

Chapter-I

General

Section-A

Panchayat Raj Institutions

1.1 An overview of the functioning of Panchayat Raj Institutions

1.1.1 Introduction

The Seventy-Third Constitutional Amendment Act (73rd CAA), 1992, vested Panchayat Raj Institutions (PRIs) with constitutional status and established their regard: (i) a three-tier uniform structure (ii) system for elections (iii) reservation of seats for Schedule Castes, Schedule Tribes and Women (iv) system for devolution of funds to PRIs and (v) functions to be devolved to PRIs. As a follow-up, States were required to entrust PRIs with such powers, functions and responsibilities that would enable them to function as institutions of local self-government. PRIs aim to promote: (a) participation of people and (b) effective implementation of rural development schemes for economic development and social justice, including those in relation to the 29 subject matters listed in the Eleventh Schedule of the Constitution of India.

Accordingly, State Government enacted Andhra Pradesh Panchayat Raj (APPR) Act in 1994 and repealed all the earlier Acts, to establish a three-tier system *viz.*, Gram Panchayat (GP), Mandal Praja Parishad (MPP) and Zilla Praja Parishad (ZPP) at Village, Mandal and District levels respectively.

1.1.2 State Profile

Andhra Pradesh is seventh largest State in the country, with an area of 1.63 lakh sq.km. (4.96 *per cent* of the total geographic area). As per the census of 2011, out of total population of 4.96 crore in the State, 3.50 crore (70.53 *per cent*) was in rural areas. The demographic and developmental status of the State as per the census of 2011 is given in **Table-1.1**.

Table-1.1: Profile of PRIs in Andhra Pradesh

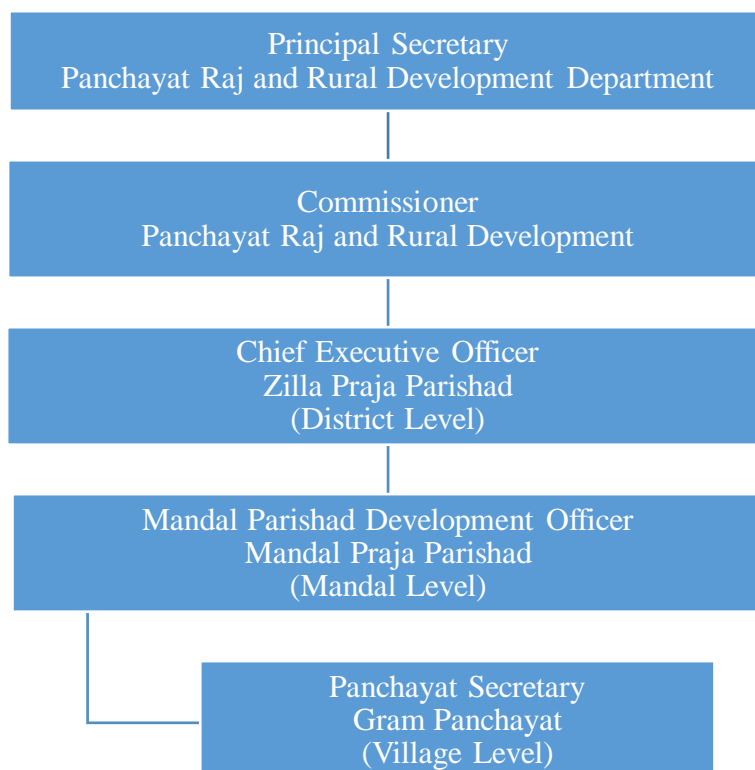
Indicator	Unit	State statistics
Area	Sq.km.	1,62,970
Mandal/ Tehsil	Number	670
Villages	Number	17,363
Total population (Census 2011)	Crore	4.96
Rural population	Crore	3.50
Sex ratio	Females per 1000 Males	997
Density	Persons per sq.km.	304
Rural literacy rate	Percentage	62.43
Rural Male literacy rate	Percentage	70.55
Rural Female literacy rate	Percentage	54.30
Scheduled Caste population	Percentage	17.08
Scheduled Tribe population	Percentage	5.53
Zilla Praja Parishads	Number	13
Mandal Praja Parishads	Number	660
Gram Panchayats	Number	13,428

Source: Information furnished (September 2023) by Commissioner, Panchayat Raj and Rural Development Department (CPR&RD) and Districts at a Glance published by Directorate of Economics and Statistics, Government of Andhra Pradesh

1.1.3 Organisational set-up of PRIs

Organisational arrangements for the PRIs are shown in *Chart-1.1*.

Chart-1.1: Organisational arrangements of PRIs



1.1.4 Functioning of PRIs

Eleventh Schedule to 73rd Constitutional Amendment Act, 1992, lists 29 subjects for devolution to strengthen the PRIs. During 2007-08, State Government devolved 10¹ functions to PRIs and thereafter, no functions were devolved. Funds relating to functions devolved were released to PRIs through line departments concerned. As per the information furnished by Commissioner, PR&RD (September 2023), during 2017- 18 to 2021-22, no funds were released by the State Government for the functions devolved.

1.1.5 Formation of various committees

As per the provisions of APPR Act, 1994, various committees are to be constituted at ZPP, MPP and GP levels. At ZPP level seven² standing committees are to be constituted to monitor the progress of implementation of works and schemes related to subjects

¹ (i) Agriculture and Agriculture Extension (ii) Animal Husbandry, Dairy and Poultry (iii) Fisheries (iv) Health and Sanitation (v) Education, including Primary, Secondary and Adult Education and non-formal education (vi) Drinking Water (vii) Poverty Alleviation Programme (viii) Women and Child Development (ix) Social Welfare, including Welfare of the Handicapped and Mentally retarded and (x) Welfare of the Weaker Sections and in particular of the Scheduled Castes and Scheduled Tribes

² (i) Planning and Finance (ii) Rural Development (iii) Agriculture (iv) Education and Medical Service (v) Women Welfare (vi) Social Welfare and (vii) Works

assigned to them. Functional Committees³ at MPP and GP are to be constituted to monitor the progress of implementation of works and schemes. During the year 2021- 22, Functional Committees were not constituted in respect of three⁴ out of 22 test-checked GPs. Similarly, Functional Committee was not constituted in one (*viz.*, Etcherla) out of four test-checked MPPs.

