock was never done.

In the absence of proper maintenance of Stock Registers and physical verification, detection of discrepancies was not possible and as such there is no assurance that there are no pilferages of stock.

### 2.3.6.3 Examiner of Accounts

Under the Act, the Examiner of Accounts (EOA) has been assigned only the duty of verifying the expenditure but not the task of examination of accounts relating to collection of taxes and their proper accountal. It was further observed that in the cash books maintained by VMC, postings were made only in respect of expenditure but not the receipts. This is a basic deficiency which needs to be rectified.

### 2.3.7 Financial Management

The major source of revenue of the VMC is from Property Tax, Vacant Land Tax and Advertisement Tax. In addition, non-tax revenues through charges from registration of births and deaths, building plan approvals, supply of water, D & O trade licences, etc., are collected by VMC. Besides, Government also assigns revenues such as surcharge on transfer duty on registration of properties, entertainment tax, seignorage fee and grants-in-aid for specific purposes. The following deficiencies were noticed.

<sup>44</sup> Memo No: 10970/226/TFR/90-1, Finance and Planning Department dated 10.11.1992.

### 2.3.7.1 Budget estimates and the expenditure

The budget estimates, receipts and expenditure of the Corporation for the period from 2001-02 to 2006-07 were as detailed below:

(Rupees in crore)

Budget estimates were not being prepared on a realistic basis.

Year	Receipts				Expenditure			
	Revised budget estimates	Actual receipts	Deficit/ Excess	Per centage over approved budget	Revised budget estimates	Actual expenditure	Deficit	Percentage over estimates
2001-02	106.12	88.39	17.73	17	107.90	87.05	20.85	19
2002-03	101.95	116.94	-14.99	-15	102.53	116.67	-14.14	-14
2003-04	135.19	124.02	11.17	8	134.69	123.41	11.28	8
2004-05	165.14	148.12	17.02	10	159.64	147.51	12.13	8
2005-06	223.70	135.91	87.79	39	218.15	137.00	81.15	37
2006-07	426.89	192.72	234.17	55	418.38	184.33	234.05	56

It would be seen from the above that during the years 2001-02 to 2006-07 the revenue increased from Rs 88.39 crore to Rs 192.72 crore and the expenditure increased from Rs 87.05 crore to Rs 184.33 crore. It was also observed that the budget figures were not being prepared on a realistic basis as the variations in respect of receipts ranged from (-) 15 per cent to (+) 55 per cent and in respect of expenditure from (-) 14 per cent to (+) 56 per cent.

### 2.3.7.2 Raising of loan from UBI

VMC had outstanding loans of Rs 68.37 crore with HUDCO as of February 2005 which were being repaid at floating rates of interest ranging from 8.25 per cent to 9.50 per cent. Union Bank of India (UBI) offered (February 2005) to take over the outstanding loans of HUDCO at a lower fixed rate of interest of 7.25 per cent. VMC decided to take loan from UBI at the lower rate of interest and foreclose the outstanding loans with HUDCO. Accordingly, UBI repaid (April 2005) the entire loan amount of Rs 69.55 crore (including interest) to HUDCO. Scrutiny revealed the following deficiencies:

As per HUDCO's statement, an amount of Rs 1.36 crore being 2 per cent prepayment charges were to be paid by VMC for foreclosing the loan. VMC approached HUDCO (April 2005) for waiver of the prepayment charges. The Commissioner also approached the State Government so that the charges are waived by HUDCO. However, the same has not been waived by HUDCO and pending waiver of these charges, VMC is liable to pay the prepayment charges along with interest at the prevailing rates even after closure of the loan account. The Commissioner stated (October 2008) that the State Government was approached to advise HUDCO to consider the request of VMC for waiver of prepayment charges.

The loan from UBI has been raised through an escrow account arrangement against which, non-tax revenue collections were

directly credited to escrow account. It was observed in audit, that the fund in the escrow account was far in excess of the amount required to repay the instalments of UBI leading to unnecessary blocking of the VMC fund. On being pointed, VMC stated (November 2008) that the matter is already in their notice and necessary steps have been taken to reduce the flow.

### 2.3.7.3 Auction proceeds of sand bearing areas

VMC failed to realise its share of auction proceeds (Rs 7.85 crore) in respect of sand bearing areas.

The sand in the sand bearing areas is auctioned by the ZPP, Krishna district and the proceeds are to be shared by the VMC (75 per cent) and surrounding Gram Panchayats (25 per cent) as per the orders<sup>45</sup> of the State Government. Though the ZPP, Krishna district auctioned the sand in the sand bearing areas from 1996-97 to 2005-06, VMC had not received its due share amounting to Rs 7.85 crore. Except reminding the ZPP, VMC failed to take up the matter with the State Government.

