

## CHAPTER III

### PERFORMANCE REVIEWS

This chapter contains performance reviews on Pradhan Mantri Gram Sadak Yojana, Implementation of Acts and Rules relating to Consumer Protection, National Oilseeds Production Programme, Indira Kranthi Patham (VELUGU) and Computerisation in Municipal Corporation of Hyderabad.

### PANCHAYAT RAJ AND RURAL DEVELOPMENT DEPARTMENT

#### 3.1 Pradhan Mantri Gram Sadak Yojana

##### Highlights

*Pradhan Mantri Gram Sadak Yojana (PMGSY) was launched in December 2000 with the objective of providing roads which were negotiable in all weathers for eligible habitations with population of 1000 and above by 2003, and with population of 500 and above by 2007. Due to a misconception the Chief Engineer (CE), PR, treated habitations having earthen surface roads and gravel roads as connected. Therefore, the number of unconnected habitations was incorrectly reported (to GOI) as 584 whereas there were actually 5808 habitations. The remaining 5224 habitations were included only for upgradation. As per the scheme, new roads received 80 per cent of the cost—while upgraded roads only 20 per cent. As against the actual fund requirement of Rs 1209 crore for new roads, the State received only Rs 241.80 crore thereby losing Central assistance of Rs 725 crore. Out of 195 roads in seven districts, test-checked by Audit, there were flaws in execution of 102 roads valued at Rs 21.87 crore, such as not providing connectivity right upto the habitations, providing extra road length and also providing connectivity to habitations already connected. As a result, the objective of providing all weather roads to all the eligible habitations could not be achieved even as of August 2005.*

◆ CE irregularly invested programme funds of Rs 113.70 crore in term deposits for 12 to 20 months while several works were left incomplete for want of funds.

[Paragraph 3.1.8]

◆ Interest of Rs 3.17 crore accrued on programme funds was not remitted by the implementing agencies concerned to the APSRRDA account.

[Paragraph 3.1.9]

◆ Phases I and II of the works were executed without preparing the District Rural Road Plan and without formulating the core-network of roads.

[Paragraph 3.1.13]

◆ Detailed survey of roads was not conducted while launching the programme leading to incorrect assessment of unconnected

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habitations. State Government reported the number of the unconnected habitations as 584 against 5808 requiring new connectivity under PMGSY. The remaining 5224 habitations were included under 'Upgradation'. This resulted in the loss of Central assistance of Rs 725 crore.

*[Paragraph 3.1.14]*

◆ Roads constructed at a cost of Rs 21.87 crore did not satisfy the norms of the PMGSY. These roads connected the habitations which were already connected or had lower population. Roads executed were of extra length or fell short of providing connectivity right up to the habitations; besides, BT roads were repaired under the programme violating the guidelines.

*[Paragraph 3.1.15]*

◆ Thirty four per cent of the roads constructed in Phase I were either WBM or gravel roads and not all-weather roads. Expenditure of Rs 22.60 crore incurred on 166 such roads in the seven test-checked districts became largely wasteful as these roads would no longer be fit for upgradation due to deterioration over time, as was also observed in joint physical verification.

*[Paragraph 3.1.17]*

◆ Quality control checks were conducted by the NQM for 1893 road works. Out of 154 works graded as poor or average by the NQM, corrective action was not taken by the CE in respect of 61 works. Funds received (Rs 1.50 crore) for purchase of quality control equipment were lying in fixed deposits.

*[Paragraphs 3.1.26 and 3.1.27]*

◆ Monitoring of the execution of PMGSY works was poor both at State and district levels.

*[Paragraph 3.1.30]*

### **3.1.1 Introduction**

Pradhan Mantri Gram Sadak Yojana (PMGSY), a Centrally sponsored scheme with 100 per cent central funding was launched in December 2000 with the objective of providing connectivity through all-weather roads (BT/cement concrete surfaced roads negotiable in all weathers) to connect rural habitations with a population of 1000 and above by the year 2003 and 500 and above by the end of 2007. The objective was to improve the socio-economic indicators of the connected regions for which purpose, a core-network<sup>1</sup> of roads was to be formulated initially. While the primary focus of the programme was to provide new connectivity through construction of roads from earthwork stage to the desired specifications, upgradation of existing roads was also permissible in the districts where all the habitations of designated size have been provided with all-weather road connectivity. In the State the programme

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<sup>1</sup> a minimal network of roads essential to provide basic access to social economic services to all eligible habitations in the selected areas through at least single all-weather road connectivity

was implemented in 633 packages<sup>2</sup> in three phases<sup>3</sup> during the period December 2000–March 2005.

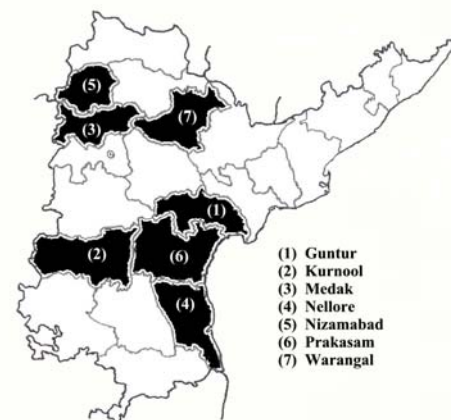
### 3.1.2 Organisational set-up

The Principal Secretary to Government in Panchayat Raj (PR) and Rural Development Department oversees the implementation of the scheme with the technical supervision of the Chief Engineer (CE, PR), supported by Superintending Engineers (SEs) and Executive Engineers (EEs). One of the Divisional Officers (EE) in each district would act as the Project Implementing Unit (PIU). Two State Technical Agencies (STA)<sup>4</sup> would scrutinise the estimates of PMGSY road works to ensure quality of roads. The STAs act as catalysing agents in the State level rural road programme. Their functions include verification of the District Rural Road Plan, post scrutiny of core network and scrutiny of details of project reports for road works, etc. The State Level Standing Committee (SLSC) is responsible for overall supervision and monitoring.

AP State Rural Roads Development Agency (APSRRDA), an autonomous body was formed in March 2003 to advise on technical specifications, project appraisal, organisation of funds, management monitoring systems of periodical reports to the Ministry of Rural Development (MORD) and to monitor the financial progress of the programme.

### 3.1.3 Scope of audit

The implementation of the programme was reviewed (January-June 2005) by test-check of records of CE, PR and 21 (out of 65) Divisional Officers for the period 2000-05 in seven (out of 22<sup>5</sup>) sample districts<sup>6</sup> in the State. Forty three random sample of packages (consisting of four works on an average per package) were scrutinised in the sample districts. Joint physical verification of the selected works was also carried out by Audit with the departmental engineers. Important audit findings are discussed in the following paragraphs.



<sup>2</sup> Phase I: 161 packages, Phase II: 306 packages, Phase III: 166 packages

<sup>3</sup> Phase I: December 2000 - March 2001; Phase II: April 2001 - March 2003 and Phase III: April 2003 - March 2004

<sup>4</sup> (1) Sri C.S.R.K. Prasad, Professor, National Institute of Technology, Warangal, for districts Visakhapatnam, Vizianagaram, West Godavari, Karimnagar, Srikakulam, Khammam and Warangal, and (2) Dr. K.M. Lakshmana Rao, Professor, Jawaharlal Nehru Technological University, Hyderabad, for remaining 15 districts

<sup>5</sup> i.e., except Hyderabad

<sup>6</sup> Guntur, Kurnool, Medak, Nellore, Nizamabad, Prakasam and Warangal

### 3.1.4 Audit objectives

Audit objectives were to assess:

- financial management of the programme;
- programme management and execution of works ;
- whether all-weather road connectivity was provided to targeted habitations within the time-frame;
- quality control mechanism;
- monitoring of the implementation of the scheme.

### 3.1.5 Audit methodology

During the entry conference held (January 2005) with the Principal Secretary to Government in PR Department, Chief Engineer and other departmental officers; the scheme guidelines, technical specifications, quality control reports, inspection reports, etc. were discussed. Physical evidence was obtained by taking photographs, maps, statements from the auditee units with reference to audit queries. Joint physical verification of the roads was conducted where considered necessary and the data were computed and analysed. Exit conference was also held with the Government in September 2005.

## Financial Management

**3.1.6** The programme was launched in December 2000. The cost of the projects cleared by GOI for each phase of PMGSY would be made available to the State Government in suitable instalments up to four. The first instalment in a particular year amounting to 25 per cent of the value of projects cleared by the Ministry would be released and the remaining instalments would be released subject to utilisation of 60 per cent of the total available funds as well as completion of at least 80 per cent of the road works up to the year previous to the current year and fulfillment of other conditions, if any.

**25 per cent of the total expenditure (Rs 227 crore) in the seven sample districts was not fruitfully used on the programme**

During 2000-01, GOI allocated funds for the programme works through the State Government. These funds were made available to the executing agencies through budget provision to meet the required expenditure. For the years 2001-03 the funds were made available to DRDAs and EE, PR, Hyderabad (nodal officer) through the State Government and thereafter (2003-04) directly to APSRRDA. GOI provided Rs 827.91 crore (against the approved project cost of Rs 920.14 crore) during 2000-05 for implementation of Phase I, II and III of the programme. No project costs were provided by GOI during 2004-05. The financial status of the programme was as follows:

(Rupees in crore)

	Year	Cost of Projects cleared by GOI	Amount sanctioned by GOI	Expenditure (March 2005)	Percentage of financial progress
Phase-I	2000-01	246.23	233.03	241.81	100
Phase-II	2001-03	415.35	424.88	383.78	90
Phase-III	2003-04	258.56	170.00	53.19 <sup>5</sup>	31
<b>Total</b>		<b>920.14</b>	<b>827.91</b>	<b>678.78</b>	<b>82</b>

<sup>5</sup> low financial progress was due to non-payment of bills for work done and certain works being in progress

Note: As against Rs 195 crore provided by GOI towards first instalment of Phase I, the State Government in turn provided Rs 190 crore only to CE, PR. The utilisation particulars for the balance Rs 5 crore were awaited from the State Government (August 2005).

Audit found that out of the total expenditure of Rs 227 crore in the seven districts selected, Rs 56.49 crore constituting 25 per cent of the expenditure was ineligible, unauthorised, avoidable, wasteful or involved misutilisation or diversion of funds, as discussed in the succeeding paragraphs (Expenditure tree vide *Appendix 3.3* refers).

### 3.1.7 Cost escalation due to delay in execution of works

**Cost of road works escalated due to delay in execution of works**

It was noticed that 404 road works of Phase I were declared completed in the State without reaching the BT stage or without providing full connectivity up to the habitations. GOI sanctioned (July 2005) Rs 161.60 crore (as per latest estimation) to complete these road works of Phase I. The execution of these works was yet to be taken up as of August 2005. Due to delay in taking up the road works of Phase I (2000-01) in Phase-IV (2005-06), there would be cost escalation. As per Government orders ten per cent annual increase is allowed on the SSRs.

### 3.1.8 Unauthorised retention of funds in term deposits

**Programme funds of Rs 113.70 crore were parked by the CE in term deposits for 12 to 20 months without releasing to divisional officers**

PMGSY guidelines require keeping of programme funds in the programme account, and prohibits investment of the funds either for a short term or for long term. The CE, however, deposited Rs 113.70 crore<sup>7</sup> (of Phase II and III) in term deposits in nationalised banks for periods ranging from 12 to 20 months, which after maturity were credited to APSRRDA during March/April 2005 alongwith interest accrued thereon. The funds became available with the CE due to dropping of sanctioned works, delay in making payments for the works executed, slow progress in execution and reduction of expenditure on account of changes in specifications. Hence the action of the CE was not justified particularly when several works<sup>8</sup> were left incomplete for want of funds.

<sup>7</sup> September 2003 (Rs 7.08 crore), October 2003 (Rs 5.12 crore), March 2004 (Rs 45 crore) and April 2004 (Rs 56.50 crore)

<sup>8</sup> 36 works in three sample divisions alone (value : Rs 10.09 crore)

### 3.1.9 Non-remittance of interest accrued on PMGSY funds to APSRRDA

**Interest of Rs 3.17 crore accrued on PMGSY funds was not remitted to the APSRRDA**

The Project Director (PD), DRDA, RangaReddy District was the nodal officer for distribution of funds of Phase II to the executing agencies in the State, till formation of APSRRDA in March 2003, for this purpose. It was noticed that programme funds of Rs 79.29 crore received in February 2003 (Rs 50 crore) and March 2003 (Rs 29.29 crore) were remitted to the APSRRDA account only in April 2003 and June 2003 respectively. However, the PD did not remit the interest of Rs 40 lakh accrued on these amounts, though required under the scheme guidelines. Similarly, interest of Rs 2.77 crore accrued during 2001-05 on PMGSY funds was also not remitted by the implementing authorities<sup>9</sup> to the programme account of APSRRDA, as of August 2005. Since implementation of the programme was delinked from DRDAs since April 2003 retention of interest amounts by these implementing agencies was not justified. Government accepted the audit observations and stated (August 2005) that action would be taken to obtain the interest amounts accrued from the concerned DRDAs.

### 3.1.10 Diversion of scheme funds

**Divisional officers spent Rs 64.55 lakh for different purposes not related to PMGSY**

The guidelines stipulated that programme funds and interest accrued thereon should not be diverted for other purposes and these should be utilised on PMGSY works only. Contrary to this, Rs 64.55 lakh were diverted (2001-03) by the divisional officers<sup>10</sup> for construction of SE's office building, pylon, school building, cattle trap and purchase of computers, stationery, etc. though these did not relate to PMGSY.

### 3.1.11 Non-receipt of utilisation certificates (UCs)

**UCs were not submitted by divisional officers of three districts**

As of August 2005, Utilisation Certificates (UCs) in respect of the funds provided during the years 2001-02, 2002-03 and 2003-04 were not submitted by the divisional officers of Anantapur, Nizamabad and Visakhapatnam Districts to the CE, PR. Non-submission of UCs for long periods could also lead to temporary misappropriations besides depicting an inaccurate picture of the financial progress under the programme.

### 3.1.12 Programme Management

**Of the 5808 habitations which should have been provided connectivity by March 2004, 5224 remained unconnected**

As against 5808 habitations of population of 500 and above targeted for rural connectivity by the end of March 2004, 5224 habitations were left unconnected. The connectivity achieved as of August 2005 was only 559 habitations (1000 and above : 160 and 500-999 : 399); 25 habitations were not tackled at all as these were located in islands and reserve forest. The shortfall

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<sup>9</sup> DRDAs - Adilabad: Rs 0.49 lakh; Karimnagar: Rs 1.43 lakh; Nellore: Rs 0.15 lakh; Ongole: Rs 3.08 lakh; RangaReddy : Rs 40.00 lakh and Warangal: Rs 7.03 lakh and EE, PR Division, Hyderabad (only coordinating agency): Rs 224.81 lakh

<sup>10</sup> EEs, Gadwal (Rs 1.80 lakh), Mahboobnagar (Rs 3.33 lakh), Nagarkurnool (Rs 2.10 lakh), Narayanpet (Rs 1.50 lakh), Wanaparthy (Rs 1.50 lakh) and PDs, DRDAs (Rs 54.32 lakh)

was due to incorrect assessment of number of habitations by the CE while launching the programme and sending the fund requirements to GOI (Paragraph 3.1.14 refers).

### 3.1.13 Works executed without formulating core-network

**Phase I and II works sanctioned and executed without formulating core-network**

While formulating the policy and fixing the targets of PMGSY works, CE did not consider the rural roads already taken up under other ongoing programmes. The District Rural Road Plans (DRRP) and the core-network that form the basis of inventory of existing roads were also not available with the CE while launching the programme. Consequently, proposal for rural road connectivity was sent by the CE without proper assessment.

The core-network was prepared only in January 2003, taking into account population figures of the 1991 census after adding an approximate 13.86 per cent to it. Even after the Census 2001 figures were available the core-network had not been revised yet (August 2005).

