

CHAPTER III

AUDIT OF TRANSACTIONS

3.1 PANCHAYAT RAJ INSTITUTIONS

3.1.1 Non-fulfillment of objectives

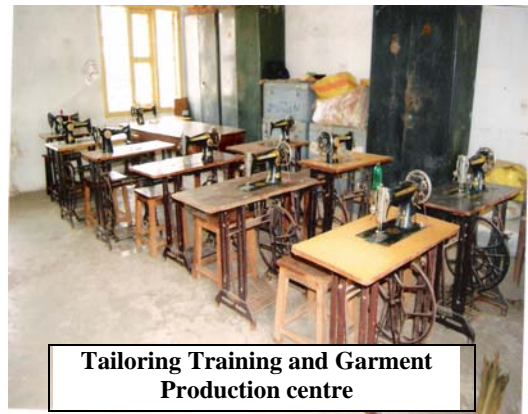
Failure to remedy the basic deficiencies responsible for poor response to training in tailoring resulted in staff on whom an expenditure of Rs 25.35 lakh was incurred on pay and allowances being not utilised for the objectives for which they were deployed.

Out of the 29 functions specified in the Eleventh Schedule, ten functions were transferred to PRIs by the GOAP. Accordingly, Tailoring Training and Garment Production Centre (TTC) which was under the control of Social Welfare Department was transferred to the ZPP, Vizianagaram from 1 April, 1999. Seven¹ staff members of the said training centre were transferred with effect from 1 July 2000. The ZPP, Vizianagaram established the TTC in their premises from April, 1999 and it became functional from July 2000 after transfer of staff. The TTC had the capacity of training 20 women belonging to Scheduled Caste every year selected by a Committee² set up for the purpose and each trainee will be paid a stipend of Rs 125 *per month*.

Audit observed (April 2007) that the TTC did not conduct any training till 2005. During 2005-06, 37 applicants applied for training and 20 selected finally. Five candidates completed the training. During 2006-07 only two candidates applied and discontinued the training within one month. The ZPP attributed non-enrolment during the period 2000-05 to absence of response from the candidates. In the absence of tailor training programme the staff was directed to render services to other sections³ of ZPP.

There was a failure of CEO, ZPP to rectify the deficiency to have more response.

Consequently, the staff deployed on the specific objective of providing training in tailoring and stitching garments to the students



**Tailoring Training and Garment
Production centre**

¹ Manager, Junior Assistant, Instructor, Mestry, Sevak, Watchman and Assistant Cutter

² Chief Executive Officer (Chairperson), Deputy Director (Social Welfare), Mandal Parishad Development Officer, Sarpanch of concerned GP and Instructor/Assistant Cutter/Manager as Member Convener.

³ Duties of Grievance Cell superintendent, dispatch section work, Treasury work, receiving dak from Post office, Attender work etc.

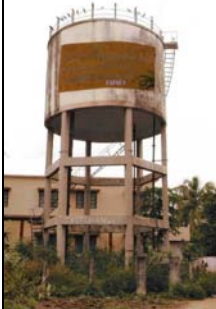

on whom an expenditure of Rs 25.35 lakh on pay and allowances made during 2000-05 rendered unproductive.


The matter was reported to the Government in February 2008; reply had not been received (January 2009).

3.1.2 Unfruitful expenditure on Protected Water Supply Schemes

In two Gram Panchayats, Protected Water Supply Schemes constructed at an expenditure of Rs 33.66 lakh were not put to use which resulted in non-achievement of the objective of providing safe drinking water to the inhabitants.

Scrutiny of records of two Gram Panchayats revealed that the Protected Water Supply Schemes constructed at an expenditure of Rs 33.66 lakh by the State Government was handed over to the GPs for maintenance. However, the PWS Schemes were not functioning which resulted in non-achievement of the objective of providing safe drinking water to prevent water borne diseases to the inhabitants as detailed below:

Sl. No.	Name of the GP	Mandal/District	Details of the case
1.	Chandole	Pitlavani-palem/Guntur	<p>The development of Protected Water Supply Scheme in Chandole village was started in the year 1990 under ARWS by the RWS division and the work was completed at a cost of Rs 22.75 lakh and handed over (November 2000) for maintenance to the GP. Due to insufficient release of grants initially, the scheme designed to serve drinking water for around 8500 persons in the village was completed with distribution lines to serve only one-fourth (2125 persons) of the village.</p>  <p>The estimated cost (February 2004) for coverage of balance lines was about Rs 10 lakh. As there was no further release of funds from Government and due to inability of raising their own funds, Gram Panchayat resolved to stop running the scheme within months of its taking over thereby not serving the drinking needs of the village. To an audit enquiry the Sarpanch stated (September 2008) that the GP is not showing interest in running the scheme due to the source (Summer Storage tank) being located adjacent to the burial ground. The alternative source has not been identified so far.</p> 