The State was empowered⁵ to constitute a District Planning Committee (DPC) at district level, to ensure that each Panchayat in the District prepares a development plan for each financial year. This plan was to be consolidated into the District Development Plan (DDP) and to be submitted to the Government for incorporation into the State Plan. The Commissioner, PR informed (September 2023) that all the districts in the State had constituted DPCs. Further stated that the DDPs did not become part of State Plan. Article 243G of the Constitution of India, provisions of APPR Act read with GO. Ms. No. 97, dated 07 October 2015, envisaged to prepare Gram Panchayat Development Plan by all GPs in the State duly analysing the situation in all the core sectors. Out of 22 test-checked GPs during 2021-22, it was, however, observed that the development plans prepared by 17⁶ GPs were not in consonance with the guidelines issued.

1.1.6 Elections

Elections to all ZPPs, 650 MPPs and 13,097 GPs were conducted between April and September 2021. The Commissioner, PR&RD stated (September 2023) that the elections for remaining 10 MPPs and 331 GPs were not conducted for the reasons like court cases *etc.* The elected members of ZPP, MPP and GP were headed by Chairperson, President and Sarpanch respectively. They convene and preside over the meetings of standing committees and General Body. The executive authorities of ZPP, MPP and GP are Chief Executive Officer (CEO), Mandal Parishad Development Officer (MPDO) and Panchayat Secretary respectively. They hold the executive powers for the purpose of carrying out the provisions of the APPR Act, 1994.

1.1.7 Sources and Applications of funds

Resource base of PRI consists of:

- i. Own revenue generated by collection of tax⁷
- ii. Non-tax⁸ revenues
- iii. Devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes
- iv. Other receipts⁹

³ for Agriculture, Public Health, Water Supply, Sanitation, Family Planning, Education and Communication

⁴ Padugupadu, Ragolu and Voppangi

⁵ Article 243ZD of the Constitution of India

⁶ Seven GPs in Nellore and 10 GPs in Srikakulam districts

⁷ Property Tax, Advertisement Fee, *etc.*

⁸ Water tax, Rents from markets, shops and other properties, auction proceeds *etc.*

⁹ Donations, interest on deposits *etc.*

The authorities responsible for reporting the use of funds in respect of ZPPs, MPPs and GPs are the CEOs, MPDOs and Panchayat Secretaries respectively. **Table-1.2** shows the details of receipts and expenditure of the PRIs during the period 2017-18 to 2021-22.

Table-1.2: Receipts and expenditure details of PRIs during the period 2017-18 to 2021-22

	(₹ in crore)				
	2017-18	2018-19	2019-20	2020-21	2021-22
Receipts					
Own Revenue	NA**	NA**	NA**	NA**	1,467.34
Assigned Revenue ¹⁰					
State Government Grants	151.67	144.80	149.44	149.88	281.12
GoI Grants	1,770.38	1,804.65	2,414.19	2,716.22	1,917.85
Other Receipts	0	0	0	0	0
Total Receipts	1,922.05	1,949.45	2,563.63	2,866.10	3,666.30
Expenditure					
Revenue Expenditure	3,275.85	2,926.68	4,900.53	4,628.15	3,198.94
Capital Expenditure	6.00	0.0	0.27	0.08	5.84
Total Expenditure	3,281.85	2,926.68	4,900.80	4,628.23	3,204.78

Source: Information provided by Commissioner, Panchayat Raj and Rural Development

** Data not made available to audit despite specific requests

1.1.8 Financial assistance to PRIs

The quantum of financial assistance provided by State Government to PRIs by way of grants/ loans for the years 2017-22 along with expenditure is given in **Table-1.3**.

Table-1.3: Grants/ loans to PRIs and expenditure details during the period 2017- 22

	(₹ in crore)				
	2017-18	2018-19	2019-20	2020-21	2021-22
Budget	151.67	144.80	149.44	149.88	281.12
Actual Release	151.67	144.80	149.44	149.88	281.12
Expenditure	162.30	136.03	109.04	110.58	213.04

Source: Information provided by Commissioner, Panchayat Raj and Rural Development

It can be seen from the table that except in 2017-18, during the four years *i.e.*, 2018-19 to 2021-22, grants were not fully utilised and the maximum unutilised amount was ₹ 68.08¹¹ crore related to 2021-22.

1.1.9 Recommendations of State Finance Commission (SFC)

As per Article 243I of the Constitution of India and Section 235 of APPR Act 1994, SFC has to be constituted once in five years to recommend devolution of funds from the State Government to PRIs. Fourth State Finance Commission submitted its final report in October 2019. State Government constituted (October 2022) a committee to examine the report of the Finance Commission and suggest actions to be taken on the recommendations of the Commission and further progress is awaited (September 2023). The Fifth State Finance Commission was constituted in March 2023.

¹⁰ Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to Local Bodies in the form of assigned revenue

¹¹ ₹ 281.12 crore - ₹ 213.04 crore

Audit noticed that budget release orders were issued for an amount of ₹ 266.47 crore for the years 2017-18 (₹ 131.25 crore) and 2018-19 (₹ 135.22 crore). Of which ₹ 12.66 crore were distributed to the Local Government institutions and ₹ 10.62 crore was expended and unspent amount of ₹ 253.81 crore was lapsed to the Consolidated Fund of the State. Department attributed non-utilisation to release of funds at the end of the financial years. State Government did not release any amount for the period 2019-20 to 2021-22.

1.1.10 Recommendations of the Central Finance Commission (CFC)

1.1.10.1 Fourteenth Finance Commission

The Fourteenth Finance Commission recommended assured transfer of funds to the local government institutions for planning and delivering basic services¹². Grants are released under two components *i.e.*, Basic Grant and Performance Grant in the ratio of 90:10.

As per the Finance Accounts, GoI had released ₹ 6,955.87 crore for the five year period 2015-20 to the State Government and the State Government had released ₹ 6,644.41 crore to PRIs. Thus, State Government had not released ₹ 311.46 crore of XIV Finance Commission Grants to PRIs. It was further noticed that no performance grants (allocation: ₹ 503.66) were received during the years 2018-19 (₹ 218.09 crore) and 2019-20 (₹ 285.57 crore) due to non-fulfilment of stipulated conditions within the respective award years by the Gram Panchayats.

1.1.10.2 Fifteenth Finance Commission

The Fifteenth Finance Commission recommended that the grants to local government institutions will be made available to all three tiers of Panchayat- village, mandal, and district. Out of total grant earmarked for PRIs, 60 *per cent* is earmarked for national priorities like drinking water supply, rain-water harvesting and sanitation (hereafter referred as tied grants), while 40 *per cent* is untied and is to be utilised at the discretion of PRIs for improving basic services.