Audit also observed that 3008 (Phase I: 1479 and Phase II: 1529) works executed before formulating the core-network were included subsequently in the core-network. Further, 20 works executed (2001-03) by six divisional officers at a cost of Rs 6.11 crore did not find place in the core-network at all.

The CE admitted that Phase I and Phase II works (consisting 3123 works involving estimated cost of Rs 662 crore) were sanctioned before formulating core-network thus defeating the very purpose of core-network.

### 3.1.14 Incorrect assessment of unconnected habitations

**Detailed survey of roads not conducted leading to wrong assessment of unconnected habitations**

The number of unconnected habitations as on 1 April 2000 was 5808 (1872 habitations with population above 1000; 3936 habitations with population between 500-999). However, at the time of launching the programme in December 2000 and while sending financial requirements to GOI, the CE wrongly treated the habitations having earthen surface and gravel roads as connected habitations. Accordingly number of unconnected habitations were reported as only 584<sup>11</sup> as against 5808. The remaining 5224 habitations were included in 'upgradation category'. As a result, allocation of funds was restricted by GOI to 20 per cent as admissible for upgradation against 80 per cent of the cost admissible for new connectivity. As against the requirement of Rs 1209 crore for 5224 such habitations the State could secure only Rs 241.80 crore thereby losing the Central assistance to the extent of Rs 725 crore. The CE replied (August 2005) that adequate time was not available for detailed road survey while preparing the project and sending fund requirement to GOI. Thus, due to failure to identify the eligible unconnected habitations by the CE, 5224 habitations were denied the benefit of all-weather roads besides delaying the whole implementation process and consequent cost escalation.

<sup>11</sup> above 1000 population: 167 habitations; between 500-999 population: 417

### **3.1.15 Flawed selection and execution of roads**

Out of 195 road works test-checked in the seven districts, 102 roads (52 per cent) constructed at a cost of Rs 21.87 crore did not satisfy the norms and failed to achieve the objective as discussed below:

- Thirty six roads constructed in Phase I and II at a cost of Rs 10.09 crore in Narasaropet (Rs 3.50 crore), Kurnool (Rs 3.09 crore) and Nellore (Rs 3.50 crore) Divisions did not connect the habitations (length proposed not achieved) rendering the expenditure unfruitful. Government replied (September 2005) that these incomplete works would be completed in Phase IV. This would, however, results in extra cost due to change of SSRs.
- In the case of 21 habitations<sup>12</sup>, connectivity was provided at a cost of Rs 3.89 crore even though population was less than the prescribed norms.
- Eighteen roads were laid at a cost of Rs 4.28 crore to habitations which were already connected under other schemes.
- Twenty-three roads were constructed with total extra length of 19.63 km involving extra expenditure of Rs 1.72 crore.
- Two roads were laid with cement concrete instead of BT roads leading to extra expenditure of Rs 81 lakh.
- Joint physical verification of PMGSY roads by Audit and departmental engineers in Kurnool District revealed that the EE, PR, Kurnool executed the work 'providing BT surface to the road from Katarakonda famine road to Bonthirala' at a cost of Rs 31.76 lakh. This road was not connected to any of the all-weather roads and there were no all-weather roads existing nearby to provide connectivity. In Prakasam District, EE, PR, Kandukur constructed a cement concrete road in urban limits from Ollapalam Vemulapadu R&B road to Kovuru at a cost of Rs 75.80 lakh. Construction of road in urban limits is contrary to the programme guidelines and the expenditure was thus an irregular charge on the programme.

Details of all these cases are given in *Appendix 3.1*.

### **3.1.16 Unfruitful expenditure due to missing road links and cross drainage structure**

The rural roads were taken up under Phase I and II without knowing their surface status and assessment of actual length involved and number of culverts required for full connectivity up to the habitations. In Medak Division, two road works<sup>13</sup> remained incomplete due to non-completion of seven cross drainage works. This rendered the expenditure of Rs 67.49 lakh in the two divisions (Kavali – Rs 49.50 lakh; Medak – Rs 17.99 lakh) unfruitful.

Similarly, Joint physical verification of PMGSY roads by Audit and Departmental engineers in Nellore District also disclosed that the EE, PR,

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<sup>12</sup> Bhodan (one/325), Kurnool (one/290), Narasaraopet (seven/148 to 466), Parchur (five/248 to 468), Sangareddy (one/209), Siddipet (one/36), Mahboobabad (five/155 to 416)

<sup>13</sup> 'PWD road to Borgi' and 'Chapta PWD road to Seditanda'



Nellore got executed two works, viz., Appaiah gate to Kasumuru (Rs 60 lakh) and KT road to Kolladinne (Rs 49.65 lakh). The first road was a gravel road and the surface of the road was found to be completely damaged and was left incomplete in February 2003 due to demise of the contractor. The remaining part of the work was not entrusted to any contractor so far. The second road proposed for a length of 3.4 km in Phase III was completed up to 3 km and the balance could not be laid reportedly due to price escalation. As a result, the total expenditure of Rs 1.10 crore was unfruitful.

### **Programme execution**

During 2000-05, 913 new connectivity works and 3902 upgradation works were taken up or executed in the State. In the seven sample districts 204 packages<sup>14</sup> consisting of 112 new connectivity and 1274 upgradation works were executed. Review revealed lack of prioritisation of the programme works, besides wasteful and avoidable expenditure on road works as discussed below.

#### **3.1.17 Wasteful expenditure on WBM roads and gravel roads**

**34 per cent of the works executed under Phase I were not all weather roads**

The objective of the programme was to provide all-weather road connectivity (BT/cement surfaced roads) to all the eligible habitations. It was observed that about 34 per cent of the works (503 out of 1479) executed under Phase-I in the State were however, not BT/cement surfaced roads. Even the estimates were prepared and approved by the CE for Water Bound Macadam (WBM) roads and gravel roads as against BT or cement surface roads prescribed in the guidelines. WBM/gravel roads cannot be used for long periods as they deteriorate over time. Hence priority was required to be given for bringing such roads to BT standards.

**166 WBM/gravel roads constructed (Rs 22.60 crore) in 2000-01 were not upgraded; these would require to be re-laid**

In the seven test-checked districts, however, 166 WBM/gravel roads were constructed (cost : Rs 22.60 crore<sup>15</sup>) during 2000-01 were not taken up for upgradation as of August 2005. Since such roads have limited period of use depending on nature of soil, rainfall, traffic density, etc. and these would no longer be fit for upgradation due to time lag, all these roads would require to be re-laid afresh as also observed by Audit during joint physical verification. As a result, the outlay of Rs 22.60 crore on the WBM/gravel roads has become largely wasteful. The CE contended that guidelines did not prohibit laying of such roads. The reply was not tenable as the guidelines were very clear that only all weather road connectivity (BT roads) should be provided to habitations whereas WBM roads are not all weather roads.

<sup>14</sup> Phase I: 56, Phase II: 104, Phase III: 44

<sup>15</sup> Guntur – Rs 3.27 crore (26 works), Kurnool – Rs 2.65 crore (13 works), Medak – Rs 3.81 crore (43 works), Nellore – Rs 5.57 crore (23 works); Nizamabad – Rs 2.87 crore (26 works); Prakasam – Rs 2.10 crore (16 works); Warangal – Rs 2.33 crore (19 works)

Physical verification revealed that the roads were not fit for upgradation

Joint physical verification of PMGSY roads by Audit and departmental engineers in Kurnool District disclosed (May 2005) that the PR Division, Kurnool executed two works 'Providing BT surfaces to Agavalli, Pothugallu road to Gundampuram' (Rs 19.38 lakh) and 'Goverdhanagiri to Laxmipalli via Sreerangapuram' (Rs 24.67 lakh). These WBM roads executed during Phase I were in a very bad condition as the metal on the roads was disturbed and the WBM surfaces were no longer fit for upgradation. Therefore, expenditure of Rs 44.05 lakh incurred on these roads became wasteful.



Agavalli, Pothugallu road to Gundampuram



Goverdhanagiri to Laxmipalli via Sreerangapuram

### 3.1.18 Avoidable expenditure due to adopting incorrect Seal coat type

Use of seal coat with incorrect specification resulted in avoidable expenditure of Rs 57.68 lakh

According to clause 513 of MOST<sup>16</sup> specifications, the sealing of voids is to be done with a liquid seal coat, the composition of which is dependant on whether annual rainfall is more than 1500 mm or less.

It was observed in audit that though the actual rainfall in the State is 1000 mm, seal coat applicable for places with annual rainfall of more than 1500 mm was used. This led to avoidable extra expenditure of Rs 57.68 lakh<sup>17</sup> in the seven test-checked districts.

### 3.1.19 Inadmissible lead charges for transportation of soil

Mechanical carriage of soil in deviation from the norms led to excess expenditure of Rs 47.09 lakh

As per the guidelines, road embankment was to be constructed by obtaining soil manually and mechanical transportation was not permissible except in cases of black cotton soils. In deviation from the guidelines 11 divisional officers<sup>18</sup> incurred (Phases I & II) Rs 47.09 lakh in seven test-checked districts towards mechanical transportation of soil required for formation of road from the borrow areas though these were not black cotton soils. Government replied (September 2005) that transportation of soil was allowed in the cases wherever necessary. This was not correct as mechanical transportation was used for soil which are not black cotton soils.

<sup>16</sup> Ministry of Surface Transport

<sup>17</sup> Guntur (Rs 14.83 lakh); Kurnool (Rs 4.13 lakh); Medak (Rs 14.28 lakh); Nellore (Rs 3.03 lakh); Nizamabad (Rs 9.72 lakh); Prakasam (Rs 4.63 lakh); Warangal (Rs 7.06 lakh)

<sup>18</sup> PR Division, Gudur (Rs 1.31 lakh), Kamareddy (Rs 1.93 lakh), Kavali (Rs 1.51 lakh), Markapuram (Rs 5.95 lakh), Narasaraopet (Rs 5.23 lakh), Nellore (Rs 7.82 lakh), Ongole (Rs 5.09 lakh), Sangareddy (Rs 2.62 lakh), Tenali (Rs 11.35 lakh), Warangal (Rs 0.42 lakh) and Mahaboobabad (Rs 3.86 lakh)

### 3.1.20 Irregular charge of tender premium to programme

**Tender premium irregularly charged resulting in extra burden of Rs 4.90 crore to the programme**

The guidelines stipulated that in the process of finalisation of tenders, in case the value of tender was found to be more than the cost of the estimate, such excess cost (tender premium) should be borne by the State Government. Audit however, observed that 12 divisional officers debited (2000-01) an amount of Rs 4.90 crore towards the cost of tender excess (36 packages) to PMGSY, which constituted an irregular charge on the programme funds. Division-wise details are given in *Appendix 3.2*.

#### 3.1.21 Injudicious acceptance of other than the lowest tender

Tenders were invited (Phase-I) for the work of providing improvements to 17 roads of Kamareddy Division in Nizamabad District (estimated cost : Rs 1.80 crore). During finalisation of tenders, the second lowest tender at 9.8 per cent above the estimate was accepted by the SE, PR circle, Medak and rejected the first lowest tender of two per cent above the estimate. This resulted in extra expenditure of Rs 14.08 lakh. The Divisional Officer replied (May 2005) that the first lowest tenderer was having more work on hand and that the second lowest tender was accepted in order to relieve the contractor from further addition of work. The reply is not acceptable as the action of the Divisional Officer was not in accordance with the established tender procedure.

#### 3.1.22 Unauthorised expenditure on repairs to the existing BT roads

**Repairs done to existing BT roads in violation of norms; unauthorised expenditure was Rs 3.07 crore**

PMGSY guidelines do not permit repairs to Black-topped or cement roads, even if the surface condition is bad. Contrary to these provisions, seven (out of 22) divisional officers in the sample districts had carried out (2000-04) repair works to the existing nine BT roads at a total cost of Rs 3.07 crore. The EEs sought to justify their action attributing the execution of the works to bad condition of the existing BT roads. The contention is not tenable as the expenditure constituted unauthorised charge on the programme funds.

#### 3.1.23 Non-plantation of trees

The guidelines provide planting of fruit bearing and other suitable trees on both sides of the roads, with a view to improving green cover and to conserve soil. The expenditure thereon was to be borne by the State Government. CE did not however, initiate action to requisition funds to comply with this requirement. As a result, the rural roads constructed under the programme were left without green cover though envisaged under the programme.

**Shortfall in targeted road length was high in the test-checked Districts of Kurnool, Warangal, Medak and Nizamabad**

#### 3.1.24 Targets and achievement

A total road length of 9114 km was fixed as the target for the three phases in the State to be completed during December 2000 - March 2004. However, the achievement was only 6676 km as of March 2005 leaving a shortfall of 2438 km (27 per cent). The shortfall was high in Kurnool (49 per cent), Warangal

(40 per cent), Medak (39 per cent) and Nizamabad (38 per cent) districts as shown below:

District	Targets			Achievement			Shortfall (Percentage)		
	Habitations (in number)	No. of Roads	Length (in km)	Habitations (in number)	No. of Roads	Length (in km)	Habitations (in number)	No. of Roads	Length (in km)
Guntur	228	187	372.8	243	171	337.4	Nil	16	35.4 (10)
Kurnool	195	166	416.8	170	106	214.1	25	60	202.7(49)
Medak	228	188	500.1	281	171	304.2	Nil	17	195.9(39)
Nellore	231	134	423.9	230	109	348.2	1	25	75.7 (18)
Nizamabad	296	282	509.7	377	231	318.3	Nil	51	191.4(38)
Prakasam	167	132	332.3	168	116	296.9	Nil	16	35.4 (11)
Warangal	190	195	481.0	176	124	287.9	14	71	193.1(40)

Note: Achievements in respect of habitations are on account of inclusion of enroute smaller habitations also

The Divisional Officers attributed (March 2005) the shortfall in length to delay in receipt of sanctions, increase in the cost due to change of SSRs and inadequacy of funds. This indicated lack of systematic planning by the CE.

### Quality control mechanism

**Quality control mechanism was ineffective**

In the three-tier structure of quality control, State Government is responsible for the first two stages i.e., through PIU and State Quality Monitors (SQM) to ensure that material utilised and workmanship conformed to the prescribed specifications and that all prescribed tests were carried out at specified time and place by the specified person/authority. At the third tier, the National Rural Road Development Agency (NRRDA) engaged National Quality Monitors (NQMs) for inspection, at random, of the roads with particular reference to quality. In case the works were graded poor or average by NQM, the State Government was to ensure replacement of material or rectification of workmanship. On completion, the grading of the roads should be 'very good'.

#### 3.1.25 Non-compliance of quality control requirements

Though the three-tier Quality control system was in existence, the PIUs were unable to provide adequate supervision, inspection, and to ensure quality measures. The NQMs were manned by retired engineers with no accountability for the reports submitted by them. Further, no field laboratories were established to ensure tests for the material at the site. However, the Divisional Officers replied (March 2005) that the materials were got tested in laboratories.

#### 3.1.26 Non-procurement of quality control equipment

GOI with the consent of the International Development Association, agreed to make available US\$ 85 lakh for NRRDA to implement a sub-project on institutional development and capacity building of agencies involved in the programme. Although Rs 1.50 crore was provided to CE(PR) by NRRDA in April 2004 towards purchase of laboratory equipment and survey equipment, no equipment was purchased even as of August 2005. The entire amount was lying in fixed deposits, contrary to the norms. The CE replied (August 2005) that tender process was in progress to procure material.

The Quality control mechanism was thus ineffective. As a result, there was no assurance in regard to the quality of material used.

