

CHAPTER II

PERFORMANCE AUDIT

This chapter contains Performance Audits on Functioning of Zilla Praja Parishads (2.1), Functioning of Greater Visakhapatnam Municipal Corporation (2.2) and Management of shopping complexes / markets by Greater Hyderabad Municipal Corporation (2.3).

PANCHAYAT RAJ & RURAL EMPLOYMENT DEPARTMENT

2.1 Functioning of two Zilla Praja Parishads

Highlights

The Zilla Praja Parishad (ZPP) is the apex body of Panchayat Raj Institutions (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). A review on functioning of two Zilla Praja Parishads, namely Mahbubnagar and Krishna revealed deficiencies in preparation and submission of District development Action Plans, sectoral allocation and utilization of funds, improper monitoring in reimbursement of funds from Government, diversion of funds, execution of various developmental works, internal control etc.

- Deficiencies were noticed in functioning of District Planning Committees with regard to preparation and submission of Action Plans. In Mahbubnagar the consolidated district development plan approved by the DPC was not submitted to Government for inclusion in State Plan. In Krishna, the district development plans were not prepared due to non receipt of proposals from respective MPPs and GPs.

[Paragraph 2.1.5]

- The implementation of National Food for Work Programme (NFFWP) in ZPP Mahbubnagar suffered from diversion of funds amounting to Rs 4.04 crore to unintended purposes and idling of funds valuing Rs 60.78 lakh with implementing agencies for more than three years.

[Paragraph 2.1.6.5]

- The unspent balances of various centrally sponsored schemes i.e., EAS, IJRY, SGRY, JRY, RLGP/NREP amounting to Rs 3.25 crore were lying idle in the accounts of PRIs of the both the districts without being surrendered to respective Grantor although the schemes were not in operation.

[Paragraph 2.1.6.15]

- **HBA loan amounting to Rs 1.91 crore was not repaid to Government by both the ZPPs of Mahbubnagar and Krishna. In both the ZPPs, HBA recoveries were kept in PD account instead of depositing the amounts in Nationalised banks to earn interest.**

[Paragraph 2.1.6.17]

- **Due to lack of appropriate preparatory measures for timely execution of works, the expenditure incurred to the extent of Rs 64.13 lakh on construction of Mandal Parishad/Community hall / GP buildings / Anganwadi buildings taken up by the implementing agencies of both the ZPPs remained blocked as their construction remained incomplete.**

[Paragraph 2.1.7.1]

- **There was no periodical inspection of the assets by ZPP, Krishna. This led to unauthorised construction of building on a lease site worth Rs 3 crore.**

[Paragraph 2.1.8.1]

2.1.1 Introduction

The Zilla Praja Parishad (ZPP) is the apex body of Panchayat Raj Institutions (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 *interalia* are to:

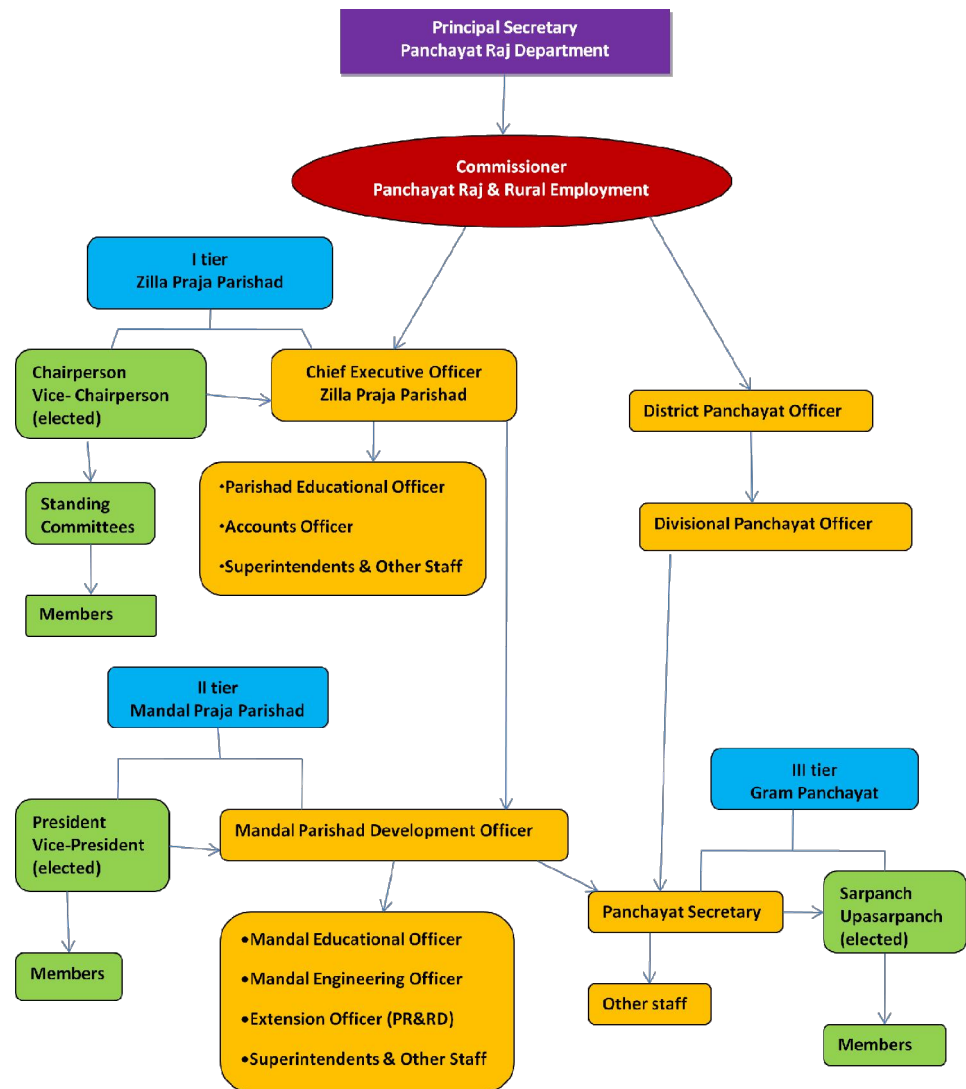
- Examine and approve the budgets of MPPs.
- Distribute the funds allotted to the district by the Central or State Government to the MPPs and GPs in the district.
- Prepare District plan for the entire district in coordination with MPPs.
- Generally supervise the activities of MPPs.
- Perform such of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

The powers of the State Government with reference to monitoring the working of ZPPs *interalia* are to :

- Cancel or suspend any resolution of PRIs if the resolution is illegal, is in excess or abuse of powers of the PRIs or its execution is likely to cause danger to human life, etc.
- Issue directions for the proper working of the PRIs
- Take action for the proper functioning of the PRIs
- Inspect any records of the PRIs or any immovable property
- Call for any record, register, document, account, statement etc.

2.1.2 Organisational set-up

Organisational set-up of PRIs in the State is as under:



2.1.3 Audit objectives

The objectives of the review was to assess whether

- the District Planning Committee was functioning as envisaged
- the financial management by ZPPs were economic, effective and efficient
- implementation of works by the ZPPs as well as the lower tiers were efficient and the intended objectives achieved
- monitoring at all levels were adequate.

2.1.4 Scope and methodology of audit

The performance of the two ZPPs (Mahbubnagar and Krishna) was reviewed (September-December 2009) for the five year period 2004-05 to 2008-09,

besides test check of records of eight¹ PR Divisions, five² RWS Divisions, fifteen³ MPPs and three GPs⁴. However matters relating to the period subsequent to 2008-09 have also been included wherever necessary.

2.1.5 Planning process

As per Article-243-ZD of the Constitution of India, the State Government is required to constitute a District Planning Committee (DPC) to consolidate the plans prepared by the Panchayats and Municipalities in the District by undertaking legislation. Accordingly, the Government of Andhra Pradesh enacted an Act on constitution of Andhra Pradesh District Planning Committee through a notification in November 2005 which is called Andhra Pradesh District Planning Committee Act (APDPC Act), 2005. Subsequently, guidelines were issued⁵ (October 2007) with regard to (i) functions and meeting procedures (ii) preparation of District development plan by DPC, (iii) collection and maintenance of Database on Socio Economic and gender statistics and (iv) development of District level indicators. DPC guidelines provide for preparation of District Development Plan for each financial year to be submitted to the Government directly before the prescribed date to enable Government to incorporate the same in State Plan. The particulars of formation/functioning of DPCs in ZPP Mahbubnagar and Krishna were as follows:

District	Constitution of DPC	Formation of Sub-committees/ District level Technical Advisory Committee	Approval of integrated Development plan 2009-10	Date of submission to Govt. for inclusion in the State plan
Mahbubnagar	December 2007	December 2007	July 2009	Development Plans approved by DPC for 2008-09 and 2009-10 were not submitted to the Government.
Krishna	December 2007	December 2007	Not prepared	Integrated development plans for 2008-09 and 2009-10 were not prepared.

In this connection, the following observations are made:

2.1.5.1 Submission of Consolidated Development Plans

No specific dates were stipulated in the APDPC Act, 2005 or in the guidelines for submission of development plans either by MPPs and GPs to ZPP or

¹ Gadwal, Nagar Kurnool, Wanaparthi, Narayanpet, Mahbubnagar of Mahbubnagar District; Vijayawada, Nuzvid, Machilipatnam of Krishna District.

² Gadwal, Nagarkurnool, Mahbubnagar of Mahbubnagar District; Vijayawada, Gudivada of Krishna District.

³ Gadwal, Nagar Kurnool, Thimmaji Pet, Wanaparthi, Dhanwada, Boothpur, Nawabpet, Koilkonda, Farooq Nagar of Mahbubnagar District; Vuyyuru, Gudivada, Pedaparupudi, Vissannapet, Gampalagudem, Pedana of Krishna District.

⁴ Nagar Kurnool, Kowrapet, Pebbair of Mahbubnagar District.

⁵ G O Ms No.448, 449 and 450 of PR& RD (Election Rules) Department in October 2007.

Deficiencies were noticed in functioning of DPCs with regard to preparation/ submission of Development Plans

subsequent consolidation and approval of development plans by ZPPs for incorporation into State Plan.

- In Mahbubnagar, the District Planning Committees consisting of ZPP Chairperson being the ex-officio Chairperson and District Collector as Member Secretary approved the development plans for 2008-09 and 2009-10 in September 2008 and July 2009 respectively. The approved plans were not submitted to the Government by DPC for inclusion in the State Plan.
- In Krishna, although the DPC was constituted in December 2007, integrated development plans were not prepared due to non-receipt of proposals from respective MPPs and GPs.

Thus, the primary objective of assessing the requirements of stake holders through the mechanism of DPCs was not achieved.

2.1.5.2 Creation of village level database

As per State Government order (October 2007), the DPC should give high priority to create and maintain the village level database on various parameters viz., educational status, land utilization, live stock & poultry, market outlets, employment status, details of assets such as factories, business establishments, bridges, forest area, orchards etc., before the Development Plan is finalised. However, the DPC, Mahbubnagar formulated the development plan for 2008-09 and 2009-10 without compiling the village level data.

2.1.5.3 Capacity Building

As per State Government order (October 2007) the DPC should co-ordinate with Alimineti Madhava Reddy Andhra Pradesh Academy for Rural Development (AMR-APARD), the institute of conducting training courses to the staff of PR&RD for capacity building of the elected representatives and also the officials of PRIs and ULBs in decentralized planning. The capacity building shall cover building awareness regarding human rights, rights of Women, Children, Disabled, SCs, STs and Right to Information etc. However, in Mahbubnagar, although eight member / non-officials were nominated for training programme (September 2008), no officials were nominated for capacity building efforts.

In ZPP Krishna no members were nominated.

2.1.5.4 Constitution of District Level committee

Government issued (November 1977) orders to constitute a committee at the District level with six members headed by the District Collector as Chairman and CEO as the convener with the objective of reviewing the utilization of earmarked funds in a district and to submit the review report to State Level Committee. The Committee is required to meet at least once in a month. However, no such committee was constituted in either of ZPPs of Mahbubnagar and Krishna.

2.1.6 Financial management

Sources of revenue for ZPPs are i) grants released by the State Government like per capita grant, seignorage fee grant, salary grant for staff, TA and 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 resources and expenditure of the test checked ZPPs i.e., Mahbubnagar and Krishna during the years 2004-05 to 2008-09 were detailed in Table 2.1 below:

Table 2.1 Resources and expenditure of ZPP Krishna and Mahbubnagar

(Rupees in crore)

District	2004-05		2005-06		2006-07		2007-08		2008-09	
	Resources	Expr	Resources	Expr	Resources	Expr	Resources	Expr	Resources	Expr
Mahbubnagar	101.38	88.71	141.88	126.18	167.02	157.93	250.18	219.06	276.28	254.20
Krishna	92.79	91.19	132.77	113.71	188.96	180.20	187.78	168.30	227.84	214.89

Source : Annual accounts of ZPPs

Details of finances in respect of both the ZPPs for the year 2008-09 were as given in Table 2.2

Table 2.2: Finances of ZPP Krishna and Mahbubnagar for the year 2008-09

(Rupees in crore)

Head of Account	Resources			Expenditure		
	Krishna	Mahbubnagar	Total	Krishna	Mahbubnagar	Total
General Fund	34.03	36.00	70.03	29.86	35.53	65.39
Education Fund	7.73	9.60	17.33	8.27	9.30	17.57
Engineering fund	160.16	208.29	368.45	155.49	188.72	344.21
HBA & Provident Fund	25.88	22.39	48.27	19.19	20.65	39.84
SGRY Scheme fund	0.04	0	0.04	2.08	0	2.08
Total	227.84	276.28	504.12	214.89	254.20	469.09

2.1.6.1 Short release of per capita grant to PRIs

Per capita grant of Rs 4.56 crore was short released to PRIs

As per Government orders⁶, per capita grant calculated at the rate of four rupees per person residing in the district as per the latest census figure is to be released by the Government to ZPPs. During the years 2004-05 to 2008-09, Government released an amount of Rs 4.54 crore and Rs 4.19 crore to ZPPs Mahbubnagar and Krishna as against Rs 6.47 crore and Rs 5.85 crore respectively resulting in short release of Rs 1.93 crore and Rs 1.66 crore respectively. On this being pointed out, ZPPs promised to address the Government in this regard.

Similarly, a sum of Rupees eight per person is to be released in case of Mandals. Audit noticed shortfall of Rs 96.78 lakh in release of per capita grant

⁶ G.O.Ms.No.279, PR& RD (Mandals-I), dated 20.06.1998.

to the following test checked Mandals during the period of coverage as detailed in Table 2.3 below:

Table 2.3: Details of shortfall in release of Per capita grant to MPPs

(Rupees in lakh)

S.No	Name of the Mandal	Population	PC grant to be released during 2004-09	PC grant released during 2004-09	Shortfall
1	MPDO, Gadwal	42815	17.13	11.39	5.74
2	MPDO, Nagarkurnool	68533	27.41	13.59	13.82
3	MPDO, Thimmaji Pet	33500	13.40	7.84	5.56
4	MPDO, Wanaparthy	37990	15.20	9.29	5.91
5	MPDO, Boothpur	43690	17.48	11.53	5.95
6	MPDO, Koilkonda	56389	22.56	15.10	7.46
7	MPDO, Farooq Nagar	97063	38.83	22.49	16.34
8	MPDO, Vuyyuru	73767	29.51	19.59	9.92
9	MPDO, Gudivada	37979	15.19	11.07	4.12
10	MPDO, Pedaparupudi	33099	13.24	8.47	4.77
11	MPDO, Vissannapet	56732	22.69	17.56	5.13
12	MPDO, Gampalagudem	68108	27.24	19.91	7.33
13	MPDO, Pedana	38754	15.50	10.77	4.73
Total			275.38	178.60	96.78

2.1.6.2 Non-approval of MPPs' budgets

As per section 192 of Andhra Pradesh Panchayat Raj Act 1994, the budget proposals of the MPPs should be reviewed by the Standing Committees of the ZPP and placed before ZPP General Body for approval.

However, the budget proposals submitted by MPPs in Mahbubnagar were not placed before the ZPP General Body by ZPP during 2004-05 to 2008-09. This resulted in lack of control by ZPP to monitor the finances of MPPs.

2.1.6.3 Delay in submission 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 and submitted to the State Audit Department before 15 May every year. The dates of submission of Annual Accounts by the two ZPPs for the past five years were as shown in Table 2.4 below.

Delay in preparation of Annual Accounts ranged from one to eight months

Table 2.4: Details of Annual accounts submitted by ZPP Mahbubnagar and Krishna

S.No	Year of Annual Accounts	Dates of submission of annual accounts to Director of State Audit by the ZPP	
		ZPP, Mahbubnagar	ZPP, Krishna
1	2004-05	14.10.2005	16.09.2005
2	2005-06	09.02.2007	07.12.2006
3	2006-07	09.01.2008	31.05.2007
4	2007-08	10.12.2008	20.06.2008
5	2008-09	Not submitted as of 09/2009	20.09.2009

The delay in submission of Annual Accounts ranged from five to eight months in respect of ZPP Mahbubnagar and one to six months in case of ZPP Krishna.

2.1.6.4 Refund of devolved funds due to non-transfer of functionaries

**Non-
utilisation of
funds by
PRIs due to
non-transfer
of
functionaries**

The 73rd Constitutional amendment provide for strengthening of PRIs, so that they can sub serve the needs of the rural population. For this, the PRIs were to be devolved with 29 subjects as enunciated in eleventh schedule of the Constitution. Out of 29 subjects, Government of Andhra Pradesh transferred ten core functions to PRIs in December 2007. Although, GoAP devolved 10 core functions, funds relating to two departments (Fisheries and Agriculture) were only released to test checked ZPPs.

Audit observed the following with regard to funds released by the two departments.

- It was noticed in ZPP, Mahbubnagar that out of Rs 13.90 lakh released (September/November 2008) by the Fisheries Department, a sum of Rs 8.58 lakh⁷ along with the entire amount of Rs 39 lakh released (March 2009) by the Agriculture Department was returned (March 2009) to the respective departments by the ZPP due to non-transfer of functionaries.
- Similarly in Krishna district, an amount of Rs 18 lakh was released (October-December 2008) by Fisheries Department towards implementation of various programmes viz., supply of fish seed to fishermen and setting up of fish retail outlets etc., and Rs 35.98 lakh released (March 2009) by Animal Husbandry Department towards ongoing works. However, the entire amount of Rs 53.98 lakh is lying with ZPP PD account as unspent balance due to non-transfer of functionaries.