2.	Yella-reddypet	Yellareddypet/ Karimnagar		<p>The construction of 2.5 kilo litre capacity Over Head Service Reservoir (OHSR) at Kistampally in Yellareddypet village with an estimated cost of Rs 13 lakh was completed in June 2000 at a cost of Rs 10.91 lakh by RWS Department. However, the OHSR was not put to use due to drying up of original source of open well. GP had failed to approach the RWS Department for alternative source and make use of the OHSR there-by denying the intended purpose of serving protected water to the village. The GP replied (October 2008) that water is supplied through bore wells and a proposal for alternate source was submitted in August 2008 to RWS department.</p>
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Thus, due to faulty planning and failure to identify appropriate sources for water supply, the expenditure of Rs 33.66 lakh on the two water supply schemes remained unfruitful.



The matter was reported to the Government (September 2008); reply had not been received (January 2009).



3.1.3 Unfruitful expenditure due to non-completion of Gram Panchayat buildings

Construction of GP buildings without adequate financial planning resulted in unfruitful expenditure of Rs 6.14 lakh on incomplete GP buildings.

Scrutiny of the records of the following five GPs revealed that construction of GP buildings without ensuring availability of funds from their own sources or from other sources resulted in non-completion of buildings and the expenditure of Rs 6.14 lakh incurred remained unfruitful. Details are as follows-

Sl. No.	Name of the Gram Panchayat	Mandal/ District	Details of the case
1.	Rajiv Nagar	Tirupathi Urban Mandal/ Chittoor	 <p>The construction of GP Building estimated to cost Rupees two lakh was given administrative sanction in January 2004 by the Divisional Panchayat Officer, Chandragiri. The work which was taken up in January 2004 out of EFC grants was left incomplete after incurring expenditure of</p>

			Rs 1.62 lakh due to insufficient fund. Commencement of the work without making arrangements for full funds led to non-completion of the building and the work was abandoned since March 2004. The GP is also paying an avoidable monthly rent of Rs 1,000 for its own accommodation. The GP stated (October 2008) that the work was initially taken up in anticipation of receipt of fund under SGRY.
2	Kamalapur	Mangapet Mandal/ Warangal	 <p>Three kuntas (720 sft) of Gram Panchayat land was used for construction of community hall in the village in the year 1996. Administrative sanction was given by the District Collector (January 1996). A sum of Rs 1 lakh was released under MPLAD fund and construction started by the Panchayat Raj Engineering Division in the year 1997. The structure was left abandoned (2001) at foundation stage after incurring an expenditure of Rs 96,000. The GP stated (October 2008) that the earlier elected body had taken up the work which was not a productive source of revenue and hence the next elected body decided not to undertake the balance work.</p>
3.	Pudimadaka	Achyuthapuram Mandal/ Visakhapatnam	 <p>The construction of community hall at Kadapalem in the outskirts of Pudimadaka, Gram Panchayat estimated to cost Rs 1 lakh was administratively sanctioned in August 2005 restricting to the scope of administrative sanction powers of the Sarpanch. After incurring expenditure of Rs 1 lakh up to lintel level (April 2006) out of SGRY funds, the work was left incomplete. Since further amount of Rs 2.50 lakh required for completion of the building was not available with the GP, the work was left incomplete.</p>

4.	Tharigoppula	Narmetta Mandal/ Warangal		<p>The work of construction of two room shopping complex, administratively sanctioned by the Sarpanch, Tharigoppula Gram Panchayat was estimated to cost Rs 1.20 lakh and was to be met out of EFC and SFC funds. The work was taken up (June 2005) for construction by the Gram Panchayat Works Committee, and an expenditure of Rs 1.03 lakh was incurred on its construction till June 2006 out of SFC grants. Since then, the work was left incomplete at lintel level for more than two years due to non-receipt of EFC funds. The GP is losing the expected revenue of Rs 3,000 <i>per month</i> by way of rent from the shops.</p>
5	Kambalapally	Mahabooba-bad Mandal/ Warangal		<p>The balance work of construction of community hall estimated to cost Rs 1.59 lakh was administratively sanctioned by Sarpanch, Kambalapally GP under Eleventh Finance Commission grant. The GP incurred an expenditure of Rs 1.53 lakh on the work till February 2003. The GP stated (October 2008) that the hall could not be put to use due to non-construction of kitchen shed, toilets and compound wall for which funds were not available. Thus, faulty planning coupled with failure of the GP to complete the community hall in all respects led to unfruitful expenditure of Rs 1.53 lakh for more than five years.</p>

Financial planning is a prerequisite for timely completion of works. But this was not taken care.

The matter was reported to the Government (September 2008); reply had not been received (January 2009).