### 3.1.27 Action not taken on poor or average graded works by NQM

The State Government was to ensure that all the road works under the programme were to be rated by National Quality Monitors (NQM) at least 'Good' during implementation and 'very good', when completed. In case the completed works were graded by NQM as 'poor or average', these roads should be brought up to the grade 'very good'. The NQM checked 1893 works in all and offered comments on 1594 works as of August 2005. The status of grading by NQM is as shown below:

Grading	Number of works
Very Good	567
Good	772
Satisfactory	101
Average	150
Poor	4
Grading not given and no comments offered	299

NQM did not exercise their checks subsequently on the works with grading below very good though this was envisaged as per the guidelines. As a result, the desired quality of the works could not be ensured. Out of 154 works rated by NQM as 'poor or average' in Phase I and II, action taken reports were submitted by the SEs only for 93 works and no action was taken in respect of the remaining 61 works. The CE, PR had no information regarding the number of roads and the category of roads (BT, WBM, etc.) checked by NQM.

### Maintenance of PMGSY roads

Proper mechanism was not in place for maintenance of roads executed under PMGSY as discussed below.

### 3.1.28 Irregular provision in the agreement towards maintenance and repairs

**Irregular provisions of Rs 3.50 crore made in the contracts for maintenance of PMGSY roads**

The guidelines stipulated that PMGSY roads being of very high standard would not require any major repairs for at least five years after completion. However, under Phase-III, in 13 packages of 14 divisions in the sample districts, the EEs/CE had irregularly included Rs 3.50 crore<sup>19</sup> in the agreements for maintenance of roads, the expenditure of which was to be borne by the State Government. Thus the amount would be an irregular charge on PMGSY. Although the currency period of these contracts was only nine to 12 months provision was made for maintenance for five years without

<sup>19</sup> Bhodan (Rs 17.70 lakh), Guntur (Rs 20.71 lakh), Kamareddy (Rs 13.05 lakh), Kandukur (Rs 24.00 lakh), Mahaboobabad (Rs 42.91 lakh), Markapur (Rs 15.45 lakh), Medak (Rs 35.29 lakh), Narasaraopet (Rs 13.35 lakh), Nizamabad (Rs 35.76 lakh), Ongole (Rs 12.54 lakh), Sangareddy (Rs 27.04 lakh), Siddipet (Rs 18.21 lakh), Tenali (Rs 20.11 lakh), Warangal (Rs 54.28 lakh)

however, specifying how this condition would be enforced after lapse of currency of agreements. The CE promised (August 2005) to get the details of all such agreements examined and to initiate suitable action.

## **Manpower**

### **3.1.29 Improper planning of training programmes**

The programme was launched in December 2000. As envisaged in the guidelines, training was to be imparted to the Assistant Engineers and the Junior Engineers of PR Department to make them equipped with modern techniques and the latest specifications in rural road formation under PMGSY guidelines. The training modules include sessions on construction of rural roads including environmental safeguards, choice of construction technology, rural road drainage, ground improvement techniques, rural road maintenance under PMGSY. But the training was arranged only in July/November 2004 i.e., after completion of Phases I and II works of the programme. As such, the executive personnel were not trained of the specifications envisaged in the PMGSY guidelines while executing the Phases I and II works and therefore these works did not receive the benefit of such training. This adversely affected the efficiency of execution and quality of the works, as also noticed by Audit during the joint physical verification (Paragraphs 3.1.15 to 3.1.17 refer).

## **Monitoring**

**3.1.30** The GOI prescribed (December 2000) functioning of a Programme Implementation Unit (PIU) manned by competent technical persons entirely directed for coordination and implementation of the programme in each district. A State Level Standing Committee (SLSC) was formed by the State Government for monitoring of the programme. The APSRRDA constituted in March 2003 was to provide operational and management support to the programme including management of monitoring systems.

No PIUs had, however functioned in any of the test-checked districts. Performance of the APSRRDA was not as per mandate as evidenced from the fact that several deficiencies were being pointed out by the STAs from time to time. No action was taken by the APSRRDA or the CE to rectify these omissions in the ongoing works. The SLSC was responsible for close and effective monitoring of the programme and to oversee the timely and proper execution of the road works besides vetting the proposals to ensure that those were in accordance with the proposals. Non-completion of the works and non-achievement of the defined goals within the specified time, reflect poor monitoring by the SLSC.

### **3.1.31 Conclusions**

Initial incorrect assessment of unconnected habitations requiring all-weather road connectivity resulted in foregoing Central assistance of Rs 725 crore. This significantly affected the implementation of the programme. Twenty five

per cent of the total expenditure (Rs 227 crore) in the test-checked districts was not fruitfully utilised on the programme. While full connectivity was not provided to some habitations, certain other habitations were provided with extra road length and multi-connectivity. WBM roads and gravel roads were constructed under the project instead of all-weather roads (BT), contrary to the norms. Monitoring both at State and the District level was very poor. Overall the desired objective of providing all weather road connectivity to all eligible habitations had not been achieved.

### **3.1.32 Recommendations**

- Scheme guidelines should be strictly adhered to at all levels. Government need to resolve the issues such as land acquisition problems, site disputes, non-receipt of forest clearances, urgently before commencement of the works.
- Government should ensure remittance of interest accrued from scheme funds to APSRRDA account by the implementing agencies.
- Government need to ensure timely upgradation of WBM roads to BT stage so that the outlay on laying the WBM in the first phase is not wasted.
- Government should take urgent action to utilise the earmarked funds for purchase of quality control equipment and establish labs in order to exercise effective quality control checks at the site of the work itself.
- Government should take immediate steps to ensure rectification and upgradation of all the works which were graded by NQM as poor or average.

**3.1.33** The above points were discussed with the Additional Secretary to Government and CE, PR in the exit conference held in September 2005. The points brought out by Audit in the performance review have been accepted by the Government. The recommendations made were also discussed and accepted by the Government.

## CONSUMER AFFAIRS, FOOD AND CIVIL SUPPLIES DEPARTMENT

### 3.2 Implementation of Acts and Rules relating to Consumer Protection

#### Highlights

*The Consumer Protection Act, 1986 was enacted by Government of India to provide simple, speedy and inexpensive redressal to the consumers' grievances. The implementation of the Act in the State suffered from a lack of adequate funds, deficient financial management and inadequate monitoring by the Commissioner, Civil Supplies. As a result, the State still has a huge pendency (7673 cases) of consumer disputes cases. The State Government paid little attention to consumer awareness as also disclosed in the survey by ORG-MARG.*

- ◆ There were delays of over three to five years in establishing District Forums on full time basis. Circuit Benches of the State Commission had not been constituted.

*[Paragraphs 3.2.8 and 3.2.9]*

- ◆ Of the 26 buildings proposed to be constructed, 13 buildings (including one for the State Commission) were not taken up. The State Commission and the District Forums have no basic amenities such as furniture, drinking water, etc. for the consumers and the public.

*[Paragraphs 3.2.10 and 3.2.11]*

- ◆ The State Commission and the District Forums could dispose only 28 to 45 per cent and 35 to 54 per cent cases respectively during the years 2001-04. The State still has huge pendency of cases in the State Commission (227) and the District Forums (7446) as of June 2005; 749 cases in the District Forums related to the year 2000 and earlier years.

*[Paragraph 3.2.14]*

- ◆ Only 17 per cent of the cases filed in the State Commission and 21 per cent of the cases in the 25 District Forums were disposed of within the prescribed time limit of 90/150 days.

*[Paragraph 3.2.15]*

- ◆ The enforcement mechanism under the Prevention of Food Adulteration Act, 1954 was found to be deficient mainly for want of adequate enforcement inspectors.

*[Paragraph 3.2.19]*

- ◆ A large number (1694) of warrants issued by the State Commission (8) and the 25 District Forums (1686) had not been executed by the Police Department as of August 2005. Of these, four in the State Commission and 1389 warrants in the Forums were pending for 12 months or more. Results of survey by ORG-MARG also revealed that decree was passed in eight per cent of the cases considered in the survey and compensation was not paid in any of the cases.

*[Paragraphs 3.2.16 and 3.2.17]*



◆ **The State Consumer Welfare Fund was not set up in the State. In the three selected districts District Consumer Information Centres were not functioning. No serious initiatives were taken to create awareness about the consumer rights and the dispute redressal system. Government did not involve the CVOs in consumer awareness. Results of survey by ORG-MARG revealed that 67 per cent of the consumers were not aware of consumer rights and 84 per cent unaware of the Act.**

*[Paragraphs 3.2.22 to 3.2.25]*

◆ **Adequate monitoring mechanism was not in place either at the State Commission or in the Civil Supplies Department to ensure speedy disposal of grievances. No evaluation was also conducted to assess the efficiency of the adjudication mechanism in the State.**

*[Paragraphs 3.2.26 and 3.2.27]*

### **3.2.1 Introduction**

The Consumer Protection Act, 1986 (Act) came into force with effect from 1 July 1987 throughout the country except the State of Jammu & Kashmir, and is intended to provide simple, speedy and inexpensive redressal to the consumers' grievances (in relation to goods purchased and services availed). It gives the consumer an additional remedy besides those that may be available under other existing laws. The Act provides for establishment of separate three-tier quasi-judicial consumer dispute redressal machinery at the National, State and District levels. Unlike the existing laws, which are punitive or preventive in nature, the provisions of this Act are compensatory. The Act was amended in 2002 to facilitate quicker disposal of the complaints.

In Andhra Pradesh, the Consumer Affairs, Food and Civil Supplies Department is responsible for promoting consumer awareness and empowerment of consumers and the consumer organisations.

### **Objectives of the Consumer Protection Act**

The objectives are:

- to protect interests of the consumers in all respects;
- to secure speedy and inexpensive redressal of consumer grievances;
- to ensure protection of consumer rights against marketing of goods and services injurious to life and property of the consumers, providing information about the quality, quantity, potency, purity, standards and price of goods and services;
- to enhance the powers of the redressal machinery;
- to spread awareness among the consumers about their rights;
- to empower consumers and consumer organisations to file complaints in the consumer courts and
- to strengthen voluntary consumer movement, particularly in rural areas.

### **3.2.2 Organisational set up**

The Act is implemented through the Department of Consumer Affairs under the Ministry of Consumer Affairs, Food and Public Distribution at GOI level

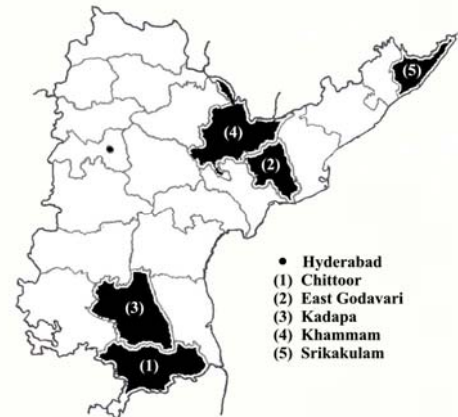
by establishing National Commission at New Delhi, AP State Consumer Disputes Redressal Commission (State Commission) at State level and District Consumer Forums (DCF) at district level.

The State Commission and the District Forums have a President and two members each including one woman member. The State Consumer Protection Council set up with the objective of promoting and protecting the rights of consumers was initially functional for three years from 1992 to 1995 and was reconstituted in August 2004. The District Consumer Protection Councils were constituted only in August 2004.

The Department of Consumer Affairs, GOI is the Nodal Department in the field of consumer protection. At State level, the Commissioner, Consumer Affairs, Food and Civil Supplies Department and ex-officio Secretary to Government administers the Act.

### 3.2.3 Scope of audit

Audit conducted (June-July 2005) the review of the implementation of the Acts and Rules relating to consumer protection covering the period 2000-01 to 2004-05. A test-check of the records of the State Commission, the Consumer Affairs wing of Civil Supplies Department and six District Consumer Forums<sup>20</sup> were conducted. Audit also covered the Institution of Preventive Medicine, Hyderabad (to cover Prevention of Food Adulteration Act) and the Department of Legal Metrology, Hyderabad (to cover Weights and Measures Act). The selection of districts has been done following the sampling design using the stratified usage sampling technique, selecting one capital district, 50 per cent of districts selected by the ORG-MARG and remaining districts with probability proportional to size with replacement. The results of the review are mentioned in the succeeding paragraphs.



The services of the ORG Centre for Social Research, a division of the AC Nielsen ORG-MARG Private Limited, were commissioned by the Comptroller and Auditor General of India for the purpose of carrying out a sample survey amongst consumers, complainants, NGOs, manufacturers, etc. The ORG-MARG carried out the survey in the State covering 2943 consumers spread across urban and rural areas in six (including three test-checked by Audit) districts besides 389 complainants, nine manufacturers/service providers, two NGOs and two laboratories. Findings of the survey on matters discussed in their report have been included in this review at appropriate

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<sup>20</sup> Chittoor, Kadapa, East Godavari (Kakinada), Khammam, Hyderabad and Srikakulam

places. The Executive summary of the survey findings of ORG-MARG is given in *Appendix 3.4*.

### **3.2.4 Audit objectives**

This audit review sought to assess:

- whether adequate funds have been provided for and in timely manner;
- the extent to which the adjudication mechanism has been created as envisaged in the Act;
- the extent to which the infrastructure created for disposal of the complaints fulfilled the purpose of the enactment of the Act;
- whether there is adequate enforcement mechanism for administering the other Acts and Rules relevant to consumer protection;
- whether consumer protection councils have been notified and are functioning at District and State levels;
- adequacy of manpower to administer the Act;
- whether adequate system of monitoring of the grievances existed.

### **3.2.5 Methodology and criteria of audit**

An entry conference was held in June 2005 with the President, State Commission/Member, Director and Ex-officio Special Secretary, Civil Supplies Department, Deputy Director, Consumer Affairs; and representatives from voluntary consumer organisations.

Functioning of State Commission, District Forums and also the Department of Consumer Affairs and the Consumer Protection Councils was assessed in audit with reference to adherence to the provisions of the Acts and Rules relating to consumer protection. Availability of infrastructure, adequacy of staffing and funding were also examined in audit with reference to the relevant Rules, norms and orders issued by the Government and the State Commission. Exit conference was also held with the Government in September 2005.

## **Financial arrangement**

### **3.2.6 Budget and expenditure**

**Adequate funds not provided to State Commission/District Forums**

The State Government provided funds in the annual budget to the State Commission and the District Forums for implementation of the Act based on the budget estimates submitted by them. Commission in turn reallocates the funds among the District Forums.

Budget vis-a-vis expenditure during 2000-05 was as follows:

**State Commission and District Forums**

(Rupees in crore)

Year	Amounts requisitioned by State Commission	Budget provision	Expenditure	Saving (-)/ Excess (+) (Percentage)
2000-01	3.81	1.92	2.25	(+) 0.33 (17)
2001-02	3.63	4.24	3.08	(-) 1.16 (27)
2002-03	4.24	4.48	3.41	(-) 1.07 (24)
2003-04	3.03	3.80	3.62	(-) 0.18 (5)
2004-05	4.42	4.15	3.13	(-) 1.02 (25)
<b>Total</b>	<b>19.13</b>	<b>18.59</b>	<b>15.49</b>	<b>(-) 3.10 (17)</b>

Although the budget provisions have exceeded the amounts actually sought for by the State Commission (except in 2000-01 and 2004-05) non-utilisation of funds however, ranged between five per cent and 27 per cent. The Registrar, attributed this to the financial cuts imposed by the Government on certain items of expenditure in the fourth quarter of every year. As a result, remuneration (honorarium) to some Presidents/Members and other staff could not be paid for some periods.

In addition, GOI provided (between 1995 and 1997) Rs 2.70 crore as ‘one time grant’ to the State Government towards strengthening of infrastructure (including buildings) for the State Commission and the District Forums. As against this, Commission utilised only Rs 1.63 crore on construction of 13 buildings (Rs 0.94 crore) and other infrastructure (Rs 0.69 crore).

The State Commission also received Rs 1.91 crore (Rs 30 lakh in September 1999 and Rs 1.61 crore in July 2004) from the Civil Supplies Department (by organising coupon funds) towards strengthening of infrastructure. The State Commission in turn placed these funds with AP Industrial Infrastructure Corporation in July 2004 for construction of buildings for the District Forums and the State Commission.