2.1.6.5 Releases and utilisation of NFFWP

**NFFWP
funds were
not utilised
for the
specified
purpose**

Mahbubnagar was one of the Districts identified for implementation of National Food for Work Programme (NFFWP), a cent percent centrally sponsored Scheme with an objective to provide food security for at least 30 days of wage in a financial year.

⁷ Out of Rs 13.90 lakh released by the Fisheries Department, Rs 8.58 lakh was transferred to Fisheries Department, Rs 1.25 lakh was released to ST Fishermen Co-operative society and the balance of Rs 4.07 lakh was lying unspent with ZPP.

Under the Programme, a five year perspective plan for the district duly covering blocks (Mandals) and GPs was required to be prepared considering the following aspects.

- The works with material and wage component of 40:60 ratio were only to be taken up.
- The works prescribed were water conservation, land development of below poverty line (BPL) families (SC&ST), drought proofing and afforestation, irrigation canal, M I Tank, flood control work etc.
- The GOI allowed the State Government to change the priorities as per the local requirement. Accordingly, the State Government permitted the utilisation of 75 per cent of the resources on the above works and remaining 25 per cent for road connectivity works in SC, ST colonies.

As per the GOI guidelines, the grant released is towards plan expenditure and no deviation from the NFFWP guidelines is permissible. When there was no requirement of funds for creation of wage employment, the funds were to be surrendered to the GOI for utilisation elsewhere.

In contravention of the above specific guidelines, following deviations were noticed.

- Based on the orders of District Collector, construction of the following hostel buildings was taken up during 2004-09 by diversion of NFFWP funds. Details of releases in this regard are as shown in the Table 2.5 below:

Table 2.5: Details of NFFWP funds released towards construction of hostel buildings

(Rupees in lakh)

S.No	Name of the Division	Number of hostel buildings to be constructed	Amount released
1	E.E., PR, Nagar Kurnool	8	192.06
2	E.E., PR, Mahbubnagar	5	87.30
3	E.E., PR, Narayanapet	6	104.76
4.	E.E., PR, Wanaparthy	1	19.40
	Total	20	403.52

Audit, however, noticed that the District Collector, in support of the above expenditure, issued (December 2005) an incorrect Utilisation Certificate stating that there were no diversion of funds and works were executed as per the priority laid down in the Perspective plan.

The District Collector attributed the diversion to sufficient rainfall in that particular year.

The purpose of funds was to undertake construction of assets in drought prone area such as irrigation works etc. Incidence of rainfall in a particular year should not have been taken as plea to divert the funds to other ineligible works. Rainfall does not occur throughout the year.

Specific works could have been carried out during non-agricultural seasons.

- Based on the orders of the District Collector, the ZPP released Rupees three crore during 2004-2006 to Executive Engineer, RWS Divisions⁸ towards purchase of pipes for laying of drinking water pipe lines, which should have also been financed from State Government funds.
- Rupees four crore was paid (August 2005) as reimbursable advance to the Project Director, DWMA towards implementation of RIDF-X⁹ and CLDP¹⁰, out of which Rs 70 lakh only was refunded (December 2005) and the balance amount of Rs 3.30 crore was not refunded as of September 2009.
- Consequent on introduction of National Rural Employment Guarantee Scheme (NREGS), GOI directed all the states to transfer unutilised balances available under NFFWP as on 1 April 2006 to NREGS account. When there were no committed liabilities pending against the available funds, the unspent balances were to be transferred to the NREGS. However the unspent balances detailed in Table 2.6 were lying in the accounts of ZPP and divisions as of December 2009.

Table 2.6: Details of unspent balances of NFFW scheme funds

(Rupees in lakh)

Name of the unit	Year from which the unspent balances lying with the units	Amount
CEO, ZPP	2005-06	13.40
PR Divisions ¹¹	2005-06	47.38
Total		60.78

2.1.6.6 Diversion of TFC grant

TFC grant of Rs 17.58 crore was diverted for inadmissible works

GOI releases Finance Commission grants to PRIs for implementation of various programmes in rural areas. As per Twelfth Finance Commission (TFC) grants guidelines, grants released by the GOI are to be mandatorily transferred by the States to PRIs for improving their service delivery in respect of water supply and sanitation. The PRIs were also to be encouraged to take over the assets of water supply and sanitation and utilise the grants for repairs/rejuvenation as Operating and Maintenance (O&M) costs.

Scrutiny of records of test checked districts revealed that based on the orders of the State Government, ZPPs diverted (2006-07 and 2008-09) an amount of Rs 17.58 crore towards matching share for construction of ISLs under

⁸ E.E., RWS, Gadwal – Rs 42.25 lakh; E.E., RWS, Mahbubnagar- Rs 156.80 lakh; E.E., RWS, Nagarkurnool- Rs 101.36 lakh.

⁹ Rural Infrastructure Development Programme, which is not a permissible item of work.

¹⁰ Community Local Development Programme.

¹¹ E.E., PR Mahbubnagar Rs 20.41 lakh, E.E., RWS, Gadwal Rs 0.60 lakh, E.E., PR, Narayanpet Rs 11.92 lakh, E.E., RWS, Nagarkurnool Rs 14.45 lakh.

INDIRAMMA houses which should have been financed by the State Government. Details are given in Table 2.7 below:

Table 2.7: Details of TFC funds diverted to INDIRAMMA programme

(Rupees in crore)

Name of the ZPP	GOI Releases towards sanitation (2005-06 to 2008-09) ¹²	Diversion towards ISLs of INDIRAMMA houses by CEO ¹³ during 2006-07 to 2008-09	
Mahbubnagar	14	5.85	DM, AP State Housing Corpn
Krishna	14	3.85	-do-
		7.88	SE, RWS
Total	28	17.58	

Thus due to diversion of TFC grants for construction of ISLs under INDIRAMMA houses, the PRIs concerned were deprived of utilising the funds for improving the sanitation facilities in ZPP schools and other sanitation works.

2.1.6.7 Locking up of funds

Scrutiny of records of test checked ZPPs revealed that the funds released under State Finance Commission (SFC) and Education Contingent Grant by the Government were not utilized but locked up for over three to five years as detailed below:

SFC and Education Contingent grants amounting to Rs 1.74 crore were locked up due to non-utilisation in time

Item/Subject	Audit findings
SFC grant	In ZPP Krishna, SFC funds of Rs 55.44 lakh released (June 2003) for construction of ZPP school toilets were lying in ZPP General funds without being utilised for the intended purpose as of November 2009. Similarly, in ZPP, Mahbubnagar, out of the total amount of Rs 1.98 crore released (June 2003) under SFC by the Commissioner, PR&RE for construction of ZPP school toilets, a sum of Rs 1.21 crore was utilised towards construction of 3015 school toilets and the remaining amount of Rs 77 lakh remained unspent without being utilised for intended purpose.
Education Contingent Grant	Grants-in-aid for education contingency and maintenance grant are released by the Government every year to provide basic amenities like electricity, water, stationery, furniture repairs and for maintenance of school buildings. During 2005-06 to 2008-09, Government released an amount of Rs 88.02 lakh to ZPP, Krishna out of which, a sum of Rs 46.22 lakh was utilized during the period leaving an unutilised balance of Rs 41.80 lakh to the end of March 2009.

2.1.6.8 Loss of revenue on ZPPs properties

ZPPs sustained loss of revenue on their properties

ZPPs possess certain properties through which they generate revenue in the form of rents/lease etc. Scrutiny of records of test checked PRIs revealed that they sustained losses in generation of revenue due to poor monitoring. Details are as follows.

¹² Rupees two crore during 2005-06 and Rupees four crore during each financial year from 2006-07 to 2008-09.

¹³ Based on State Government orders (April 2006).

Item/Subject	Audit findings
Loss of revenue due to non-enhancement of rent	The Mandal Parishad Development Officer, Wanaparthi in Mahbubnagar leased out (September 1994) their building with plinth area of 195.25 Sq. Mts (including first floor) along with land measuring 1703.435 Sq. Mts to Doordarshan Relay Centre, Wanaparthi for a monthly rent of Rs 7425 with a term of five years. As per Government orders (December 1971), rent was to be enhanced @ 33.3 per cent every five years. As no provision was made in the lease agreement for periodical enhancement, lease agreement was not renewed so far. As a result MPP sustained a loss of Rs 4.95 lakh ¹⁴ due to non-enhancement of rent.
MPP buildings occupied by the Government departments without entering into lease agreement	In Farooqnagar MPP of Mahbubnagar district, there were eight staff quarters existing in MPP premises and these buildings were occupied from three to ten years (2000) by the Government departments for accommodating Government offices for which neither the permission of MPP General Body nor the approval of Government was obtained. Failure of MPP to fix rent besides entering to lease agreement resulted in loss of revenue to PRI.

2.1.6.9 Shortfall in sectoral allocation/utilisation of ZPP funds

Unutilised balances of the earmarked funds were not transferred to the respective Finance Corporations

Government prescribed fixed percentages for each sector for utilisation of ZPPs and MPPs General Funds allocated to them. Accordingly, 35 per cent of General Fund is to be utilised towards upgradation, maintenance and restoration of existing assets, 15 per cent towards welfare of SC, 6 per cent towards ST and 15 per cent for Women and Child Welfare and 9 per cent towards drinking water. The following shortfalls were noticed in utilization of funds by the ZPPs / MPPs of Mahbubnagar and Krishna.

Item/Subject	Audit findings
Maintenance works	ZPPs are required to plan the maintenance works with reference to their annual allocation so that the funds earmarked could be put to optimum utilisation. As against the total amount of Rs 11.59 crore in respect of ZPP Krishna to be earmarked for maintenance of works during 2004-05 to 2008-09, a sum of Rs 3.44 crore (30 per cent) was only utilised for the purpose leaving a balance of Rs 8.15 crore in the ZPP General Funds indicating poor planning of maintenance works.
Funds earmarked for SC and ST	ZPPs: <i>One-third</i> of earmarked funds in respect of SC and ST is to be transferred to SC/ST Finance Corporations and balance <i>Two-thirds</i> of the earmarked funds was to be spent by the ZPP and the unspent balance at the end of year was to be transferred to SC/ST Finance Corporations. During 2004-09, ZPP Mahbubnagar earmarked a sum of Rs 3.32 crore and Rs 1.33 crore for SC and ST respectively. Out of the earmarked amounts, Rs 1.11 crore and Rs 44 lakh (<i>one-third</i>) were transferred to SC/ST Finance Corporations and in respect of <i>two-third</i> portion of Rs 2.21 crore and Rs 0.89 crore, a sum of Rs 1.62 crore and Rs 79 lakh were spent on schemes benefiting SC and ST respectively. The cumulative balances of Rs 1.10 crore ¹⁵ and

¹⁴ Rent to be enhanced @33.3 per cent from September 1999 @ Rs 9900 and Rs 13200 from September 2004 = 1386000 minus 891000 so far collected @ Rs 7425.

¹⁵ unspent balance as of 2003-04 Rs 0.51 crore + Rs 0.59 crore as on 2004-09.

	<p>Rs 36 lakh¹⁶ available at the end of March 2009 in General Funds were not transferred to respective Corporations.</p> <p>During 2004-09, ZPP Krishna earmarked a sum of Rs 4.97 crore and Rs 1.99 crore for SC and ST respectively. <i>One-third</i> portion of earmarked funds amounting to Rs 1.52 crore and Rs 61 lakh were transferred to SC/ST corporations and in respect of <i>two-third</i> portion of Rs 3.45 crore and Rs 1.38 crore, amounts of Rs 3.55 crore and Rs 1.32 crore were spent on schemes benefiting SC and ST respectively. Thus, a sum of Rs 10 lakh was spent in excess of amount earmarked for SC. In respect of ST, a sum of Rupees six lakh remained unspent to the end of March 2009 was not transferred to Corporation concerned. Due to non-transfer of ST earmarked funds, works relating to the welfare of ST community could not be executed to that extent.</p> <p>MPPs</p> <p>In four out of 15 MPPs test checked, it was noticed that during 2004-09 amounts of Rs 26.10 lakh and Rs 10.45 lakh were earmarked for SC and ST and out of which Rs 8.28 lakh and Rs 3.10 lakh were transferred to Corporations. Unspent balances of Rs 17.82 lakh and Rs 7.35 lakh remained in General funds to the end of March 2009 as detailed below.</p> <p style="text-align: right;">(Rupees in lakh)</p> <table border="1" data-bbox="716 884 1414 1297"> <thead> <tr> <th rowspan="2">Name of the Mandal</th> <th colspan="2">15 per cent allocation during 2004-09</th> <th colspan="2">Amount utilised including amount transferred to SC/ST Corporations during 2004-09</th> <th colspan="2">Unspent balance to the end of March 2009</th> </tr> <tr> <th>SC</th> <th>ST</th> <th>SC</th> <th>ST</th> <th>SC</th> <th>ST</th> </tr> </thead> <tbody> <tr> <td>Wanaparthy</td> <td>4.09</td> <td>1.64</td> <td>2.10</td> <td>1.09</td> <td>1.99</td> <td>0.55</td> </tr> <tr> <td>Thimmajipet</td> <td>2.57</td> <td>1.03</td> <td>0.98</td> <td>0.55</td> <td>1.59</td> <td>0.48</td> </tr> <tr> <td>Boothpur</td> <td>5.52</td> <td>2.21</td> <td>4.34</td> <td>0.66</td> <td>1.18</td> <td>1.55</td> </tr> <tr> <td>Koilkonda</td> <td>13.92</td> <td>5.57</td> <td>0.86</td> <td>0.80</td> <td>13.06</td> <td>4.77</td> </tr> <tr> <td>Total</td> <td>26.10</td> <td>10.45</td> <td>8.28</td> <td>3.10</td> <td>17.82</td> <td>7.35</td> </tr> </tbody> </table>	Name of the Mandal	15 per cent allocation during 2004-09		Amount utilised including amount transferred to SC/ST Corporations during 2004-09		Unspent balance to the end of March 2009		SC	ST	SC	ST	SC	ST	Wanaparthy	4.09	1.64	2.10	1.09	1.99	0.55	Thimmajipet	2.57	1.03	0.98	0.55	1.59	0.48	Boothpur	5.52	2.21	4.34	0.66	1.18	1.55	Koilkonda	13.92	5.57	0.86	0.80	13.06	4.77	Total	26.10	10.45	8.28	3.10	17.82	7.35
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<p>Funds earmarked for W&CW</p>	<p>Funds earmarked for Women and Child welfare are to be spent by the ZPP and unspent balances if any at the end of financial year are to be transferred to Andhra Pradesh Women Finance Corporation (APWFC).</p> <p>During 2004-09, ZPP Mahbubnagar earmarked a sum of Rs 3.32 crore for Women and Child welfare and utilised Rs 1.90 crore (<i>57 per cent</i>). Unspent balance of Rs 2.77crore¹⁷ was not transferred to APWFC.</p> <p>Similarly, ZPP Krishna earmarked a sum of Rs 4.97 crore during 2004-09 of which Rs 3.12 crore (<i>63 per cent</i>) was utilised. Unspent balance of Rs 1.85 crore was not transferred to APWFC.</p> <p>MPPs</p> <p>Further, it was noticed that, <i>15 per cent</i> Women and Child welfare earmarked funds amounting to Rs 94.77 lakh in respect of MPPs in Krishna were lapsed (April 2004) by the Treasury in accordance with</p>																																																

¹⁶ unspent balance as of 2003-04 Rs 0.26 crore + Rs 0.10 crore as on 2004-09.

¹⁷ unspent balance as of 2003-04 Rs 1.35 crore + Rs 1.42 crore of 2004-09.

	<p>zero-based budget introduced (April 2000) by the Government. However, the Government directed (February 2005) all the PRIs to submit re-validation proposals for the non-lapsable deposits lapsed by the Government. Accordingly ZPP, Krishna, submitted (March 2005) proposals to CPR&RE for revalidation of amounts lapsed during 2001-02 to 2003-04. However, the lapsed amounts were yet to be revalidated by the Government as of November 2009.</p> <p>In Mahbubnagar, four (Wanaparthi, Thimmajipet, Boothpur and Koilkonda) out of 15 test checked MPPs records revealed that a sum of Rs 1.80 lakh (seven <i>per cent</i>) was only utilised as against allocated amount of Rs 26.10 lakh towards Women and Child welfare and unspent balance of Rs 24.30 lakh was not transferred to APWFC.</p> <p>Thus, non-transfer of funds to the APWFC resulted in defeating the objective of utilizing the funds for the welfare of women and children.</p>
Drinking Water Supply	<p>In MPP Koilkonda of Mahbubnagar district, out of Rs 8.35 lakh earmarked for drinking water, a sum of Rs 1.02 lakh was only utilised (12 <i>per cent</i>) leaving the balance amount of Rs 7.33 lakh remaining in General Fund to the end of March 2009.</p>
Understatement of cash balances due to non-cancellation of unencashed cheques	<p>In ZPP, Mahbubnagar, it was noticed that the balance in ZPP General Fund was understated by Rs 46.52 lakh due to non-cancellation of unencashed cheques. As a result of understating the general revenues, sectoral allocations viz., SC, ST and Women and Child welfare etc., were short allocated.</p>

An amount of Rs 2.22 crore remained uncollected towards pension contribution from non-provincialised employees

2.1.6.10 Non-collection of pension contributions from non-provincialised employees

As per Government orders issued in September 2002, pension contribution @ 9.5 *per cent* of maximum time scale of pay of the post was to be deducted from the pay bills of the non-provincialised employees and the deducted amount transferred to the ZPP General Fund for payment of pensions.