### 2.3.7.4 Other deficiencies

The following deficiencies were also noticed in maintenance of accounts of the VMC:

Description of lapse	Audit findings
<b>Adjustment of advances to staff members for procurement of materials</b>	As per codal provisions, the official concerned in charge of stores must receive and verify the procured stock on its receipt and furnish a certificate of verification. Based on the certificate furnished, the Accounts Section has to adjust the advances paid to its employees for procurement of materials. In 26 cases, the advances of Rs 3.15 crore paid to the staff members were adjusted belatedly ranging from two to ten years as shown in <i>Appendix-8</i> . It was observed that all these adjustments were carried out in the same month without any certificates from the stores department. Moreover, the invoices received against the supply of steel/bitumen and certificate of verification were not available with VMC. The names of contractors to whom the materials were issued and the details of recoveries made from them were also not available. As such, the approval of the Commissioner accepting such adjustments was not in order. VMC replied (October 2008) that, the amounts were directly paid by demand drafts to the parties from whom materials were purchased. The reply does not answer the specific observations made by audit.
<b>Local Government Service Fund</b>	VMC has obligation to pay Pension, Provident Fund to its employees. For this purpose, it has to constitute a Local Government service fund under the provisions of the HMC Act to meet such liability. No such fund has been created by the VMC and in the absence of such fund; the payments

<sup>45</sup> Panchayat Raj and Rural Development Department Memo No: 7726/Pts.III/A3/2003-1, dated 18.10.2003.

	<p>were being made through General Fund. The closing balance of Provident Fund of its own employees was Rs 9.28 crore to the end of 31 March 2005. For provident fund deductions, VMC is the custodian of the fund accumulated and not the owner but the VMC was utilising these funds. The inclusion of PF amounts in the General Fund gives inflated picture of the financial position of the VMC.</p>
<b>Contributory Pension Scheme</b>	<p>The State Government decided (September 2004) to adopt the GOI's New Pension Scheme linked to defined contributions for the employees of the State including the staff of Urban Local Bodies, who are newly recruited on or after 1 September 2004. VMC had 99 staff members for whom Contributory Pension Scheme was applicable. The quantum of fund collected from the employees to end of March 2007 was Rs 4.17 lakh. No computation has been done by the VMC with regard to its matching share under this scheme. Though it was replied (October 2008) that the contributions recovered were being remitted to a separate bank account but this was part of General Fund of VMC.</p>

### 2.3.8. Shopping Complexes

#### 2.3.8.1 Non-allotment of shops

With a view to augment its own revenue, VMC undertook construction of several commercial complexes. The deficiencies noticed during audit of these complexes are discussed below:

<b>Commercial Complexes</b>	<b>Audit findings</b>
<b>Kaleswararao General Market complex</b>	<p>The complex which is situated in one of the busy commercial areas of Vijayawada was remodelled with 232 shops on ground floor and 186 shops on first floor during February 2003. All the shops in the ground floor were provided to the then existing occupants. For the newly added first floor constructed at a cost of Rs 69.20 lakh, 177 shops remained unoccupied. The poor response despite several attempts from January 2004 was attributable to lack of toilets, sewerage and water supply facilities. This glaring deficiency is all the more objectionable since VMC is the regulatory authority entrusted with the task of granting permissions to shopping establishments in the city after ensuring availability of civic amenities.</p> <p>This has resulted in loss of revenue of Rs 2.29 crore as estimated by VMC for the period from January 2004 to December 2007 in the form of rents.</p>

Commercial Complexes	Audit findings
<b>Ansari commercial complex</b>	<p>VMC constructed (1994) Ansari Commercial complex consisting of 64 shops at a cost of Rs 66 lakh in Besant road which is the hub of commercial activities. Although 14 years have lapsed from the year of construction, VMC has failed to lease the shops in the complex despite the locational advantage and has sustained a revenue loss of Rs 5.10 crore in addition to loss of goodwill of Rs 38.40 lakh.</p> <p>The procedure adopted in allocation of shops was erroneous. In the initial stage, a deposit of Rs 10,000 was collected (1994) from applicants without informing them that further deposit (Rs 50,000) would be required for providing AC facility (as the shops are located underground). This led to litigation (1995) and refund of deposit (Rs 4.80 lakh) along with interest (Rs 8.04 lakh) for 14 years in 2007 in respect of 48 applicants. All the shops were still lying vacant as of September 2008.</p>

### 2.3.8.2 Arrears of rent from shops

VMC failed to promptly collect rents from commercial complexes constructed by VMC, leading to accumulation of rents amounting to Rs 31.03 lakh (upto February 2008). The details are given in *Appendix-9*. This has resulted in overburdening the financial position of VMC, as it has been paying interest on the loans taken for construction of the Commercial Complexes.