**Civil Supplies Department**

**3.2.7 Resources mismanaged**

**Funds were utilised without maintaining proper records and accounts**

The State Government provided funds to the Civil Supplies Department in the annual budgets from 2002-03 to meet the expenditure on consumer awareness. During the period 2002-05 the Commissioner, Civil Supplies Department drew Rs 2.65 crore (as against the budget provision of Rs 4 crore) and deposited the amounts in a PD Account which also included other scheme funds, like Public Distribution System, Deepam Scheme, etc. Audit observed that the Commissioner issued cheques and made the payments for various purposes without preparing any bills or maintaining proper records. Consequently, actual expenditure incurred on awareness could not be ascertained.

The Commissioner also paid advances during 2003-05 to the departmental officers including the District Supply Officers (DSO) and Joint Collectors for observing National/World Consumer Rights Day and other activities. They did not however, render any account as of August 2005. Further, reconciliation between the figures of cash book and those of PD Account pass book was also not done by the Department since 2002-03. In the absence of bills, sub-vouchers, etc. genuineness of expenditure could not be verified in audit.

GOI provided (March 2005) directly to the Commissioner Rs 72.70 lakh for establishment of consumer clubs. Of this, Rs 58.16 lakh was advanced to 727 consumer clubs (Rs 8000 per club) and Rs 14.54 lakh was placed with the Managing Director, AP State Civil Supplies Corporation (coordinating agency for consumer clubs). Expenditure particulars were however, not received by the Commissioner as of August 2005.

### **Implementation of the Act - creation of adjudication mechanism**

Audit observed inadequacy of adjudication mechanism in the State, as discussed below.

#### **3.2.8 Delay in constitution of District Forums**

**There were delays of over three to five years in establishing District Forums in the State**

Although the Act came into force in July 1987, 23 District Forums were constituted on part time basis in August 1988. Full time District Forums (25 in number) in all the districts were put in place only in 1998. Due to increase in the number of complaints four additional Forums<sup>21</sup>, were constituted in June 2005. Audit observed that of the four additional forums there was no justification for constituting the additional forum at Tirupati since a Consumer Forum was already in existence in the District (at Chittoor) and the number of cases in that Forum had never exceeded 250 in any year. In fact the number declined from 246 in 2003 to 167 in the year 2004.

#### **3.2.9 Circuit Benches not constituted in the State**

**Circuit Benches not constituted though the amended provisions of the Act came into being in June 2002**

To dispose of all First Appeals filed against the orders passed by the Presidents of the District Forums within the time stipulated, the parties concerned have to come to the State Commission at State Capital to represent the cases which is expensive. The Act (amended in June 2002 and effective from March 2003) therefore provided for constitution of circuit benches of State Commission to perform its functions at places other than the State Capital.

As of March 2003, there were 757 First Appeals preferred against the orders passed by the Presidents of District Forums in the State. However, the proposals for constitution of circuit benches at four places<sup>22</sup> were mooted by the State Commission only in November 2004, which were pending with the

<sup>21</sup> Hyderabad III, Rajahmundry, Tirupati, Visakhapatnam II

<sup>22</sup> Karimnagar, Vijayawada, Visakhapatnam, Tirupati

Government as of August 2005. Due to the delay, the objective of speedy disposal of cases had not been achieved fully.

### **Adequacy of infrastructure**

The State Commission and 25 District Consumer Forums require 26 buildings. As of August 2005, 12 District Forums and the State Commission were functioning in rented buildings.

The infrastructure created in the State Commission and the District Forums was far below the requirement as discussed below.

#### **3.2.10 Non-completion of buildings for consumer courts**

GOI sanctioned Rs 2.70 crore<sup>23</sup> (July 1995 - March 1997) as one time grant to the State for providing infrastructure to the consumer courts. Of this, the State Government retained Rs 1.76 crore for over five years before passing onto the State Commission. State Commission spent Rs 1.63 crore on construction of 13 buildings (Rs 0.94 crore) and other infrastructure (Rs 0.69 crore). The State Government however, provided (September 1999 and July 2004) another sum of Rs 1.91 crore to the State Commission by organising Civil Supplies coupon funds, etc.

**Only 13 out of 26 buildings of Forums completed despite availability of funds**

Further, out of 26 buildings required only 13 buildings were completed and occupied by the Forums by the end of March 2001. For the remaining 13 buildings<sup>24</sup> (including that of the State Commission) construction work was entrusted to the AP Industrial Infrastructure Corporation Limited (APIIC) and an amount of Rs 2.98 crore was placed by the State Commission with it in July 2004. The work, however, was not taken up as of August 2005 and the entire amount of Rs 2.98 crore was lying unutilised with APIIC. For the District Forums at Nizamabad, Srikakulam and Warangal even the sites have not been identified.

It was also observed in audit that the Forums at Hyderabad, East Godavari (at Kakinada) and Srikakulam functioning in the rented buildings did not have space even for record room and library.

#### **3.2.11 Lack of adequate facilities in District Forums and State Commission**

**Lack of Infrastructure facilities including drinking water, furniture in District Forums**

For effective functioning of the State Commission and District Forums minimum facilities such as furniture, drinking water, etc. are to be provided to the consumer courts as well as to the visiting public. Audit however, noticed that in the State Commission and in the District Forums in all the sample districts the basic amenities such as toilets, sitting arrangement, etc. for the

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<sup>23</sup> Rs 0.50 crore for State Commission and Rs 2.20 crore for the District Forums

<sup>24</sup> Hyderabad-I, Hyderabad-II, East Godavari at Kakinada, Nalgonda, Ongole, Visakhapatnam, RangaReddy at Saroornagar, Karimnagar, Vijayawada, Nizamabad, Srikakulam and Warangal

consumers and public and photo copier, fax machines, library and record room, for the courts had not been provided.

### **Adequacy of staffing**

#### **3.2.12 Inadequate staff in Consumer Forums**

**Adequate staff not posted to State Commission/District Forums**

The complement of staff sanctioned for the State Commission at Hyderabad was 41 besides the President (one) and two members (including one lady Member). Of these one post of Court master (against two sanctioned) remained vacant from 2000-01, posts of one section officer (against two sanctioned) lying vacant from 2004-05, one Junior Assistant-cum-Typist (as against eight sanctioned) vacant from 2004-05, six attenders (as against 14 sanctioned) vacant from 2002-03 and from 2004-05 were not filled in by the Government as of August 2005 though requested by the State Commission.

The total sanctioned strength for each District Forum was 11 excluding the President and two Members (including one lady Member). It was observed in audit that none of the District Forums in the test-checked districts had full complement of staff as shown in *Appendix 3.5A*. In the District Consumer Forum, Khammam, the post of the lady Member was vacant from March 2004 to August 2004. As there was no quorum, the President could not take up the cases during that period. In Khammam, post of one Junior Assistant was vacant since inception (1993).

The inadequacies in manpower particularly Presidents, Members and Junior stenographers adversely affected the functioning of the District Forums contributing to huge pendency of cases in the consumer courts.

#### **3.2.13 Remuneration (honorarium) not paid**

**Remuneration not paid to Presidents, Members and staff of State Commission/District Forums**

The Presidents, Members and contract employees of the State Commission and the District Forums are not entitled to monthly salary but remuneration (honorarium) which is classified under detailed head "other payments" in the budget. Audit observed that honorarium amounting to Rs 23.79 lakh for the period from October 2004 to March 2005 was not paid to a few Presidents, Members and other staff. The Registrar, State Commission replied (July 2005) that while no cut was imposed on payment of salaries of regular employees, State Government was imposing cut on 'other payments' in the fourth quarter of every year resulting in non-payment of monthly remuneration to some of the Presidents/Members/contract employees. The delayed payment of honorarium to the President/Members might affect the smooth functioning of the Consumer Forums.

The State Commission approached (April 2005) the Government for sanction of additional funds and Government issued budget authorisation in May 2005. However, the fact of disbursement of the remuneration to the President/Members and others was yet to be confirmed by the Registrar (August 2005).

### Enforcement (Redressal) mechanism

The jurisdiction to entertain complaints in respect of District Forum, State Commission and National Commission is as below:

Forum/Commission	Compensation
District Forum	Up to Rs 20 lakh
State Commission	More than Rs 20 lakh and up to Rs one crore
National Commission	Above Rs one crore

#### 3.2.14 Functioning of Consumer Courts

The Act provides for speedy and inexpensive redressal to consumer disputes within the time frame prescribed. The Act however, did not prescribe (till March 2003) any time limit for disposal of cases. The consumer disputes cases generally related to Banks, Airlines, Insurance, Housing, Electricity, Medical negligence, household goods, education, etc.

ORG-MARG survey revealed that 88 per cent of complainants had an average monthly household income of Rs 10000 and resided in urban areas of which about 74 per cent were males, the remaining hailed from rural areas. With respect to education level of complainants, two per cent of the selected respondents were illiterate.

The position of consumer dispute cases filed and disposed of during the years 2001 to 2005 (to end of June 2005) in respect of the State Commission and 25 District Forums is as below:

Calendar Year	State Commission					District Forums				
	Cases pending prior to the year (OB)	Cases filed during the year	Total	Disposal during the year (percentage)	Cases pending to the end of the year (CB)	Cases pending prior to the year (OB)	Cases filed during the year	Total	Disposal during the year (percentage)	Cases pending to the end of the year (CB)
2001	598	147	745	225(30)	520	16298	6685	22983	8015(35)	14968
2002	520	144	664	266(40)	398	14968	7713	22681	8580(38)	14101
2003	398	102	500	226(45)	274	14101	8487	22588	11069(49)	11519
2004	274	69	343	95(28)	248	11519	7592	19111	10257(54)	8854
Up to June 2005	248	26	274	47	227	8854	2367	11221	3775	7446

**227 cases in the State Commission and 7446 cases in District Forums were pending as of June 2005**

It can be seen from the above table that during the period 2001-04, disposal of the cases by State Commission ranged between 28 per cent (2004) and 45 per cent (2003), while disposal by the District Forums was 35 to 54 per cent of the total pending cases. However pendency of cases with State Commission and in the District Forums was brought down significantly. The category-wise pendency is given in *Appendix 3.5B*. Of the 7446 cases pending in 25 District Forums, 730 cases pertained to the years 1996-2000 and 19 cases to the years 1991-95, as shown in *Appendix 3.5C*.

Audit observed that the State Commission and the District Forums in this State have the distinction of highest number of disposals in the entire country since



inception of the Forums in 1988 with the record of 90 per cent and 95 per cent disposals respectively. However, the percentage of disposals during the years 2001-05 (up to June 2005) was comparatively low. Audit also observed that priority was being given by the Forums to disposal of the old cases.

ORG-MARG survey revealed that on an average 17 months were spent to resolve a case. The unresolved cases were pending for past 29 months, on an average.

### **3.2.15 Disposal of cases beyond the prescribed time limit**

According to the provisions of Section 13 of the Act, every complaint shall be heard as expeditiously as possible and endeavor made to decide a complaint within a period of 90 days or, where it requires analysis or testing of commodities, 150 days. However, it was observed that of the cases filed after 15 March 2003, only 17 per cent (29 out of 172 cases) in the State Commission and 21 per cent (5740 out of 15843 cases) in District Forums were disposed of within the prescribed time limit. Thus the prime objective of the Act to ensure speedy disposal of the complaint cases, was not achieved.

The State Government has been appointing retired District Judges as Presidents to District Consumer Forums for a period of five years or till attaining the age of 65 years whichever is earlier. The State Commission observed in August 2004 that while the President, State Commission has been deciding about 150 to 200 cases per month, majority of the retired judicial officers who are presiding over the District Forums were not able to dispose of even 20 cases per month. To achieve the main and material objective of simple, speedy and inexpensive redressal of consumer disputes on account of defective goods and deficiency of services as envisaged in the Act, the State Government, at the request of the State Commission (August 2004) appointed (April 2005) in-service Additional District Sessions Judges as Presidents, in five District Consumer Forums<sup>25</sup> on deputation basis.

Results of survey by ORG-MARG also disclosed the following:

- Although the Act provided for simple registration with an application to be filed on plain paper, 23 per cent of the complainants filed the complaints on stamp paper, mostly on the advice of agents or lawyers. About 93 per cent of the complainants reported that they hired advocates.
- About 84 per cent of the complainants who registered their complaints prior to March 2003 had deposited the court fee notwithstanding the fact that the court fee was introduced only in March 2003. This showed that the complainants were being misguided and put to unnecessary expenses.
- On an average 12.7 days were spent for registering a case, 18 days for serving notices, and first hearing was held after 22.6 days. Around 33 per cent of cases were still unresolved even after six hearings. Most of

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<sup>25</sup> Hyderabad-III, Kadapa, Rajahmundry, Tirupati and Visakhapatnam

these cases were against financial services (29 per cent) and insurance (20 per cent).

- Among the complainants majority (89 per cent) had lodged complaints with respect to services and only 11 per cent for products. In case of services these related to financial services (30 per cent), insurance (16 per cent), Housing and construction (13 per cent) and communication services (12 per cent).
- On an average, the complainants had to spend Rs 4800 to resolve the case, of which a large portion (average amount of Rs 3624) comprised of advocate's fee.
- Only about 27 per cent of the complainants perceived that the registration process at the consumer forum was simple and less time taking while 61 per cent perceived it to be simple but time taking. About 12 per cent perceived the process to be difficult and time taking.

### 3.2.16 Huge pendency of Penalty/Executive petitions under the Consumer Protection Act

**Large number of penalty/executive petitions pending disposal**

Section 25 of the Act stipulates that where an interim order made under the Act is not complied with the District Forums/State Commission may order the property of the person not complying with such order to be attached. As per the provisions of Section 27 where a trader or a person against whom a complaint is made fails or omits to comply with any order made by the District Forum/State Commission such a trader or person shall be punishable with imprisonment (one month to three years) or with a fine of Rs 2000 to Rs 10000. Audit observed that there was considerable pendency of penalty petitions<sup>26</sup> and executive petitions<sup>27</sup>, as discussed below:

Period	Pendency of petitions with			
	State Commission		District Forums	
	Penalty	Executive	Penalty	Executive
1994	--	3	--	--
1996	--	1	--	--
1997	--	1	--	--
2000	3	--	--	--
2001	3	--	--	--
2002	7	--	2	403
2003	26	--	3	690
2004	28	1	31	1374
2005 (upto May)	23	--	11	1104
<b>Total</b>	<b>90</b>	<b>6</b>	<b>47</b>	<b>3571</b>

The State Commission proposed (August 2004) to the State Government to spare services of one Tahsildar or an MRO on deputation to each District Forum and the State Commission for effecting the orders of attachments

<sup>26</sup> A formal written request made by a petitioner for passing an order punishing the opposite party

<sup>27</sup> A formal written request made by a petitioner to perform all necessary formalities in the case

ordered by the Forums. The proposal was not approved by the Government as of August 2005.

Out of 193 complaint cases examined in the ORG-MARG survey, decree was passed in 16 cases and compensation was yet to be received in any of them. On an average the compensation was due for 7.4 months. For those received compensation the same was received within an average period of 18 months.

### **3.2.17 Warrants not executed by Police Department**

**1694 warrants issued by State Commission/ District Forums not executed by Police Department for over six months to three years**

Audit observed that eight warrants issued by the State Commission and 1686 by the District Forums were pending execution at the end of 31 March 2005. Of these, four in State Commission and 1389 warrants in the District Forums were pending execution for 12 months or more.

The State Commission requested (June 2004) Police Department to depute necessary police force to the State Commission as well as to the District Forums for execution of the warrants issued by the consumer courts. This was however, not implemented. Reasons for non-execution of the warrants by Police, were awaited (August 2005) from the Police Department.

### **3.2.18 Laboratories not notified in the districts**

**No labs were notified by the State Government in the districts**

The State Commission and the District Consumer Forums were to refer the cases for the purposes of testing of various products to the notified labs. Audit observed that except the six labs (for different commodities) recognised by the Bureau of Indian Standards (BIS), at Hyderabad, no labs were notified by the State Government for this purpose either in the State Capital or in the districts as of August 2005. This also contributed to delay in settlement of cases filed by the consumers.