It was observed that:

- In ZPP, Mahbubnagar a sum of Rs 1.29 crore paid towards non-provincialised pension during 2006-07 and 2007-08 was met from ZPP General Fund. However, no demand was raised as of September 2009 for the amounts to be collected from non-provincialised employees for the period 2004-05 to 2008-09.
- Similarly a sum of Rs 11.32 crore was paid towards non-provincialised employees in ZPP Krishna during 2004-05 to 2008-09. As against the demand of Rs 1.15 crore raised for the period 2004-05 to 2009-10 (upto October 2009) by ZPP, a sum of Rs 22 lakh was only collected towards pension contributions leaving a balance of Rs 93 lakh remaining uncollected.

Thus, due to non-observance of provisions, the PRIs had to bear huge financial burden towards non-provincialised pension payments from their General Funds.

2.1.6.11 Sand auction proceeds

Sand auction proceeds of Rs 1.31 crore were not remitted to ZPP funds

As per Government orders (February 2000), all the GPs have the right to auction the potential sand bearing area within their jurisdiction through public auction. The auction cum tender proceedings is to be finalised by the District Committee where the Chairperson of the ZPP is also a member of the Committee. District Panchayat Officer (DPO) was the executive authority for conducting auctions.

After finalisation of tenders, 25 *per cent* of the bid amount was to be remitted to ZPP General Fund and remaining 75 *per cent* to be remitted within a week after entering into agreement. The amount realized through sand auction is to be apportioned among the ZPP, MPPs and GPs concerned in the ratio 25:50:25 on quarterly basis in accordance with rules framed under the above provisions.

Scrutiny of records of ZPP Krishna revealed the following:

- Due to non-participation in auction proceedings, ZPP was not aware of the number of reaches for which auction was conducted and whether all amounts realised were remitted into ZPP account towards sand auction for period covered under review.
- As a result, the DPO deposited the auction amount of Rs 1.31 crore unauthorisedly in Savings bank without being remitted to ZPP account and subsequently misappropriated the amount. ZPP was unaware till a disciplinary action was initiated (July 2009) against DPO by the Government.
- While apportioning 25 *per cent* of GPs share, the Deputy CEO, ZPP drew an amount of Rs 1.60 crore from the ZPP PD account and parked (May 2009) temporarily in a private bank (Axis Bank) for three months without remitting immediately to the accounts of GPs concerned.

2.1.6.12 Non-remittance of penalty from illegal transporters of sand

It was noticed from the records of ZPP Mahbubnagar that an amount of Rs 21.26 lakh collected towards penalty from the illegal transporters of sand was lying in the Saving Bank Account opened in Nationalised bank without being remitted to ZPP General Fund.

2.1.6.13 Non-release of SGRY funds to GP sector

GPs' share of SGRY funds amounting to Rs 1.40 crore were not released

According to SGRY scheme guidelines, the funds were to be apportioned in the ratio 50:30:20 among Village Panchayat, Intermediate Panchayat and District Panchayat. Food grains were to be given as a part of wages to the rural poor at the rate of 5 kg per manday and the balance to be paid in cash. The State Government can give rice more than 5 kg subject to 25 *per cent* of the wages being paid in cash.

The objective behind the allocation of 50 *per cent* to GPs was to generate supplementary wage employment besides creation of demand driven community village infrastructure to enable the rural poor to increase opportunities for sustained employment.

In ZPP Mahbubnagar, it was noticed that the Government released (May and August 2006) an amount of Rs 1.40 crore to ZPP towards GP share. However the same was not released to GPs. A sum of Rs 1.27 crore was diverted to MPPs in lieu of rice due to non-release of rice by the Government and the balance amount was also not released to GPs.

Due to non release of funds to GPs, the very objective of generating wage employment was not achieved besides the durable assets also not being created.

2.1.6.14 Non-adjustment of advances

Advances amounting to Rs 34.58 lakh remained unadjusted

Scrutiny of records of the following units revealed that the advances paid to agencies were not adjusted / reimbursed even after lapse of three to five years as detailed in Table 2.8 below:

Table 2.8: Details of advances pending adjustment/reimbursement

(Rupees in lakh)

S.No.	Source from which advance was paid	To whom the advance was made and the purpose	Amount of advance	Date of payment of advance	Remarks
1.	SGRY, E.E., PR, Narayanpet	Paid to Asst. Engineer (A.E) as work advance towards construction of building at Atmakur	2.00	April 2008	Rs 0.97 lakh was adjusted and Rs 1.03 lakh was yet to be adjusted.
2.	Calamity Relief Fund, E.E., RWS, Mahbubnagar	Paid as work advances to A.Es in the division towards execution of calamity relief works	17.22	April 2004	Rs 8.34 lakh was adjusted (June 2009) and the balance of Rs 8.88 lakh was yet to be adjusted.
3.	Total Sanitation Campaign, E.E., RWS, Mahbubnagar	Paid as work advances to sub-divisions towards execution of sanitation works	13.90	June 2003- March 2006	Rs 7.92 lakh was adjusted and the balance of Rs 5.98 lakh was yet to be adjusted.
4.	Total Sanitation Campaign / SFC grant, EE., RWS, Vijayawada	Paid as work advances to A.E., RWS, Nuzvid towards sanitation works	1.60	March 2008	Entire amount remained to be adjusted.
5.	ZPP General Fund, Mahbubnagar	Two MPPs (Panagal and Midjil) towards meeting ZPTC elections	7.45	August 2004 and July 2007	The diverted amount was not reimbursed due to non-release of election grant by the Government.
6	SGRY Funds, Krishna	Andhra Pradesh Civil Supplies Corporation, Vijayawada towards additional transportation charges of rice from Pedakakani of Guntur district to MLS point in Krishna District.	2.68	April 2007	Due to non-reimbursement of advance, the amount remained to be adjusted to NREGS.
7	Penalty amount collected by ZPP, Krishna from illegal transporters of sand	District Collector towards Chief Minister visit .	6.96	June 2006	The amount is yet to be reimbursed as of September 2009.
Total			51.81		

Unspent balances amounting to Rs 3.25 crore were retained without being surrendered

2.1.6.15 Retention of unspent balances of schemes not in operation

The unspent balances relating to closed schemes should either be surrendered to the sanctioning authority concerned or to be utilised according to the directions issued in that regard. However the unspent balances lying since long time in the accounts of the following units were not surrendered despite closure of respective schemes.

Item / Subject	Audit findings
EAS/IJRY	Consequent on introduction of Sampoorna Grameena Rozgar Yojana (SGRY) in 2001, Employment Assurance Scheme (EAS) and Integrated Jawahar Rozgar Yojana (IJRY) schemes were closed with the instructions of GOI to transfer the unspent balances lying in EAS/IJRY scheme accounts to SGRY. In ZPP Mahbubnagar, it was noticed that a sum of Rs 1.76 crore being the interest accrued under EAS/IJRY was released (April 2007 to March 2009) for execution of works in accordance with EAS guidelines by the time of which GOI closed (March 2006) even the SGRY and directed to transfer the funds along with incomplete works to NREGS.
SGRY	GOI launched SGRY scheme in September 2001 and closed in March 2006. While closing the scheme GOI directed that the unspent balances lying in SGRY account should be transferred to the Project Director, District Water Management Agency (DWMA) for implementation of NREGS. In ZPP Mahbubnagar, a sum of Rs 92.14 lakh was lying in the saving bank account to the end of March 2009 without being transferred to NREGS implementing authority.
JRY Funds	In ZPP Krishna, a sum of Rupees seven lakh relating to unspent balance of Jawahar Rozgar Yozana was taken to General Fund receipt during 2004-05 instead of remitting the unutilised amount to GOI account.
RLEGP/NREP funds	The unspent balances of Rs 3.67 lakh pertaining to Rural Landless Employment Guarantee Programme (RLEGP)/National Rural Employment Programme(NREP) were lying (July 2004) in the accounts of ZPP, Mahbubnagar without being surrendered to the GOI. Similarly an amount of Rs 2.92 lakh lying with E.E., P.R., Gadwal (Mahbubnagar) was also pending to be surrendered.
Non-remittance of unspent balances of closed schemes lying in bank accounts	Scrutiny of records pertaining to operation of bank accounts by E.E., RWS, Vijayawada revealed that an amount of Rs 42.95 lakh relating to closed schemes was lying in 20 Saving bank accounts to the end of March 2005. The updated cash books and pass books were not furnished to audit for verification. Idling of funds has resulted in their not being effectively utilised.

2.1.6.16 Non-reimbursement of funds

PF Interest	In accordance with the Government orders (July 1984), claims for reimbursement of interest credited to individual PF accounts of employees of Panchayat Raj 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. <ul style="list-style-type: none"> ZPP Mahbubnagar preferred claim of interest dues of Rs 6.09 crore for 2006-07 in May 2008 with a delay of one year and claim for 2007-08 for Rs 7.12 crore was preferred in November 2008 with a
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<p>Expenditure incurred by PRIs towards PF interest, honorarium to the elected members etc., were not reimbursed by the Government</p>		<p>delay of 5 months. These amounts were not yet reimbursed by the Government. The claim for reimbursement of interest for 2008-09 was not yet preferred as of September 2009.</p> <ul style="list-style-type: none"> In ZPP Krishna, despite the claims being preferred every year from 2004-05 to 2008-09 for reimbursement of interest amount for Rs 42.20 crore, so far no proposals were submitted to the Government by the State Audit.
	<p>Honorarium paid to the elected members of ZPP</p>	<p>The two test checked ZPPs did not claim any reimbursement from the Government for the amount of Rs 1.03 crore (Mahbubnagar Rs 81.91 lakh and Krishna Rs 20.83 lakh) paid towards Honorarium/TA/DA of elected members out of their ZPP General Fund concerned.</p>
	<p>Social Security cum Booster Scheme</p>	<p>The Government extended (January 2003) the benefit of Social Security cum Booster Scheme to the employees of Panchayat Raj institutions on reimbursement basis according to which an incentive at the rate of Rs 20000 is paid to the nominees of the deceased employees.</p> <p>In Mahbubnagar, a sum of Rs 1.12 lakh was paid (2004-05) from ZPP General Fund and subsequently released (February 2006) by the Government but the amount was not adjusted to ZPP PD account due to non release of Budget authorisation by the Director of Treasuries and Accounts, Hyderabad. Further, claims for reimbursement of Rs 1.55 lakh and Rs 1.40 lakh for 2006-07 and 2007-08 were preferred in May 2008 and December 2008 respectively but the amounts were not reimbursed so far.</p> <p>In Krishna, an amount of Rs 3.02 lakh was due for payment in 2005-06 to the legal heirs of deceased employees. Although the Government sanctioned (August 2007) the amount, the same was not adjusted due to non-release of budget authorisation by the Director of Treasuries and Accounts, Hyderabad.</p>

2.1.6.17 Non-repayment of HBA loan amount and interest to the Government

Non-repayment of HBA loan amounting to Rs 1.91 crore to the Government by ZPPs

ZPPs sanction House Building Advances (HBA) to the eligible provincialised 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 (December 1989), recovery towards principal/interest of HBA paid to the employees has to be effected by the ZPP regularly. The following deficiencies were observed by audit.

- In ZPP Mahbubnagar, no records were maintained by ZPP with regard to recovery of advances from staff and repayment of loan installments to the Government. However, as verified from HBA cash book and related correspondence files, a sum of Rs 78.75 lakh was released (1989-90 to 2003-04) to ZPP against which a sum of Rs 1.18 crore (principal of Rs 76.95 lakh and interest Rs 40.89 lakh) was pending to be remitted to the Government to the end of March 2009.
- In ZPP Krishna as against the principal of Rs 1.29 crore and Rs 0.67 crore of interest due (March 2009) to be remitted to the Government, a sum of Rs 1.20 crore towards principal and Rs 3 lakh of

interest was remitted leaving Rs 73 lakh (principal Rs nine lakh + interest Rs 64 lakh) yet to be refunded to the Government.

- It was observed that inspite of specific instructions from Government to invest the recoveries effected from employees in short term fixed deposits so as to earn interest, HBA recoveries were kept in PD account of treasury by both the ZPPs. As a result, there was loss of interest on the recovered amount which could have been utilised for the purpose of repayment of HBA.
- As per HBA rules, the employees who constructed their houses with the assistance of HBA have to insure the property till the loan amount is fully repaid together with interest. However, in both the ZPPs, insurance policies were not obtained from the HBA beneficiaries.

2.1.6.18 ZPP revenues not remitted by the Panchayat Raj Engineering divisions

**ZPP
revenues
Rs 82.46 lakh
were not
remitted by
the PREDS**

A sum of Rs 77.19 lakh being ZPP revenues of Krishna recovered (2000-01 to 2002-03) towards petty supervision charges, tools & plant, fines etc., by EE., RWS Division, Gudivada was not remitted to ZPP General Fund but utilised for payment of salaries, which should have been met from the salaries grant released by the State Government. Similarly an amount of Rs 5.27 lakh recovered towards above heads by E.E., PR Division, Nuzvid during the above period was also not transferred to ZPP General Fund, Krishna.

2.1.6.19 Retention of ZPP General Fund in FDRs

ZPP, Mahbubnagar released (May 2001 to July 2003) a sum of Rs 84.37 lakh to E.E., RWS division Nagarkurnool towards execution of drinking water projects in the scarcity villages. Of this, an amount of Rs 71.63 lakh was incurred for different water scarcity work projects and Rs 10 lakh was invested in fixed deposit from March 2005. An amount of Rs 10.85 lakh was reinvested (October 2008) along with accumulated interest for a period of 12 months. The unspent balance was to be refunded to ZPP and retention of General Funds in fixed deposit was not in order.

2.1.7 Works management

Scrutiny of works sanctioned out of ZPP funds and executed by PREDS during the period covered by audit i.e., 2004-05 to 2008-09 revealed the following deficiencies.

2.1.7.1 Incomplete works

Smooth and speedy execution of works depends on:

- Availability of adequate funds upfront to execute the work
- Availability of site required for execution of work.

Audit noticed that many of the works taken up by the PREDS either remained incomplete or not commenced as detailed below:

Works valued Rs 64.13 lakh remained incomplete/non-commenced due to failure to undertake appropriate preparatory work for timely execution of works

Item/Subject	Audit findings																
Incomplete MPP buildings	<p>Mandal Parishad Building at Amangal (Village & Mandal) of Mahbubnagar district was sanctioned (June 2008) by the State Government (PR&RD Department) and Technical Sanction was accorded (October 2008) by the Superintending Engineer, Panchayat Raj, Mahbubnagar for an estimated cost of Rs 50 lakh. The work was entrusted (February 2009) to the contractor for Rs 45.36 lakh i.e., at 2.55 per cent less than the estimated rates. Time allowed for completion of the work was six months i.e., the work was to be completed by August 2009.</p> <p>The basic lapse noticed was that the works were taken up without ensuring full amount to complete the work. As the amount available was only 54 per cent, the work was stopped due to lack of funds resulting in the expenditure of Rs 24.60 lakh incurred on an incomplete asset.</p>																
Non-commencement of works to be executed with ZPP/BRGF funds	<p>The following works were sanctioned by the CEO, ZPP Mahbubnagar. The building works were sanctioned without identifying the site which is a basic requirement for sanction of the work. Release of funds without having ready sites resulted in funds remaining idle.</p> <p style="text-align: right;">(Rupees in lakh)</p> <table border="1"> <thead> <tr> <th>Nature of works</th> <th>Division entrusted with execution of works</th> <th>Details of sanction</th> <th>Estimated cost</th> </tr> </thead> <tbody> <tr> <td>Eight works relating to construction of community hall, GP building, Anganwadi buildings</td> <td>E.E.,PR, Wanaparthi</td> <td>May 2005 to September 2007</td> <td>16.25</td> </tr> <tr> <td>36 works under BRGF</td> <td>E.E., PR, Narayanpet</td> <td>2008-09</td> <td>23.28</td> </tr> <tr> <td colspan="3" style="text-align: center;">Total</td> <td>39.53</td> </tr> </tbody> </table>	Nature of works	Division entrusted with execution of works	Details of sanction	Estimated cost	Eight works relating to construction of community hall, GP building, Anganwadi buildings	E.E.,PR, Wanaparthi	May 2005 to September 2007	16.25	36 works under BRGF	E.E., PR, Narayanpet	2008-09	23.28	Total			39.53
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36 works under BRGF	E.E., PR, Narayanpet	2008-09	23.28														
Total			39.53														

Works were entrusted/executed without adhering to the rule provisions

2.1.7.2 Entrustment/execution of works

The rule provisions were to be adhered by the implementing agencies with regard to entrustment, execution of works etc.

Scrutiny of the following works revealed various deficiencies in entrustment of works, execution, payments to contractors etc.

Item/Subject	Audit findings
Work entrusted without calling for tenders	As per Andhra Pradesh Public Works Department code ('D' code), tenders should be invited for the works valuing above Rs 20000 and the departmental execution should be allowed only in case of urgency. When the work is done by a private contractor, the monitoring with reference to quality and

	<p>quantity of the work executed by him is done by the department. This control mechanism gets diluted when the work is executed departmentally.</p> <p>However, it was observed that District Collector approved (2008-09) construction of meeting hall in GP building at Nagar Kurnool under BRGF at an estimated cost of Rs 11.79 lakh. Instead of calling tenders, the work was entrusted (January 2009) to the Group leader, Village Development Committee (VDC) for Rs 11.79 lakh. As against the stipulated period of three months (April 2009) for completion, the Committee completed only 51 per cent of the work till October 2009 resulting in the expenditure of Rupees six lakh so far incurred on construction of meeting hall blocked.</p> <p>On this being pointed out, MPDO stated that the entrustment of the work to the Group leader was permissible under BRGF.</p> <p>However, the reply is not acceptable as no exemption has been provided that the works above Rs 20000 could be awarded to the Group leader.</p>
<p>Undue benefit to the contractor due to entrustment of work on nomination basis</p>	<p>The work relating to ‘Rebuilding and upgradation of the road from Palakayatippa to seashore’ for evacuation of the Tsunami victims was proposed (February 2004) at an estimated cost of Rs 1.23 crore. The proposal was sanctioned (March 2005) by the District Collector, Krishna District to be executed with the Natural Calamities Fund, SGRY special component rice and deposits amount and entrusted (May 2005) to M/s Navayuga Engineering Company Limited, Visakhapatnam on nomination basis with a stipulation to complete in five months (October 2005). In this connection, the following was observed.</p> <ul style="list-style-type: none"> • Though the item was an area of concern, the same was sanctioned in March 2005 despite proposing in February 2004 (with a delay of 13 months) for which no specific reasons were on record. • The work was not completed within the scheduled time (October 2005) and extended upto February 2006. Thus the objective of completion of work within schedule time by entrusting to contractor on nomination basis was also not fulfilled. Entrustment of work on nomination violates Article 14 (Equality before law) and 16 (equality of opportunity in matters of public employment) of the constitution.
<p>Purchase of furniture without calling for quotations</p>	<p>Without calling for quotations, the Executive Engineer, PR Division, Nagarkurnool purchased furniture worth Rs 9.32 lakh from SFC grant for PR Guest House. Out of the total purchases, the furniture worth Rs 5.19 lakh was procured (September-December 2007) from a contractor without calling for tenders and the furniture worth Rs 4.13 lakh was procured (May-October 2007) from local purchasers who were neither manufacturers nor whole sale dealers.</p> <p>Further, the income tax amounting to Rs 0.32 lakh was also not recovered from the contractor.</p> <p>Thus the purchase of furniture without calling quotations was not only in violation of codal provisions but also deprived the other parties the benefit of supplying the material.</p>

2.1.7.3 Deficiencies in execution of IOC building

In order to accommodate all the Government offices in MPP, Nagar Kurnool at one place, State Government accorded (July 2003) administrative sanction for the construction of Integrated Office Complex (IOC) at Nagarkurnool at an estimated cost of Rs 1.50 crore under Mandal Parishad Office grant. The work was entrusted (January 2004) to a contractor for a contract value of Rs 1.69 crore with a stipulation to complete in 12 months i.e. January 2005.