### 2.3.9. Execution of Works

#### 2.3.9.1 Construction of C.C. drains

VMC awarded (April 2006) the work of construction of storm water drain on South side of M.G. Road under road widening programme for a value of Rs 44.55 lakh. The contractor did not take up the work due to non-handing over of site by the Town Planning department which is a wing of VMC itself and the contract was terminated (January 2008). The estimate for the work was revised (July 2007) for Rs 64.55 lakh based on SSR 2007-08 and fresh tenders were called for (October 2007) and allotted to a contractor at 3.69 per cent over Estimated Contract Value (ECV). The work was finally completed (June 2008) at an expenditure of Rs 54.87 lakh resulting in extra expenditure of Rs 10.32 lakh.

The Commissioner replied (February 2008) that the site clearance was not received along the proposed reach of drain and further disputes arose after commencement of work and the same were referred to the Town Planning wing. The delay and consequent extra expenditure incurred were due to lack of co-ordination between Town Planning and Engineering departments of VMC.

### **2.3.9.2 Construction of Subway**

VMC planned to construct (1998) a Sub-way near K. G. Market at a cost of Rs 40.38 lakh. The site was handed over to the contractor in June 1998 without obtaining prior clearances from Police and R & B Departments.

The contractor after executing a portion of work (Rs 21 lakh), stopped the work (July 2001) due to obstruction caused by un-diverted traffic and the existing pipeline across the sub-way which belonged to VMC. The work was not resumed thereafter due to non acceptance of revised rates sought for by the contractor.

VMC called the fresh tenders twice during February and March 2003 and finally awarded (June 2003) the balance work for Rs 29.17 lakh (revised) to a contractor. However, the site has not been handed over to the contractor due to non-diversion of traffic/permission from Police Department. VMC finally decided (June 2004) not to construct the balance portion of work of Sub-way and returned the earnest money deposit to the contractor.

Thus, by not conducting a comprehensive study of the conditions at the worksite and poor coordination with Police and R&B departments and within the wings of VMC, the work remained abandoned midway and the entire expenditure of Rs 21 lakh already incurred was rendered unfruitful. The objective of construction of Sub-way for the convenience of pedestrians to cross the busy road also remains defeated. VMC while admitting (December 2007) the audit contention attributed the delay to non-obtaining of required clearances.

### **2.3.9.3 Widening of Mahatma Gandhi Road**

Under modified master plan, widening of Mahatma Gandhi Road to 120 ft was approved (May 2002) by the State Government. In order to widen the road as per the approved master plan, VMC issued (December 2005) notices to 22 building owners for demolition of buildings. Instead of following the procedure of land acquisition as per the Land Acquisition Act I of 1894, VMC started (December 2005) demolition of the buildings. The building owners filed a Writ petition (December 2005) against the action of VMC. The Hon'ble High Court objected to the procedure adopted by VMC for demolition of the buildings and directed (January 2006) VMC to follow due procedure before demolition. Consequently, the VMC had to incur (August and September 2006) an avoidable expenditure of Rs 27.34 lakh towards restoration of the demolished buildings and the acquisition process is yet to be completed.

### **2.3.9.4 Incomplete works**

VMC took up 19 works (detailed in *Appendix-10*) through contractors for Rs 5.64 crore during 2006-07 and 2007-08. Most of these works relate to underground drainage and laying of water supply lines. Some of the works though taken up in April 2006 and

Works were undertaken without ensuring acquisition of land and other clearances. This resulted in number of works remaining incomplete.

required to be completed within six months, had not been completed as of October 2008. On this being pointed out, it was stated (February 2008) that in some cases, notices were issued to the contractors and in some cases works were stopped due to court cases because of site disputes. Thus, as a result of poor monitoring and not ensuring availability of land prior to commencement of works, the works though started long back have not yet been completed resulting in the desired objectives not being achieved and the public continued to suffer with the existing open drainage system.