ORG-MARG survey revealed that out of two laboratories surveyed one laboratory has not received any case from the Consumer Forums or the State Commission and another laboratory had not received any samples for testing for the last six months.

The Commissioner replied (July 2005) that action was being taken to recognise and authorise National Assessment and Accreditation Council (NAAC) accredited educational institutions to take up adulteration testing and issue test reports.

### **Other Acts relating to protection of consumer's interest**

**Coordination with the other concerned departments was inadequate**

It was observed that there was inadequate coordination among the Consumer Affairs Department and other Departments involved in protection of consumer interests. The enforcement mechanism in vogue in other concerned departments for implementation of the other allied Acts was also deficient as discussed below.

**Prevention of Food Adulteration Act, 1954 (PFA)**

**3.2.19 Huge shortfalls in inspection of food establishments**

**Enforcement of PFA Act was poor**

The Institute of Preventive Medicine (IPM) is implementing the Prevention of Food Adulteration Act, 1954, and the State PFA Rules 1957 as amended from time to time. The main aim of the Act is to ensure quality of food to the consumers, to protect them from fraud/deception and to encourage fair trade practices in food items and also ensure good manufacturing and hygienic practices in the food industry. The Act (Section 12) stipulates that the purchaser or a recognised consumer organisation may take samples of food articles for analysis. There was no recorded evidence to show that any consumer had approached the department for testing of food samples for analysis.

The departmental enforcement staff are required to inspect various food units and to take samples for testing as per the target fixed. It was seen that the shortfall in inspections during 2000-04 ranged between six and 17 per cent as below:

Year	Inspection of Food units		
	Target	Achievement	Shortfall (Percentage)
2000	8102	6922	1180 (15)
2001	8417	7643	774 (9)
2002	7783	6451	1332 (17)
2003	8042	6720	1322 (16)
2004	8486	7945	541 (6)

This indicated that the enforcement mechanism was deficient.

**3.2.20 Inadequate follow-up action on adulterated samples**

**Follow-up action on adulterated samples was inadequate**

Mention was earlier made in Para 3.3 of the Civil Audit Report for 1999-2000 about lack of follow-up action on adulterated food samples lifted between 1995 and 1999. It was further observed that the Director, IPM did not take effective steps to complete inspection of all the food units targeted, mainly due to continuous shortages in staff. Out of 4257 adulterated samples lifted between 1995 and 1999 prosecutions were instituted in respect of 1405 cases. In 1878 cases only warnings were issued or resampling was done. However as many as 974 total cases were still pending with IPM (239); local Health Authorities (703); Government laboratories (30) and others (2).

**Only five per cent of cases filed by IPM in civil courts were disposed leaving 5722 cases pending as of March 2005**

It was also observed that there was huge pendency of cases filed by the IPM in the civil courts to the end of May 2005. As against 4154 cases filed during the years 2000 to 2004 only 219 cases (five per cent) were disposed and 5722 cases (including 1787 cases pending prior to 2001) were pending in civil courts as of March 2005. The pendency was attributed to lack of adequate staff, particularly the enforcement staff to substantiate the charges. Deficient implementation of the PF Act deprived the consumers of their rights to be protected against the marketing of goods which are hazardous to life and property. Clearly the enforcement mechanism is deficient in the State.

## Consumer Protection Councils

### 3.2.21 Dismal performance of the Consumer Protection Councils

**State/District  
Consumer  
protection councils  
did not exist during  
1995-2004**

Under the provisions of Section 7 of Chapter 2 of the Act “State Consumer Protection Council” (State Council) has to be constituted with the objective of promoting and protecting the rights of the consumer. The State Council shall meet as and when necessary but not less than two meetings shall be held every year. The Government constituted the council in January 1992 for a period of three years which expired in 1995. The Commissioner could not furnish the details of meetings of State Council, if any, held during 1992-95. Orders were issued by the State Government reconstituting the ‘State Council’ and the District Councils only in August 2004 i.e., after a gap of nine years. Though the District Councils were meeting regularly, no State level meetings were held as of August 2005. The dismal performance of the Councils defeated the very objective of promoting and protecting the rights of the consumers.

### Awareness and Empowerment of Consumers

#### 3.2.22 State Consumer Welfare Fund not yet constituted

**AP State Consumer  
Welfare Fund yet to  
be constituted**

State Government issued orders (August 2004) for constituting Consumer Welfare Fund in order to provide financial assistance to prospective as well as existing Consumer Voluntary Organisations/Institutions/Agencies for the purpose of organising consumer awareness programmes and educating the masses about the consumer rights and privileges, establishment of Consumer Grievances Redressal Agencies. For this purpose, Consumer Affairs Department received Rs 1.30 crore from the State Government in August 2004, which was deposited into the Receipt Head of the Department at the instance of Commissioner and were not utilised for the Consumer Welfare Fund. Government also received grants of Rs 25 lakh from GOI in June 2005 towards seed money for setting up of the Fund which was also lying unutilised as of August 2005.

Thus, the State Government ignored the aspect of consumer awareness as envisaged in the Act.

#### 3.2.23 District Consumer Information Centres

In 2000-01, GOI launched a scheme of setting up District Consumer Information Centre (DCIC) in each district with financial assistance from the Consumer Welfare Fund. DCICs were to facilitate filing of complaints by the consumers in the Consumer Courts and to provide all other kinds of guidance and assistance needed by the consumers. DCICs were to be given grants of Rs 5 lakh each.

The State Government issued orders in August 2004 permitting setting up of DCICs by Zilla Parishads as well as educational institutions of repute, in addition to NGOs. The Government provided grants-in-aid of Rs 1 lakh each to all the 23 Zilla Parishads in the State during the period August 2004 to July

2005 for establishing DCICs. It was found that in four of the six test-checked districts (Chittoor, East Godavari, Kadapa and Khammam) the DCICs had not been set up by the Zilla Parishads. It was also observed that in one out of the six districts (i.e., Kadapa) the DCIC was set up by a Consumer Voluntary Organisation (CVO) which received (July 2004) a grant of Rs 2.50 lakh (out of Rs 5 lakh sanctioned) from GOI for the purpose.

In June 2005, the State Government issued another order stipulating that a representative of a CVO of repute should be placed in charge of the DCIC. It was, however, seen in audit that the DCICs functioning in the two test-checked districts (Hyderabad and Srikakulam), had not been handed over to any CVO. Thus, the involvement of NGOs in the DCICs envisaged by the GOI was not implemented in the State.

### **3.2.24 Propagation of consumer awareness to school children yet to take off**

In order to create awareness among the children about consumer rights, 1138 consumer clubs were set up (August 2004) in High schools in all the districts. Headmaster of the school was to supervise the functioning of clubs.

Out of Rs 72.70 lakh received (March 2005) from GOI, Rs 58.16 lakh were provided to 727 Consumer clubs (up to June 2005) and the balance (20 per cent) retained by the APSCSC (as per the guidelines of GOI) to meet the expenses relating to the consumer clubs. Details of utilisation of funds were not received from the consumer clubs as of August 2005.

#### **Results of ORG-MARG disclosed poor awareness of consumers with regard to Act**

The ORG-MARG survey also disclosed the following:

- Overall 97 per cent of the consumers at large gave importance to knowledge of the Consumer Protection measures but 67 per cent were not aware of consumer rights and 84 per cent still unaware of the Consumer Protection Act.
- While the Act is expected to benefit all the consumers in urban and rural areas only nine per cent of the rural population were aware of the Act.
- Majority (47 per cent) of the consumers who were aware, came to know about the Act only in the last 2 to 3 years. This indicates that efforts on creating awareness started only in recent past while the Act has been in existence for the past 19 years.
- Seventy-seven per cent of the consumers were of the view that either Government was not making any effort to protect consumer rights or had no idea if it was so.
- Overall, only 11 per cent were aware of any redressal agency for addressing consumer complaints (Rural : 6 per cent, Urban: 25 per cent) and 36 per cent of these did not know about its location in their respective districts.
- Among those who were aware of any redressal agency the awareness was mostly of District Forums (99 per cent) and it was only 42 per cent for State Commission and 10 per cent for National Commission.
- Among the respondents who were aware of the redressal agencies only 19 per cent (Rural : 7 per cent ; Urban : 28 per cent) were aware of the financial limits of the cases headed by the redressal agencies.
- Large proportion of the respondents (80 per cent) were not aware whether any lawyer is required for cases in the Forum or the State Commission.

### 3.2.25 Functioning of Consumer Voluntary Organisations

The role of Consumer Voluntary Organisations (CVO) is not only to educate and guide the consumers with respect to redressal of complaints, but also to make the consumer movement a reality through coordinated efforts. In response to a notification of the Department issued in 2004, 540 CVOs were enrolled in 2004-05. Of these, two CVOs<sup>28</sup> in Kadapa District (sample district) received grants of Rs 1.89 lakh (January 2004) and Rs 2.50 lakh (July 2004) from the GOI. The grants have been fully utilised by these CVOs in conducting Consumer week, workshops, etc. (March 2005).

The Department had however, no information on the activities of the CVOs except registering them. It was observed in audit that in three out of six sample districts viz., Hyderabad, Khammam and Srikakulam, none of the CVOs were invited to participate in the meetings of the District Councils held during 2004-05. Thus, Government apparently paid little attention to the involvement of CVOs in consumer awareness.

Results of ORG-MARG survey revealed that NGOs as a source of awareness were less than one per cent. The NGOs reportedly functioned only with the funds mobilised by them.

### 3.2.26 Monitoring

**Pendency of grievances of consumers not monitored by the Commissioner, Consumer Affairs Department**

The State Commission has administrative control over the District Forums. The District Forums send monthly reports indicating position of receipt and disposal of complaint cases. The State Commission sends monthly and quarterly compiled reports to the National Commission as well as to the State Government.

There was no record to show that the State Government instituted any action on these reports. It was also observed that there was no separate monitoring cell either in the Department or in the State Commission to ensure speedy disposal of the complaint cases.

### 3.2.27 Impact evaluation

The Department of Consumer Affairs at State and District level is required to evaluate the efficiency of the adjudication mechanism through an independent agency either by the State Council or by constituting a separate committee for streamlining the prevailing system through remedial action. No such evaluation has however been conducted by the Department as of August 2005.

### 3.2.28 Conclusions

Overall, implementation of the Act in the State suffered from lack of adequate funds, inadequacy of infrastructure and inadequate monitoring. Only 17 per cent of the cases in the State Commission and 21 per cent in the District Forums were disposed of within the prescribed limit. As of June 2005, 227

<sup>28</sup> Bharata Ratna Mahila Mandali and Jaga Jeevan Balaheenavarga Abhivruddi Sangam

cases in the State Commission and 7446 cases in the 25 District Forums were pending disposal. Government did not take serious initiatives to create awareness amongst the populace about consumer rights, the provisions of the Act, and consumer redressal machinery as also disclosed by the results of survey by ORG-MARG. Coordination between the Consumer Affairs Department and the other related Departments was also found to be inadequate. No evaluation was conducted to assess the efficiency of adjudication mechanism and implementation of the Act in the State. Thus the purpose of the Act, to provide the consumer with simple speedy and inexpensive redressal, has yet to become a reality.

### **3.2.29 Recommendations**

- Government need to take serious initiatives to create awareness amongst the populace about consumer rights, provisions of the Act, and consumer redressal machinery.
- Government need to provide adequate funds to the State Commission and the District Forums to ensure effective implementation of the Act, by providing adequate staff and other infrastructure and smooth running of the organisation.
- Government need to constitute Circuit Benches at the earliest to ensure speedy disposal of consumer cases and at less cost to consumers.
- In the awareness campaigns Government should emphasize that there is no need to file complaint on stamp paper or to engage any advocate for the purpose.
- The Commissioner, Civil Supplies should ensure adequate representation of Consumer Voluntary Organisations and other non-official members in all the State and the District Consumer Protection Councils.
- Proper mechanism needs to be put in place to ensure that the complainants actually receive the compensation as decided by the adjudication machinery.

**3.2.30** The matter was referred to Government in August 2005; reply had not been received. However, the audit findings were discussed with the Commissioner and ex-officio Secretary, Consumer Affairs, Food and Civil Supplies Department in the exit conference held in September 2005. Government stated that remedial action would be taken on the points brought out in the review.



## AGRICULTURE AND CO-OPERATION DEPARTMENT

### 3.3 National Oilseeds Production Programme

#### 3.3.1 Introduction

Andhra Pradesh is the fourth highest producer of oilseeds in the country with an average annual production of 18.05 lakh MT. In May 1986, Government of India appointed a Technology Mission on Oilseeds to accelerate achievement of self-reliance in oilseeds and vegetable oils. The strategy consisted of improving oilseeds crop technology, processing and post harvest technology, strengthening input services to farmers and improving institutions connected with the industry and marketing. The Centrally sponsored scheme of National Oilseeds Production Programme (NOPP) under the Technology Mission on Oilseeds Programme (TMOP) was already under implementation in Andhra Pradesh. It was renamed (April 2004) Integrated Scheme of Oilseeds, Pulses, Oil palm and Maize (ISOPOM) to propagate oilseeds<sup>29</sup>.

The main components of the programme are (i) distributing seeds on subsidy basis, seed mini-kits, farm implements, sprinklers, and plant protection equipment, (ii) providing breeder and foundation seeds, identifying Seed Villages so that certified seeds are grown locally and (iii) On Farm Extension Demonstrations (OFED), Integrated Pest Management Demonstrations and training.

The overall responsibility for planning and monitoring of NOPP rests with the Commissioner and Director of Agriculture (Commissioner) assisted by an Additional Director at Headquarters and by Joint Directors (JDs), Deputy Directors and Assistant Directors at District level.

The State Seed Certification Agencies viz., AP State Seeds Development Corporation (APSSDC), AP Oil Federation (APOILFED) and Hyderabad Agricultural Cooperative Association Limited (HACA) supply certified seeds to farmers through their outlets in the districts as per the MOUs executed with the State Government.

The Commissioner procures breeder seeds from the Acharya N. G. Ranga Agricultural University, Hyderabad. The APSSDC and AP Oilfed are responsible for the seed multiplication of breeder seeds into certified seeds and supply of quality seeds to the farmers. The activities of HACA are confined only to supply of quality seeds by procuring the same from progressive farmers.

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<sup>29</sup> Groundnut, Sesame, Castor, Sunflower, Safflower, Soyabean, Niger, Linseed and other seeds

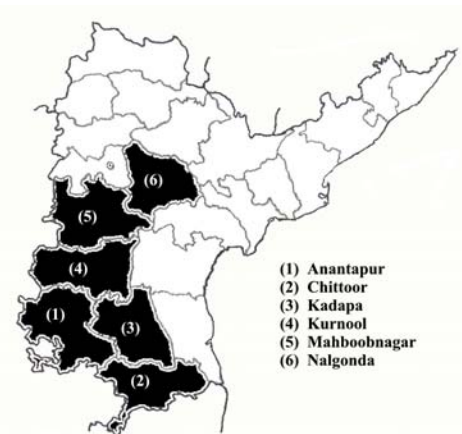
### 3.3.2 Audit objectives

The Audit objectives were to examine and assess:

- the efficacy of planning for the scheme;
- increase in the production and supply of certified seeds and the quality control issues;
- adequacy of input and support services such as On Farm Extension Demonstrations, supply of sprinklers, etc.;
- monitoring of implementation of the scheme.

### 3.3.3 Scope of audit and methodology

A review of the implementation of the scheme was conducted (April-June 2005) by test-check of the records of Secretariat Department, Commissioner and Director of Agriculture and JDAs in Anantapur, Chittoor, Kadapa, Kurnool, Mahboobnagar and Nalgonda Districts for the five-year period 2000-05. Entry conference was held with the Commissioner in April 2005 where the scheme guidelines, the targets and the achievements and allied issues were discussed. During the course of audit, farmers were interviewed in five (out of the six) test-checked districts using questionnaire designed for the purpose. Exit conference was also held with the Additional Director of Agriculture in September 2005.