The following deficiencies were noticed in execution of work.

- In addition to the administrative cost of Rs 1.50 crore sanctioned under Mandal Parishad Office grant, the rice component valuing Rs 40 lakh under SGRY was also tied up (August 2003) by the District Collector, Mahbubnagar which was inadmissible.
- As against the stipulated period of 12 months, the work was completed in April 2007 for which payment was made to the extent of Rs 1.18 crore till March 2008.
- At the time of award of work, no provision was made for electrical work. It was only in January 2009, i.e. after long gap of completion of the building, estimates for the same were approved for Rs 31.50 lakh. However, the work is yet to be taken up (October 2009).

As a result, the objective of having accommodation by January 2005 remains unfulfilled as the building was not yet occupied and the expenditure of Rs 1.18 crore incurred on construction of IOC building remained blocked in an incomplete asset.

2.1.7.4 Inadmissible expenditure

The following inadmissible expenditure was noticed while scrutinising the records pertaining to utilization of ZPP General Funds.

An expenditure of Rs 1.31 crore was incurred on inadmissible items

SGRY funds	<p>The Sampooma Grameena Rojgar Yojana (SGRY) programme was introduced as centrally sponsored scheme on cost sharing basis between the Centre and State at 75:25 of the cash component and food grains will be provided by the GOI free of cost.</p> <p>The primary objective of the SGRY scheme was to provide additional supplementary wage employment and thereby providing food security and improving nutritional level to agricultural wage earners, non-agricultural livelihood wage earner, marginal farmers and the persons affected due to natural calamity.</p> <p>The secondary objective was the creation of durable community social and economic assets viz., schools, kitchen sheds for schools, dispensaries, community centres, panchayat ghar and other infrastructural developments in rural areas.</p> <p>In contrary to the guidelines the following deviations were noticed in the test checked districts.</p> <ul style="list-style-type: none"> • In MPP, Wanaparthi of Mahbubnagar, it was noticed that a shopping complex was constructed in the office premises with the approval of CEO, ZPP, Mahbubnagar at a cost of Rs 31.66 lakh which includes Rs 15.90 lakh under SGRY cash component and Rs 9.76 lakh SGRY rice component and Rupees six lakh from out of deposits collected from lease holders of shops.
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	<ul style="list-style-type: none"> It was seen from the records of E.E., P.R. Division, Nagarkurnool of Mahbubnagar that a Masjid (Jama-e-Masjid) was constructed (June 2009) at Mannanuru village of Amrabad Mandal based on the approval of District Collector, Mahbubnagar at an estimated cost of Rs 4.50 lakh and which includes equal ratio of cash and rice components under SGRY special component. Similarly based on the sanction of District Collector, a Sub-division office building was constructed at an estimated cost of Rs 16.50 lakh by E.E, Narayanpet, Mahbubnagar. In MPP, Vissannapet of Krishna district, it was noticed that a shopping complex was constructed at a cost of Rs 5.30 lakh for which administrative sanction was accorded (March 2005) by the District Collector and the cost of the building met from SFC and General Fund amounting to Rs 3.66 lakh and Rs 0.80 lakh respectively and also tied up with rice component under SGRY special component of Rs 0.84 lakh.
15 per cent W&CW earmarked funds	In spite of specific direction (2002) from the Director of Women and Child welfare not to incur any expenditure from W&CW funds towards installation of Biogas plants, the ZPP, Mahbubnagar, spent (September 2005) Rs 3.15 lakh towards individual financial assistance (subsidy). In ZPP, Krishna, a sum of Rs 25 lakh was paid (2004-05 to 2007-08) to the DM, NEDCAP ¹⁸ out of W&CW funds for similar purpose.
Unclaimed deposits	Deposits unclaimed for more than three years were to be lapsed and credited to Government account. But based on the orders of the District Collector, the unclaimed deposits amounting to Rs 43.55 lakh were utilised (June 2004 to April 2007) by the E.E., PR division, Machilipatnam for execution of works. Execution of works from lapsed deposits without prior sanction of the Government was irregular.
Purchase of vehicle despite ban	Despite ban on purchase of vehicles (1994), based on the orders (March 2005) of the District Collector, ZPP Mahbubnagar purchased (April 2005) a Mahindra Scorpio vehicle at a cost of Rs 7.50 lakh out of the penalty amounts collected from illegal transporters of sand, which should have been remitted to ZPP general fund.

Irregular construction of building in leased property by the lessee due to failure of ZPP to undertake periodical inspection

2.1.8 Asset management

2.1.8.1 Illegal construction of building by the lessee in ZPP land

ZPP Krishna leased out (1975) a vacant agricultural land measuring Acre 2.04 (out of Acre 2.43) at Nandigama village to an individual at an annual rent of Rs 180 for growing crops and grazing. Lease period was extended up to 2002 by increasing the rent to Rs 1050 per annum, which was further increased to Rs 1500 per annum.

In order to secure their property, ZPP failed to check periodically the site and ensure that no constructions were made illegally by the leaseholders. Audit scrutiny of records revealed the following:

- In April 2002, when ZPP proposed to conduct public auction for lease of the land, the lessee represented (March 2003) that a building was constructed and running a school and hostel in the said land. Based on this the auction was postponed.

¹⁸ Non-Conventional Energy Development Corporation of Andhra Pradesh Limited.

- Finally, the ZPP conducted auction in 2003-04 for which the highest bid amount of Rs 8000 per annum was received. At this stage, the old lessee filed a writ petition in the Court seeking relief to assign the land in question and got stay orders from the Court. While disposing the petition, the Court directed ZPP to follow the procedure as per law to get the land vacated without disturbing the possession of land.
- Based on further directions issued by the Court, the leaseholder represented (February 2009) to the State Government seeking compensation of Rs 10000 per annum stating that he had no other livelihood except the land. The Government instructed (August 2009) the CEO to pay the amount after verifying the rule position. So far, neither the land was got vacated nor the rent realized.
- Meanwhile 32 other encroachers represented (August 2009) to the ZPP to assign the part of land adjacent to the above land in their favour as they constructed houses in the site.

Thus, the failure of ZPP in conducting periodical inspection and renewal of lease periods for 27 years without conducting auction provided a fertile ground to the lessee for construction of illegal building in the land. This had further led to legal complications resulting in the property worth Rupees three crore being not restored besides non-realisation of rent for the past six years (2003-09).

2.1.9 Internal control

2.1.9.1 Non-maintenance of Asset Registers

A Register of Assets in the prescribed format as directed (May 2005) by the Government was not maintained in both the ZPPs in respect of their properties which included several residential quarters, shopping complexes besides the land donated by the donors at the time of up-gradation of upper primary schools.

The Commissioner/PR&RE and Commissioner and Inspector General of Registration and Stamps issued (2002) directions to standardize the survey number adopted by local body offices across the State to facilitate valuation of the property particulars of lands as well as issuing encumbrance certificates. Despite this, the ZPPs failed to survey the vacant lands or lands under part utilization by the local bodies in rural areas, and to establish their right over the properties held by them and also to avoid possible litigations/encroachments.

2.1.9.2 Non-preparation/ non-submission of Administrative Reports

As per the provisions of the Andhra Pradesh Panchayat Raj Act 1994, ZPP / MPP should prepare and submit Administrative Report for the preceding year to Standing Committee before 30 May every year.

The Administrative Report for the year 2008-09 on the activities of ZPP, Mahbubnagar was not prepared and placed before Standing Committee/General body for submission to Government as of September 2009. Similarly, the consolidated Administrative Reports of the MPPs for the

period 2004-05 to 2008-09 were also not prepared by the ZPP. As a result, activities such as co-ordination of plan schemes, approvals of MPP budgets, resource profile, condition of buildings, new constructions taken up, resources from remunerative enterprises and report on secondary education results could not be assessed.

In respect of ZPP Krishna, the annual Administrative Report and consolidated Report of MPPs for 2008-09 was under preparation.

2.1.9.3 Statutory Audit

Director, State Audit who is the statutory auditor for PRIs under the Andhra Pradesh State Audit Act, 1989 conducts cent percent audit of all PRIs every year. Scrutiny of the reports of the State audit revealed that they focused mainly on establishment aspects rather than the developmental works implemented in the districts under the supervision of ZPPs.

Pursuance of their objections was also poor. Objections raised long back (earliest being 1965 in both ZPPs) were still pending in the records awaiting settlement.

2.1.10 Monitoring mechanism

2.1.10.1 Inspection by Commissioner of PR& RE

Andhra Pradesh Panchayat Raj Officers Delegation of Powers Rules, 2000 stipulate that the CPR&RE shall inspect all ZPPs once in a calendar year and submit copies of inspection notes for review by the Government. Similarly, the Secretary to Government, PR&RD is required to conduct inspection under Chapter 68 of Panchayat Raj Zilla Parishads Functionary Manual.

In both the ZPPs, no inspections were conducted either by the CPR&RE, or Secretary to Government/PR&RD during the period covered in review.

2.1.10.2 Inspection of MPPs by CEO

As per chapter 68 of Panchayat Raj Functionary Manual, CEO ZPP should draw a programme to visit all the MPPs in the District once in a year. In ZPP, Mahbubnagar there was shortfall in inspection of offices of MPPs as detailed in Table 2.9 below.

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

Shortfall in inspection of MPPs by CEOs/ZPP

Table 2.9: Details of inspection of MPP offices by ZPP, Mahbubnagar

Year	Number of MPPs to be inspected	Number of MPPs inspected by CEO	Shortfall	No. of I.Rs issued	No. of Rectification Reports received
2004-05	64	--	64	--	0
2005-06	64	45	19	45	0
2006-07	64	50	14	50	0
2007-08	64	11	53	11	0
2008-09	64	11	53	11	0
Total	320	117	203	117	

It is evident that the coverage of inspection by CEO ZPP was only 37 per cent during 2004-05 to 2008-09. Out of 117 Inspection Reports issued from 2004-05 to 2008-09, no rectification reports were insisted from MPPs. As a result, the very objective of bringing about improvement in the performance of MPPs was defeated.

In ZPP, Krishna, there were no shortfalls in inspection of MPPs (245 Nos.) and issue of inspection reports by the ZPP. However, rectification reports were obtained from only 187 MPPs and the remaining 58 rectification reports were yet to be received from MPPs concerned.

2.1.10.3 Submission of Utilisation Certificates

The ZPPs did not obtain Utilisation Certificates along with expenditure statements from the executing agencies for the funds released under SFC/TFC/BRGF as detailed in Table 2.10 below:

Table 2.10: Details of Utilisation Certificates submitted by ZPP Mahbubnagar and Krishna

(Rupees in lakh)

Name of the ZPP	Name of the Grant	Period	Total amount released	Total value of UCs obtained	UCs yet to be received
Mahbubnagar	SFC	2004-05 to 2008-09	453.30	361.11	92.19
	TFC	2005-06 to 2008-09	3134.88	0	3134.88
	BRGF	2007-08 to 2008-09	4910.22	2817.22	2093.00
Krishna	SFC	2004-05 to 2009-10 (November 2009)	295.50	0	295.50
	TFC	2005-06 to 2009-10 (November 2009)	3099.00	0	3099.00
Grand Total			11892.90	3178.33	8714.57

Due to failure on the part of ZPP in obtaining UCs, the irregularities in utilisation of funds of the above schemes could not be ruled out as pointed out in the preceding paragraphs of 2.1.6.

2.1.11 Other points of interest

2.1.11.1 Non-Allocation of sand auction proceeds to sports activity

As per Government orders, the District Panchayat Officer shall allocate 3 per cent of revenue from quarrying of sand for sports activities and distribute the same among the Village, Mandal and District level Sports authorities in the ratio of 37.5:37.5:25. In Krishna, an amount of Rs 36.20 crore was realized through sand auction during 2006-07 to 2008-09. Of this Rs 1.09 crore (3 per cent) to be transferred to sports authority was not transferred even as of November 2009.

2.1.11.2 Non-functioning of wireless sets

The Commissioner, PR&RE directed (May 2003) all ZPPs to establish a Panchayat Raj wireless grid connecting all MPPs with ZPPs. The expenditure for the purpose could be met proportionately from general funds of MPP and ZPP concerned.

Grants were released though UCs for earlier years were not obtained

Sand auction allocation of Rs 1.09 crore were not transferred to sports authority

In ZPP, Mahbubnagar, an expenditure of Rs 36.86 lakh was incurred (July 2004) towards the supply and installation of the equipment and a sum of Rs 2.65 lakh was paid (November 2007) towards AMC (December 2007 to November 2008).

However, the wireless sets were not functioning for the past one year for want of spare parts for which no funds were mobilised so far.

Due to non-functioning of wireless sets, the objective of creating connectivity among MPPs for overall monitoring their system of working by ZPPs was not achieved. The expenditure of Rs 36.86 lakh has become unfruitful.

Unnecessary expenditure on special pay during the idle period of vehicles

2.1.11.3 Idle vehicles

Scrutiny of the records of PR/RWS Divisions of Mahbubnagar and Krishna districts revealed that Diesel Road Roller (DRR) vehicles were not put to use from 2004 onwards due to want of repairs or awaiting condemnation. An expenditure of Rs 83.94 lakh was incurred on pay and allowances of the staff (drivers and cleaners) as detailed below. Special Pay is to be paid to drivers only when the vehicle is under running condition and put to use. However, it was observed that Special Pay of Rupees one lakh was paid even when the DRR vehicle was off the road or proposed for condemnation as detailed in Table 2.11 below.

Table 2.11: Details of expenditure incurred on Special Pay

(Rupees in lakh)

S.No	Name of the Division and D R R Registration Nos	Period of non-operation of DRRs	Unproductive expenditure	
			Pay and allowances	Special. Pay
1	E E PR Machilipatnam D R R No.ADB 6924, AJ 3043, ADB 7093, AJ 1750, ADM 8614, ATK 230	2004-05 to 2008-09	73.90	0.81
2	EE., PR., Vijayawada DRR No BM 2117	2005-06 to 2008-09	5.23	0.13
3	EE RWS&S, Vijayawada DRR No.AAY 869	2007-08 to 2008-09	3.81	0.06
Total			82.94	1.00

Irregular diversion of contractors' deposits towards salaries Rs 3.03 crore

2.1.11.4 Irregular utilization of contractors' deposits (EMD & FSD)

As per Government orders, the EEs of PREDs are required to reconcile the balances outstanding in PD account of treasury books and transfer the amounts relating to works/programmes/schemes/security deposits of contractors to PAO/APAO concerned.

However, in contravention of the above orders, it was noticed in the test checked divisions that an amount of Rs 3.03 crore was diverted towards salaries and other contingent expenditure and the balance of Rs 16 lakh was lapsed by the treasury due to introduction of PAO system.

2.1.12 Conclusions

Although DPCs were constituted in Mahbubnagar and Krishna, their functioning was deficient with regard to preparation and submission of District Development Plans. Although, ten core functions were transferred to PRIs in

October 2007, the funds and functionaries were not devolved to PRIs. The unspent balances of closed scheme funds together with interest were not surrendered. Shortfalls in sectoral allocations as well as utilisation of ZPP General funds were noticed. There was lack of proper monitoring in respect of collection of own revenues. Instances of diversion of scheme funds, unfruitful expenditure and abandonment of works were noticed. There was delay in preparation of Annual Accounts. The monitoring was not adequate as the inspections of MPPs and PREDs at the desired level were not conducted.

2.1.13 Recommendations

- Integrated district development plans should be prepared and approved by DPC within time frame. It needs to be ensured that they are incorporated in the State Plan for the financial year.
- Funds and functionaries are to be transferred to PRIs with regard to ten core functions devolved in 2007.
- There should be periodical inspection of the assets to protect them against misutilisation.
- Steps should be taken to raise demands for own revenue in time and collection thereof; obtain the revenues which were to accrue to ZPPs but retained by PREDs and timely preparation and submission of claims for reimbursement of dues from the Government.
- Regular inspections and monitoring of ZPPs/MPPs should be conducted.

The matter was reported to the Government (February 2010); reply had not been received (October 2010).

**MUNICIPAL ADMINISTRATION & URBAN DEVELOPMENT
DEPARTMENT**

2.2 Functioning of Greater Visakhapatnam Municipal Corporation

Highlights

Greater Visakhapatnam Municipal Corporation (GVMC) is entrusted with the task of providing civic services and infrastructure facilities to the citizens of Visakhapatnam and its surrounding areas as per the provisions of the Visakhapatnam Municipal Corporation Act, 1979. For undertaking the above tasks, GVMC is statutorily empowered to levy and collect tax and non-tax revenues. But the implementation mechanism suffered from several deficiencies. Provisions of the Act and the Rules were not adhered to and statutory provisions were not enforced. Penalties were inadequate to have deterrent effect. Steps taken for augmentation of revenue from shopping complexes were found to be inadequate. No effective mechanism was in place to safeguard the municipal lands. Overall, the legislative intent has not been translated into effective compliance.