3.1.4 Blocking up of funds

Delay in land acquisition and construction of auditorium resulted in blocking up of funds of Rs 25 lakh for a period of 2 to 9 years.

With a view to augment its own revenue, the Gram Panchayat, Pebbair (GP) planned to (i) develop Santha (Weekly) bazaar in 30 Acres of land at a cost of Rs 43 lakh in Government (Endowment) Department's land and (ii) construct Auditorium at an estimated cost

of Rs 26 lakh. The GP deposited⁴ Rs 10 lakh and Rs 15 lakh with Revenue authorities and Engineering Division respectively for purchase of land and construction of the auditorium. But in the process of generating more revenue, their own funds were locked up for over 2 to 9 years as detailed below-

(a) Acquisition of land for Santha Bazaar

The GP proposed (1996) to develop “Santha Bazar” and resolved to purchase twenty acres of temple land and deposited Rs 10 lakh with Revenue Authorities. Though the land belonged to a Government Department (Endowment), the Land Acquisition Authorities failed to complete the acquisition of land expeditiously. The initial deposit was made in 1999 for 20 acres; however, the rate was firmed up in October 2005. No progress could be made as GP sought additional land of ten acres at a belated stage (April 2007). It was incidentally observed that the temple authorities were inclined to offer 30 acres of land way back in 1998 but the valuation process is yet to be completed. The land was not acquired till date (October 2008) resulting in the objective of augmenting the GP’s own revenue resources not achieved. Instead its own funds of Rs 10 lakh were blocked for over a period of nine years.

(b) Construction of Auditorium

The GP resolved in July 2005 to construct an Auditorium and deposited Rs 15 lakh in June 2006 with PR Engineering Division, Wanaparthy, to execute the work according to the departmental procedure. The GP, within three months resolved (September 2006) not to proceed with the construction of the Auditorium. The amount deposited with the Engineering division was yet to be received (January 2009). Consequently, the GP was not able to augment its revenue resources intended from the auditorium besides blocking its own funds of Rs 15 lakh for over two years.

The matter was reported to the Government (September 2008); reply had not been received (January 2009).

3.1.5 Non-remittance of statutory deductions

Statutory deductions of Rs 83.05 lakh effected by 43 MPPs were not remitted to Government Accounts/other agencies as per the codal provisions.

According to AP Public Works Accounts/Departmental Codes, while making payments to contractors towards execution of works, the disbursing officer should ensure that the gross amount of work bill is debited to the concerned expenditure Head and the departmental recoveries, if any, effected from the work bills are credited to respective Government Accounts/other agencies as the case may be. The Act and other Government orders issued from time to time by

⁴ Rs 4.36 lakh in January 1999 and Rs 5.64 lakh in June 2006; Rs 15 lakh in June 2006

respective Departments⁵ also specify that the deductions effected from the bills of the Contracted works are to be remitted to concerned heads of account.

It was noticed during the audit of 43⁶ Mandal Praja Parishads (MPPs) in 2006-07 that the amounts aggregating to Rs 83.05 lakh representing statutory deductions made by MPDOs while making payments to the contractors towards the execution of works taken up with General Funds and other Scheme Funds during 1996-2007 were not remitted to the respective departments.

(Rupees in lakh)

Sl.No	Category of recovery	Amount
1	Seignorage Charges	69.90
2	Sales Tax	9.97
3	Income Tax	3.18
Total		83.05

It was observed that presently there is no procedure prescribed for periodical totalling of deductions so made to enable remittance to the respective authorities by a due date. Hence, there is a need to remedy this deficiency.

On being pointed by audit, MPDO, Bhadrachalam furnished (August 2008) remittance particulars for an amount of Rs 2.16 lakh.

The matter was reported to Government in July 2008, reply had not been received (January 2009).

3.1.6 Non-transfer of unspent balances

The unspent balances of Rs 30.11 lakh pertaining to various schemes were still lying in the accounts of 12 MPDOs for over two years without being transferred to the scheme sanctioning authorities.

The Government of Andhra Pradesh has been releasing grants to Panchayat Raj Institutions to implement schemes. These funds are to be utilised within time schedule. If the grants released for implementation of the schemes were not utilised fully by the PRIs, the unspent balances shall be remitted back to the funding agencies.

Scrutiny of the accounts of the 12 Mandal Parishad Development Offices (MPDOs) audited during 2006-07 revealed that the scheme funds/grants amounting to Rs 30.11 lakh meant for Janmabhoomi,

⁵ Seignorage charges - Industries and Commerce department; Income Tax- Income Tax department and Sales Tax- Revenue department.