The Commission has prescribed certain conditions like (i) Publishing provisional and audited accounts in the public domain (ii) Elected rural bodies (iii) Uploading of GPDP/BDP/ DDP in e-GramSwaraj (iv) Uploading of details about utilisation of Fifteenth Finance Commission funds on the website *etc.*, for releasing of tied and untied grants. No grants will be released to local government institutions after March 2024 if the State does not constitute State Finance Commission and act upon its recommendations by then.

As per the Finance Accounts, GoI had released ₹ 4,762.50 crore for the two year period 2020-22 to the State Government and the State Government had released ₹ 4,424.02 crore to PRIs. Thus, State Government had not released ₹ 338.48 crore of Finance Commission grants to PRIs.

¹² water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street lighting, burial and cremation grounds

1.1.11 Audit mandate

Primary Auditor: Director, State Audit (DSA), functioning under the administrative control of Finance Department, is the statutory auditor for PRIs under Andhra Pradesh State Audit Act, 1989. As per Section 11(2) of the Act, DSA is required to prepare annual Consolidated Audit and Review Report for presentation to the State Legislature. DSA has four Regional offices and 26 District offices (April 2022) in the State. As per Section 10 of the Act, DSA is empowered to initiate proceedings against the persons responsible for causing loss to the funds of local authorities. Such amounts, if not so paid, are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

As per information furnished (July 2023) by DSA, audit of 141 PRIs were in arrears as on March 2023. DSA attributed delay in audit to non- production of records by the PRIs concerned. As of March 2022, 35,221 Surcharge Certificates¹³ having money value of ₹ 41.15 crore were pending. However, no amount was recovered up to March 2023. Non-recovery of amount indicated that the executive authorities concerned had not complied with the act provisions against the persons charged with the offences.

The Consolidated Audit and Review Report (CARR) for the year 2017-18 was tabled in the State Legislature on 25 March 2022 and the CARRs for the years from 2018- 19 to 2020-21 were tabled in the State Legislature on 24 March 2023. DSA stated (July 2023) that CARRs for the years 2021-22 and 2022-23 are yet to be tabled.

1.1.12 Audit by Comptroller and Auditor General of India (C&AG)

Based on the recommendations of the Eleventh Finance Commission, State Government entrusted (August 2004) C&AG with the responsibility for providing Technical Guidance and Supervision (TGS) in connection with the accounts and audit of Local Government Institutions under Section 20(1) of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

Based on test check of PRIs, a TGS note was being prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. TGS note for the year 2021-22 was issued in June 2023.

Further, Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2017 was tabled in the State Legislature on 06 April 2018.

¹³ Surcharge is an extra payment of money in addition to the usual payment. Director of State Audit may disallow every item of expenditure incurred contrary to law and surcharge the same on the person incurring or authorising the incurring of such expenditure. Surcharge certificate means the certificate by which the charge or the liability of a surcharge is communicated.

1.1.12.1 Planning and conduct of audit

The Audit process commences with assessment of the risk¹⁴ based on the following parameters:

- i. Expenditure incurred
- ii. Criticality/ complexity of activities
- iii. Priority accorded to the activity by Government
- iv. Level of delegated financial powers
- v. Assessment of internal controls and
- vi. Concerns of stakeholders.

Previous audit findings were also considered in this exercise. Extent of audit was decided based on this risk assessment, frequency and an annual audit plan was formulated to conduct audit. During 2021-22, 28 PRIs (two ZPPs, four MPPs and 22 GPs), falling under the Department of Panchayat Raj and Rural Development, were covered in audit.

1.1.12.2 Response to Audit observations

After completion of audit, Inspection Reports (IRs) containing audit findings were issued to the Head of the unit concerned. Heads of offices and next higher authorities were required to respond to the observations contained in IRs within one month and take appropriate corrective action. Audit observations communicated in IRs were also discussed in meetings at district level by officers of the departments with officers of Principal Accountant General's office. During the year 2021-22, one Audit Committee Meeting of PRIs was conducted and 85 paragraphs amounting to ₹ 1.45 crore were dropped.

As of September 2023, 200 IRs containing 1,632 paragraphs pertaining to the period up to 2021-22 were pending settlement as shown in **Table-1.4**. Of these, initial replies had not been received in respect of 61 IRs and 1,005 paragraphs.

Table-1.4: Status of IRs/ Paragraphs

Year	Number of IRs/ Paragraphs		IRs/ Paragraphs where even initial replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2020-21	194	1,546	57	940
2021-22	6	86	4	65
Total	200	1,632	61	1,005

Lack of action on IRs was fraught with the risk of perpetuating serious financial and other irregularities pointed out in these reports remaining unaddressed.

¹⁴ of Department/ local body/ scheme/ programme etc.

1.2 Accountability Framework and Financial Reporting issues

1.2.1 Ombudsman

Thirteenth Finance Commission had recommended establishment of an independent Local Body Ombudsman System. Commissioner, Panchayat Raj and Rural Development (CPR&RD) informed (September 2023) that no separate Ombudsman was adopted in Andhra Pradesh.

1.2.2 Social Audit

Social Audit involves verification of implementation of programmes/ schemes and delivery of the envisaged results by the community with active involvement of primary stakeholders. In May 2009, State Government created an independent autonomous body called the Society for Social Audit, Accountability and Transparency (SSAAT)¹⁵.

Post bifurcation of the State of Andhra Pradesh into Telangana and Andhra Pradesh with effect from 2 June 2014, a new Society was registered under the Registrar of Societies Act, 2001 for Andhra Pradesh. Functioning of the Society during 2021-22 showed the following:

- i. State Government should facilitate¹⁶ conduct of Social Audit of the works taken up under the Act¹⁷ in every Gram Panchayat at least once in six months, *i.e.*, twice in a year. The Social Auditors are required to conduct 100 *per cent* check of muster rolls and work sites. During the year 2021-22, SSAAT had planned to conduct Social Audit of 12,914¹⁸ GPs out of 13,428 GPs in the State. However, only 5,956 GPs were covered once a year and no GP were covered twice a year. SSAAT attributed (August 2023) the shortfall in coverage of audit is due to COVID-19 third wave. Social Audit of the remaining 6,958 GPs were covered in the year 2022-23.
- ii. As per State Social Audit Rules, the District Vigilance Cell is responsible to take follow-up action on the social audit observations immediately (within three days) on conclusion of the mandal social audit public hearing. During 2021-22, SSAAT found deviations¹⁹ amounting to ₹ 232.99 crore. Of this, deviations involving ₹ 89.35 crore (38.35 *per cent*) relating to financial misappropriation were accepted by the Presiding Officers²⁰. However, no amount was recovered (as of August 2023) against the accepted amount.