Property tax

- **Greater Visakhapatnam Municipal Corporation did not possess a comprehensive database of all the assessable properties.**

[Paragraph 2.2.7.1]

- **Property Tax was not revised since 1994.**

[Paragraph 2.2.7.2]

- **Certain properties were wrongly categorized under residential instead of public utility for assessment of Property Tax. As against the total demand of Rs 124 crore for the five-year period 2004-09, an amount of Rs 64.61 crore was collected. The achievement of collection of the tax was as low as 52 per cent in the year 2008-09.**

[Paragraphs 2.2.7.1 & 2.2.7.3]

- **Lack of fair and transparent system in place led to a large number of court litigations (involving Rs 26.98 crore). Chronic defaulters of Property tax (Rs 43.18 crore) accounted for nearly 35 per cent of the total demand. This indicated lack of effective monitoring of tax collections at appropriate levels of GVMC.**

[Paragraph 2.2.7.3]

- **GVMC failed to enforce most of the important statutory provisions with adverse implications of continued evasion of Property Tax by the defaulters.**

[Paragraph 2.2.7.4]

Advertisement tax

- Integrated Database to facilitate collection has not been created and proper mechanism was not in place to collect revenue as per the standard parameters. In the absence of information on the number of assessable units, there is no assurance with regard to the adequacy of the demand raised by GVMC.

[Paragraph 2.2.8.1]

- Little attention was paid to the scope of offences. Quantum of penalties was also inadequate. These have adverse implications on collection of Advertisement Tax.

[Paragraph 2.2.8.4]

Building permissions

- Deviations to procedural requirements were noticed in grant of Building permits.

[Paragraph 2.2.9.3]

Shopping complexes

- Construction of shopping complexes was undertaken without prior collection of 100 per cent goodwill resulting in 102 shops lying vacant (13 per cent) out of the total 814 shops.

[Paragraph 2.2.10]

- Clauses incorporated in the lease agreement for automatic eviction in case of defaults were inadequate. As a result there were arrears of rents to the tune Rs 4.81 crore (53 per cent) as against the total demand of Rs 9.13 crore.

[Paragraph 2.2.10]

Safeguarding municipal lands

- Adequate attention was not paid to safeguard municipal lands with adverse implications by way of encroachments. The essential requirement of periodical inspection and supervision by appropriate levels of authorities was not complied with. This is fraught with the risk of possible encroachments of the Municipal lands.

[Paragraph 2.2.11]

2.2.1 Introduction

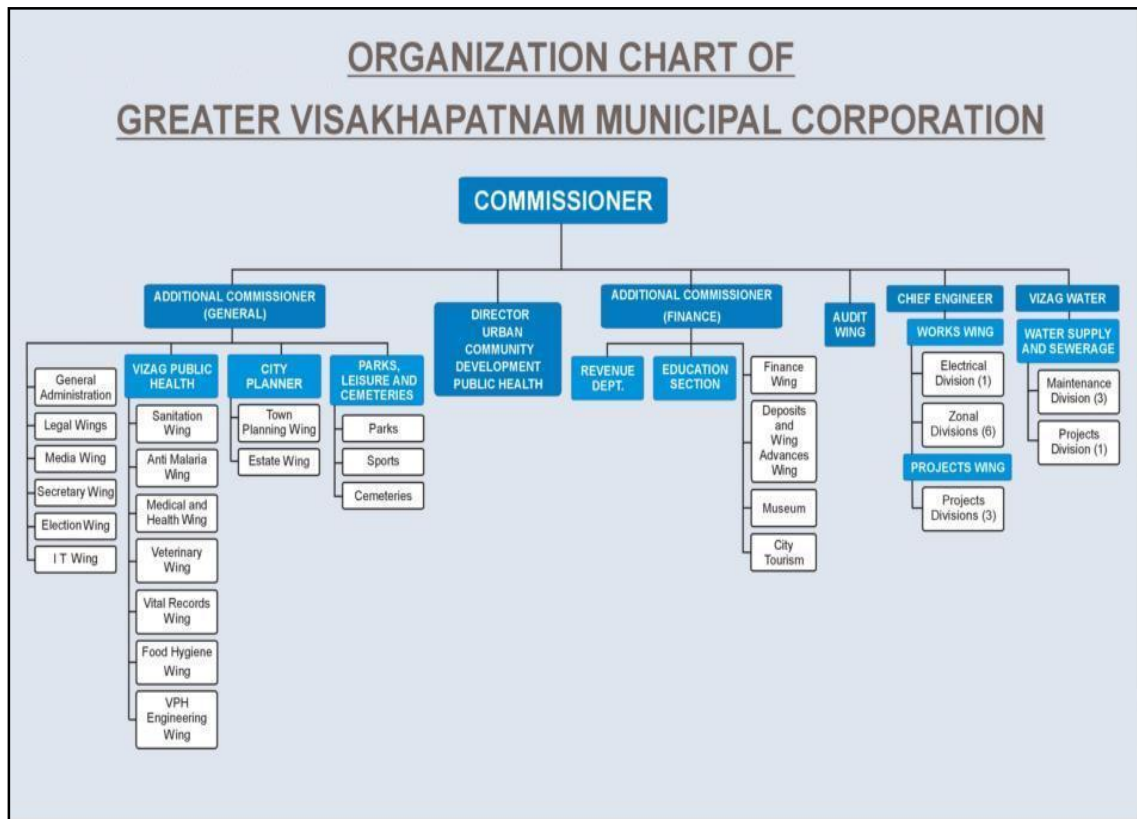
The Municipality of Visakhapatnam was constituted in 1858 with an area of 30 Sq Kms and upgraded as Visakhapatnam Municipal Corporation under the VMC Act No.19 of 1979 with a population of 9.83 lakh covering an area of 111.6 Sq Kms. The Corporation was subsequently upgraded (November 2005) as Greater Visakhapatnam Municipal Corporation (GVMC) by merging the

Gajuwaka Municipality and other surrounding Gram Panchayats (32¹⁹) covering an area of 533 Sq Kms duly creating six zones for smooth functioning. The GVMC is entrusted with the task of providing civic amenities and infrastructure facilities in the city. The present population of GVMC stood at 14.35 lakh as per 2001 census and the city was divided into 72 political wards. The Budget of GVMC for the year 2008-09 was Rs 1610 crore approximately.

2.2.2 Organisational set-up

The Commissioner is the head of the office of GVMC and is vested with administrative and executive powers under section 119 of HMC Act, 1955 read with VMC Act, 1979. An Additional Commissioner heads each of its functional wings. The GVMC is divided into six zones for administrative convenience and Assistant Commissioner heads each zone except Gajuwaka zone, which is headed by a Zonal Commissioner. The Principal Secretary, Municipal Administration and Urban Development (MA&UD) Department is responsible at Government level for overall supervision of the activities of GVMC including enforcement of the rules framed for administering the Act.

The organogram of the GVMC is as follows.



¹⁹ Madhurawada, Paradesipalem, Kommedi, Bakkanapalem, P.M. Palem, Yendada, Gudlavanipalem, Adivivarm, Yellapuvanipalem, Vepagunta, Purushothapuram, Chinnamushidivada, Pulagallipalem, Pendurthi, Laxmipuram, Porlupalem, Narava, Sathivanipalem, Nagina Narapadu, Vedula Narava, Gangavaram, E-Marrripalem, Manthripalem, Lankelapalem, Desapatrunipalem, Duvvada, Aganampudi, K.T. Naidupalem, Devada, Palavalasa, Chinnipalem, Appikonda.

The legislative setup of GVMC consists of Mayor followed by Deputy Mayors who are assisted by Standing Committees followed by Ward Committees and members.

The functions of GVMC *interalia* include:

- Watering, scavenging and cleaning of all public streets and places;
- Collection, removal, treatment and disposal of sewage, rubbish and the preparation of compost manure from such sewage, rubbish etc;
- Construction of drains and drainage works after collecting prescribed fees from the persons who apply for construction addition or alterations of a building alongwith the application for sanction;
- Maintenance and cleaning of drains and drainage works;
- Lighting of public buildings, public streets and municipal markets
- Construction, acquisition and maintenance of public markets and slaughter houses
- Management and maintenance of all municipal water works

For carrying out the above functions, the Corporation was empowered to impose various taxes and fees on lands and buildings, vehicles, advertisements, building permissions etc.

In order to monitoring the proper functioning of the Corporation, the State Government, *interalia*, may:

- Call for any proceedings of the Corporation, record, correspondence, plan or other document; furnish any return, statement of account or statistics;
- Depute any officer to inspect or examine any municipal department, office, service, work;
- Direct the Corporation or the Commissioner for proper performance of the duty or to make financial provision for performance of the duty;
- Appoint a person to take action in case of default in performance of its duty by the Corporation;
- Examine the records of the corporation to satisfy the correctness, legality, propriety or regularity of any proceeding or order passed by the Corporation;
- Cancel or suspend resolutions;

2.2.3 Audit objectives

The objectives of the performance audit are to assess the adequacy of

- The existing arrangements for levy, collection and accountal of Property Tax and Advertisement Tax;
- The existing arrangements for according Building Permissions;
- The existing arrangements for safeguarding of the Municipal lands and open spaces of GVMC and the arrangements for collection of lease rentals; and
- The existing arrangements for construction and realization of revenue through Shopping Complexes;

2.2.4 Audit criteria

The following criteria were adopted for the performance audit.

- Relevant provisions of the HMC Act 1955 and the Rules made there under
- Instructions of Government and the targets set internally;
- Resolutions of the Council;

2.2.5 Scope and methodology of audit

The Performance Audit covered the period from 2004-05 to 2008-09. However, matters relating to the period subsequent to 2008-09 have also been included wherever necessary. The records of the head office of GVMC as well as those of Zonal offices were test checked relating to the five selected areas, viz., Property Tax, Advertisement Tax, Building Permissions (Town Planning), Safeguarding of Municipal Lands and Shopping Complexes.

An entry conference was conducted in October 2009 at GVMC; Visakhapatnam wherein the officers of all the concerned wings of GVMC including the Zones were present and the methodology being adopted for the Performance Audit was explained to them. The replies furnished by the GVMC were taken into account while arriving at the audit conclusions. The results of the performance audit are presented in the succeeding paragraphs. During the exit conference conducted in May 2010, the Commissioner agreed to all the observations made by Audit in the performance review and promised to take necessary action on the recommendations.

2.2.6 Financial position

Receipt of funds under various sources by GVMC for the years 2004-09 as certified by the Commissioner and Director of Municipal Administration are as given in Table 2.12 below.

Table 2.12: Details of funds received by GVMC under various sources

(Rupees in lakh)

No	Sources of funds	2004-05	2005-06	2006-07	2007-08	2008-09
1	Taxes					
	Property tax [@]	4515.69	5407.67	4864.52	6341.17	7583.87
	Vacant Land Tax	54.56	26.33	58.71	542.64	222.77
	Advertisement tax	145.06	132.31	104.97	156.78	228.86
	Total Tax Revenue	4715.31	5566.31	5028.20	7040.59	8035.50
2	Non-tax Revenue [#]	622.32	348.46	549.59	336.11	480.07
3	Assigned Revenue [§]	3398.47	2750.37	4062.57	5455.84	4069.91
	Grand Total	8736.10	8665.14	9640.36	12832.54	12585.48

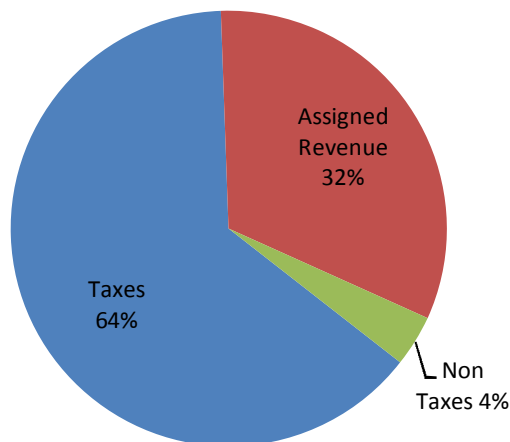
[@] Includes taxes on Govt Buildings, Service Charges

[#] Includes user charges, fines and miscellaneous receipts etc.

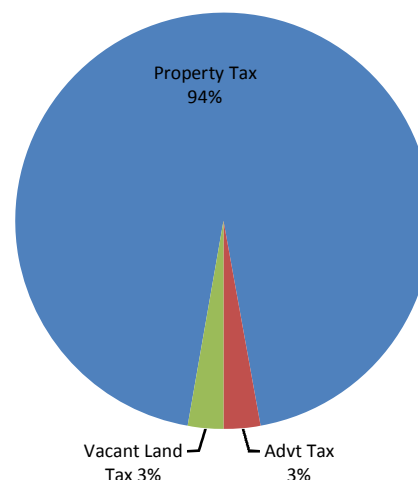
[§] Includes surcharge on stamp duty, entertainment tax assigned.

The sources of funds and percentage of property tax/advertisement tax of the total tax receipts of GVMC for the year 2008-09 is depicted through a pie chart as shown below:

Sources of Funds Rs 12585.48 lakh



Taxes Rs 8035.50 lakh



AUDIT FINDINGS

2.2.7 Property tax

A major source of Tax Revenue is the Property Tax (PT). The Planning Commission also, while floating recommendations under Tenth Five Year Plan emphasized on the need to:

- Reform the PT and its effective collection so that it becomes a major source of revenue of ULBs and the collection efficiency reaches the level of 85 *per cent* of tax demands, by the end of the Tenth five year Plan.
- Levy reasonable User Charges by the ULBs, with the objective of recovery of full cost of operation and management, by the end of the Tenth five year Plan.

PT is levied and collected on all the residential/ non-residential buildings under section 197 and 199 of HMC Act, 1955 within the purview of GVMC based on the built up area of the building. The PT becomes due for payment every half year as per section 264 of the Act.

2.2.7.1 Comprehensive database of all assessable properties

No comprehensive database of all assessable properties

Complete and accurate data on all assessable public and private properties including residential and non-residential properties is a pre-requisite for raising a proper demand. This has the added benefit of detecting unauthorized structures.

However, audit noticed that the GVMC did not possess a comprehensive database of all the assessable properties. The computerized (SOUKARYAM, an e-Governance project introduced in 2000) database available in GVMC was based on the manual data maintained by the Bill Collectors in the Registers,

which was neither reviewed periodically nor certified by any higher authorities concerned. Hence, the data available and maintained was inadequate. A system of according prior permissions for construction of buildings is already in place in the Town Planning Wing. Such information could have served as an effective aid for creating centralized database for PT. Only illegal constructions, i.e., constructions made without approved building permits, would not have found place in the database. However, the information available in Town Planning wing was not utilized by PT wing and there was no coordination between the wings of 'Town Planning' and the 'PT' in this regard.

Due to non-availability of comprehensive database, the collection of property tax suffered from the following deficiencies.

Collection of PT suffered from various deficiencies due to lack of insufficient input data

House numbers were not indicated in respect of 1841 properties and in the absence of which it was not clear as to how the half yearly demand statements were dispatched to the assesses concerned. Similarly, a single assessment number was assigned to more than one property indicating deficiencies in the system of assessment leading to various complications such as issue of demand to a wrong person, improper display of dues in the website, difficulties in cross checking the identification of beneficiaries for issue of voter identity card, ration cards etc.

- In respect of 273 assessed units the basic requirement of the plinth area constructed was not indicated in the assessment. In the absence of this vital information, the regular periodical revision of PT would be affected as the demand is calculated and notices generated based on this criteria.
- It was verified from the records that even though assessment numbers were assigned in case of 3048 properties, PT demand was not raised and collected without indicating the reasons in this regard.
- Assessment of PT was to be made based on the nature of property and it was the responsibility of Revenue Wing to conduct regular inspections to check the changes in the status of buildings. In respect of certain test checked properties (being utilized for schools), it was observed that assessments were made under residential category instead of categorizing under Public utilities (Office Complex, Public and Private Offices, Hospitals, Nursing Homes, Banks, Educational Institutions, Hostels etc.) resulting loss of revenue to the extent of Rs 49,204 per annum (**Appendix-3**).

Delay in taking up GIS survey has adverse implications on timely creation of comprehensive database

Delayed GIS Survey

The GVMC decided (April 2008) to entrust the private agencies the work relating to conduct of Geographical Information Survey (GIS) of all the properties from the JNNURM funds with an estimated cost of Rupees three crore. The scope of the work taken up includes:

- Property survey plus developing numbering system and fixing the number plates including integration of the data and training,

- Survey and GIS based mapping of electrical network,
- Supply of GIS application software,
- Data integration and drawing of GVMC network data as Electrical, Roads, Sewerage Network etc.,
- GIS Software customization and development,
- Supply and installation of IBM server and Storage Area Network (SAN),
- Supply and installation of Oracle spatial and DB 10G enterprise edition and
- AMC for entire project after one year of warranty period.

Though the tenders were finalized in September 2008, the GVMC entrusted work to the contractor (M/s Xinthe Technologies Pvt Ltd) in October 2009 with a stipulation to complete the work within 18 months from the date of entering into agreement. The delay in entrustment was due to non receipt of approval from the State Government. Thus the delay in entrustment of work has adverse implications of not bringing all the assessable properties under the tax net.

The present system is cumbersome as the task of assessment of PT and raising of demand rests with GVMC. The procedure could have been simplified by evolving a fair and transparent formula for self-assessment by the property owner and periodic payment by them. Relieved of this arduous task, the staff of GVMC could have been better utilized for the purpose of undertaking sample checks of Property Tax returns so submitted. Incidentally it is relevant to point out here that such a system had already been adopted (99-2000) by the GHMC wherein the collections showed an increasing trend (67 per cent in 98-99 to 75 per cent in 99-2000).