#### **2.3.9.5 Construction of Kalyanamandapam on hilly area**

VMC constructed (May 2003) Palla Kanakaiah Kalyanamandapam at a cost of Rs 14 lakh by raising a loan from HUDCO at an interest rate of 15.90 *per cent*. As the purpose of construction was to augment revenue resources of the Corporation and funds had been borrowed at high rate of interest, it was essential to ensure that the Kalyanamandapam was located in a convenient location. It was, however, observed that the construction was carried out on a hill slope. Added to this, there was no proper approach road. These lapses resulted in the Kalyanamandapam remaining vacant since the date of completion without rents, despite repeated efforts and lowering the rentals. In July 2006, the authorities leased the Kalyanamandapam for Rs 15,500 *per annum*. Thus, although the VMC was paying interest (7.25 *per cent*) of Rs 1.02 lakh *per annum*, on the loan raised for construction for Kalyanamandapam, it was getting a meagre lease rent of Rs 15,500 *per annum*. VMC has not furnished reply (October 2008).

#### **2.3.9.6 Land taken from Railways at Satyanarayanapuram**

VMC paid Rs 50 lakh (March 1999) to Railways for developing 100 feet wide road as per the Master Plan to have better approach to main Railway station. Railways shifted the existing rail track of 4.2 km extending to an area of 23.26 acres in Satyanarayanapuram on the Vijayawada-Machilipatnam railway line for this purpose and handed over the land to VMC (February 2005).

Even after three years of acquisition of land, no tangible progress was made in development of 100 feet road except partially laying gravel (March 2005) at a cost of Rs 4.79 lakh as against the estimated cost of Rs 18.20 lakh. No specific reasons were forthcoming from the VMC for the delay in laying the road. Thus an asset for which VMC paid Rs 50 lakh more than 9 years back remained idle. Further, this is a prime land in the heart of the city which was kept open and vulnerable to encroachments in the absence of speedy development.

#### **2.3.9.7 Blockage of funds with Railways**

In connection with construction of 'Road Under Bridge' for passage of light vehicles like cars, scooters, vans etc. at Madhuranagar, VMC deposited (June 2005) a sum of Rs 50 lakh with the Divisional

Manager, South Central Railway, Vijayawada towards the departmental contribution. But, subsequently VMC requested (January 2006) the Railway Authorities for increasing the height of the box culvert to accommodate heavy vehicular traffic with adequate clearance which was not accepted by the Railway Authorities. VMC dropped its initial proposal and the amount of Rs 50 lakh was yet to be refunded by the Railway Authorities. Since obtaining refund is a time consuming process and deposit is required to be made only after any work is considered technically feasible, the scope of the work should have been assessed properly right at the beginning before making any deposit. Failure to do so led to blockage of funds for more than three years. Computed at the rate of 7.25 per cent per annum presently charged by bank, the liability of interest worked out to Rs 9.97 lakh for the period from January 2006 to September 2008.

VMC replied (March 2008) that the outstanding amount with Railways would be utilised for the proposed Road over Bridge at two other locations. The fact remains that VMC is paying interest at the rate 7.25 per cent to the Union Bank of India on the loan outstanding while funds are blocked with the Railways.

### **2.3.10. Public services**

#### **2.3.10.1 Disposal of Municipal Solid Waste**

##### **Mechanical Compost Plant**

Inability of VMC to supply the required quantity of MSW led to closure of mechanical compost plant

VMC leased out (November 1995) an existing Mechanical Compost Plant in 8.23 Acres at Ajit Singh Nagar to M/s Excel Industries Ltd., Mumbai for a period of 30 years (upto November 2025) to produce organic manure by using Municipal solid waste (MSW). The firm modified the existing machinery and started production of organic manure from September 1996. As per the agreement with the firm, VMC was to supply 125 MT of garbage to the firm and in turn the firm would pay lease rental/ compensation for buildings and machinery of Rs 2.92 lakh per year in addition the royalty of Rs 35 per MT of MSW consumed. Due to inability of VMC to supply the required quantity of solid waste, the firm ceased operation (December 2006) and handed over the plant to the VMC. Thus inability of VMC to supply the required quantity of MSW led to loss of revenue of Rs 2.25 lakh per annum towards compensation on buildings and machinery and Rs 0.67 lakh per annum towards lease/additional lease rent besides exposing the public to the hazards of pollution generated by non-treatment of solid waste.

##### **Biomethanation plant**

VMC constructed (October 2005) a biomethanation plant for generation of electricity by processing slaughter house and vegetation waste at a cost of Rs 2.18 crore. The plant was handed over (October 2005) to M/s. Mailhem Engineers Pvt. Ltd., for



operation and maintenance at a monthly rent of Rs 1.50 lakh for three years.