¹⁵ The society was to carry out Social Audits of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and other anti-poverty/ welfare programmes of Rural Development Department

¹⁶ As per Section 3(1) of Mahatma Gandhi National Rural Employment Guarantee Audit of Scheme Rules, 2011

¹⁷ Mahatma Gandhi National Rural Employment Guarantee Act, 2005

¹⁸ Social Audit to be conducted by SSAAT = 13,428 GPs X 2 times = 26,856

¹⁹ Categories of issues are financial misappropriation, financial deviation, process violation and grievances

²⁰ District Programme Officer nominates a senior officer not less than the rank of the Additional District Programme Coordinator for presiding over the public hearing for Social Audit

1.2.3 Submission of Utilisation Certificates (UCs)

Scheme Guidelines of Centrally Sponsored Schemes (CSS) and Central Finance Commissions stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI.

From the information provided (September 2023) by the Commissioner, PR&RD, audit noticed that UCs for the entire amount released under Fourteenth Finance Commission (₹ 8,124.42 crore) and Fifteenth Finance Commission (₹ 3,594.51 crore) were forwarded to GoI.

Similarly, UCs for the entire amount of ₹ 190.27 crore released (during the years from 2017-18 to 2021-22) under Rashtriya Gram Swaraj Abhiyan were submitted.

However, for the amount of ₹ 189 crore released by GoI (during the period 2016-17 to 2021-22) for National Rurban Mission, UCs for an amount of ₹ 45.71 crore was yet to be submitted (September 2023).

Records of 28 test-checked PRIs (four MPPs, two ZPPs and 22 GPs) during 2021-22 showed that UCs for ₹ 40 crore for the period from 2011-21 were not received from one GP (*viz.*, Veguru - ₹ 1.13 crore), two²¹ MPPs and two²² ZPPs as of March 2022.

1.2.4 Internal Audit and Internal Control System of PRIs

As per Panchayat Raj Officers Delegation of Powers Rules, 2000, the Commissioner shall inspect all ZPPs and DPO offices once in a calendar year and submit copies of Inspection Notes for review by the Government. As per Section 44(2)(a) and (b) of APPR Act, 1994 Government should appoint District Panchayat Officers, Divisional Panchayat Officers and Extension Officers as Inspecting Officers for overseeing the operations of GPs.

Commissioner, PR informed (September 2023) that inspections were not conducted for the year 2017-18 to 2021-22. Records (2021-22) of test-checked PRIs showed that inspections were not conducted in two²³ MPPs (out of four MPPs) and two ZPPs²⁴ (out of two ZPPs). The Department stated (September 2023) that inspection could not be conducted due to administrative reasons like implementation of various schemes in both the departments *viz.*, Panchayat Raj and Rural Development which require regular monitoring from State level.

²¹ Kovuru (₹ 0.06 crore) and Podalakur (₹ 0.16 crore)

²² Nellore (₹ 0.47 crore) and Srikakulam (₹ 38.17 crore)

²³ Etcherla and Srikakulam

²⁴ Nellore and Srikakulam

1.2.5 Maintenance of records

As per Government Orders²⁵ (September 2010) ZPPs, MPPs and GPs shall maintain records such as Cash book, Assets Register, Advance Register, Stock Registers, etc. However, records of 28 test-checked PRIs showed that cash books were not properly maintained²⁶ in one ZPP (*viz.*, Srikakulam), three²⁷ MPPs and four²⁸ GPs.

1.2.6 Physical verification of stores and stock

Article 143 of Andhra Pradesh Financial Code (APFC) stipulates that all stores and stock should be verified physically once in a year. A certificate to this effect is to be recorded by the Head of the Office in the relevant register. It was seen that annual physical verification of stores and stock was not conducted in 12 PRIs (three MPPs²⁹ and nine GPs³⁰) out of 28 PRIs test-checked during 2021-22.

1.2.7 Cases of misappropriation

Andhra Pradesh Financial Code stipulated responsibilities of Government servants in dealing with Government money, the procedure for fixing responsibility for any loss sustained by Government and the action to be initiated for recovery. State Government had ordered (February 2004) the Secretaries of all the departments to review the cases of misappropriation in their departments on a monthly basis. The Chief Secretary to Government was to review these cases once in six months with all the Secretaries concerned. Misappropriation cases noticed by Director, State Audit, which were not disposed of as of March 2022 are given in **Table-1.5**.

Table-1.5: Status of Misappropriation cases as of March 2022

Unit	As of March 2022 ³¹	
	No. of cases	Amount
Zilla Praja Parishads	42	1.72
Mandal Praja Parishads	127	1.05
Gram Panchayats	1,811	21.76
Total	1,980	24.53

Source: Information furnished by Director, State Audit

Records of test-checked PRIs (MPPs) during 2021-22 showed that misappropriated amount of ₹ 3.73 lakh pertaining to two MPDOs (*viz.*, Etcherla and Srikakulam) was yet to be recovered as of February 2022. Urgent action needs to be taken by the Government in this regard.

²⁵ G.O. Ms. No. 324 PR&RD Department, dated 09 September 2010

²⁶ Overwriting without attestation by competent authority, monthly closing and reconciliation was not done by Drawing and Disbursing Officers *etc.*

²⁷ Etcherla, Podalakur and Srikakulam

²⁸ Biradavolu, Pothireddypalem, Thatiparthi and Viruvuru

²⁹ Etcherla, Podalakur and Srikakulam

³⁰ Biradavolu, Kuppili, Mahamadapuram, Padugupadu, Paturu, Podalakur, Pothireddypalem, Thatiparthi and Viruvuru

³¹ No information has been provided in respect of misappropriation cases for the year 2021-22

1.2.8 Maintenance of Accounts by PRIs

PRIs maintain accounts on cash basis. GoI prescribed a Model Accounting System (MAS) in consultation with the Comptroller and Auditor General of India. MAS contains eight accounting formats in which accounts of PRIs required to be maintained. State Government issued orders (September 2010) for adopting this format using PRIASoft (Panchayat Raj Institutions Accounting Software) developed by National Informatics Centre (NIC). PRIASoft (now amalgamated into *e-Gramaswaraj*) aims to keep track all the in-flow (receipts) and out-flow (expenditure) of the PRIs. Commissioner, PR stated (September 2023) that 14,101³² PRIs in the State adopted PRIASoft for maintaining accounts. Data pertaining to number of PRIs where finalisation of accounts was done through PRIASoft was however not furnished despite specific request.