⁶ Office wise details are in Appendix 11

Wells in SC/ST inhabited places etc., were not utilised in time and the unspent balances lying from 2005-06 were not surrendered to the respective funding agencies. The scheme wise and office wise details are given vide *Appendix 12*. MPDOs did not furnish specific reply for non transfer of the unspent balances, but generally stated that the unspent balances would be surrendered to fund releasing authority.

The matter was reported to Government in July 2008, reply had not been received (January 2009).

3.1.7 Deficiencies in functioning of Gram Panchayats

Audit of 741 Gram Panchayats (out of 21807) during 2006-07 revealed huge arrears in collection of tax and non-tax revenues, non-utilization of grants, diversions of scheme funds, non-accountal of stock, non-maintenance of records/registers and poor accounting arrangements.

During 2006-07, 741 Gram Panchayats (GPs) constituting about 3.40 *per cent* of the 21807 GPs in the State, were randomly selected and audited for measuring economy, efficiency, and effectiveness of their operations. Tax and non-tax levies account for the major portion of the revenues of GPs. Their regular collection is essential to finance developmental activities and to provide infrastructural facilities so that the benefits of economic progress are assured to the rural poor. Similarly, efficient and effective functioning lies in ensuring that grants released to GPs for implementation of various schemes are fully utilised for the purposes they are released. Audit scrutiny of the records of the 741 GPs *inter alia* revealed the following:

i) Collection of taxes: House tax followed by water tax account for the major share of the tax collection with lighting tax and drainage tax being the other taxes collected. It was noticed that in 741 GPs, the collection of taxes were in arrears. As against the demand of Rs 37.43 crore, only Rs 19.50 crore was collected leaving a balance Rs 17.93 crore (47.90 *per cent*) as of March 2007 as detailed in *Appendix-13*.

ii) Collection of Non-tax receipts: GPs generate revenue through various other non-tax receipts also such as shopping complex rentals, cattle auctions, market fee etc. As against the demand of Rs 7.10 crore, only Rs 3.88 crore was collected during the year 2006-07 leaving a balance of Rs 3.22 crore (45.35 *per cent*) in arrears as of March 2007. The details are given in *Appendix - 14*.

iii) Utilisation of grants: Grants released to GPs during 2006-07 for implementation of various schemes were not fully utilised by GPs as shown below

(Rupees in crore)

Nature of grant/scheme	Amount of grant received	Amount of grant unutilised	Amount of grant diverted
SGRY	16.61	3.99	0.18
SFC	11.35	5.00	0.21
EFC	16.78	7.22	0.32
Total	44.74	16.21 <i>(36.23 per cent)</i>	0.71

Year wise details of grants released and utilised were not available with the GPs. Thus, it is evident that the GPs failed to utilise the scheme funds provided by GOI in full, thereby effecting their implementation.

iv) Remittance of statutory recoveries from work bills: Recoveries made towards Income tax; Turn over tax and Seignorage charges from the work bills are to be remitted to the respective departments. It was however noticed that an amount of Rs 11.62 lakh recovered from the work bills by 548 GPs were retained with them without being remitted to the respective departments as detailed in *Appendix-15*

v) Accounting of Stock: As per codal provisions, Stock Registers are to be maintained to watch proper accounting of stocks procured and their legitimate utilisation. In 741 GPs test checked, material worth Rs 3.28 crore were not accounted for in the Stock Registers as detailed in *Appendix-16*. The Register through which releases were made did not show details of issue of stock and the closing balance.

vi) Preparation of budget: According to the provisions of the AP Panchayat Act, 1994, every Gram Panchayat should prepare budget estimates for a financial year before December of the preceding financial year and obtain approval of the Divisional Panchayat Officer under Section 77(2) of the Act. However, it was noticed that 427 GPs (57.62 per cent) out of 741 test checked have not prepared budget estimates for the year 2006-07.

vii) Reconciliation: As per the provisions of the Budget Manual the GPs are required to carry out reconciliation of cash book figures with treasury balances every month. The purpose of reconciliation of Treasury Personal Deposit Account and bank accounts is to watch whether remittances made into the accounts and the booking of sanctioned expenditure are correct and also to certify the genuineness of remittances made through challans. However, it was observed that 337 (45.48 per cent) out of 741 GPs audited have not conducted reconciliation with the treasury/Bank. As a result, the possibility of misuse of Government money in the form of fictitious draws/remittances and irregular booking of expenditure under various heads of account/scheme/programmes cannot be ruled out. The matter needs immediate attention for rectificatory action.

viii) Maintenance of records: Records such as Asset Register, Works Register, DCB Register, Stock Register, and Challan Register, Register of Estimates / Agreements and Furniture Register are to be maintained as per the provisions of para 13.12 to 13.30 of GP Accounts Manual of Panchayat Raj and Rural Development Department. However, the above registers were not maintained as prescribed in almost all the GPs test checked, reflecting inadequate accounting arrangements in GPs. These records are important as they are intended to constitute documentary evidence of proper utilisation of funds and accountal for stock. In the absence of records/incomplete records, the accountability gets diluted. As per the Certificate of Assurance on Releases and Utilisaton of TFC grant for the year 2006-07, an amount of Rs 11.51 crore is earmarked for creation of Data Base and Maintenance of Accounts by the Commissioner, PR&RE and adjusted to the PD Account of ZPP, Rangareddy district. No amount was utilised for this purpose (January 2009).