### 3.3.4 Financial performance

**State Government did not release Central share as well as its own share in full**

The programme is funded by GOI and the State Government on a 75:25 basis. The seed mini-kits for farmers, which contain new varieties of seeds are supplied by the National Seeds Corporation and the State Farms Corporation of India (NSC/SFCI) and the expenditure is fully funded by GOI. GOI had been providing funds based on the Annual Action Plans of the State Government.

During the period 2000-05, the State Government made total budget provision of Rs 104.35 crore (including the Central share of Rs 88.89 crore) against which expenditure was Rs 86.59 crore. The total expenditure comprised subsidy on supply of seeds (Rs 75.64 crore), OFED (Rs 5.31 crore), supply of sprinklers (Rs 0.68 crore), supply of gypsum and other components (Rs 4.96 crore). It was noticed that there was under-utilisation of funds every year. The Commissioner stated (August 2005) that a portion of the funds were received towards the end of each financial year and the unspent balances were revalidated every year.

It was also noticed that as against the total GOI funds of Rs 93.92 crore (including an opening balance of Rs 9.02 crore as on 1 April 2000) received by the State Government under NOPP during 2000-05 the State Government made a budget provision of Rs 88.89 crore but sanctioned expenditure of Rs 77.60 crore. Thus, there was short release of Central funds of Rs 16.32 crore.

Similarly, as against the State's share of Rs 31.31 crore, the State Government made budget provision of Rs 15.46 crore, but sanctioned expenditure of Rs 16.89 crore. Thus, there was also short release of State's share of Rs 14.42 crore.

The programme was thus deprived of funds to the extent of Rs 30.74 crore taking into account both the Central share which was retained by the State Government as well as State's own share.

### **3.3.5 Seed subsidy**

Under NOPP, the farmers get the seeds from the seed-supplying agencies by paying 70 per cent of the total cost; the remaining 30 per cent is paid by the Government to the seed supplying agencies as subsidy. Government spent Rs 75.64 crore (87 per cent of total expenditure) towards subsidy (APSSDC : Rs 32.79 crore, APOILFED : Rs 36.02 crore and HACA : Rs 6.83 crore).

### **Programme Management**

**3.3.6** According to the guidelines of NOPP the management and supply of seeds to farmers is the responsibility of the State Government.

The scheme is implemented in 22 districts of the State. During the period 2000-05, the average area coverage in the State under oilseeds was 26.23 lakh hectares each year.

### **3.3.7 Targets and achievement for distribution of certified seed**

**Five-year seed plan was not prepared**

Development of genetically superior seeds goes through a four-stage process. It begins with development of the initial nuclear seeds which are multiplied as breeder seeds. Breeder seeds are then multiplied to foundation seeds by the seed developing agencies and finally to certified seeds for distribution to the farmers. Since the entire process of multiplication of breeder seeds to certified seeds takes three agricultural seasons i.e., not less than 18 to 24 months, the scheme guidelines envisaged preparation of a five-year seed plan. However, the State Government prepared only Annual plans and no five year seed plan for which the Commissioner could not give any reasons. Due to non-preparation of five-year seed plans, the targets for procurement of breeder seeds and production of certified seeds were based on ad-hoc estimates of requirement.

The targets fixed for supply of certified seeds, certified seeds produced and supplied during 2000-05 were as below:

(in lakh quintals)

Year	Target for supply of Certified seeds	Certified seeds produced and supplied
2000-01	2.79	0.31
2001-02	1.82	0.01
2002-03	2.86	0.01
2003-04	2.68	0.34
2004-05	5.69	0.83
<b>Total</b>	<b>15.84</b>	<b>1.50</b>

**Certified seeds produced and supplied was only a meagre nine per cent of the targets**

The Commissioner targeted to supply 15.84 lakh quintals of certified seed during 2000-05, but produced only 1.50 lakh quintals. Thus, actual quantity of certified seeds produced by the agencies was only a meagre nine per cent of the target. The Commissioner supplied 14.25 lakh quintals of seeds to farmers during 2000-05 which included 12.75 lakh quintals of Truthfully Labelled (TL) seeds to meet the shortfall in production of certified seeds.

The Commissioner replied (September 2005) that the targets were fixed taking into account the achievement of supply of certified seeds in the 'best' year among the last five years plus five per cent. The annual action plans for certified seeds proposed to cover only 10 per cent of the total requirement of seeds in the whole State if the total area under oilseeds were to be taken into account. The Commissioner also contended that the fixed Action Plan for supply of seeds was limited by constraints of funds.

The TL seed supplied to farmers was not developed under the technical supervision of the seed developing agencies. The agencies obtained seeds from the seed-growers and sold them as TL seeds the quality of which could not be ensured.

### **3.3.8 Low seed multiplication ratio**

The seed multiplication ratio, as per the scheme guidelines, for groundnut was 1:8 at both the stages, i.e., from breeder to foundation and foundation to certified seed. However, scrutiny of the Progress Reports submitted by the seed developing agencies to the Commissioner during the period 2000-05 revealed that the multiplication ratios achieved were much less than the 1:8 prescribed. The year-wise and agency-wise details are given in *Appendix 3.6A*. These figures of production at each stage of the multiplication process showed huge fluctuations casting doubts on the figures reported in the Progress Reports. There was also no proper monitoring at the Commissioner's level to check the veracity of these figures. The Commissioner attributed (September 2005) the low seed multiplication ratios to unfavourable seasonal conditions, scarcity of rain water, soil conditions, labour problems and power failures in the seed agencies. Activities of the seed developing agencies needed to be closely monitored to avoid low seed multiplication ratios, which adversely impact the supply of certified seeds.

### 3.3.9 Payment of seed subsidy and its impact

It was observed in audit that the main focus of the scheme was on seed subsidy as 87 per cent (Rs 75.64 crore) of the total expenditure was incurred towards seed subsidy. Out of Rs 75.64 crore paid to the seed developing agencies during the period 2000-05 towards seed subsidy, Rs 63.12 crore were paid for supply of old traditional varieties of TMV-2 and JL-24 (11.36 lakh quintals). The balance of Rs 12.52 crore was for supply of other groundnut seeds (1.79 lakh quintals) and soyabean (1.14 lakh quintals). The TMV-2 and JL-24 varieties did not even figure in the list of new varieties of seeds notified (2000) by GOI for supply under the NOPP.

#### 3.3.10 Distribution of seed mini-kits

**Government supplied only traditional and local varieties of seeds. New variety of seeds not popularised**

The seed mini-kits are meant for introduction and popularisation of the latest varieties and their propagation and spread through farmers. The Technology Mission supply these mini-kits directly to the State through NSC/SFCI and the cost would be borne by TMOP. The States were to ensure distribution of these mini-kits. As against the target of 1.12 lakh mini-kits to be distributed during the period 2001-05, 1.01 lakh mini-kits were supplied in the State. In the six sample districts, 53341 mini-kits<sup>30</sup> of identified varieties of groundnut, soyabean, sunflower and castor were supplied during 2000-05. The average yield of the mini-kit varieties showed better results compared to the yield of traditional varieties of TMV-2 and local varieties. But the objective of popularizing the seed mini-kits was not really achieved since huge quantities of traditional varieties like TMV-2, JL-24, etc. of groundnut were supplied during 2000-05.

#### 3.3.11 Seed Village Programme

**Seed village programme not implemented in any of the districts up to 2003-04**

GOI approved the Seed Village Programme (SVP) under NOPP to ensure timely availability of certified seeds within the locality. Only progressive farmers with adequate infrastructure were to be involved for production of certified seeds under the Programme. Subsidy of Rs 375 per quintal was to be provided for the certified seeds produced by the farmers in each agricultural season. It was however, observed that the State Government did not include this component in the annual plans and the programme was not implemented in any district up to 2003-04. The programme was started only during 2004-05.

The Commissioner replied (August 2005) that prior to 2004-05 the programme (SVP) was undertaken by the seed developing agencies and that the seed produced by them was under SVP. The reply was not acceptable as the envisaged financial assistance of Rs 375 per quintal was not provided to farmers for the seed produced under the programme. The fact remains that no targets were fixed for implementing the programme at village level as

<sup>30</sup> Anantapur(14042), Chittoor(2651), Kadapa(8275), Kurnool (18666), Mahboobnagar(6951), Nalgonda (2756)

contemplated in the scheme guidelines. Thus the objective of motivating the progressive farmers in production of certified seeds was not achieved.

### **Provision of input and support services**

#### **3.3.12 Poor supply of sprinklers**

**Only 94 sprinklers (two per cent of the targets) were supplied**

With a view to using the available water resources judiciously and economically covering maximum area and providing irrigation at a critical crop growth stage, the sprinkler mode of irrigation was introduced in oilseeds crops. Out of total target of 5000 sprinklers to be supplied during 2000-05 only 94 (two per cent) were supplied at a cost of Rs 6.80 lakh (out of the GOI allocation of Rs 10.62 crore) and that too only up to 2002-03. During the years 2003-05, no fund allocation was made and no sprinklers supplied. The Commissioner replied (August 2005) that this component was covered under the State sponsored AP Micro Irrigation Project (APMIP) from 2003-04 and hence not covered under the NOPP. The reply is not acceptable as both physical and financial targets fixed prior to 2003-04 were not achieved. It was also observed that the Commissioner diverted an amount of Rs 1.37 crore intended for sprinklers towards implementation of OFEDs in 2000-01.

#### **3.3.13 Delays in supply of gypsum**

**Field officers failed to motivate farmers about application of gypsum resulting in delays in its application**

As per the recommendations (June 2003) of the Director of Research and Director of Extension, Acharya NG Ranga Agriculture University, Hyderabad, gypsum, under NOPP, should be applied (to groundnut crop) within a period of 45 days (optimum 25 to 35 days) from the date of sowing, i.e., by the end of August in respect of Kharif season. It was however, observed in the test-checked districts that the supply of gypsum was made to the farmers during the period from July to November in the years 2003-05. The delay in supply of gypsum adversely affected the production of groundnut. The Commissioner replied (August 2005) that the indents for supply of gypsum were placed with the supplying agencies based on the applications received from farmers. The reply is not acceptable as it was the responsibility of the field officers to play a proactive role in educating and motivating the farmers about the timely application of the gypsum.

#### **3.3.14 Absence of coordination with marketing and oil industry**

**Lack of coordination with Marketing Department**

The scheme contemplated better coordination with institutions connected with oil industries and marketing. It was intended to provide minimum support price for the produce of the farmers and timely disposal of the same. Hence, tie up with oil industries and Marketing Department is essential for the scheme. But no instructions were issued by the State Government as of August 2005 prescribing the role of the Marketing Department for implementation of the programme. It was observed in audit that there was no evidence of any co-ordination between Agriculture Department, Marketing Department and the oil seeds industries.

### 3.3.15 Impact of implementation of scheme

**Production and productivity (yield) decreased though there was increase in cropped area**

While the GOI had been fixing the target for production of oilseeds, the State Government also had its own targets for production of oilseeds based on the achievement in the 'best' year during the preceding five years plus five per cent. The year-wise targets and the achievement of production and productivity were as detailed below.

Year	Yield (in kg/hectares)		Production (in lakh Metric tonnes)		
	Target	Achievement (percentage)	Target		Achievement (percentage)
			GOI	State	
2000-01	1242	1145 (92)	31.10	31.55	25.59(81)
2001-02	976	739 (75)	33.30	26.46	16.26(61)
2002-03	1136	559 (49)	31.10	30.36	12.71(41)
2003-04	1136	747 (65)	26.80	31.30	16.15(51)
2004-05	1210	824 (68)	NA	29.93	19.52(65)
<b>Total</b>	<b>5700</b>	<b>4014(70)</b>		<b>149.60</b>	<b>90.23(60)</b>

It was noticed that there was an improvement in the area coverage of 27.27 lakh hectares in 2000-01 to 30.58 lakh hectares in 2004-05. However, during the period, production decreased by 24 per cent (from 25.59 lakh MT in 2000-01 to 19.52 lakh MT in 2004-05). The Commissioner attributed the shortfall in total production and yield to the drought which prevailed in the State for the last four years.

The Commissioner fixed the year-wise targets for supply of certified seeds and for other non-seed components. The component-wise targets fixed vis-à-vis the achievements for the period 2000-05 were as below:

Component	Target	Achievement	Shortfall (Percentage)
Supply of Total Seed (in lakh quintals)*	15.84	14.25	1.59 (10)
Supply of Certified Seed (in lakh quintals)	15.84	1.50	14.34 (91)
Seed Village Programme (in quintals)	62818	36095	26723 (43)
Sprinklers (in numbers)	5000.	94	4906 (98)
Gypsum (in MTs)	116800	104995	11805 (10)
Block demonstrations (in numbers)	9868	15302	--
Training to farmers (in numbers)	1067	1229	--

\* including Truthfully Labelled seeds (year-wise details are given in *Appendix 3.6 B*)

The achievement shown under the Seed Village Programme (SVP) represents the seeds produced by the seed developing agencies as stated by the Commissioner. The scheme guidelines contemplated financial assistance (subsidy) of Rs 375 per quintal to farmers for the seeds produced under the Programme. But no targets were fixed for this component till 2003-04 for payment of subsidy to the farmers. Under the non-seed components, targets for supply of sprinklers were fixed only during 2002-03 and the achievement was a meagre two per cent (94 against 5000).

It would also be seen that only nine per cent (1.50 lakh quintals) of certified seeds was produced against the targets of 15.84 lakh quintals and 91 per cent (12.75 lakh quintal) seeds supplied to farmers was TL seeds.

### **3.3.16 Impact Assessment through farmer interviews**

Audit interviewed 140 farmers in the presence of the Agriculture Officers. These farmers were selected at random in the five sample districts viz., Chittoor (29), Kadapa (30), Kurnool (37), Mahboobnagar (23) and Nalgonda (21) and their views were obtained. Majority of the farmers opined that the certified seeds were not made available in time or in sufficient quantities. The farmers also suggested that better arrangements should be made for marketing and timely disposal of the produce. They also opined that the subsidy allowed on certified seeds was not adequate and should be increased.

### **3.3.17 Conclusions**

The implementation of NOPP suffered in the State despite availability of funds. State Government short released the GOI contributions as well as its own matching share. The quantity of certified seeds supplied to farmers by the seed developing agencies was a meagre nine per cent of the targets set and to meet the shortfall, TL seeds were supplied. During 2003-05, sprinklers were not at all supplied and only two per cent of the targets were achieved during 2000-03. Seed Village Programme as envisaged was not carried out in any of the districts till 2004-05. Co-ordination with the Marketing Department and oil industries though contemplated was entirely absent.

The targets fixed by GOI for production of oilseeds were not achieved in any of the years. Production of oilseeds decreased by 24 per cent (19.52 lakh MT) in 2004-05 from 25.59 lakh MT in 2000-01 and the scheme had little impact on the overall production of oilseeds in the State.

### **3.3.18 Recommendations**

- Government should plan properly to ensure production and supply of adequate quantity of certified seeds to farmers before the sowing season.
- Department should monitor the functioning of the seed developing agencies so as to ensure better results in seeds multiplication.
- Government should promote new varieties of seeds in preference to older varieties and ensure proper marketing facilities for timely disposal of the produce.

The above points were referred to Government in August 2005; reply had not been received (December 2005).