Records of 28 test-checked PRIs showed that seven PRIs³³ were not maintaining any of the eight accounting formats through PRIASoft. Only two (out of eight) accounting formats were being maintained in five PRIs³⁴. Discrepancies were noticed between annual accounts, receipts and payments maintained manually and those uploaded in PRIASoft in respect of seven PRIs³⁵. Further, in nine PRIs³⁶ data entry in accounting and payment modules was done at the end of financial year but not on daily basis.

1.2.9 Issues related to AC/ DC Bills

As per Government Orders³⁷ amount drawn on Abstract Contingent (AC) bills should be adjusted by submitting Detailed Contingent (DC) bill for the expenditure incurred, to the Accountant General (Accounts & Entitlements) with supporting vouchers within one month of drawal of such amount.

Submission of DC bills for an amount of ₹ 51.93 crore was pending as of September 2023 which were drawn through AC bills³⁸ by PRIs during the period 2017-2022.

1.2.10 Advances pending adjustment

As per Andhra Pradesh Financial Code, advances paid should be adjusted without any delay. Drawing and Disbursing Officers (DDOs) concerned should watch their adjustment. Records of 28 test-checked PRIs during 2021-22, showed that advances of ₹ 61.60 lakh paid (2012-2021) to staff in two³⁹ PRIs for various purposes were remained unadjusted as of March 2022.

³² ZPPs: 13, MPPs: 660 and GPs: 13,428

³³ GPs of Etcherla, Muddada, Voppangi; MPDOs of Etcherla, Podalakur, Srikakulam and ZPP Srikakulam

³⁴ GPs of Gudem, Kallepalli, Ponnada, Ponnam and S.M. Puram

³⁵ GPs of Mahamadapuram, Paturu, Podalakur, Pothireddypalem, Ragolu, Thatiparthi and Viruvuru

³⁶ GPs of Biradavolu, Inamadugu, Mahamadapuram, Paturu, Podalakur, Pothireddypalem, Thatiparthi, Veguru and Viruvuru

³⁷ G.O. Ms. No. 285 Finance (TFR-II) Department dated 15 October 2005, Andhra Pradesh Treasury Code, Rule 16, sub rule 18(d) and G.O. Ms. No. 391 and 507 of April/ May 2002 of Finance Department

³⁸ As per information furnished by the Office of the Principal Accountant General (Accounts & Entitlements)

³⁹ ZPP: Nellore (₹ 2.81 lakh) and Srikakulam (₹ 58.79 lakh)

Section-B

Urban Local Bodies

1.3 An overview of the functioning of Urban Local Bodies

1.3.1 Introduction

Government of India (GoI) enacted (1992) the 74th amendment⁴⁰ to the Constitution of India to empower Urban Local Bodies (ULBs) as local self-governing institutions in the country to perform effectively. Accordingly, State Government enacted Andhra Pradesh Municipal Corporations (APMC) Act, 1994 to set up Municipal Corporations in the State. Provisions of Hyderabad Municipal Corporation (HMC) Act, 1955 including the provisions relating to levy and collection of taxes or fees were extended to all other Municipal Corporations in the State of Andhra Pradesh. Municipalities are governed by the Andhra Pradesh Municipalities (APM) Act, 1965. The profile of ULBs in the State is given in **Table-1.6**.

Table-1.6: Profile of ULBs in Andhra Pradesh

Indicator	Unit	State statistics
Urban population	Crore	1.46
Urban Male population	Lakh	72.92
Urban Female population	Lakh	73.18
Sex ratio	Females per 1000 Males	997
Urban literacy rate	Percentage	79.17
Municipal Corporations ⁴¹	Number	17
Municipalities ⁴²	Number	82
Nagar Panchayats ⁴³	Number	24

Source: Information furnished by Commissioner and Director of Municipal Administration (CDMA) and Districts at a Glance published by Directorate of Economics and Statistics, Government of Andhra Pradesh

⁴⁰ For implementation of various socio-economic development schemes including those enumerated in the Twelfth Schedule

⁴¹ As per Section (3) of AP Municipal Corporation Act, 1994 a larger urban area, as defined under clause (d) of Section 2, notified by the Governor as 'Corporation'

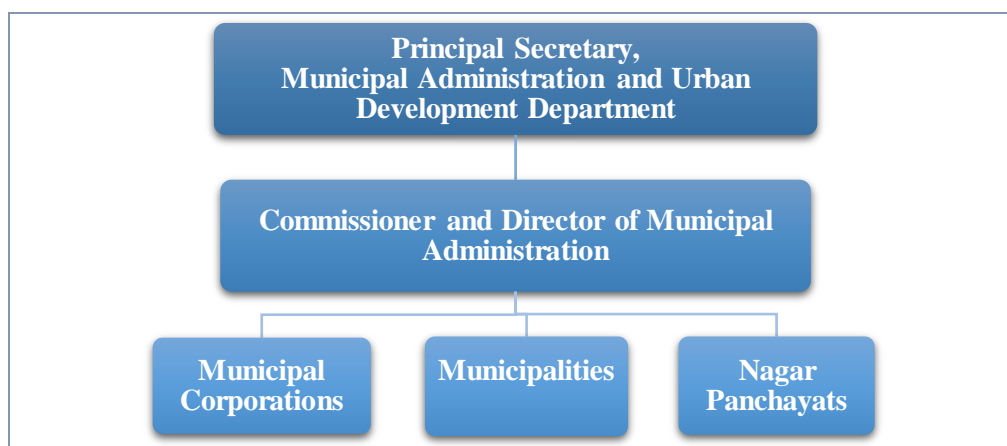
⁴² 'Municipality' means a municipality of such grade as may be declared by the Government, from time to time, by notification in the Andhra Pradesh Gazette on the basis of its income and such other criteria as may be prescribed, as defined under point (22) of Section (2) of AP Municipalities Act, 1965

⁴³ 'Nagar Panchayat' means a body deemed to have been constituted under Section 2-A, for a transitional area specified by the Governor, as defined under point (22-a) of Section (2) of AP Municipalities Act, 1965

1.3.2 Organisational setup of ULBs

Organisational arrangements for the ULBs are shown in *Chart-1.2*.