Similar deficiencies were noticed in the 479 GPs audited during October 2005 to March 2006 as brought out in the earlier Audit Report (Local Bodies)-Government of Andhra Pradesh for the year ended 31 March 2006.

ix) Payment of Honorarium: As per GO Ms No 154 PR dated 31 March 1999, the expenditure on Honorarium paid to the Sarpanch shall be shared by the Gram Panchayat and the Government in the ratio 50:50. The GP share is to be met from the General Funds. It was noticed that in 690 GPs test checked the entire Honorarium was met from the General Fund of the GPs. The GPs failed to get reimbursement of the Government share.

There is an imperative need that the arrears in audit of GPs by Director, State Audit as mentioned in *para* 1.1.6 be cleared on priority basis so as to provide an assurance that the funds have been properly utilised

The matter was reported to the Government (September 2008); reply had not been received (January 2009).

3.2 URBAN LOCAL BODIES

3.2.1 Slow progress in completion of Road over Bridge

Inordinate delay in completion of construction of Road over Bridge resulted in unfruitful expenditure of Rs 4.19 Crore. Also the incomplete work did not serve the intended objective of relieving the traffic congestion.

The construction of 'Road over Bridge' (ROB) at Seetaphalmandi taken up way back in 1996 by the Municipal Corporation of Hyderabad (MCH) at an estimated cost of Rs 4 crore to relieve the traffic congestion in Hyderabad city under Mega city Scheme (CSS) has not been completed till date.

The work though administratively sanctioned in January 1989, was not immediately taken up and the Government revalidated the sanction in 1996. MCH entered (November 1997) into a Memorandum of Understanding (MOU) with M/s National Buildings Construction Corporation Limited (NBCC) for construction of ROB at a tentative cost of Rs 3.65 Crore. Due to failure in submission of designs and drawings by NBCC, MCH cancelled (August 2003) the MOU after a delay of more than five years and called for fresh tenders (March 2005). Meanwhile, the City level Co-ordination Committee of the scheme reviewed (January 1999) the proposal of ROB and recommended to increase the width of ROB from 8.5 meters to 12 meters to meet the increased traffic requirement. Accordingly, the MCH submitted the revised estimate for Rs 8 crore to the Government (July 2003) and the same was approved in August 2003.

For completion of ROB, land was to be acquired apart from shifting of underground lines of water supply, sewerage and heavy electrical lines. Acquisition of land is a complex and tedious process where the time required to complete the task cannot be assessed with any degree of certainty. Despite this, the work was awarded (June 2005) to a second agency (M/s Manikanta Constructions) without prior acquisition of land for a contract value of Rs 6.18 crore with stipulated date of completion as one year. The work was not completed even after expiry of Extension of Agreement Time (EOAT) (August 2007) due to delay in acquisition of private properties and shifting of electric, water supply and sewerage lines. Work valued Rs 4.19 crore⁷ was completed upto EOAT and ROB is yet to be completed (January 2009).

Failure to acquire the land prior to award of work contributed for delay in completion of the work. The expenditure of Rs 4.19 crore remained unfruitful and the intended objective of relieving the traffic congestion at Seetaphalmandi in Hyderabad city remained unfulfilled.

The matter was reported to Government in January 2008, reply had not been received (January 2009).

⁷ Rs 1.38 crore for structure valuation; Rs 2.42 Crore for ROB and Rs 39 lakh for shifting of electrical mains.

3.2.2 Unfruitful expenditure on construction of vegetable market besides loss of revenue

Construction of vegetable Market Complex at Naimnagar, Hanmakonda without undertaking demand survey led to unfruitful expenditure of Rs 25.19 lakh besides loss of revenue of Rs 27.30 lakh.

The 'Construction of Vegetable market at Naimnagar' under Integrated Development of Small and Medium Towns (IDSMT), a centrally sponsored scheme, was entrusted (March 1996) to M/s NBCC Limited a GOI agency for an agreed value of Rs 23.66 lakh. The objective of the scheme was to generate revenue to the local bodies and to slow down migration of people. The work consisting of 92⁸ shops was completed in all respects at a cost of Rs 25.19 lakh and taken possession by the Warangal Municipal Corporation (WMC) in May 2000. The stalls were put to public auction repeatedly from the year 2000 to 2007 but there was no response from public to the notices issued. Consequently, the complex remained unoccupied as of August 2008 except one shop let out on a request received in April 2006 for a rent of Rs 1,000 *per month*.