## PANCHAYAT RAJ AND RURAL DEVELOPMENT DEPARTMENT

### 3.4 Indira Kranthi Patham (VELUGU)

#### Highlights

*The State Government launched the District Poverty Initiatives Project (DPIP) in June 2000 in six of the poorest districts and the Rural Poverty Reduction Project (RPRP) in 2003 covering 16 other districts under the scheme called 'VELUGU' with the overall objective of covering 30 lakh poor households during the project period 2000-08 in two phases with financial assistance from International Development Association (IDA). The main component of the Project viz., Community Investment Fund (CIF) was to finance 'sub-projects' for (a) improved access to public social services by training volunteer para-technicians, (b) income-generating investment proposals for micro-enterprises identified by Common Interest Groups and Self Help Groups (SHGs) and (c) small infrastructure for improvement of water supply, improvement of school facilities, etc.*

*Though the project succeeded in mobilizing the poor to form SHGs, only 41 per cent of the identified households were actually financed under DPIP mainly due to lack of bank linkages. The District Project Monitoring Units (DPMUs) and Tribal Project Monitoring Units (TPMUs) could not organise the bank linkages as envisaged owing to non-registration of the Village Organisations (VOs). In the test-checked districts, only 37 per cent of the VOs in DPIP and a meagre eight per cent in RPRP were registered as Societies. Recovery of CIF amounts from beneficiaries was also not pursued effectively.*

◆ Under DPIP, the Society for Elimination of Rural Poverty (SERP) identified 20.06 lakh households (against a target of 9.30 lakh households) and organised them into SHGs but could finance only 3.82 lakh households (41 per cent of target) from CIF. Similarly, under RPRP, SERP identified 28.28 lakh households (against the target of 20 lakh during the period 2002-08) but financed only 2.42 lakh households in three years.

*[Paragraph 3.4.12]*

◆ Advances of Rs 14.94 crore made to the project implementing agencies were pending adjustment for long periods in the DPMUs of seven test-checked districts and State Project Monitoring Unit (SPMU). Besides, Rs 21.79 crore advanced by the Secretary, AP Social Welfare Residential Educational Institutions Society towards construction of residential school buildings were also outstanding for long. As a result, reimbursement of the amount from IDA was delayed.

*[Paragraph 3.4.8]*

◆ DPMUs/TPMUs in the test-checked districts diverted project funds of Rs 2.03 crore for other unrelated purposes.

*[Paragraph 3.4.9]*

◆ The CEO, SERP/DPMUs failed to organise the bank linkages to fund sub-projects mainly due to non-registration of VOs. The shortfall to the extent of Rs 80.73 crore in bank credit was met from CIF. In the test-checked districts only 37 per cent of the VOs in DPIP and a

**meagre eight per cent in RPRP were registered as Societies. This also led to short funding of sub-projects of other SHGs to that extent.**

*[Paragraph 3.4.14]*

◆ **About 51 per cent of the amount (Rs 38.10 lakh) financed from CIF was overdue for recovery from SHGs in the 113 test-checked VOs in the seven districts alone. This resulted in short availability of the corpus thereby denying benefits to other eligible SHGs.**

*[Paragraph 3.4.15]*

◆ **The objective of mainstreaming out of school children under the child labour rehabilitation project has not been fully achieved. Residential school buildings for girls were not completed as envisaged rendering the outlay of Rs 11.47 crore already incurred on them unfruitful.**

*[Paragraphs 3.4.17 and 3.4.18]*

◆ **Mid-term evaluation of the project implementation revealed that there was improvement in income levels of the poor; however, considerable proportion of the poor remained poor in the project area. Follow-up on the deficiencies pointed out in the Monitoring and Evaluation reports by independent agencies was inadequate.**

*[Paragraph 3.4.21]*

### **3.4.1 Introduction**

To meet the need for new policies, institutions and processes especially in regions dependent on rainfed agriculture to benefit those who lack productive assets or skills through ill-health, disability or illiteracy, the State Government initiated (June 2000) the District Poverty Initiatives Project (DPIP) under the scheme called VELUGU, with financial assistance from the International Development Association (IDA). The project would focus on community ownership, in which the poor themselves would identify investments and participate in their implementation. The project was to be implemented in two phases and expected to cover 30 lakh poor households during the project period.

In Phase-I (2000-05), the project, called DPIP was to be implemented in 180 mandals of six of the poorest of the rural poor districts covering 6.20 lakh poor households representing almost 20 per cent of the population in the six project districts with an outlay of Rs 593 crore. The scope of the project was increased (2003) to cover 9.30 lakh poor families in 316 mandals with a revised outlay of Rs 654 crore. In Phase-II (2003-08), termed Rural Poverty Reduction Project (RPRP), the programme was extended to 16 other districts (548 mandals) covering 20 lakh families with an outlay of Rs 1486 crore. The major benefits would be social empowerment and mobilisation, improved skills to undertake investments to increase earning opportunities and greater access to productive assets and social services.

It was also expected to improve accountability of Gram Sabhas and Panchayats as well as the ability of district administrations to respond to the demands of rural poor. There was a system of targeting through selection of the poorest mandals of the poorest districts. Thereafter at the village level the

poor families were to be identified by drawing on local BPL list as well as information with Gram sabhas and NGOs.

DPIP, Phase-I, had four components and the RPRP (Phase II) had two additional components. The component-wise activities as indicated in the scheme guidelines are shown below:

- ***Institution and Human Capacity Building:*** To develop self-managed community-based organisations - including formation and development of common interest groups and self help groups (CIG/SHGs), Information, Education and Communication, capacity building of Gram panchayats through training, consultant services, workshops and exposure visits.
- ***Community Investment Fund:*** (a) Improved access to public social services, especially health, education, child care and veterinary care. (b) Group-based income-generating investment proposals identified by CIGs/SHGs related to improved production and marketing of commodities; facilitation of access to institutional credit for micro-enterprises development. (c) Small infrastructure viz., multi-purpose community halls, expansion of local school facilities, drinking water supply, etc.
- ***Education support for girl child labourers:*** Establishment of residential 'Bridge' schools and regular secondary residential schools for girls.
- ***Project Management:*** Technical assistance/consultancy, training, workshops and study tours, special studies and preparation of follow-up project.
- ***Support to pilot programmes (RPRP):*** Strengthening the role of local government, social risk management and health.
- ***Support to persons with disability (RPRP):*** Social mobilisation and building of people's institution, focus on the needs of disabled persons and their families and promote convergence of interventions in the health and education sectors.

The DPIP/RPRP under VELUGU project was renamed Indira Kranthi Patham in January 2005.

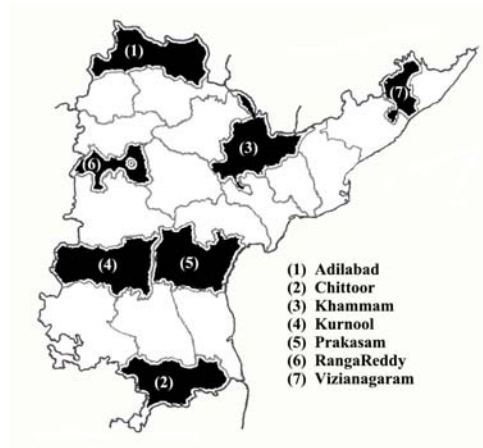
### 3.4.2 Organisational set up

The Society for Elimination of Rural Poverty (SERP) and the AP Social Welfare Residential Educational Institutions Society (APSWREIS) are implementing the project.

The Chief Minister is the ex-officio Chairman of SERP. The Chief Executive Officer is the head of the office who is overall responsible for implementation of DPIP and RPRP under the supervision of the Principal Secretary to Government in Panchayati Raj and Rural Development Department. At District level, the project is managed by the District Project Management Units (DPMU) and Tribal Project Management Units (TPMU). The Project Directors (PDs), DRDAs and the Project Officers, Integrated Tribal Development Agency were functioning as the PDs and Project Officers of DPIP/RPRP. The Mandal Samakhyas and Village Organisations (VOs - cluster of SHGs) play a vital role in implementation of the project. The APSWREIS was to provide quality education for girls. The organisational chart is given in *Appendix 3.7*.

### 3.4.3 Scope and Methodology of audit

Audit of the implementation of the project for the period 2000-05 was conducted by test-check of the records of SPMU (SERP), DPMUs and Village Organisations (VOs), APSWREIS and its schools (20 out of 28) located in the seven sample districts. Three districts (i.e., Adilabad, Chittoor and Vizianagaram) out of the six Phase-I districts and four districts (Khammam, Kurnool, Prakasam and RangaReddy) out of 16 Phase-II districts covering 113<sup>31</sup> VOs (out of 10866<sup>32</sup> in the test-checked districts) were selected for the review. Discussions were held (January 2005) with the departmental officers at entry conference and issues relating to overall objective of the project and project implementation were discussed.



Audit also surveyed 1144 SHG members (out of 23711) in the 113 VOs in the seven districts. The VOs were selected on a computer generated random basis (15 VOs per district) to find out the level of satisfaction among the beneficiaries. The data was collected through a structured questionnaire. Views of the CEO, SERP were considered while arriving at the audit conclusions.

### 3.4.4 Audit objectives

The audit objectives were to examine and assess:

- whether the financial resources were properly organised and utilised at the State and District levels;
- the efficacy of planning and efficiency in implementation of various components and sub-projects for reduction of rural poverty;
- process of formation of federations of the poor under Institution and Human Capacity Building (I&HCB); and
- improvement in conditions of rural poverty through project interventions.

### Financial performance

The project is funded by the IDA to the extent of 62 per cent to 95 per cent for various components of the scheme and the balance is funded by the State Government, barring small contributions from the beneficiaries in the case of CIF sub-projects. The Community Investment Fund is the main component of the project under which project authorities give funds to the Village Organisations (VOs) to finance 30 per cent of the cost of the

<sup>31</sup> 15 VOs in each district

<sup>32</sup> DPIP: 4528 VOs; RPRP: 6338 VOs

'sub-projects' i.e., micro-enterprises to be set up by the Self Help Groups (SHGs). The DPMUs/TPMUs are to organise bank linkages to finance 60 per cent of the cost of these sub-projects. The balance (10 per cent) is to be borne by the beneficiaries. Thus, success of the project is mainly dependent on establishing the bank linkages for loans to the individuals or groups for the sub-projects.

Under DPIP, against the total expenditure of Rs 452.85 crore, IDA reimbursed Rs 376.52 crore as of July 2005. Similarly, under RPRP as against the expenditure of Rs 473.05 crore, IDA reimbursed Rs 355.40 crore.

### 3.4.5 Flow of funds from Government to DPMUs/TPMUs

The State Government provides funds for the project as grant-in-aid assistance through annual budgetary allocations to SERP and APSWREIS based on the annual investment plans submitted by them. After the sanctions for grant-in-aid are issued by the Government, the Assistant Secretary of Panchayat Raj Department in the State Secretariat draws the amounts for being passed on to the CEO, SERP and the Secretary, APSWREIS. For initial part of the project period 2000-03, the amounts were provided to SERP through cheques.

For the later period (2003-05) the amounts were credited to the personal deposit account (with the treasury) of the APSWREIS<sup>33</sup> to facilitate drawals by the CEO, SERP. For APSWREIS right from the inception of the project the amounts were provided through the PD account maintained by the Secretary, APSWREIS.

### 3.4.6 Budget provision and expenditure

Non-utilisation of funds by the SERP was very high

The budget provision, amounts provided to the SERP under DPIP and RPRP and the expenditure under the project during 2000-05 were as follows:

#### SERP

(Rupees in crore)

	Budget provision	Amount provided to SERP	Expenditure as reported by SERP	Non-utilisation
<b>AP District Poverty Initiatives Project (6 Districts)</b>				
2000-01	--	6.03	4.32	(-) 1.71
2001-02	0.38	38.49	17.22	(-) 21.27
2002-03	130.00	80.00	71.67	(-) 8.33
2003-04	212.30	122.31	152.93	--
2004-05	204.47	153.35	105.93	(-)47.42
<b>Total</b>	<b>547.15</b>	<b>400.18</b>	<b>352.07</b>	
<b>AP Rural Poverty Reduction Project (16 Districts)</b>				
2002-03	--	25.00	8.44	(-)16.56
2003-04	--	166.50	107.26	(-)59.24
2004-05	222.45	166.84	212.65	--
<b>Total</b>	<b>222.45</b>	<b>358.34<sup>§</sup></b>	<b>328.35</b>	

<sup>§</sup> The excess amounts provided under RPRP over and above the budget provision was met from the drawals under DPIP

<sup>33</sup> after duly countersigned by the Assistant Secretary in Finance Department in the State Secretariat

As can be seen from the above, expenditure incurred by the SERP on the project was far less (except in 2003-04) than the amounts actually received by it during 2000-05. The year-wise and component-wise expenditure is given in Appendix 3.8. Component-wise expenditure in the test-checked districts are given in Appendix 3.9.

**DPMUs/TPMUs in the test-checked districts could not spend the moneys available in full**

Except the DPMU, Vizianagaram in all the other six test-checked districts the DPMUs and TPMUs could not spend the amounts received from SERP in full both under DPIP and RPRP. The short utilisation was significantly high in TPMUs, Bhadrachalam : Rs 4.64 crore (29 per cent), Parvathipuram: Rs 3.03 crore (25 per cent); DPMUs, Prakasam: Rs 5.54 crore (22 per cent) and Khammam: Rs 4.64 crore (19 per cent).

The CEO, SERP replied (July 2005) that the project was busy with recruiting employees and imparting training to them in the first two years. The reply is not acceptable as the CEO should have considered all the above aspects even at the time of sending investment plans to the Government for making budget provision.

Budget provision made by the State Government and expenditure incurred thereagainst by the APSWREIS during 2000-05 under the component 'Improving access to education for girls' (including construction of residential schools and their maintenance) were as below:

**APSWREIS**

(Rupees in crore)

Year	Budget	Amount provided to APSWREIS	Actual Expenditure	Non-utilisation
<b>DPIP</b>				
2000-01	--	0.25	0.04	(-)0.21
2001-02	0.12	11.78	2.79	(-)8.99
2002-03	30.00	27.52	31.47	--
2003-04	50.00	50.00	46.38	(-)3.62
2004-05	24.00	24.00	20.11	(-)3.89
<b>Total</b>	<b>104.12</b>	<b>113.55</b>	<b>100.78</b>	
<b>RPRP</b>				
2002-03	8.60	8.60	3.79	(-)4.81
2003-04	94.78	94.98	47.25	(-)47.53
2004-05	148.50	111.37	93.16	(-)18.21
<b>Total</b>	<b>251.88</b>	<b>214.75</b>	<b>144.20</b>	<b>(-)70.55</b>

The above table indicates that the Secretary, APSWREIS could not utilise the funds available in full both under DPIP (2000-05) and RPRP (2002-05). The financial achievement was particularly low (only 67 per cent) under RPRP. Reasons for significant non-utilisation of funds under RPRP were however, not furnished by APSWREIS.

### 3.4.7 Component-wise expenditure

The Project Appraisal Document (PAD) projected the expenditure on each component of the project for the entire project period. But it did not envisage the year-wise allocations for the project. Year-wise allocations under each component promote better management of the project funds. It was observed that while passing on the funds to DPMUs every year the CEO did not also indicate the component-wise allocations; instead lumpsum amounts were passed on to them. The component-wise target (as per PAD) vis-a-vis the financial achievement under DPIP and RPRP during 2000-05 were as follows:

(Rupees in crore)

Component/Activity	DPIP (2000-05)		RPRP	
	Target as per PAD	Expenditure (Percentage)	Target as per PAD	Expenditure in 2002-05 (Percentage)
Institution and Human Capacity Building	89.49	80.58 (90)	135.11	86.18 (64)
Community Investment Fund	336.11	243.14 (72)	842.26	207.13 (25)
Education support for girl child labourers	133.84	100.79 (75)	309.47	144.90(47)
Project Management	33.66	28.34 (84)	95.38	33.25 (35)
Support to pilot programmes (RPRP)	--	--	40.04	0.48 (1)
Support to persons with disability	--	--	60.65	1.11 (2)
<b>Total</b>	<b>593.10</b>	<b>452.85 (76)</b>	<b>1482.91</b>	<b>473.05 (32)</b>

(Note: Year-wise details are given in Appendix 3.8)

**Achievement under CIF was 72 and 25 per cent respectively under DPIP and RPRP. This indicated inadequate coverage of SHGs**

Under DPIP, expenditure under CIF component was only to the extent of 72 per cent. Financial assistance provided to SHGs under RPRP was only 25 per cent in three years (2002-05), out of the total project period of six years (2002-08).