In the agreement (December 2005), there was no clause for payment of maintenance charges linking it to generation of electricity. No electricity was generated as of October 2008. However, the firm was paid Rs 20.57 lakh towards maintenance charges for the period from November 2005 to December 2006 with a further liability of Rs 31.50 lakh for the remaining agreement period from January 2007 to September 2008.

Thus failure of VMC to link the payment of operation and maintenance expenditure to generation of electricity resulted in non-fulfilment of the objective of treatment of MSW and generation of electricity.

### **2.3.10.2 Sewerage Treatment Plant**

Despite incurring an expenditure of Rs 4.61 crore on Sewerage Treatment Plant the basic objective of treating sewerage scientifically was not achieved.

The work relating to design, construction, operation, trial run and maintenance of 10 MLD Sewerage Treatment Plant (STP) at Autonagar was awarded to M/s. Gondwana Engineers Private Limited, Nagpur for treating the sewer. The construction was completed in March 2005 at a cost of Rs 4.61 crore. The party was entrusted the task of Operation and Maintenance of the plant @ Rs 75,000 *per month* for a period of 2 years but due to poor maintenance, it failed to treat any sewerage since commencement of the plant till March 2007. Consequently, the expenditure of Rs 18 lakh incurred on maintenance charges for the period of 2 years remained unproductive besides pollution hazards created by release of untreated sewerage water.

### **2.3.10.3 Hiring of Dumper Placers**

VMC obtained (August 2004) seven Dumper Placers (DPs) for removing Municipal Solid Waste (MSW) from District SC Service Co-operative Society Ltd., (SCSCS) Krishna District, Machilipatnam. As per agreement, VMC is required to pay hire charges of Rs 30,000 per month (including 50 *per cent* being the wage component to the workers engaged) per vehicle to SCSCS. VMC paid Rs 77.70 lakh<sup>46</sup> up to August 2007 as hire charges of DPs. The payment of Rs 38.85 lakh constituting 50 *per cent* of the payment towards wage component was objectionable as no workers were provided by the Society and the garbage lifting was carried out by the VMC. Further, as hiring of DPs did not follow the tender route, the reasonableness of this rate cannot be vouchsafed in audit.

### **2.3.10.4 Expenditure on electricity**

The following deficiencies were noticed with respect to expenditure incurred on electricity in connection with public services:

<sup>46</sup> Already paid Rs 36.26 lakh in September 2007 and Rs 41.44 lakh is yet to be paid

Description	Audit findings
<b>Avoidable expenditure on Contracted Load</b>	Due to consumption of electricity in excess of contracted load, the VMC has paid surcharge of Rs 37.44 lakh for the period April 2003 to July 2008. Though VMC deposited Rs 25.59 <sup>47</sup> lakh with Andhra Pradesh Southern Power Distribution Corporation Limited (APSPDCL) towards additional supply by way of having a dedicated feeder, there was failure on the part of VMC to get the feeder installed by effective pursuance.
<b>Excess consumption of electricity for supplying water</b>	VMC obtain water from three different sources viz., river bed, infiltration plant and bore-wells and distributes the water by pumping to 45 ground level and high level storage reservoirs. The average water pumped in a day was 20 MGD [2 (pumping twice a day) X 9.91 MG (capacity of reservoir)]. It was observed that the expenditure on electricity consumption far exceeded the energy required for carrying out the pumping operations. For illustration, the payment made in 2006-07 was Rs 4.08 crore as against Rs 2.82 crore required. The reasons for the excess consumption of electricity need to be investigated to improve the efficiency of the pumping system.
<b>Belated payment of electricity bills</b>	Southern Power Distribution Corporation (SPDC) sends the electricity bills on staggered dates. VMC makes the payments of these bills after due dates. This resulted in delayed payments of the HT bills and during 2006-07, late payment charges in respect of two HT connections amounted to Rs 1.30 lakh.

Due to inefficient pumping system there was excess consumption of electricity towards supply of water to the city.

### 2.3.11 Non-remittance of statutory deductions

The following lapses were noticed with reference to statutory deductions from the bills of contractors as detailed in the table:

Description	Audit findings
<b>Seignorage Charges</b>	Under the provisions of AP Mines and Mineral Rules, the Seignorage Charges (on minor minerals such as sand, metals, earth etc.) deducted from work bills were required to be remitted to the receipt head of the State Government. Lack of proper mechanism for accounting and prompt remittance of the revenues pertaining to other departments was seen in case of Seignorage charges (deducted from Contractors bills) as an amount of Rs 4.94 crore for the years 1987-88 to 2006-07 were retained in the General Fund. VMC replied (February 2008) that it would remit seignorage charges to the Government account on receipt of a sum of Rs 5 crore which was due from the ZPP, Krishna District. The reply is not tenable as the amount should have been remitted to the Mines and Geology Department and not linked to the financial dealings with ZPP concerned.