Vegetable Market Complex
(Block A & B)

Audit observed that the construction work was undertaken without prior demand survey. The Commissioner, WMC replied (August 2008) that no separate survey was conducted as the site of construction was a business area located nearer to residential colonies. The reply overlooks the



Vegetable Market Complex
(Block C & D)

fact that to assess the demand, survey was essential to know the potential number of parties willing to take shops on rental basis; the expected rentals and the size of the shops. It was incidentally observed that the size of each shop was 1.78 m x 2.32 m (4.1 sqm). The above lapses resulted in unfruitful expenditure of Rs 25.19 lakh besides loss of revenue of Rs 27.30 lakh⁹ due to non-occupation of the shops

⁸ Vegetable stalls (74); Mutton stalls (12) and Chicken stalls (6)

⁹ rent @ Rs 250 pm on 92 shops (70 months); on 91 shops (29 months) plus goodwill at Rs 5000 on 92 shops

for more than eight years. The basic objective of augmenting revenues of the Corporation remained unfulfilled.

The matter was reported to the Government in May 2008, reply had not been received (January 2009).

3.2.3 Loss of revenue

Failure to collect Entertainment Tax by the Commissioner, Warangal Municipal Corporation resulted in loss of revenue of Rs 1.31 crore.

According to the provisions of the AP Entertainment Tax Act, 1939, the Entertainment Tax Officer (ETO) has to assess the demand and collect Entertainment Tax (ET) on Cable TV Network from the Master Cable TV Operator and Cable TV Operators under his jurisdiction at the rates prescribed from time to time. The proceeds of the tax payable shall be apportioned between the State Government and the Local Authority (ULB) in the ratio of 10:90 respectively. The Government issued orders¹⁰ (October 2000) delegating the powers of collection of Tax on entertainment on Cable TV to the Commissioners of Municipalities/Corporations.

A test check (August 2006) of the records of the Warangal Municipal Corporation (WMC) revealed that though the function of collecting ET was delegated to ULBs in October 2000, the Commissioner had not collected ET up to December 2004 which resulted in a loss of revenue to the Corporation to the extent of Rs 67.20 lakh¹¹ on 30,000 cable TV connections. The Commissioner started collecting ET only in January 2005. Out of the demand for the period January 2005 to October 2006 an amount of Rs 20.24 lakh remained to be collected. It was also observed that the demand was raised only for 30,000 connections as against the 70,000 connections identified by the Town Planning Authorities. The loss involved was Rs 44 lakh¹².

The above lapses by the Commissioner led to a revenue loss of Rs 1.11 crore. Besides, an amount of Rs 20.24 lakh was also lying as arrears.

The matter was reported to the Government in January 2008, reply had not been received (January 2009).

¹⁰ The function was rolled back to Commercial Tax Department in November 2006.

¹¹ Rs 4 for each connection *per month* upto December 2002 and Rs 5 for each connection from January 2003 to December 2004

¹² Rs 5 for each connection *per month* for 22 months for 4,000 connections

3.2.4 Incomplete storm water drain

Commencement of work without ensuring availability of funds resulted in the work of Storm water drain remaining incomplete for more than four years despite incurring an expenditure of Rs 75.60 lakh.

Scrutiny of the accounts (August 2006) of Warangal Municipal Corporation(WMC) revealed that the work of construction of storm water drain from Kasikunta up to a culvert point in Sakarasikunta proposed under Andhra Pradesh Urban Services for the Poor (APUSP) remained incomplete for over four years despite incurring an expenditure of Rs 75.60 lakh¹³.

The construction of drain was proposed (September 2003) for a length of 1500 meters at a cost of Rs 80 lakh to dispose off the sullage water accumulating in the area inhabited by urban poor. To derive benefit from the storm water drain it was absolutely necessary that the work be completed to the full length of 1500 meters as completion of portion of the work would not give any pro-rata benefit. Instead of calling bids for the full length of drain by ensuring full funds were available, the scope of work was restricted to 1056 meters to the extent of scheme funds available and for which technical sanction was available. As the contractor quoted a value less than the estimate for 1056 meters bids were called again and further work to the extent of 94 meters was executed from the savings. As a result the drain work remained incomplete as of date.

Commissioner (WMC) stated (August 2008) that the balance work could not be taken up due to non-availability of funds. The reply is not acceptable as the incomplete work had the undesired effect of collection of storm water for the completed length with potential of flooding, as the work of tail end, which would have discharged the water into culvert point, was not taken up. As a result, the objective of providing better hygiene and healthier environment for areas inhabited by urban poor was not achieved.