Chart-1.2: Organisational arrangements for ULBs



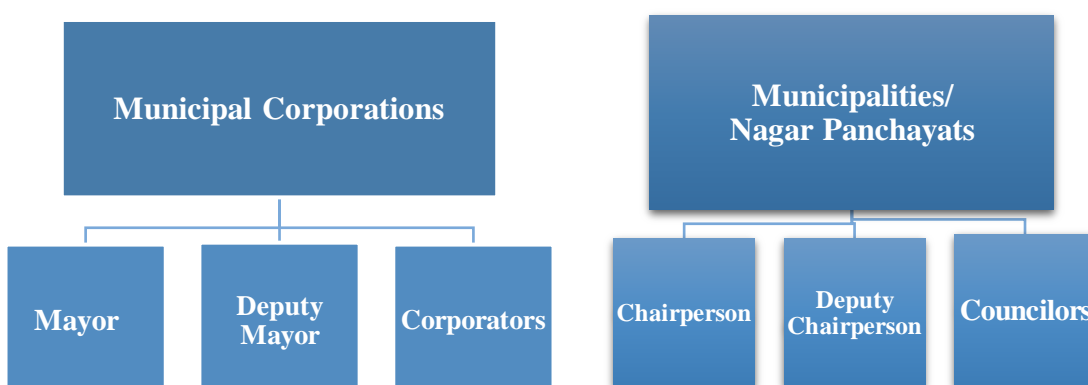
1.3.3 Functioning of ULBs

The 74th Constitutional Amendment Act, 1992 identified 18 functions for ULBs as incorporated in the Twelfth Schedule to the Constitution. As per the information provided by the Department all the functions mentioned in this Schedule were devolved to ULBs in the State except 'Fire Services'. (Paragraph 3.1 of Performance Audit Report of C&AG of India (Report No. 2 of 2023) on 'Efficacy of Implementation of 74th Constitutional Amendment Act' detailed about devolution of functions to ULBs).

1.3.4 Formation of various committees

The structure of the elected bodies of the ULBs is given in *Chart-1.3*.

Chart-1.3: Structure of elected bodies in ULBs



The Municipalities and Corporations transact their business as per the provisions of the Acts concerned. In respect of Corporations, the Standing Committees, comprising the Chairpersons of all the Ward Committees under them, meet at intervals prescribed by the Act. Similarly, in respect of Municipalities, the Municipal Ward Committees meet at prescribed intervals to transact business, make regulations and scrutinise municipal accounts. The main functions of the Ward Committees (Municipalities and

Corporations) include provision and maintenance of sanitation, water supply and drainage, street lighting, roads, market places, playgrounds, school buildings, review of revenue collections, preparation of annual budget, *etc.* Despite specific request, Commissioner and Director of Municipal Administration (CDMA) not furnished details of ward committees that were constituted in the State. (Paragraph 3.5.2 of Performance Audit Report of C&AG of India (Report No. 2 of 2023) on 'Efficacy of Implementation of 74th Constitutional Amendment Act' detailed status of Ward Committees).

1.3.5 Elections

The ULBs are under the administrative control of the Commissioner and Director of Municipal Administration (CDMA). Day-to-day administration of all the ULBs rests with the Commissioners concerned. Elections to 13 Municipal Corporations, 67 Municipalities and 20 Nagar Panchayats were conducted in 2021. The Commissioner, MA&UD stated that (September 2023) due to court cases on constitution of new ULBs and merging of GPs into adjacent ULBs, the elections for remaining four Municipal Corporations, 15 Municipalities and four Nagar Panchayats were not conducted. The elected members of Municipal Corporation and Municipalities/ Nagar Panchayats were headed by Mayor and Chairperson respectively. (Paragraph 3.5.1.1 of Performance Audit Report of C&AG of India (Report No. 2 of 2023) on 'Efficacy of Implementation of 74th Constitutional Amendment Act' detailed about status of elections and formation of councils).

1.3.6 Sources and Application of funds

Resource base of ULBs consists of their own revenue in the form of tax⁴⁴ and non- tax⁴⁵ revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts⁴⁶.

Table-1.7 gives the summary of receipts and expenditure details of ULBs during the years 2017- 22.

Table-1.7: Receipts and expenditure details of ULBs

	(₹ in crore)				
Receipts	2017-18	2018-19	2019-20	2020-21	2021-22
Own Revenue	2,174.46	2,259.20	1,981.13	2,172.19	2,608.76
Assigned Revenue ⁴⁷	327.02	418.96	431.29	476.22	536.41
State Government Grants	1,176.01	1,346.52	1,606.01	2,232.59	2,778.00
GoI Grants Scheme funds 13 th and 14 th Finance Commission	651.64	587.06	872.57	1,264.00	954.10
Other Receipts*	316.11	391.44	185.01	180.41	176.81
Total Receipts	4,645.24	5,003.18	5,076.01	6,325.41	7,054.08

⁴⁴ Property tax, Advertisement fee *etc.*

⁴⁵ Water tax, rents from markets, shops and other properties, auction proceeds *etc.*

⁴⁶ Donations, interest on deposits *etc.*

⁴⁷ Seigniorage fee and surcharge on stamp duty collected by departments of Mines and Geology and Stamps and Registration are apportioned to the Local Bodies in the form of assigned revenue

Expenditure	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue Expenditure	1,229.70	1,365.17	1,339.61	1,453.94	1,845.13
Capital Expenditure	1,104.30	1,403.42	1,102.09	800.69	1,542.00
Total Expenditure	2,334.00	2,768.59	2,441.70	2,254.63	3,387.13
Percentage of expenditure in total receipts	50.24	55.33	48.10	35.64	48.02

Source: Data furnished by Commissioner and Director of Municipal Administration

* Other receipts include loans, accrued interest, penalties received, forfeited security deposits etc.

As seen from the source of funds and expenditure particulars of ULBs during the year 2021-22, it was observed that there were savings of ₹ 3,666.95⁴⁸ crore.

1.3.7 Financial Assistance to ULBs

Financial assistance was provided by State Government to ULBs by way of grants and loans. Details of the financial assistance provided by the Government to ULBs are given in **Table-1.8**.