Several statutory violations by VMC like non-remittance of Seignorage charges to Government, Library cess to Zilla Grandhalaya Samstha, deductions made on behalf of NAC, were noticed.

<sup>47</sup> Rs 13.54 lakh – February 2003; Rs 3.86 lakh – October 2005; Rs 7.50 lakh – November 2006 and Rs 0.69 lakh – June 2008

Description	Audit findings
<b>Remittance of Library Cess to Zilla Grandhalaya Samstha</b>	As per the Act <sup>48</sup> eight <i>per cent</i> of Property Tax collected is to be remitted to the Zilla Grandhalaya Samstha. VMC failed to remit the dues regularly resulting in accumulation of Rs 9.63 crore (during years 2001-02 to 2006-07).
<b>Remittance of NAC Recoveries</b>	Deductions of Rs 13 lakh made towards National Academy for Construction (NAC) during the period from February 2005 to March 2007 from Contractors bills were not remitted to the NAC. VMC replied (February 2008) that the amount could not be remitted as VMC was not in receipt of the State Government Orders. The reply is not tenable as the Government Order stipulating the deductions contained the instructions for remittance also.

### 2.3.12 Other points of interest

#### Assistance to Mobile Court

VMC provided a driver and started supplying 150 litres of petrol to the vehicle personally owned by the Magistrate every month since May 2006, when its vehicle (tempo traveller) used as mobile court became unusable. The mobile court has become immobile and functions from a building.

The present arrangement of supply of petrol does not serve the intended objective in the absence of operation of mobile court.

## INFORMATION TECHNOLOGY AUDIT

### 2.3.13 Profile

For setting up a Community Information System, under the title Vijayawada Online Information Centre (VOICE), VMC entered into an agreement (January 1999) with M/s CMC Ltd. The project was completed (31 December 1999) at a total cost of Rs 1.87 crore.

VOICE provides access to citizens through its web site<sup>49</sup> for information on various services offered by VMC and details of tax dues/ payments and for lodging complaints. Some of the e-Seva centres and the civic service centres were given access to VOICE on the network for accepting online payments from January 2003. VMC relies totally on VOICE for raising demands, collection of taxes as well as non taxes. VOICE was developed using Oracle (Ver.8i) as the database and Developer 2000 as front end. The hardware includes Compaq Proliant ML 350 and ML 150 servers operating on Windows 2000 (database server) and Windows 2003 (Web server). The network connectivity is through leased lines. A Local Area Network (LAN) of the VMC forms the backbone of this network. On

<sup>48</sup> Rule 18 of A.P. Public Libraries Rules, 1961

<sup>49</sup> <http://www.ourvmc.org>

an average, expenditure on providing services through VOICE is of the order of Rs 17 lakh per year.

The IT audit objectives have been spelt out in para 2.3.3 and the audit criteria in para 2.3.4.

### **REVENUE TAXATION**

The task of revenue collections are divided into the following three stages.

1. Raising of demands
2. Communication of demands to the taxpayers and
3. Accounting of the receipts.

VMC maintains a database (VOICE) for online revenue collections. The deficiencies noticed in the system in each of the three stages are described further.

### **Audit findings**

#### **2.3.14 Raising of demands**

##### **2.3.14.1 Database**

The first prerequisite is to have a comprehensive and authentic database of all tax payers (rate payers). The existing database is the one originally prepared in the earlier IT system and carried over to the new system. There was no assurance that the database is comprehensive and no tax payer is left out and address indicators are authentic and reliable.

##### **2.3.14.2 Integration of water charges with property tax**

For every property there are two taxes payable namely property tax (PT) and water meter charges<sup>50</sup>/ tap charges<sup>51</sup>. A scrutiny of property tax table relating to property tax assessments revealed lack of unique identification number for each property. Likewise there was no unique identification number for the properties in database table concerning water charges. As a result there is no assurance that property tax and water meter charges/ tap charges are being collected for all properties under the jurisdiction of VMC. Audit observed that there were 2,956 transaction records in the database pertaining to water tap charges for which PT assessment number was not available.

##### **2.3.14.3 Water meter readings**

VMC engaged outside agencies for recording water meter reading with the help of hand held devices. It was observed that there were 328 (out of 6,519 records of water meter connections) records in

---

<sup>50</sup> Water connection with water meter: where demand is raised monthly on the basis of consumption.