2.2.7.2 Raising of demand

PT rates were not revised since 1994. The existing rates in former VMC areas were much less than the rates of Gajuwaka municipality since merged with GVMC

As per Rule 7 (5) of the Rules framed under the HMC Act, revision of PT once in five years is mandatory. This was also reiterated (November 2001) by the State Cabinet. When GVMC issued notification for enhancement of rates during October 2007, the State Government directed not to revise the rates. As such there was no revision in the rates of PT from 1994 onwards (15 years) in respect of residential buildings whereas 50 per cent increase was noticed in case of non-residential buildings. This intervention of the State Government was an infringement on the autonomy of the Local Body and also contradictory to the recommendations of the Planning Commission.

Even after upgradation, GVMC did not revise the rates at least on par with rates prevailing in the surrounding municipalities, which were subsequently merged with GVMC. The existing rates (annual rental values and PT rates) prevailing in the areas of former Visakhapatnam Municipal Corporation are much less than the rates in Zone 5 i.e. the erstwhile Gajuwaka municipality, where the rates were revised in 2002. The Table 2.13 below illustrates the differences:

Table 2.13: Details of variation in rates of PT

(Rupees per Sq.mtr)

Posh Multi Storied Buildings (ordinary locality)	Rates under Gajuwaka Municipality	Rates under GVMC
Residential	8.00	4.50
Shops	20.00	20.00
Commercial	16.00	9.60
Godowns	15.00	9.60
Industries	10.00	9.60

Even though the GVMC proposed to rectify the anomalous situation, it could not implement the same due to the intervention of the State Government.

2.2.7.3 Collection and accountal

The targets vis-à-vis the achievements in collection of PT for the period 2004-09 in respect of buildings as furnished by GVMC were as stated in Table 2.14 below:

Table 2.14: DCB statement of current and arrear demand of PT

(Rupees in lakh)

Year	Arrear Demand			Current Demand			Total Demand		
	Demand	Collection	Balance	Demand	Collection	Balance	Demand	Collection	Balance
2004-05	2425.33	1286.93	1138.40	2817.31	2184.45	632.86	5242.64	3471.38	1771.26
2005-06	1850.14*	603.65	1246.49	3011.89	2404.64	607.25	4862.03	3008.29	1853.74
2006-07	2123.69*	446.38	1677.31	3812.65	2919.11	893.54	5936.34	3365.49	2570.85
2007-08	4099.08*	1771.94	2327.14	6189.05	3733.63	2455.42	10288.13	5505.57	4782.56
2008-09	5366.50*	1763.13	3603.37	7034.42	4697.41	2337.01	12400.92	6460.54	5940.38

*The closing balances did not reconcile with the opening balances for the succeeding years.

On enquiry about the reasons for shortfall in receipts, the GVMC did not furnish any reply.

Audit observed the following shortcomings with regard to collection and accountal of PT:

- Fair and transparent methodology for assessment and levy of PT is a vital pre-requisite. A methodology for computation of tax can be considered as effective if three persons x, y or z apply the methodology and they arrive at the same value of tax. If more than one value can be computed such a system is conducive to litigation. In respect of GVMC, it was observed that there were 320 cases pending in various courts as of March 2009 involving Rs 26.98 crore towards payment of PT. The cases related to the claims for excess computation, exemption from payment of PT. There is a need to streamline the methodology for computation of PT, so that not more than one value can be arrived at.
- The top ten defaulters of PT worked out to Rs 43.18 crore (35 per cent of the total amount of dues).
- The present system of deputing staff for collecting money from the property owners is beset with risk of non-remittance of taxes so collected. The field inspection should be restricted to collection of data

Absence of a fair and transparent mechanism for collection of property tax led to large number of court cases involving Rs 26.98 crore

with regard to properties. It was incidentally observed that some of the employees deployed on field inspection have misappropriated revenue to the tune of Rs 2.55 lakh (2003-09).

Vacant Lands

There were shortfalls in collection of VLT

According to Section 212 (2) of HMC Act, 1955 any vacant land not exceeding three times the plinth area of the building including its site or a vacant land to the extent of 1000 sq.mts whichever is less shall be deemed to be adjacent premises occupied by an appurtenant to the building. The area if any in excess of the said limit is deemed to be land not occupied by or adjacent and appurtenant to such building is also to be taxed at the rate of 0.5 per cent of the estimated capital value of the land.

Audit observed that in respect of vacant lands, there was shortfall in collection of Vacant Land Tax (VLT). DCB details for the last five years are as given in Table 2.15 below:

Table 2.15: DCB statement of arrear and current demand of VLT

(Rupees in lakh)

Sl No	Year	Arrear Demand			Current Demand			Total Demand		
		Demand	Collection	Balance	Demand	Collection	Balance	Demand	Collection	Balance
1	2004-05	NA	NA	NA	NA	NA	NA	NA	NA	NA
2	2005-06	1595.45	4.02	1591.43	106.05	22.94	83.11	1701.50	26.96	1674.54*
3	2006-07	1682.53*	13.48	1669.05	196.38	53.94	142.44	1878.91	67.42	1811.49*
4	2007-08	3369.03*	34.14	3334.89	2316.47	338.12	1978.35	5685.50	372.26	5313.24*
5	2008-09	5153.80*	24.84	5128.96	2536.06	211.76	2324.30	7689.86	236.60	7453.26*

Source : Information furnished by GVMC

*The closing balances did not reconcile with the opening balances for the succeeding years

The GVMC did not utilise the information available with Visakhapatnam Urban Development Authority (VUDA)/Registration Department for assessment of VLT as well as collection at the time of approval of Layouts/Sale of vacant lands/plots so as to bring all the vacant land into the tax net.

2.2.7.4 Enforcement of statutory provisions

The best remedy against defaulters is to take deterrent penal action. Following are the penal provisions laid down by the legislature and irregularities noticed by audit in enforcement of these provisions. :

GVMC failed to enforce most of the important statutory provisions with adverse implications of continued evasion of property tax by the defaulters

Relevant Section of the Act	Relevant provision/Penalty laid down in the Section	Audit observation
269 (2)	For non-payment of PT on or before due date: (i) penalty of 2 per cent interest per month to be imposed; or (ii) disconnect the essential services; or (iii) confiscate the movable	During the year 2008-09, State Government (MA&UD) issued orders (February 2009) for waiver of interest on PT as a one time measure. Defaults in payments can be categorized as: 1. Defaults arising due to adverse circumstances like crop fail in case of crop loans and adverse business climate in case of industrial loans etc. and

	articles of the defaulter.	<p>2 Wilful defaults</p> <p>One time settlement is normally extended in case of category one defaults. Cases of defaults in respect of PT do not fall under the first category. Hence, the application of principle ‘one time settlement’ by the State Government was an inappropriate measure. Such an action was basically a disincentive to other taxpayers who were prompt. This measure should be basically considered as giving an incentive to defaulting parties. This measure was also conducive to defaults in future. Incidentally it was observed that there were several such ‘one time measures’ taken by the State Government in the past (October 2004 and March 2008). Thus it is seen that the ‘one time measure’ in October 2004 led to further defaults necessitating further ‘onetime measures’ in March 2008 and February 2009.</p> <p>The Municipal Corporations are empowered to disconnect the essential supplies such as water supply, electricity to the properties of the concerned defaulters who fail to pay the PT dues. In Ahmedabad Municipal Corporation, a special campaign was launched (1993-96) wherein the teams were given powers to disconnect water supply or drainage lines, attach property of defaulters and issue of warrants. Due to the above stringent measures, the PT collections increased from Rs 47 crore to Rs 92 crore during 1993 to 1996.</p> <p>But the GVMC failed to invoke such provisions despite having the control over supply of drinking water. As regards disconnection of electricity connection, the GVMC failed to take the assistance of APTRANSCO.</p>
455	Every person should deliver a notice to the Commissioner, in writing, within one month after completion of the building and obtain permission to occupy the building.	In the test-checked cases, these requirements were not complied with by the building owners. Town Planning Wing also failed to obtain the completion reports. Automatic creation of the integrated database and raising of demand were not facilitated due to non-compliance.
238	Collection of arrears of PT under the provisions of the Revenue Recovery Act (RR Act).	These provisions are not being enforced at all. Non-application of deterrent penalties would result in continuous evasion of payment of PT by the defaulters.
278	Suing the defaulters in court of law.	

Though GVMC has been armed with provisions to penalize the defaulters, it failed to invoke the provisions. Non-invoking of deterrent penal provisions by GVMC has created a fertile environment for defaults in future. Thus, the legislative intent has not been translated into effective compliance.

The extension of benefits such as waiver of penal interest acts as a deterrent effect on the resources of the Municipal Corporation and the taxpayers are likely to delay the payments on a regular basis in the expectation of such incentives from the Government in the future also, thus turning them into habitual defaulters.

Given the large number of defaulters, it may be helpful to proceed against defaulters selected in the following manner periodically (may be every six months).

- a) Ten topmost defaulters and
- b) Ten defaulters selected on a scientifically generated random number basis;

Such a strategy has the merit that limited numbers of defaulters have to be proceeded against making it operationally feasible. Step (b) is recommended to give a signal that any defaulter can be proceeded against. Once vigorous action is taken against twenty defaulters, it would have a demonstrative effect against the remaining defaulters.

2.2.7.5 Dues from State Government

Compensation in lieu of PT exemptions/concessions

The State Government (MA & UD) ordered (November 1999) for payment of PT compensation to Municipalities / Municipal Corporations in lieu of certain concessions given to the properties (properties of ex-servicemen, properties whose Annual Rental Value (ARV) was below Rs 600 etc.). Further, according to Section 203 of HMC Act 1955, the State Government is to make payment to the GVMC in lieu of General Tax from which buildings and lands vesting in the State Government are exempted. The compensation amount received by GVMC for the last five years was as detailed in Table 2.16 below:

Table 2.16: Details of PT compensation dues from State Government

(Rupees in lakh)

Sl No.	Year	Total amount received from State Government towards compensation
1	2004-05	12.35
2	2005-06	120.61
3	2006-07	31.48
4	2007-08	40.04
5	2008-09	Nil

As the numbers of properties keep increasing year to year, such compensation should show an increasing trend. It could however be seen that the compensation received from Government was varying every year and for 2008-09 the compensation was yet to be received (as of December 2009). GVMC did not have a proper record showing computation of its claims. This was due to not having an authentic and comprehensive database of properties under exempted category with adverse implication for collection of compensation amount from Government.

Lack of authentic and comprehensive database of properties under exempted category had an adverse implication for collection of compensation amount from the Government

Government was yet to release Rs 10.23 crore to GVMC being the Property tax on Government owned buildings etc.

PT in respect of State Government buildings

The amount of PT dues in respect of State Government buildings/properties was Rs 10.23 crore as on March 2009 from 644 properties indicating failure of Government to fulfill its statutory obligation.

2.2.7.6 PT in Industrial Development Authority areas

The State Government issued orders in September 1994 transferring the powers relating to collection of PT and Advertisement Tax from municipalities and Notified Area Committees in industrial areas to the Andhra Pradesh Industrial Infrastructure Corporation (APIIC), subject to the condition that 30 *per cent* of PT collected by the said corporation (further increased to 35 *per cent* in June 1998) shall be remitted to the Municipality/Notified Area Committee of the area every half year.

The amount of dues of PT share from APIIC was found to be inaccurate in the absence of relevant data for the properties in industrial areas

Later in August 2008 Government decided to modify the above system duly entrusting the collection part to the municipal authorities with 50 *per cent* of such revenue remitted to the said Corporation. The APIIC is to provide all internal infrastructure and civic services in the said industrial areas and maintain them as per the standards stipulated in this regard. Since the orders in this regard were yet to be issued by the Government, the same was not implemented and the earlier procedure was being continued.

It was observed that the GVMC failed to maintain the record of the properties in the Industrial Area (Zone-5, erstwhile Gajuwaka municipality). In the absence of the relevant data, the amount due from APIIC for the past 15 years (to the extent of record made available to audit) was not ascertainable and as such the amount (Rs 96.10 lakh) so far received (1994-2008) by GVMC cannot be termed as accurate.

2.2.7.7 Non-remittance of Library cess dues to the Zilla Grandhalaya Samstha

The library cess dues to the extent of Rs 60.59 lakh were yet to be remitted to ZGS

According to the Andhra Pradesh Libraries Act, 1960 all the Municipalities/Municipal Corporations are to set apart an amount at the rate of eight paise on every rupee collected towards Property Tax on buildings as Library cess. The amount so set-apart is to be remitted to the Zilla Grandhalaya Samstha (ZGS), (the body constituted for maintenance of the Public Libraries in each district) of the respective Districts every year. It was verified from the records that a sum of Rs 60.59 lakh collected (to end of March 2009) towards Library Cess was not remitted to ZGS (as of December 2009).

2.2.8 Advertisement Tax

2.2.8.1 Database of all Assessable Advertisement Units

Absence of Integrated Database

All functions relating to advertisements within the jurisdiction of GVMC were centralized in the Advertisement Section of the head office of GVMC. Various items listed in **Appendix-4** attract payment of advertisement tax, which included ground rent. Realization of revenue depends on the size and the duration of the contract/permission. Advertisement Section accords prior permission for erection of hoardings, uni-poles and other advertisement units for the purpose

Integrated Database to facilitate collection of Advertisement tax has not been created. Proper mechanism was not in place to collect revenue as per the standard parameters

of displaying advertisements. Comprehensive database is required for certain purposes viz., for raising proper demand and to detect unauthorized hoardings. This would also help in detecting under-declaration of the sizes of the advertisement boards/hoardings etc. Database is also useful for monitoring renewals, cancellations, collection of penal charges beyond the expiry period etc.

Audit scrutiny revealed that the database available in the Advertisement Wing was based on the information furnished by the registered advertising agencies. However, this could not be termed as comprehensive as no comprehensive verification was conducted by GVMC to ensure the correctness of the information furnished by the agencies. In this connection, Audit also observed the following:

- Though GVMC allotted distinct numbers to the advertisement hoardings, they were not displayed in the erected boards. Thus GVMC was not in a position to readily identify the unauthorized advertisement boards that are displayed either by the registered (54) or unregistered agencies/individuals. All the advertisement hoardings should display its unique identification numbers for having a close watch over deviations in size, expiry period etc., of the advertising boards and for prompt collection of the advertisement tax from the advertisers concerned.
- Verifiable records for inspecting the sizes (i.e., measurement of the advertisement units) were not in place. Such records are vital for monitoring during field visits by higher authorities in cross checking the originally approved sizes of the advertisement units.
- A certain percentage check of the initial measurements by way of surprise checks by appropriate authorities was essential but this was not ensured.
- Neither the Act nor the Rules provide for stiff penalties against incorrect declaration of sizes of the advertisement units.

Neither the Act nor the Rules provided for stiff penalties for incorrect declaration of sizes

Physical survey of advertisement boards

The survey conducted by the Andhra University was found to be incomplete as the advertisement demand raised by GVMC prior to survey was more than the demand calculated as per the survey report

Instead of creating a database on its own due to the sensitive nature of the activity involving revenue implication, GVMC decided (January 2009) to entrust the survey of the number of Advertisement boards in respect of both authorized and unauthorized in all the 72 wards of GVMC to the Andhra University, for a total consideration of Rupees four lakh with the following conditions.

- Number of persons to be involved in this programme, person wise details indicating name, qualification and quantum of work entrusted etc., were to be submitted.
- The status of work being carried out during the contract period of three weeks was to be furnished on daily basis.
- Detailed survey report was to be submitted within three weeks from the date of commencement of the work.

- Payment was to be made according to the procedure adopted by the GVMC after completion of the work to the satisfaction of GVMC.
- The survey information was to be submitted in the prescribed proforma without any omission.

The Andhra University submitted (March 2009) the field report and the same was cross checked by the respective zones. Based on the Survey Report, sum due for collection as advertisement tax was arrived at Rs 73.36 lakh *per annum* by GVMC for the year 2009-10. However, the demand raised by GVMC prior to this survey was in fact more (Rs 1.63 crore) indicating that the survey conducted by the Andhra University was incomplete.

With regard to the audit observation relating to lack of comprehensive database, the Commissioner during the entry conference stated that there was shortage of manpower for creation of database and conducting surprise checks. Audit is of the view that this task could be relieved by introducing a self assessment system duly incorporating a penalty clause for incorrect declaration of data.

2.2.8.2 Raising of demand

GVMC collects advertisement tax from the traders/agencies, which consists of tax on erection of hoardings, ground rent on space for hoardings, lease of advertisement rights and fee for display of advertisements of all categories.

Assessment of Rates

According to the Draft Advertisement policy (November 1999) of the Government (MA&UD Department), the Advertisement rates are to be based on the following factors.

- Importance of the road/category of the road
- Type of hoarding
- Size of the hoarding

However it was observed that though the rates were fixed as per the type and size of the advertisement board, they were further categorized under best rate, better rate, average rate, below average rate, poor rate etc. Such a procedure was beset with the problem of evolving a fair and transparent mechanism for such categorization with adverse implications by way of lack of objectivity and revenue loss.

Recording of measurements

The data regarding the type, size and location of the advertisement units was to form the primary requirement for assessing the tax for advertisement units, whereas it was observed that in respect of 424 advertisement boards the measurements were not recorded. As a result the correctness of the tax assessed in respect of these boards could not be verified.

Surprise checks

Surprise checks to verify the sizes of hoardings and unauthorized hoardings were absent. Penalties were also not prescribed and imposed for under-declaration of sizes and unauthorized hoardings.

In the absence of adequate data with regard to the number of assessable units, there is no assurance with regard to the correctness and completeness of demand raised. Surprise checks were absent.

Given the various lacunae pointed out above, the shortfall in collection of revenue could not be assessed in audit.

2.2.8.3 Collection and Accountal

During the five-year period 2004-09, GVMC collected Rs 5.97 crore (97 per cent) towards Advertisement tax as against the target of Rs 6.15 crore as stated in the Table 2.17 below. The achievement would have been laudable if the target had been scientifically arrived at based on a comprehensive and authentic database.