Table-1.8: Grants/ Loans to ULBs

	2017-18	2018-19	2019-20	2020-21	2021-22
Budget	1,176.02	1,346.52	1,606.02	2,232.59	2,778.00
Actual Release	1,176.02	1,346.52	1,606.02	2,232.59	2,778.00
Expenditure	1,151.60	1,280.50	1,565.73	2,209.84	2,753.96

(₹ in crore)

Source: Information furnished by CDMA

It can be seen from the table that grants were not fully utilised in any of the five-year period *i.e.*, 2017-18 to 2021-22 and the maximum unutilised amount was ₹ 66.02⁴⁹ crore in the year 2018-19.

1.3.8 Recommendations of the State Finance Commission

As per Article 243I of the Constitution, the State Government has to constitute State Finance Commission (SFC) once in five years to recommend devolution of funds from the State Government to local government institutions. The fifth SFC was constituted in March 2023⁵⁰. State Government had released an amount of ₹ 408.30 crore (under State Finance Commission) during 2017-22 and the entire amount was stated to be expended (Paragraph 3.5.9 of Performance Audit Report of C&AG of India (Report No. 2 of 2023) on 'Efficacy of Implementation of 74th Constitutional Amendment Act' detailed the status of State Finance Commission).

⁴⁸ ₹ 7,054.08 crore - ₹ 3,387.13 crore = ₹ 3,666.95 crore

⁴⁹ ₹ 1,346.52 crore - ₹ 1,280.50 crore

⁵⁰ G.O. Ms. No. 29 Finance (PMU-CASPS, FC&IF) Department, dated 18 March 2023

1.3.9 Recommendations of the Central Finance Commission

The Fourteenth Finance Commission recommended assured transfer of funds to the local government institutions for planning and delivering basic services⁵¹ under their charge. Grants were released under two components *i.e.*, Basic Grant and Performance Grant. The division of grants between Basic Grant and Performance Grant was in the ratio of 80:20.

As per Finance Accounts, GoI had released ₹ 3,054.20 crore during the period 2015-20 to State Government and the State Government released ₹ 2,883.64 crore to ULBs. Thus, State Government had not released ₹ 170.56 crore of Finance Commission Grants ULBs. It was further noticed that no performance grants (allocation: ₹ 423.20 crore) were received during the years 2018-19 (₹ 183.25 crore) and 2019-20 (₹ 239.95 crore) as the ULBs in the State did not utilise the grants within the time period of award. (Paragraph 5.1.1.1 of Performance Audit Report of C&AG of India (Report No.2 of 2023) on 'Efficacy of Implementation of 74th Constitutional Amendment Act' detailed about Central Finance Commission Grants).

During Audit (August 2019) of Commissioner & Director of Municipal Administration it was noticed that 10 ULBs were not received basic grants for the years 2017-18 and 2018-19 due to non-constitution of elected bodies.

Government stated (August 2021) that they had informed hurdles like increase in number of municipal corporations, upgradation of some of the ULBs, inclusion of Gram Panchayats into nearby ULBs etc., to GoI from time to time and requested to release the withhold amounts under 14th Finance Commission Grants to ULBs. GoI clarified (July 2022) that no balance grant would be payable since award period of 14th Finance Commission ended on 31 March 2020.

Fifteenth Finance Commission recommended transfer of funds to ULBs including urban agglomerations/ cities for the period 2021-22 to 2025-26 in addition to the grants earmarked for primary healthcare, incubation of new cities and Municipal shared services. Hence, it grouped into two broad categories based on population:

- i) Category-I cities (Million Plus Cities (MPCs))
- ii) Category-II cities (Non-Million Plus cities (NMPCs))

Grants to MPCs is linked to the performance of improving the air quality, urban drinking water supply, sanitation and solid waste management. Grants to NMPCS are further divided in to two parts *viz.*, untied and tied grants.

In Andhra Pradesh there are two MPCs and 121 NMPCs. As per the Finance Accounts, GoI had released ₹ 1,924.35 crore during 2020-22 to State Government and the State Government released ₹ 1,640.60 crore to ULBs. Thus, State Government had not released ₹ 283.75 crore of Finance Commission Grants to ULBs.

⁵¹ water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street lighting, burial and cremation grounds

1.3.10 Audit Mandate

Primary Auditor: Director, State Audit (DSA), functioning under the administrative control of Finance Department, is the statutory auditor for ULBs under Andhra Pradesh State Audit Act, 1989. As per Section 11(2) of the Act, DSA is required to prepare annual Consolidated Audit and Review Report for presentation to the State Legislature. DSA has four Regional offices and 26 District offices in the State. As per Section 10 of the Act, DSA is empowered to initiate proceedings against the persons responsible for causing loss to the funds of local authorities. Such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

We noticed from the information furnished (July 2023) by DSA, audit of 130 ULBs pertaining to earlier years was in arrears. DSA attributed delay in audit to non-production of records by ULBs. DSA further stated that surcharge certificates for ₹ 69.42 lakh in respect of 33 cases were pending up to March 2022. However, no amount was recovered up to March 2023. Non-recovery of amount indicated that the executive authorities concerned had not complied with the act provisions against the persons charged with the offences.

The Consolidated Audit and Review Report (CARR) for the year 2017-18 was tabled in the State Legislature on 25 March 2022 and CARRs for the years 2018-19 to 2020-21 were tabled in the State Legislature on 24 March 2023. DSA stated (July 2023) that CARRs for the years 2021-22 and 2022-23 are yet to be tabled.

1.3.11 Audit by Comptroller and Auditor General of India (C&AG)

Based on recommendations of the Eleventh Finance Commission, State Government entrusted (August 2004) to C&AG, the responsibility for providing Technical Guidance and Supervision (TGS) in connection with the accounts and audit of local government institutions under Section 20(1) of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

Based on the test check of ULBs, a consolidated report (TGS Note) is prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. TGS note for the year 2021-22 was issued in June 2023.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2017 was tabled in the State Legislature on 06 April 2018.

1.3.11.1 Planning and conduct of audit

The Audit process commences with assessment of risks⁵², based on expenditure incurred, criticality/ complexity of activities and priority accorded to the activity by Government. It is also based on level of delegated financial powers and assessment of internal controls and concerns of stakeholders.