<sup>51</sup> Water tap connection without meter: where the monthly lump-sum charges called tap charges are collected along with property tax demand, served half yearly.

water meter master table for which water meter readings were never taken. In 333 live records water meter readings were taken but demands for water meter charges were not raised. Thus, VMC has not evolved foolproof mechanism to ensure that meter readings are properly taken in respect of all meter connections and where meter readings are taken, the demands are promptly issued.

VMC replied (December 2007) that action was being taken to verify these cases.

#### **2.3.14.4 Incorrect raising of demand for water meter charges**

The demands for water meter charges are not being correctly raised as observed from 1,362 records of consumption. The difference between latest reading and the previous reading did not match the consumption figure indicated in the demand raised as shown below:

Month	Number of records	Units consumed for which demand generated	Consumption as per meter reading table	Difference of consumption between demand and readings
September 1999	101	373343	10441218	10067875
June 2000	72	4067200	2251400	-1815800
July 2006	66	264055	630500	366445
September 2006	77	254000	123000	-131000
October 2006	53	159000	78000	-81000
November 2006	95	285000	146000	-139000
December 2006	88	264000	146000	-118000
January 2007	106	318000	171000	-147000

VMC replied (December 2007) that instructions were given to the Spot Billing Agency not to repeat such billing in future.

### **2.3.15 Communication of demands**

The existence of verifiable record is necessary to check whether all the demands for taxes computed have been communicated to the correct addresses. There is no mechanism at present to ensure correct communication of the bills as detailed in this section.

#### **2.3.15.1 Demand not generated for water meter readings**

It was observed that though there were 6,519 live connections as of July 2007 only 4,942 and 5,007 demands were generated for April and May 2007. Thus all the connections were not covered in the billing cycle. VMC stated (December 2007) that instructions were given to the Spot Billing Agency to avoid omissions in future.

#### **2.3.15.2 Incomplete database relating to door numbers**

There were 8,551 records in property tax, water meter and Vacant Land Tax (VLT) modules where the door numbers were not available indicating incomplete master data of addresses in the VOICE

database. Due to incomplete master data in respect of door numbers, VMC switched back to the old practice of delivering the demands through bill collectors.

### **2.3.16 Accounting of the Receipts**

The existing system in the VMC does not correlate the actual collections with the demands due.

#### **2.3.16.1 Capturing of information relating to receipts issued**

The particulars of taxes collected through cash counters of e-Seva and City Civic centres of VMC are entered in the system and a receipt is generated automatically by the system for issue to the party at the collection centre as an acknowledgement for receipt of cash/cheque.

Audit noticed 218 records in commercial complex module amounting to Rs 3.45 lakh, in the online collection data (i.e., after January 2003), without receipt numbers in the database. This raises serious doubts about the data integrity of particulars of tax collected.

In respect of properties leased out by VMC, there were 1,958 transaction records in lease transaction table involving an amount of Rs 53.11 lakh. There were no matching records found in accounts module in respect of these transactions. In the absence of such integration, the integrity of financial transactions was adversely affected.

#### **2.3.16.2 Accounting of bounced cheques**

Audit noticed that there were 1,083 dishonoured cheques amounting to Rs 1.80 crore which were presented by the cable operators towards entertainment tax and other non-tax receipts. Every year the operators make own assessment for the number of connections and make payments accordingly. In the absence of periodical raising of demands and receipt of credits, there was no follow up by VMC for these bounced cheques.

In 111 other records of property tax module, the cheques were returned. However, corresponding records in receipt details had not been reversed and as such the VMC did not realise revenue of Rs 2.87 lakh.

No notices were issued against parties under section 138 of Negotiable Instruments Act, 1881. In both the cases mentioned above no specific reply was given by VMC (December 2008)

#### **2.3.16.3 Multiple credits given for single cheques**

Whenever a cheque is received, its unique cheque number and date should be recorded in the database. Presently there is no control mechanism to prevent misuse by giving more than one credit for the same cheque. Audit noticed that more than one credit was given in respect of 750 cheques received by way of recording a different

cheque date in the database. The total amount involved was Rs 42.90 lakh. MC replied (January 2008) that the details were sent to concerned revenue circles for verification and the same would be rectified soon.

### 2.3.17 Lack of input controls in the application data

Validation of data facilitates feeding of correct and valid data into the database. There were records, as seen below, in the VOICE database which indicated deficiencies in validations at the application and database level.