The matter was referred to the Government in January 2008, reply had not been received (January 2009).

3.2.5 Unauthorised/irregular investment of municipal funds

Unauthorised investment of Municipal funds by the Commissioner, L.B Nagar, Municipality in violation of the codal provisions resulted in loss of Rs 21.62 lakh.

Andhra Pradesh Treasury Code permits investment of surplus funds of Municipal Council in few selected bonds and securities viz. Andhra Pradesh Government Securities, Non terminable loans of Union Government, Fixed deposits for a period of three years in

¹³ Rs 69.48 lakh from C-MAPP 1st cycle and Rs 6.12 lakh from savings of C-MAPP 2nd cycle

State and Central Co-operative banks, Defence bonds 1946 and Savings Certificates issued by the Government.

Test check of records (June 2006) of the Commissioner, L.B.Nagar Municipality revealed that the municipality without the approval of the municipal council invested an amount of Rs 40.55 lakh¹⁴ in fixed deposits (FDRs) in the First City Cooperative Urban Bank Limited, which is not one of the institutions approved for investments. On maturity, the bank issued (March 2000) cheques for the maturity value of Rs 43.43 lakh which however, were not encashed due to insufficient funds. On this being intimated, the bank once again issued (May 2000) fresh FDRs with maturity value of Rs 44.55 lakh payable in August 2000. The municipality instead of realising the entire maturity amount in August 2000 could realise only Rs 23.45 lakh¹⁵ as the bank refused withdrawal of full amount and issued fresh FDRs for balance with maturity value of Rs 22.62 lakh payable in December 2001.

The bank, however, went into liquidation in the year 2001 and the municipality could not realise the balance FDRs on maturity. As against the deposit claim by the liquidator (March 2003) with the Deposit Insurance and Credit Guarantee Corporation (DICGC), Mumbai, the maximum eligible amount of Rupees one lakh was realised by the municipality in June 2006.

Thus, investment of surplus municipal funds in violation of the codal provisions, without the approval of the municipal council led to a loss of Rs 21.62 lakh. On this being pointed out, the Commissioner could not offer (February 2008) any remarks.

The matter was reported to the Government (September 2008), reply had not been received (January 2009).

3.2.6 Idle expenditure on construction of meat market

Construction of meat market complex at a cost of Rs 32.80 lakh in Kamareddy Town on a site encroached by meat vendors remained idle over four years.

Scrutiny of the records of Kamareddy Municipality revealed that the shops and meat market complex constructed at a cost of Rs 32.80 lakh under Integrated Small and Medium Towns (IDSMT) remained idle for four years as of September 2008. Details of the case are as under-

Kamareddy Municipality had in its possession land on which there were some unauthorised sheds and the land was also being utilised by street vendors. The Commissioner decided to construct a permanent shopping complex in the land consisting of 48 shops and also augment revenue from the shops. Since the land was already

¹⁴ Rs 19.07 lakh in August 1999 for 3 months and Rs 21.48 lakh in November 1999 for 12 months.

¹⁵ Rs 10 lakh in December 2000; Rs 10 lakh in May 2001 and Rs 3.45 lakh in December 2001

encroached by some vendors, the Municipal Council resolved (July 2001) to allot the shops without public auction to the displaced 29 vendors who had been doing business in the land and to allot the remaining shops through auction. A proposal to allot shops to the displaced vendors without public auction was sent to the Government (September 2001). Pending receipt of approval for the proposal, the Municipal Council went ahead with the construction of the complex and was completed in August 2003 at a cost of Rs 32.80 lakh. When the auction notice was issued in January 2004, there was no response as the vendors ensured non-participation of bidders.

In December 2005 the Government rejected the proposal of the Council to allot shops without auction and instructed (March 2006) the Council to submit proposals for according administrative sanction for goodwill auction. The Municipal Council is yet to submit its proposal (September 2008).

The Municipal Council went ahead with the construction without sorting out the issue of dealing with the existing vendors. Consequently, shops constructed at a cost of Rs 32.80 lakh have remained idle till date in addition not being able to generate revenue estimated to be Rs 29.56 lakh¹⁶ for the period from February 2004¹⁷ to September 2008.

The matter was reported to the Government (September 2008), reply had not been received (January 2009).

3.2.7 Non-remittance of Library cess collections

Lack of proper mechanism in segregating the Library cess by the ULBs from the Property tax collections, followed by a remittance with in stipulated dates deprived the Zilla Grandhalaya Samsthas in getting their dues to the extent of Rs 42.13 crore.

According to Section 85 (2) of the Law relating to Municipalities on levy of property tax read with Section 20(3) of the Andhra Pradesh Public Libraries Act, 1960 the amount of Library Cess¹⁸ (LC) collected on the property tax levied by the Local Bodies is transferred to the Personal Deposit account of the City/Zilla Grandhalaya Samstha¹⁹ (ZGS) concerned to provide library services to the public.