Previous audit findings were also considered in this exercise. Based on this risk assessment, frequency and extent of audit was decided and an annual audit plan was

⁵² of departments/ local government institutions/ schemes/ programmes, etc.,

formulated to conduct audit. During 2021-22, six ULBs (two Municipal Corporations⁵³, three Municipalities⁵⁴ and one Nagar Panchayat⁵⁵), falling under the Department of Municipal Administration and Urban Development, were covered in audit.

1.3.11.2 Response to audit observations

After completion of audit, Inspection Reports (IRs) containing audit findings were issued to heads of the units concerned. Heads of offices and next higher authorities were required to respond to observations contained in IRs within one month and take appropriate corrective action.

As of September 2023, 168 IRs containing 4,556 paragraphs pertaining to the period up to 2021-22 were pending settlement as given below. Of these, initial replies had not been received in respect of 79 IRs and 2,078 paragraphs as shown in **Table-1.9**.

Table-1.9: Status of IRs/ Paragraphs

Year	Number of IRs/ Paragraphs pending settlement		IRs/ Paragraphs where even initial replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2020-21	162	4,449	73	1,971
2021-22	6	107	6	107
Total	168	4,556	79	2,078

Lack of action on IRs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports remaining unaddressed.

1.4 Accountability Framework and Financial Reporting issues

1.4.1 Ombudsman

The Thirteenth Finance Commission recommended establishment of an independent Local Body Ombudsman System. Independent Ombudsman System was not adopted in the State. However, amendments were made to the existing AP Lokayukta Act, 1983 to cover all the elected members of the Municipal bodies. Commissioner, MA&UD informed (September 2023) that there are three cases pertaining to three ULBs⁵⁶ pending at Lokayukta as of March 2022.

1.4.2 Property Tax Board

The Thirteenth Finance Commission mandated constitution of Property Tax Board (PTB) by the State Government. PTB was to assist all ULBs to put in place an independent and transparent procedure for assessing property tax. Accordingly, State Government had constituted the Board in March 2011. The Andhra Pradesh Municipalities Act, 1965 was amended (2012) to bring the Legislative framework for the functioning of Andhra Pradesh State Property Tax Board. (Paragraph 3.5.10 of

⁵³ Nellore and Srikakulam Municipal Corporations

⁵⁴ Gudur, Palasa-Kasibugga and Rajam Municipalities

⁵⁵ Buchireddypalem Nagar Panchayat

⁵⁶ Guntur, Kavali and Sattenapalli

Performance Audit Report of C&AG of India (Report No. 2 of 2023) on ‘Efficacy of Implementation of 74th Constitutional Amendment Act’ detailed about Property Tax Board).

State Government sanctioned (October 2013) 28 posts for effective functioning of the PTB. Against the sanctioned 28 posts, eight posts were vacant as of September 2023.

1.4.3 Fire hazard response

Guidelines of the Thirteenth Finance Commission stipulated that all Municipal Corporations with a population of more than one million, must put in place a fire hazard response and mitigation plan. A gazette notification to this effect was to be issued by the State Government demonstrating compliance. Accordingly, State Government notified annually, the fire hazard response and mitigation plan to be implemented up to 2014-15. State Government, however, did not issue notifications for the subsequent years.

1.4.4 Maintenance of Records

As per the provisions of AP Municipal Accounts Manual various records such as Asset register, Deposit Register, Cash Book, Stores and Stock Register *etc.*, needs to be maintained in ULBs. Test check of six ULBs during 2021-22, showed that in two⁵⁷ ULBs stores and stock and in two⁵⁸ ULBs Asset Register were not maintained.

Further, Government had issued (June 2015) revised comprehensive guidelines⁵⁹ for issue of clearance for installation of new telecommunication infrastructure towers and for establishment of telecommunication towers in corporation areas an amount of ₹ one lakh has to be collected for each application. In Nellore Municipal Corporation due to non-maintenance of any data base pertaining to erection of cell towers, Audit could not ensure compliance with the stipulation.

1.4.5 Advances pending adjustment

As per Andhra Pradesh Financial Code, advances paid should be adjusted without any delay and the Drawing and Disbursing Officers concerned should watch their adjustment. Records of six test-checked ULBs during 2021-22, showed that advances of ₹ 31 lakh, paid to staff in Srikakulam Municipal Corporation for various purposes remained unadjusted as of March 2022.

1.4.6 Cases of misappropriation

Andhra Pradesh Financial Code stipulates responsibilities of Government servants in dealing with Government money, the procedure for fixing responsibility and recovery of any loss. State Government had ordered (February 2004) the Secretaries of all the departments to review cases of misappropriation on a monthly basis. The Chief Secretary to Government was to review these cases once in six months with all the Secretaries concerned. However, information regarding conduct of such reviews were

⁵⁷ Nellore Municipal Corporation and Srikakulam Municipality

⁵⁸ Nellore Municipal Corporation and Gudur Municipality

⁵⁹ G.O. Ms. No. 146 of MA&UD, dated 19 June 2015

not furnished to audit despite specific request. Hence, Audit could not ensure compliance with the provisions. As of March 2022, misappropriation cases noticed by Director, State Audit which were pending from 2000-01 for disposal are shown in **Table-1.10**. Urgent action needs to be taken by Government in this regard.

Table-1.10: Misappropriation cases

Unit	As of 31 March 2022	
	No. of cases	Amount
Municipal Corporations	53	1.35
Municipalities	115	3.08
Nagar Panchayats	58	0.90
Total	226	5.33

Source: Information furnished by Director, State Audit

1.4.7 Maintenance of Accounts by ULBs

The ULBs adopted the software developed by the Centre for Good Governance of Model Accounting System for maintenance of accounts. CDMA stated (September 2023) that the Double Entry Accrual Based Accounting System (DEABAS) was being adopted in all the 123 ULBs.

1.4.8 Human resources of ULBs

Adequate and qualified manpower is essential for the empowerment of ULBs. Assessment of the manpower should be based on the functions undertaken by ULBs since majority of the functions are service oriented and must be discharged within a reasonable time. This assessment could be done by ULBs themselves considering various criteria such as extent of geographical area to be covered, population to be served, number of existing properties, nature of service to be provided *etc.*

We noticed that ULBs had neither the power to assess the staff requirement nor to recruit the required staff since these powers are vested with the Government as per Sections 72 to 80 of APM Act.

The Commissioner, MAUD stated (September 2023) that there were 932 vacancies (24.26 per cent) against sanctioned strength of 3,842 personnel of various cadres in all the ULBs in the State as of March 2022.