Module	Number of records	Deficiency noticed	Impact
Dangerous & Offensive (D&O) Trade Licences	59,836	The receipt number corresponding to 59,836 records were not captured out of 2,21,425 transaction records in the demand table	Incomplete data.
D & O Trade Licences	67,140	Collection date was not available in the receipts table.	Period of accounting of the receipts adversely affected.
Commercial complexes	20,013	No receipt numbers were recorded for 20,013 records in the demand collection table.	Incomplete data.
Commercial complexes	4,754	Amount paid was shown by cheque, the cheque number had not been recorded in the receipt header table.	Incomplete data.
Vacant Land Tax (VLT)	258	The VLT demand was less than Rs 10 in 258 cases. (Zero in 230 records).	Incorrect data.
VLT	19	The capital value of the vacant land was filled with unrealistic values as Re 1, Re 0.1, Re 0.01 etc.	Incorrect data.
VLT	25	The rates per sq. yard of land had been indicated unrealistically less.	Incorrect data.
Building Application	1,491	Receipts numbers were not available in the details table.	Incomplete data.
Building Application	1,660	Paid amount was zero.	Incorrect Data
Building Application	274	The amount field showed zero.	Incorrect Data
Property tax (PT)	11,184	The PT assessment numbers of the tax payers were not available in receipt details table.	Tax collections cannot be linked to the respective tax payers
Property tax	7,575	Records deleted from the receipt details table from January 2007 to March 2007.	There is no security for the database which affects the integrity of the data.

Because of validation inadequacies and users being allowed to skip otherwise mandatory fields, the data in VOICE database was not complete and also lacked integrity.

### **2.3.18 General controls**

#### **2.3.18.1 Non-deployment of Technical personnel**

VMC identified and imparted training to five member core team through CMC on the administrative, operational and maintenance aspects, to enable their active involvement and participation. It was however, observed that none of these persons from the original core team was deployed in VOICE as of July 2007. Also no person was posted as full time Project in-charge for VOICE.

#### **2.3.18.2 Segregation of duties**

Audit noticed a group consisting of a Sanitary Maistry, Typist, Junior Assistant, Bill collector and Record Assistant were assigned the combined roles of a DBA, DEO, System Administrator without the specific allocation of duties. Lack of segregation of duties had exposed the project to the risk of potential misuse of critical data and application. Apart from the day to day functioning, even critical jobs like programming, database, network and system administration were being handled by this group. There was no system of logs to help to fix responsibility in case of damage to the data and system software. As a consequence, no accountability existed.

#### **2.3.18.3 No policies for computerisation in VMC**

Audit noticed that there were no approved documented policies in VMC for day to day operations of the computerisation and security of data and other IT infrastructure. There is no IT strategic plan, Security policy, Password policy, Backup policy, Business continuity plan, Network security policy and Change management policy.

#### **2.3.18.4 No audit trail**

There was no transaction ID existing to trace a transaction across the tables in the database. VMC replied (January 2008) that VOICE was developed only as an information system and transaction ID was not thought of.

### **2.3.19 Conclusions**

Financial management was deficient. The compilation of accounts is in arrears and there was also failure to submit the audited accounts to the State Legislature for several years. Cash books were not maintained as prescribed. Maintenance of Stock Registers was also deficient. The construction of commercial complexes suffered from deficient planning. VMC failed to ensure prompt realisation of rentals from the shopping complexes constructed by it. Several works were planned without ensuring acquisition of land and other clearances etc., resulting in non-completion the works. Waste



management by the VMC is also far from satisfactory despite incurring huge expenditure. Audit also noticed statutory violations with regard to deductions from the bills of contractors

The data in VOICE is incomplete and lacks integrity due to absence of proper validation checks. Lack of segregation of duties and absence of logs was not conducive to fixation of responsibility in case of damage to data and system software.

#### **2.3.20 Recommendations**

- The postings in the cash books need to be made as per codal provisions. The cash books should be closed regularly. Periodical reconciliation should be undertaken with bank statements.
- The arrears in compilation of accounts should be cleared on priority basis so as to bring them upto date. The audited accounts should be submitted to the Legislature as prescribed in the Act.
- The management of waste should be accorded top priority as this is a key function of the VMC and the engagement of outside agencies should be on the basis of payments linked to actual processing of waste.
- VMC should take immediate steps to deploy staff with technical knowledge to man VOICE project.
- There should be enough segregation of duties between different user groups.
- Validation checks need to be introduced to facilitate correct data entry.

The above observations were reported to the State Government in September 2008; reply had not been received (January 2009).