Table 2.17: DCB particulars of Advertisement tax collections

(Amount in Rupees)

Sl No	Year	Demand	Collection	Balance
1	2004-05	10464622	10104622	360000
2	2005-06	9038970	8428970	610000
3	2006-07	11031215	10841215	190000
4	2007-08	14640010	14277744	362266
5	2008-09	16330324	16098032	232292
Total		61505141	59750583	1754558

Source : Information furnished by GVMC

In addition to the above arrears of Rs 17.55 lakh in respect of the agencies (97) that were registered with the GVMC, the dues of Advertisement Tax from the unregistered agencies also constitute considerable contribution to the revenues of GVMC. However, it was noticed that an amount of Rs 23.90 lakh was collected towards advertisement tax from these agencies during the years 2004-09 for which no Demand, Collection and Balance details along with the list of such agencies were maintained. In the absence of this vital information, the actual amount due and collection from the concerned non-agencies could not be assessed.

2.2.8.4 Penal provisions

The following table shows the details of offences determined and the penalties prescribed.

Little attention was paid to scope of offences which should be more comprehensive. Quantum of penalties was also inadequate to have deterrent effect

Relevant Section of the Act	Nature of offence	Penalty prescribed	Audit observations
596	Erection of Sky-Signs without permission	Ranging between Rs 50 to Rs 1000	<ul style="list-style-type: none"> The scope of offences is restrictive. Provision against incorrect declaration with regard to size of advertisements is

596	Exhibition of advertisements on certain sites without permission	Ranging between Rs 50 to Rs 1000	missing. The area of offences committed by the assesseees is far and wide. No penalty has also been prescribed for default in payment of advertisement tax.
596	Failure on the part of the licensee to produce the license on demand	Ranging between Rs 50 to Rs 1000	<ul style="list-style-type: none"> A pre-requisite for a penalty as a deterrent against defaulters is that the quantum of penalty should be much more than the benefit that the defaulter would derive. The amounts were fixed long back and are not consistent with the principle enunciated above.
597	Continued offences	Rs 10	No penalties were being levied. Mere prescription of a penalty does not have a deterrent effect unless the defaulting parties are penalized.

Thus, adequate attention was not paid to the scope of offences, which should be made more comprehensive. The quantum of penalties was also not adequate and hence should be revised so as to have deterrent effect.

2.2.9 Building Regulations (Town Planning)

2.2.9.1 Building permissions

GVMC is empowered to grant building permissions under Sections 428 & 433 of HMC Act, 1955, after duly collecting building permit fee and other charges as per the schedule of rates notified. Viewed from the citizens' point of view, getting approvals for building plans in a hassle free manner is an important requirement. The focus of audit was therefore to assess whether the existing procedures met this requirement or could be modified. The status of building permit applications received, permissions accorded, and the fee received during the review period of 2004-09 was as stated in the Table 2.18 below:

Table 2.18: Details of Building applications received, disposed and returned by GVMC

(Rupees in lakh)

Year	No. of applications received	No. of building permissions accorded	No. of applications returned	Fee received
2004-05	1576	1321	255	181.43
2005-06	2686	2016	670	193.16
2006-07	3587	2774	813	413.33 ²⁰
2007-08	3356	2759	597	405.25
2008-09	3238	2422	816	528.37

²⁰ Substantial increase due to upgradation of VMC to GVMC.

The reasons for return of the applications were mainly due to i) non-remittance of the prescribed fees in full and ii) non-submission of certain documents along with the application.

2.2.9.2 Disposal of applications for building permissions

Applications for approval of building plans are received at the Soukaryam counter of the GVMC along with the prescribed documents and fees payable. The SOUKARYAM (an e-Governance centre launched by GVMC) counter allots a number to each and every application called as building application number. After allocation of numbers, the applications are forwarded to various Zones the following day for further action. Scrutiny of records revealed the following:

- The application form did not contain instructions with regard to list of documents to be enclosed along with payment of prescribed fees while submitting applications for building permit. As a result many of the applications were returned due to non-submission of documents in full shape as indicated in para 2.2.9.1. Also there was no system to scrutinize and check the documents at the time of receiving applications. Such a scrutiny would have served the purpose of informing the applicants with regard to the documents to be additionally enclosed.
- There was no system of acknowledging the list of documents while submitting the application form at SOUKARYAM counter so as to give an assurance to the applicants what documents have been brought on record.
- Though initially the information is fed into website, subsequent status of the applications was not updated causing inconvenience to the public who have to make frequent trips to the zones concerned. This also resulted in defeating the objective of providing services on-line as intended through SOUKARYAM.
- The system of dispatching the approved building permits to the applicants through registered post was not followed by GVMC. Instead the applicants concerned had to make frequent visits to GVMC. A system of dispatching the building permits by Registered Posts has the merit from the vigilance point of view as it reduces the interaction between the applicants and the officials.
- As per the orders of the Government, the applications received are to be disposed within 15 days from their date of receipt. It was however observed that there were delays ranging from 4 to 341 days in 149 out of 321 test checked cases beyond the prescribed period. In most of these cases, the delay was attributed to non-furnishing of certain documents, short payment of fees etc. This could have been avoided by preliminary scrutiny of documents at the time of receipt of applications.

- Based on the proposals approved in the Municipal Council and the Gazette Notification issued by the GVMC, fees are to be collected as per the rates prescribed for each element involved in collection of fees. However, it was observed from the test checked records that there were discrepancies in various elements²¹ of fees collected (2007-09) by GVMC from the applicants as illustrated in **Appendix-5**.
- During 2007, GVMC, with the intention to make it convenient for the public to obtain permission for construction of buildings, introduced instant approval of plans at e-Seva centres in Visakhapatnam in respect of sites with plinth area below 300 Sq Mtrs area on experimental basis. The Licenced Technical personnel were entrusted the responsibility to see that these constructions come up as per the plans approved by them. This procedure was subsequently dispensed with (2008) for the following reasons:
 - i. Non availability of technical personnel at e-Seva centres.
 - ii. There was no established procedure for quick circulation of such approvals to the Town Planning field staff.
 - iii. Issue of permissions contrary to the Master Plan and building rules in several cases.
 - iv. Subsequent action on such defective approvals led to legal complications.
 - v. Non availability of sufficient outdoor Town Planning staff for verification of such permissions with respective ground situation.
 - vi. Lack of provision in the Act/ Rules and legal support for such a procedure.

Due to aforesaid deficiencies and consequent delays in processing of building permission applications, many buildings were constructed without obtaining permits as pointed out in Para 2.2.9.4.

2.2.9.3 Deviations from procedural requirements in granting of building permits

The procedural requirements in granting of building permits and the compliance were as follows:

Deviations from procedural requirements were noticed in grant of building permits inconveniencing the public

Statutory requirement	Compliance/Audit findings
As per Section 428 of the HMC Act, the applicant seeking building permission should give a notice to the Commissioner in a prescribed form.	Complied with.

²¹ Building Licence fee, VUDA development charges, debris charges, betterment charges, external-betterment charges, tree guard charges, publication charges, drainage charges, water charges, BT road and drainage charges, 10 per cent open space cost etc.

<p>Section 435(2) of HMC Act stipulates that, on the reverse of the prescribed form for the above notice, a copy of Sections 428 to 434, 436 to 438, Section 440 and Section 444 to 449 and of all by-laws made under sub-sections (9), (12) and (13) of Section 586 should be printed and supplied for the benefit of the applicants.</p>	<p>Not being complied with by GVMC. Thus, the relevant sections and the requirements there under were not made known to the applicants.</p>
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Due to above deviations from the formal requirements to be complied with in grant of permissions, there were delays in grant of permissions as pointed out in para 2.2.9.1.

2.2.9.4 Building Penalisation Scheme

The State Government (MA&UD) introduced (December 2007) Building Penalisation Scheme (BPS) for regulation and penalisation of unauthorisedly constructed buildings and buildings constructed in deviation to the sanctioned plans. For regularizing such illegal constructions, a penalty equivalent to 33 *per cent* of the various categories of fee and charges is payable by the applicants for obtaining building permission in addition to the regular fee and other charges as prescribed under sub-clause C of section 455-A of the Act. Implementation of the scheme commenced in June 2009. About 22285 applications were received (October 2009) for regularization of illegal and unauthorized constructions under the scheme. 6969 applications were processed to the end of December 2009 leaving a balance of 15316 applications pending to be processed due to reasons viz., non-compliance with the documents to be enclosed and non-remittance of the full amount despite being given extension of time and repeated reminders.

Audit observed that BPS basically suffers from the following two lacunae:

- i. It does not make distinction between those structures which have been built in accordance with the norms laid down but without obtaining prior permission from GVMC and those structures which have been built in violation of norms laid down and without obtaining prior permission. There is no condonation for applicants who obtained prior permission and deviated from the sanctioned plans but within permissible norms, as deviations in such case cannot be considered as objectionable.
- ii. In cases where the constructions were beyond the permissible norms, those structures are regularized by imposing penalty instead of demolishing as they endanger public safety.

2.2.9.5 Non-utilization of the amounts collected towards Rain Water Harvesting Pits (RWHP)

Amounts collected towards Rain Water Harvesting Pits from the applicants seeking building permissions were not utilised. There was also no pursuance by GVMC for construction of the said pits

GVMC collects certain amounts towards cost of construction of Rain Water Harvesting structures in the plots of the applicants who seek permission to construct dwellings. These amounts shall be refunded to the applicants who construct the RWHS pits failing which the GVMC has to undertake the construction of such RWHS pits with the amount collected.

A sum of Rs 2.05 crore was collected from the applicants seeking building permissions by the GVMC during the period 2005-09 (up to December 2009). The amount was to be refunded to the applicant concerned provided the pits were constructed in the respective premises within three months from the date of according building permissions. There were no applications seeking refund of these amounts indicating that the pits might not have been constructed. This indicated a failure on the part of GVMC to carry out an inspection and force the owners to undertake construction where no pits had come up. Instead, GVMC deposited the amounts in a separate account under General Fund account. The Commissioner admitted (December 2009) that the GVMC was not insisting on the construction of RWHS pits and the concerned applicants were also not insisting for refund of the amount.

2.2.10 Shopping complexes

According to Section 526 of HMC Act, the GVMC may construct, purchase or take on lease any building or land for the purpose of establishing a new municipal market or improving the existing markets from time to time for the use of persons carrying on trade or business. In order to improve the revenue resources, the Government also issued (September 2004) orders to take up construction of shopping complexes by ULBs in their lands.

The primary objective of construction of shopping complexes is augmentation of revenue. A well designed strategy, as emerging out of State Government orders (July 1998 and September 2004), would typically consist of the following steps:

1. Fixation of lease rent: This is to be done taking into account the expected cost of construction of shops and provide for a decent return on the capital investment. Fair and transparent formula for fixation of rents would consist of the following steps:
 - a) Computation of the initial rent linked to the size and location of the shops.
 - b) Automatic periodic revision of the rents as per predetermined formula (period and increase to be specified).

This is to be notified to the potential applicants for assessment of demand.

2. Assessment of demand: This helps in ascertaining whether there are parties willing to take the shops to be constructed on rent.
3. Collection of goodwill amount from potential lessees: The submission of this amount will indicate how many of the potential lessees are serious about occupying the shops.

4. Construction of the shops in a time bound manner.
5. Agreements with the lessees providing for automatic revision of rents at predetermined rates.
6. Watch register to monitor the receipt of rents. Every month the watch register would also indicate which properties are due for revision of rents.
7. Clauses for evacuation of lessees in the event of default. The clause would specifically state the number of defaults in payment which would result in automatic eviction. The number of defaults so specified should be less than the security deposit collected to act as a safeguard against loss of rent during the vacation proceedings and fixation of new parties.
8. Maintenance schedule describing the periodicity of maintenance works so that maintenance is carried out in a regular cycle.

However, scrutiny of records of GVMC revealed the following:

- The construction of shops was undertaken without fixation of lease rent or assessment of demand. Out of the total 59 shopping complexes (comprising 814 shops) constructed to end of March 2009 by GVMC, only 14 shopping complexes were constructed on goodwill basis.
- In respect of 14 shopping complexes mentioned above, there was shortfall in collection of goodwill amount to the extent of Rs 15.65 lakh as detailed in **Appendix-6**.
- Construction of shopping complexes without collection of 100 *per cent* goodwill amount led to many of the shops constructed by GVMC lying idle since 2001 as detailed in the Table 2.19 below:

Table 2.19: Details of shops lying vacant

Zone	Number of shopping complexes	Total No. of shops	No. of shops allotted	No. of shops lying vacant	Percentage of vacancy
1	3	53	53	0	0
2	18	223	216	7	3
3	17	278	275	3	1
4	12	187	122	65	35
5	3	38	15	23	62
6	6	35	31	4	11
Total	59	814	712	102	

- Out of 65 shops vacant in respect of three shopping complexes in Zone-4, 56 shops belonged to one shopping complex (Mahatma Gandhi shopping complex comprising 60 shops) constructed (2006) at a cost of Rs 48 lakh.

Thus due to failure of GVMC in not following the State Government orders, the available resources were tied up in idle asset instead of augmentation of revenue.

- There was a flaw in the procedure stipulated in the State Government (MA&UD) order (September 2004) for revision of lease period as it was restricted to a period of 12 years to be followed by fresh auctions. The stipulation of 12 year period failed to take into account the fact that any shop would continue to run unless the owner decides to close the business.
- As regards compliance with the laid down procedure, it was observed that fresh auctions were not conducted after the expiry of 12 year period in respect of 37 shops resulting in undue benefit to the lessees by way of non-revision of rents as well as loss of revenue to the extent of Rs 6.18 lakh to GVMC as of December 2009 as detailed in **Appendix-7**. Failure to follow the prescribed procedure after expiry of 12 year period indicates that the watch register was not effectively used.
- The agreements with the lessees did not stipulate the specific number of months of rent which if not paid would result in eviction proceedings. The failure to vacate the defaulting parties resulted in pendency in collection of rents as detailed in the Table 2.20 below.

GVMC failed to take appropriate steps to collect the rents on regular basis resulting in over dues to the tune of Rs 4.81 crore

Table 2.20: DCB particulars of rents due for collection

(Rupees in lakh)

Details	Demand	Collection	Balance	Percentage of arrears
Arrear Demand	302.74	73.89	228.85	76
Current Demand (2008-09)	610.10	358.27	251.83	41
Total	912.84	432.16	480.68	53

- It was observed that no allocation for maintenance was made in the budget for the period from 2004-09 covered by audit although the constructions were undertaken long back. Though some of the shopping complexes (24) required immediate repairs, no expenditure was incurred in this regard. As a result, they remained unoccupied denying the GVMC in augmentation of revenue.

2.2.11 Safeguarding of municipal Lands

Little attention was paid towards safeguarding municipal lands, resulting in high risk of encroachments

Open Spaces

A total of 808 open spaces were reported to be owned by GVMC aggregating 223.20 acres. Audit scrutiny revealed that out of the total open spaces owned by the GVMC, action was initiated by the GVMC to protect the sites by fencing to the extent of 608 sites aggregating 116.82 acres, leaving 200 sites aggregating 106.38 acres yet to be fenced, thereby providing ample scope for unauthorized occupation.

Separate Estate wing

The GVMC which was spread over a vast area owned a number of immovable assets such as land, buildings, parks, roads, drains etc. But to keep a vigil to safeguard these assets, the GVMC had not set-up a separate Estate Wing. The post of Estate Officer was deputed from the Revenue Department and posted under the control of the Chief City Planner. The duties and responsibilities to be discharged by the Estate Officer were however not specified even to date. The controls to safeguard the precious assets were not commensurate with the onerous task.

Maintenance of Asset Register/ Centralized accounts

Centralised Asset Account was not maintained by GVMC

It was observed that the Register of Assets was not maintained in GVMC. In the absence of the Register of Assets, the GVMC was in the dark as to the extent of lands, buildings, open area, assigned lands etc., and whether its properties are duly safeguarded against encroachments by unscrupulous elements. With the steep hike in land prices in the city as well as surrounding areas there is a high risk of encroachments.

In order to safeguard the municipal lands / open spaces, GVMC needs to conduct a fresh survey of all the municipal lands and open spaces including those of the local bodies which were merged in the limits of GVMC and to integrate the full data with the master database of GVMC. There is an imperative need for periodic verification of the lands owned by GVMC.

Further, a Centralised Asset Account of the Local Body including those of the surrounding local bodies merged within the limits of the GVMC to be maintained as stipulated in Andhra Pradesh Municipal Asset Management Manual was also not followed by GVMC. All assets, including the vehicles are required to pass through the centralized asset account register which is to contain all particulars²². The asset classification and compilation is required to be undertaken as per the charts given under Para 2.11 and 2.12 of Andhra Pradesh Municipal Asset Management Manual. In the absence of proper records, these requirements were not met.

2.2.12 Conclusions

The collection of PT suffered for want of a comprehensive database and not undertaking periodic revisions. Non-collection of penalty from defaulting parties resulted in defaulters being encouraged for further defaults in future. Failure to invoke penal provisions against defaulting parties has resulted in the legislative intent not being translated into compliance by executive. The collection of advertisement tax also suffered from lack of comprehensive database. The prevailing system of according building permissions is a big hassle for law abiding citizens and not a deterrent for parties undertaking

²² Nature of the asset, area and the survey number in which it is located, type of construction/ date of purchase, extent of construction, year of construction/acquisition/purchase, book value, face value, depreciation, current value of the asset, user agency/ authority etc.

unauthorized constructions. The construction of shopping complexes and realization of rents suffered from serious deficiencies. Municipal lands are valuable assets in view of the high prevailing prices but GVMC failed to have a mechanism commensurate with the onerous task of safeguarding these lands.

2.2.13 Recommendations

- Comprehensive database of all assesses/lessees should be created to facilitate proper collection of taxes and detection of unauthorized constructions/misutilization of premises/lands.
- The procedure for assessment of PT should be simplified by evolving a fair and transparent formula.
- Government should consider constituting an Ombudsman as recommended by the 13th Finance Commission. The Ombudsman may also be entrusted with the responsibility of dealing with all complaints relating to building regulations so as to ensure fairness and transparency.
- GVMC may make arrangements to display the fortnightly status of building permission applications through media or public notice boards besides putting it on the website.
- The system of collection of rents in respect of shops leased out should be streamlined. Fair and transparent formula should be adopted for fixing of rents as well as their periodical revision.
- Adequate machinery should be put in place for protecting the municipal lands from possible encroachments.