¹⁶ Rent for 16 shops @ Rs 1,500 p.m. and 32 stalls @ Rs 900 p.m. for 56 months

¹⁷ Assuming that a period of six months would have been adequate for the auction process of allotment of shops and 75 per cent of the shops would find takers.

¹⁸ library cess in the form of surcharge at the rate of eight paise for every rupee on the property tax or house tax levied in such area under Section 20 of the AP Public Libraries Act, 1960.

¹⁹ Autonomous bodies constituted under A.P. Public Libraries (Amendment) Act, 1969 for organizing and administering public libraries in the State.

A test check of the accounts of two²⁰ Urban Local Bodies (ULBs) revealed that for transfer of LC to ZGS the arrears as at the end of March 2007 was Rs 2.76 crore. To an audit enquiry, Director of Public Libraries stated (May 2008) that as of March 2007, an amount of Rs 42.13 crore was still to be received from Urban Local Bodies in the State.

There was no proper mechanism in place for periodical segregation of the Library cess from the Property Tax collected and remittance of the same resulting in huge arrears. Thus, the legislative intent of funding the ZGS for providing library services to the public has not been translated into effective compliance.

The matter was reported to Government in July 2008, reply had not been received (January 2009).

3.2.8 Parking of schemes funds in Fixed Deposits/Joint Account

Scheme funds aggregating Rs 4.24 crore were kept in fixed deposits and Joint account in violation of the guidelines

Government of India and the State Government provide funds to Urban Local Bodies (ULBs) for implementation of various Centrally/State sponsored schemes for economic and social development of the population below the poverty line. Guidelines of the schemes stipulated that the respective scheme fund should be kept with nationalised banks or in post office in an exclusive and separate account and should be utilised only for the intended purpose and not to be invested in fixed deposits. The interest accrued should also be credited to the concerned scheme funds.

A test check of the records revealed that Karimnagar Municipal Corporation and four municipalities²¹ have, in violation of the Scheme guidelines, kept scheme funds aggregating Rs 4.24 crore in Fixed Deposits as shown below:

(Rupees in lakh)

Sl.No.	Name of the Scheme/Programme	Year in which amount deposited and lying unutilised	Amount
1	NRYP	2004-05	1.97
2	Office Building grant	2004-05 2005-06	45.00 90.00
3	IDSMT	2004-05 2005-06	86.40 44.99
4	Community Toilets	2005-06	70.55
5	DWACRA	2003-04	26.00
6	Solid Waste Management	2005-06	17.05
7	NSDP	2004-05 2005-06	11.07 30.94
	Total		423.97

²⁰ Greater Visakha Municipal Corporation (Rs 2.69 crore) and Karimnagar Municipal Corporation (Rs 7 lakh)

²¹ Kamareddy, Pithapuram, Ramagundam and Tuni

Due to non utilisation of Office Building grant, Tuni Municipality is incurring an expenditure of Rs 6,320 *per month* on rent. Specific replies were not furnished by other ULBs.

Keeping the scheme funds in Fixed Deposits was irregular and reduced the availability of funds to that extent for various socio-economic development schemes to be implemented in urban areas.

The matter was reported to the Government in May 2008, reply had not been received (January 2009).

3.2.9 Diversion of scheme funds

Two Municipal Corporations and four Municipalities in violation of scheme guidelines diverted scheme funds amounting to Rs 1.91 crore.

Government of India and Government of Andhra Pradesh release funds to Municipal Corporations/Municipalities to implement various schemes. In case of non-implementation of schemes, the funds lying unutilised should be assessed and remitted back to the funding agency.

As per the Scheme guidelines for which the funds were released, the amount released should be kept in Nationalised banks or a Post Office in an exclusive and separate account and should not be diverted and utilised for other purposes. The guidelines issued for various schemes were also specific that funds allocated for “a component and District” should not be diverted to “other components and other Districts”.

Audit scrutiny of two Municipal Corporations and four municipalities revealed that scheme funds of Rs 1.91 crore were diverted for other purposes during the period from 1996 to 2006 as detailed in *Appendix-17*.

On being pointed out, the Commissioners of three²² ULBs did not furnish any specific reply. The release of amount by the Commissioner and Director of Municipal Administration (CDMA) to

²² Anantapur, L.B.Nagar, and Nizamabad

Municipal Council, Bodhan towards Office Building Grant was not justified as it was having its own building with sufficient accommodation and gave scope for diversion. Thus, the diversion of Rs 1 crore by Ananthapur Municipal Corporation under NSDP deprived the slum people of the intended benefits of the scheme.

The matter was reported to the Government in May 2008; reply had not been received (January 2009).

**Hyderabad
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