The matter was reported to the Government (March 2010); reply had not been received (October 2010).

**MUNICIPAL ADMINISTRATION & URBAN DEVELOPMENT
DEPARTMENT**

**2.3 MANAGEMENT OF SHOPPING COMPLEXES/MARKETS BY
GREATER HYDERABAD MUNICIPAL CORPORATION**

According to Section of 526 of Hyderabad Municipal Corporation Act, the Greater Hyderabad Municipal Corporation (GHMC) may construct, purchase or take on lease any building or land for the purpose of establishing a new municipal market or improving the existing markets from time to time for the use of persons carrying on trade or business. Further, according to the orders issued by the Government in September 2004, the Municipalities and the Municipal Corporations were asked to take up construction of shopping complexes on the lands of the Corporation as a part of generating adequate resources to the Municipal Corporations to meet their revenue and capital expenditure.

2.3.1 Audit objectives

The objectives of the review are to evaluate the existing arrangements for

- construction of shopping complexes, markets;
- fixation and revision of rates of goodwill as well as rents;
- realization of revenue through shopping complexes and markets; and
- internal controls for management of shopping complexes and markets.

2.3.2 Audit criteria

The following criteria were adopted for conducting the review.

- Relevant provisions of HMC Act, 1955 and rules made there under,
- Instructions of Government and the targets set internally.

2.3.3 Scope and methodology of Audit

The audit covered the period from 2005-06 to 2008-09. However, matters relating to the period subsequent to 2008-09 have also been included wherever necessary.

The records of the head office as well as four (Kapra, Khairatabad, Abids and Uppal) sample circles having shopping complexes/markets were test checked in audit.

2.3.4 Audit findings

The primary objective of construction of shopping complexes is augmentation of revenue. A well designed strategy, as emerging out of State Government orders (July 1998 and September 2004), would typically consist of the following steps:

1. Fixation of lease rent: This is to be done taking into account the expected cost of construction of shops and provide for a decent return on the capital investment. Fair and transparent formula for fixation of rents would consist of the following steps:

- a. Computation of the initial rent linked to the size and location of the shops.
- b. Automatic periodic revision of the rents as per predetermined formula (period and increase to be specified).

This is to be notified to the potential applicants for assessment of demand.

2. Assessment of demand: This helps in ascertaining whether there are parties willing to take on rent the shops to be constructed.
3. Collection of goodwill amount from potential lessees. The submission of this amount will indicate how many of the potential lessees are serious about occupying the shops.
4. Construction of the shops in a time bound manner.
5. Agreements with the lessees providing for automatic revision of rents at predetermined rates.
6. Clauses for evacuation of lessees in the event of default. The clause would specifically state the number of defaults in payment which would result in automatic eviction. The number of defaults so specified should be such that the security deposit collected would be adequate to safeguard against loss of rent during the vacation proceedings and fixation of new parties.
7. Maintenance schedule describing the periodicity of maintenance works so that maintenance is carried out in a regular cycle.

GHMC's failure to comply with the above strategy resulted in various deficiencies relating to management of shopping complexes and augmentation of the intended revenue as discussed in the succeeding paragraphs.


2.3.4.1 Comprehensive database of the properties

GHMC possesses various shopping complexes and markets constructed long back. Complete and accurate data of all the properties is pre-requisite for raising demand for collection of rents. This has the added benefit of revising rates as per the current market value and also facilitates detection of unauthorized occupants. Chapter-4 of the Andhra Pradesh Municipal Asset Management Manual stipulates the practices for asset maintenance and verification.

As per the latest information furnished (April 2010) by the Commissioner, there were 18 shopping complexes and 28 markets under the jurisdiction of GHMC. There is no assurance with regard to the accuracy of this data. Audit observed that GHMC had no comprehensive database of all properties. Though various circles were entrusted with the collection and maintenance of shopping complexes, consolidated data with regard to total number of shopping complexes and the details of their demand collection and balance were not brought into centralized database of GHMC. GHMC replied (June 2010) that it had conducted survey of all the complexes and markets and prepared database report of each and every shop situated in Complexes and Markets along with DCB particulars. But no supporting evidence to this effect was furnished by GHMC.

2.3.4.2 Construction of shopping complexes

Scrutiny of records pertaining to the construction of shopping complexes undertaken by the GHMC revealed the following lapses.

Item	Audit findings
<p>Shopping complex at Sainikpuri Estimated Cost: Rs 48.50 lakh Date of sanction: September 1999 Source of Funds: GHMC own funds Estimated contract Value: Rs 40.64 lakh Agreement value: Rs 47.17 lakh Date of Entrustment: March 2000 Date of commencement of work: October 2004 Expenditure so far incurred: Rs 40.13 lakh.</p> 	<p>GHMC entrusted the construction work to contractor in a disputed land. Only after four years after issue of work order, the site was firm up and after incurring an expenditure of Rs 40.13 lakh, the contractor stopped (November 2007) the execution of work claiming new rates.</p> <p>The estimates for balance items of work were drawn (July 2008) for Rs 83 lakh against the cost of Rs 14.90 lakh (Rs7.86 lakh of non-contracted items + Rs 7.04 lakh of left over contracted items) as per original estimates. So far no action was taken up by GHMC to entrust the work to contractor for completion of balance works.</p> <p>Thus, the entrustment of work without ensuring clear site had resulted in non-completion of the construction of shopping complex. Further it led to blocking up of existing resources of Rs 40.13 lakh being the expenditure incurred on the incomplete asset. Revenue loss could not be quantified as the goodwill amount and rents were not fixed. GHMC replied (June 2010) that efforts were being made to complete the work as early as possible.</p>
<p>Commercial Complex at Maredpally: Date of sanction: February 2002 Source of funds: Own funds Date of entrustment: November 2002 Expenditure: Rs 2.38 crore Date of completion: November 2006</p>	<p>Demand was not assessed before construction of commercial complex. Even after completion of the construction, auctions were not conducted so far.</p> <p>Three out of six floors, admeasuring 20983 sft. were leased out (August 2007) at a monthly rent of Rs 3.15 lakh to Hyderabad Metropolitan Development Authority (HMDA) without concluding lease agreement. HMDA defaulted in payment of rents resulting in an accumulation of arrears to the extent of Rs 90.72 lakh (March 2010).</p> <p>The remaining portion of the complex was occupied by GHMC.</p> <p>Without furnishing lease details, GHMC replied (June 2010) that HMDA was not clearing the dues as the GHMC had also certain dues pending to be cleared to HMDA. Efforts were being made to reconcile the dues payable by each other. But the reasons for accommodating their office in the complex constructed for generation of revenue and the corresponding revenue implications if</p>

	<p>accommodated elsewhere were not furnished by GHMC.</p> <p>Thus construction without assessment of demand coupled with improper allotment of shopping complex to HMDA resulted in non-augmentation of intended revenue.</p>
<p>Shopping complex at Kushaiguda Date of sanction: May 2003 Date of commencement of work: February 2004 Source of funds: IDSMT (Rs 1.50 crore) and Municipal Funds (Rs 1.06 crore) Expenditure: Rs 2.56 crore Date of completion: January 2009</p> 	<p>GHMC undertook the construction without assessing demand and fixation of lease rent. Secondly even after completion of the construction in January 2009, the shops/stalls (67/148 Nos.) were not auctioned. Consequently, there was loss of revenue amounting to Rs 1.65 crore towards goodwill besides loss of monthly rent amounting to Rs 3.63 lakh per month.</p> <p>The objective of IDSMT was to improve infrastructural facilities in the small towns so that these emerge as regional centres of economic growth, decentralizing economic growth apart from providing employment opportunities. Since the complex was lying idle, the objective of the scheme was also not fulfilled.</p>
<p>Shops at Uppal Municipal Stadium Date of Completion: 1999</p> 	<p>All the 30 shops constructed around the stadium remained vacant since their completion. Records of execution of work were not made available to audit. As such audit could not ascertain the total expenditure incurred on construction of shops and the rates of rents and goodwill amount fixed for them.</p> <p>GHMC without furnishing the details of lease, replied (June 2010) that some shops were being utilized for storage purpose and some of them were allotted to the Emergency Medical Research Institute (EMRI) for which details were not made available to audit.</p>

2.3.4.3 Fixation and revision of rents

- This is a prime area of concern. The rates fixed way back in 1972/1984 were still continuing without periodic revision resulting in undue benefits to the lessees and loss of revenue to the Corporation.

- The rents fixed for shops/stalls located in prime localities were far less than the prevailing market rental value adopted by GHMC for assessment of the property tax²³. They were in fact less than the rents being collected in non-prime localities such as Nacharam, Uppal, Patancheru, etc., which are located in the outskirt areas of GHMC. Loss of revenue with reference to nominal market rental value fixed by GHMC for assessment of property tax worked out to Rs 95.10 lakh *per annum* as shown in the **Appendix-8**.
- In respect of Nacharam shopping complex constructed (March 2003) by erstwhile Kapra Municipality, auction was conducted (March & July 2003) for 49 shops and 40 stalls on goodwill basis and the shops were allotted (April & August 2003) to the successful lease holders. Non-collection of goodwill amount is beset with the problem of subsequent collection of rents. It was noticed that though the goodwill amount was not fully collected (as against the total goodwill amount of Rs 151.89 lakh due to be collected from the above allottees, an amount of Rs 89.41 lakh was only collected leaving a shortfall to the extent of Rs.62.48 lakh), the shops were allotted to the bidders. Consequently, some allottees (40) became defaulters in payment of subsequent rents also and an amount of Rs.23.51 lakh was due from them to end of March 2010.
- As against the allotment of 2166 shops, lease agreements for only 1543 cases were entered into with the lessees. Out of these lease agreements, 1531 lease agreements expired (**Appendix-9**) long back (earliest being 1953 pertaining to Mangalhat Market) and GHMC did not take effective action either to renew the lease agreements or allot the shops/stalls to others duly following the auction procedure which led to the GHMC being fraught with huge revenue loss. GHMC replied that the lease agreement in respect of Mangalhat Market was executed in the year 1981 but not 1953, but no supporting document was furnished.
- Similarly, the shop (No.5.8.211/1) admeasuring 1500 sft, being utilized for bar & restaurant by the allottee in Sarai Mulgies complex located in heart of the city at Abids was fixed at Rs.500 only per month ie., at Rs.0.33 *per sft.* against the prevailing market value of Rs.7.70 *per sft.*

GHMC replied (June 2010) that proposals for enhancing and revising the rates of rents were submitted to the standing committee of GHMC.

2.3.4.4 Collection of rents

Apart from fixation of low rents, even these rents were not collected promptly. The targets were fixed based on old unrevised rates. There were shortfalls in collection despite low targets as detailed in the Table 2.21 below.

²³ Rs.0.37 to Rs.1.94 *per sft.*, as against the nominal rate of prevailing market rental value of Rs.10.40 *per sft* adopted for assessment of property tax in respect of Punjagutta and Ameerpet markets.

Table 2.21: Shortfalls in collection of rents from shopping complexes and markets by GHMC

(Rupees in lakh)

Sl.No	Item	Total number	Demand	Collection	Shortfall	Percentage of shortfall
1.	Shopping complexes	18	742.90	430.70	312.20	42
2.	Markets	26	95.96	35.48	60.48	63
Total			838.86	466.18	372.68	

GHMC replied (June 2010) that dues amounting to Rs 143.24 lakh in respect of shopping complexes and Rs 17.59 lakh in respect of markets could not be collected due to various reasons viz., (i) non-payment of rent by lessees due to dilapidated conditions of shops, (ii) dues pending to HMDA (iii) eviction of some of the long stayed lessees etc. An amount of Rs 112.73 lakh (Rs 110.18 lakh from shopping complexes and Rs 2.55 lakh from markets) was collected during April-May 2010. The balance of Rs 99.12 lakh was only shortfall. Non-maintenance is a typical weapon used by a tenant to evade revision of rents. GHMC by its failure to carry out proper maintenance has facilitated the tenants to default in payment of rents.

2.3.4.5 Accountal for rentals

Para 4.9 of the Andhra Pradesh Municipal Accounts Manual (August 2007) stipulates detailed procedure for accounting of collections. Demand, collection and balance of all revenues have to be prepared to review and monitor the trend of collections at frequent intervals. There was no assurance with regard to proper accountal for rents from shopping complexes/markets as out of the total 2166 shops/stalls allotted, lease agreements for 623 shops/stalls (28.76 per cent) were stated to be not available with GHMC and in the absence of which occupancy of shops by original lease holders could not be ascertained. Similarly, date of expiry of lease agreement/due date for revision was not ascertainable.

GHMC admitted (June 2010) that many of the lease agreements were executed decades ago and found missing. As such these could not be revised. However issued notices to all the lessees of municipal markets and complexes for execution of lease agreement and to revise rents as per present market value.

Lease agreements are vital financial documents and non-availability of such important documents is a matter of serious concern.

To ensure a fair and transparent way of handling the issue, rent fixation should have been periodic with a definite date rather than following a case by case approach.

2.3.4.6 Enforcement of legal provisions

As per Section 537 of GHMC Act, 1955, the Commissioner has the power to expel from any municipal market any person contravening bye-laws or regulations. The best remedy against defaulters is to take deterrent penal action. GHMC incorporated the following penal provisions in the agreement while leasing out the shops and markets to the lease holders.

- i. The lessee shall not mortgage, exchange or transfer or part the possession or sub-let in full or a portion of the shop, which is liable for Criminal action and liable for eviction without notice.
- ii. The lessee shall not take any business partner/partnership in the allotted shop without prior permission from the MCH, if do so, the lease will be cancelled and the lessee will be evicted.
- iii. The monthly rent shall be payable by the lessee in advance on or before 5th of each month. The defaulter is liable to pay penal interest at the rate of 12 *per cent per annum* on arrears of the rent due. Such rate of interest as may be revised from time to time on the over-due rent and compounded monthly.
- iv. The GHMC shall have the right to cancel the allotment and terminate the lease agreement on a month's notice and take the possession of the shop,
 - if the premises remain locked for more than four months continuously without intimating to lessor,
 - if the lessee defaults in the payment of rent or any other amounts due from him/her for period of three months.

However the scrutiny of records of GHMC revealed the following:

- Effective periodic inspection was not carried out to detect unauthorized subletting and eviction. The shops/stalls numbering 436 in 21 shopping complexes were unauthorisedly occupied by parties other than the original allottees.
- In respect of Nacharam Complex, the erstwhile Commissioner of Kapra municipality allotted shops without collection of goodwill amount from the lease holders. Consequently the parties also defaulted in payment of rents as pointed out in sub-para 2.3.4.3. This is a clear case of failure on the part of GHMC for effective and timely initiation of action against the defaulters. As per the records certain shops remained locked up by the allottees since their allotment (June – October 2003) and GHMC had so far not taken any effective measures either to recover outstanding dues from the allottees or to evacuate them for re-allotting the shops to others.
- A single individual was allotted (January 2008) 40 shops out of 56 shops in the ground floor of Abids Municipal complex, which is a prime commercial area. Despite the amounts to the extent of Rs 13.85 lakh being due (January 2008 – March 2010) from him, GHMC had not taken effective action to get them vacated.
- Similarly, there were huge arrears in respect of shop no.16 (since allotment in May 2001 to March 2010) amounting to Rs 19.37 lakh in the same complex.

On the above being pointed out, GHMC replied that

- All the unauthorized occupants were not unauthorized, some might be legal heirs. Notices were issued to all to appear before GHMC for executing lease agreements.
- In respect of Abids municipal complex, the dues could not be collected since the shops were in dilapidated condition. In case of arrears in respect of single person, it was stated the said person vacated and action being initiated to collect the dues.

2.3.4.7 Maintenance of shopping complexes/markets

Many of the markets and shopping complexes were constructed long back and some of them were closed due to dilapidated condition (Ex. Mallepally market kept idle since April 2000). Since this market is located in prime area, necessary repairs could have been carried out to augment revenue in the form of rents. However, GHMC failed to provide budget for repairs/maintenance. Similarly, non-repair has been used as a plea to continue with old low rentals.

GHMC replied (June 2010) that proposals for redevelopment of GHMC markets were being processed including Mallepally market. But this was pending due to non provision of alternative space to the existing vendors.

The “tenants” do not have a right for perpetual occupation for eternity. Temporary dislocation is unavoidable to carry out essential repairs.

2.3.4.8 Internal control

The Andhra Pradesh Municipal Accounts Manual and Asset Management Manual prescribed the procedures for management of shopping complexes which include collection of rents, maintenance of registers and accountal of revenue realizations from commercial complexes and markets. The municipal Commissioners were primarily responsible for timely verification of properties. The HMC Act, 1955 also empowers the Municipal Commissioners to expel from any municipal market any person contravening bye-laws or regulations.

However, non-maintenance of proper records/database, poor collection of rents, non-revision of rents for decades together, unauthorized occupants, defaults in payment of rents indicate lack of effective internal controls in management of shopping complexes by GHMC.

2.3.5 Conclusions

The whole issue of management of shopping complexes/markets was handled in an unprofessional manner by the GHMC. There is no comprehensive database of all properties in the GHMC. The rates fixed way back (1972/1984) were still continuing without periodic revision resulting in undue benefits to the lessees and loss of revenue to the Corporation. They were even far less than the nominal rate of rent adopted for fixation of Property Tax. The collection of rents was also poor and many of the leaseholders were allowed to occupy the shops even after they defaulted in payment of rents for years together. Despite incorporating legal provisions in lease agreements, GHMC failed to initiate effective penal action against defaulters and unauthorized occupiers. Improper planning in assessment of demand for shops led to many

of the shopping complexes constructed way back remaining idle. The major objective of revenue augmentation remained unachieved. There was lack of effective internal controls.

2.3.6 Recommendations

- The data with regard to all the properties pertaining to GHMC should be integrated.
- Immediate steps need to be taken to revise the rents to improve the revenue generation from shopping complexes/markets.
- The arrears of rents together with interest should be collected duly taking effective penal action against defaulters.
- Periodical physical verification of properties should be carried out to detect unauthorized occupation/verification of genuineness of occupants/ascertaining the condition of buildings.