The following points were also noticed:

- In the first year (2000-01) of the project, no assistance was provided to the beneficiary SHGs from the CIF component both under DPIP and RPRP.
- Under RPRP during 2002-04, support for Pilot Programmes was not implemented as only Rs 0.48 crore of the total provision of Rs 40.04 crore (2003-08) was spent during the first three years.
- Under the component support to persons with disabilities under RPRP expenditure was only a meagre amount of Rs 1.11 crore (two per cent) as of March 2005 as against the provision of Rs 60.65 crore (2003-08).

CEO, SERP stated (September 2005) that the Pilot Programmes have been remodeled to utilise these funds under I&HCB component with approval from the World Bank.

### 3.4.8 Outstanding advances

**Huge advances were pending adjustment for one to two years**

SPMU and DPMUs have been giving advances to project employees and to project implementing and other agencies like Executive Engineers, Council for Advancement of Peoples Action in Rural Technologies, AP Technological Services, Hyderabad Urban Development Authority, etc.. The advances made

towards project activities would be adjusted from time to time based on the UCs submitted. In the seven test-checked districts and office of the SERP, advances amounting to Rs 14.94 crore were pending adjustment as of March 2005 in the books of SPMU and DPMUs. Details are given in *Appendix 3.10*. Audit also observed as follows:

- Out of the advances of Rs 14.94 crore pending, Rs 0.36 crore was pending for more than two years and Rs 5.75 crore was pending for more than a year.
- Rs 1.84 crore advanced by four DPMUs<sup>34</sup> (January 2004) to District Educational Officers under a State scheme 'Sowkaryam'<sup>35</sup> was also pending adjustment for more than a year.
- In DPMU, Chittoor, Rs 10.72 lakh was advanced to 31 Community Coordinators (CCs) for conducting training programmes. The CCs had left their jobs without rendering accounts.

CEO stated (September 2005) that the efforts were on to recover the advances pending with CCs who had left the project and to recoup the amount advanced under 'Sowkaryam'.

It was also observed that advances given by the Secretary, APSWREIS amounting to Rs 20.61 crore were outstanding in the books of APSWREIS for over one year and Rs 1.18 crore for over two years.

Due to pendency of the above advances for long periods, Government could not claim the reimbursement to that extent from the IDA.

### **3.4.9 Diversion of project funds**

**Rs 2.03 crore diverted for activities not related to the project**

Scheme funds are intended for capacity building through social mobilisation and for funding income generating sub-projects. It was however, noticed that Rs 2.03 crore<sup>36</sup> were diverted (2000-05) by the DPMUs/TPMUs in the four test-checked districts for activities not related to the Project such as office buildings, Food Assurance Programme, computer training to high school children, etc. CEO had accepted the diversions for the Food Assurance Programme, purchase of computers, stationery, coolers, etc and also Computer Education to High school students and assured that appropriate action would be taken to avoid such diversions. CEO however, stated that the MVTC<sup>37</sup> buildings were also permissible under the project. The reply is not tenable as the project guidelines prohibit construction of office buildings. But for the diversions, some more SHGs could have been financed under the project.

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<sup>34</sup> DPMUs, Karimnagar (Rs 0.45 crore), Visakhapatnam (Rs 0.40 crore), West Godavari (Rs 0.79 crore) and Warangal (Rs 0.20 crore)

<sup>35</sup> for purchase of bicycles for girl students

<sup>36</sup> DPMUs, Prakasam (Rs 71 lakh), RangaReddy (Rs 11.88 lakh); TPMUs, Bhadrachalam (Rs 101.67 lakh), Parvathipuram (Rs 18.06 lakh)

<sup>37</sup> Mandal Vocational Training Centres



## **Project Management and Performance**

### **Institution and Human Capacity Building (I&HCB)**

#### **3.4.10 Mobilisation of SHG members**

The goal of the component Institution and Human Capacity Building is to facilitate building of self-managed and financially sustainable community based organisations and development of social capital through promotion of a large cadre of para professionals and activists.

The targeted beneficiaries are identified through participatory identification process (PIP) after due discussion at Gram Sabha with a minimum representation of one-third of the households in the habitation. The identified poor are then formed into SHGs and all SHGs in a village would form a VO. The VO members are chosen from among the members of SHGs. Among the chosen members, the President and Secretary would be elected heads of the VOs.

Mobilisation of the target groups (SHGs) had far exceeded the targets. As against targeted coverage of 9.30 lakh poor households under DPIP and 20 lakh poor households under RPRP, 20.06 lakh households and 28.28 lakh households respectively were actually identified and organised into SHGs.

It was observed that while selecting the members/SHGs through Gram sabha for extending assistance under DPIP, no mechanism was in place to check if the same SHG was covered under any other anti-poverty programmes of the Central/State Governments such as Rural Employment Generation Programme, Swarnajayanti Gram Swarozgar Yojana, etc.

### **Economic empowerment of rural poor through Community Investment Fund (CIF)**

**3.4.11** The activities to be financed under CIF component would be demand driven sub-projects covering three clusters of activities including income generating micro-enterprises, community infrastructure and also the training of technicians in health and education services. The actual assistance from CIF would be in the range of Rs 15000 - Rs 20000 per individual member (household).

#### **3.4.12 Poor coverage of SHGs for income generating activities**

As already mentioned, as of March 2005, the financial achievement under CIF was only Rs 243.14 crore (72 per cent) under DPIP. Under RPRP, Rs 207.13 crore were spent during the period 2002-05, as against its six years (2002-08) target of Rs 842.26 crore.

**Achievements under CIF were far below the targets**

**Only 41 per cent of the targeted households were financed under DPIP**

As against the physical targets of coverage of 9.30 lakh households under DPIP and 20 lakh households under RPRP, 20.06 lakh households and 28.28 lakh households respectively were identified and organised into SHGs through social mobilisation process (under I&HCB). However, only 3.82 lakh households (41 per cent) were financed under DPIP. Similarly, under RPRP, only 2.42 lakh households were financed.

Thus even the target of 6.20 lakh households envisaged at the time of conceiving the project was not achieved under DPIP.

### **3.4.13 Profile of sanctioned sub-projects**

During the period 2000-05, 68776 sub-projects were sanctioned under DPIP (25437) and RPRP (43339). It was noticed that 97 per cent (24623) of the sub-projects sanctioned under DPIP were financed. However 28 per cent (12257) of the sub-projects sanctioned under RPRP were not financed as of August 2005. The CEO, SERP attributed (September 2005) the shortfalls to the reluctance of the beneficiaries to execute the projects, and the problem in releasing the amounts for the sub-projects, such as delays in selecting the SHGs by the VOs.

Further, of the total 55705 sub-projects financed, 3603 sub-projects were yet to be commissioned (August 2005) and Rs 44.98 crore paid for these sub-projects were lying with the VOs. This indicated ineffective follow-up of the aspect of financing the sub-projects under CIF both at the level of CEO and the DPMUs/TPMUs as well.

### **3.4.14 Absence of bank linkages**

In terms of instructions issued by the Government (October 2002), financial assistance from CIF to the sub-projects was limited to the extent of 30 per cent of the cost. Banks were expected to finance such sub-projects to the extent of 60 per cent of their cost, the balance of 10 per cent being contribution from beneficiaries. It was observed in audit in the seven test-checked districts that DPMUs/TPMUs had failed to provide necessary bank linkages and had financed much more than 30 per cent of the costs of the sub-projects from the CIF. In some cases, the sub-projects had been entirely financed from the CIF as shown in *Appendix 3.11*. In the seven test-checked districts, against the total cost of sub-projects amounting to Rs 195.67 crore, CIF finance was as much as Rs 140.20 crore and bank loans amounted to only Rs 26.45 crore (against Rs 118.95 crore to be financed from bank linkages as per Government instructions).

One clear fall out of the over-dependence of the sub-projects on CIF finance was the failure of the project to finance more sub-projects from the CIF corpus.

CEO stated (September 2005) that a series of meetings with bankers at all levels were coordinated and all efforts were being made to provide bank

linkage for better results. DPMUs/TPMUs attributed the poor bank linkage to non-registration of VOs, insufficient savings by SHGs and inadequate efforts by field staff to facilitate bank linkage.

**Very few village organisations were registered**

The DPMU, Adilabad replied (September 2005) that besides late formation of VOs there was delay in appointment of district resource persons<sup>38</sup> leading to the delay in submission of proposals to the Registration Department. It was observed in the test-checked districts that out of 4528 VOs formed under DPIP only 1655 (37 per cent) VOs were registered. Similarly, under RPRP only 521 VOs (eight per cent) of the 6338 VOs formed were registered.

The State Project Manager, SERP however stated (September 2005) that building the capacity of the VOs prior to their registration is a pre-requisite and facilitating them to understand SERP's role and services, supporting them to manage their activities is a time consuming process. Unless the VOs were strong they would not be able to mobilise the share capital nor could they conduct elections or fulfill other legal complications and hence the approach was to register VOs whose capacities are built. Thus, the SERP did not gear up sufficiently so far to build the capacity of VOs as planned even though the Phase I (DPIP) of the project was nearing closure and Phase II (RPRP) commenced three years ago.

#### **3.4.15 Delay in recovery of CIF from SHGs**

Proper utilisation of the funds and effective repayment systems are crucial in the management of CIF as it provides recycling, facilitating multiple doses of finance for SHGs. The repayment schedule varies from sub-project to sub-project and it also depends upon the repaying capacity of the SHG members.

**Only 161 out of 323 SHGs adhered to the repayment schedule**

Scrutiny of records of 113 VOs (out of 10866) in the seven districts revealed that out of the 323 SHGs who were provided assistance from the CIF for their sub-projects, only 161 SHGs adhered to the repayment schedule. As against Rs 75 lakh due to be recovered from SHGs to the end of March 2005 the actual recovery was only Rs 36.91 lakh leaving Rs 38.10 lakh<sup>39</sup> (51 per cent) unrecovered. Of this, Rs 18 lakh were pending recovery for over a year. This reflected inadequate monitoring of the sub-projects by the field staff of DPMUs/TPMUs.

Delay in recovery would ultimately reduce the availability of funds with the VOs. Due to insufficient corpus fund, the VOs would not be in a position to provide CIF to other eligible SHGs.

<sup>38</sup> those who work to help the VOs/SHG members in the project activities including registration process

<sup>39</sup> DPMUs, Adilabad (Rs 7.83 lakh), Chittoor (Rs 11.20 lakh), Khammam (Rs 2.80 lakh), Kurnool (Rs 2.15 lakh), RangaReddy (Rs 1.96 lakh) and Vizianagaram (Rs 2.48 lakh), TPMUs, Bhadrachalam (Rs 1.85 lakh), Parvathipuram (Rs 0.93 lakh) and Utnoor (Rs 6.89 lakh)

CEO stated (September 2005) that appropriate action was initiated to recover the outstanding CIF through remodeling the project and fixing the responsibility for recovery at the Mandal Samakhya level.

### 3.4.16 Wasteful expenditure under Community Investment Fund component

Under the sub-components of social development and physical infrastructure under the component CIF, the DPMU, Chittoor and TPMUs, Bhadrachalam (Khammam District) and Parvathipuram (Vizianagaram District) had financed the sub-projects of Amla Trading, Establishment of Bulk Cooling Unit and Electrification of Hill top village respectively at a total cost of Rs 23.46 lakh during 2001-04. As of March 2005, all the three sub-projects were either defunct or suffered loss resulting in wasteful expenditure as detailed below:

Name of the DPMU/TPMU	Nature of sub-project and expenditure incurred	Remarks
DPMU, Chittoor	Amla Trading : Rs 10.42 lakh	Loss incurred in trading of Amla as the (wet) amla seeds got spoiled.
TPMU, Bhadrachalam	Establishment of Bulk Cooling Unit : Rs 5.67 lakh	Not functioning from October 2004 since milk procurement could not be organised as planned
TPMU, Parvathipuram	Oil extraction unit - Electrification of Hill-top village : Rs 7.37 lakh	Not functioning from September 2003 as electrification failed due to technical problems.

It was evident from the replies furnished by the CEO, SERP that improper guidance of the Marketing Consultant of the project in respect of Amla trading, inadequate attention of the livelihood Associate in respect of Bulk Cooling Unit and failure to rectify the defect in electrification by TPMU resulted in wasteful expenditure of Rs 23.46 lakh in the above three cases.

### Education support to girl child and elimination of child labour

#### 3.4.17 Inadequate coverage of out of school children

The project envisaged (August 2001) elimination of child labour by providing education to one lakh out of school children in Phase-I (2000-03) and three lakh children in Phase-II (2003-08) in collaboration with the Education Department. For this purpose, Education Department provided funds to the SERP under the District Primary Education Project (DPEP) for tackling the problem of child labour comprehensively in 30 mandals in the six districts.

The task was entrusted (August 2001) to a Non-Government Organisation - M. V. Foundation through a lumpsum contract agreement for Rs 25.06 crore (DPEP : Rs 16.14 crore; DPIP : Rs 8.92 crore). The contract period was for 39 months i.e., up to November 2004. As per the terms of reference the NGO was to work in the 30 selected mandals to withdraw children in 5-14 years age group from work and prepare them to attend classes according to their age. The payments were to be made to the NGO on the basis of the quarterly progress reports submitted by it.

**86062 children were reported to have been mainstreamed by MV Foundation though only 44742 were identified as per SERP records**

While the NGO reported to have mainstreamed 86062 children to the end of August 2003, according to SERP records, only 44742 out of school children were identified in the six districts. The contract was however, terminated (January 2004) by the NGO since the SERP had failed to provide the amounts regularly. An amount of Rs 12.53 crore (DPEP : Rs 7.27 crore; SERP : Rs 5.26 crore) was paid to the NGO including the last bill after termination. It was observed in audit that the Education Department failed to reimburse the DPEP component regularly to the SERP (Rs 5.30 crore reimbursed so far) and Rs 1.97 crore were yet to be reimbursed by the Education Department (March 2005). The records relating to fixing of targets and monitoring of NGO's achievements were however not made available to audit by the NGO and therefore the extent of success achieved under the project could not be assessed.

CEO accepted (September 2005) that had the agreement with MV Foundation not been terminated more out of school children could have been benefitted. The CEO also stated that the SERP was no longer promoting this component.

### **3.4.18 Unfruitful expenditure due to delay in construction of Residential Schools**

**Eleven school buildings taken up in August 2002 - November 2004 were not completed rendering the expenditure of Rs 11.47 crore unfruitful**

The APSWREIS was to provide quality education to the girl children. As a part of the Project's (RPRP) Child Labour initiative, 64 Residential Schools were to be established for mainstreaming girl child labour. These schools were to be located in 16 RPRP districts and to function under the control of APSWREIS. APSWREIS had entered into an agreement with AP Health and Medical, Housing and Infrastructure Development Corporation (APMHIDC) during June 2003 - January 2004 for construction of 64 school buildings at a cost of Rs 112.80 crore. The schools were to be completed by October 2004 within nine to 10 months from the date of agreement.

It was however, observed that 10<sup>40</sup> (out of 64) school buildings taken up (June 2003 – November 2004) at an estimated cost of Rs 17.33 crore were not completed as of March 2005 due to delay in finalisation of layouts and drawings, handing over of site and site disputes. An expenditure of Rs 9.48 crore was already incurred on these incomplete buildings as of March 2005.

**Construction work (estimated cost : Rs 5.20 crore) for three schools not yet taken up though funds provided as far back as in the year 2003**

It was also observed that although the funds were provided (2003) by APSWREIS, work in respect of three other schools (cost : Rs 5.20 crore) was not taken up even as of March 2005 on the ground that the site on which the schools were proposed to be constructed were either endowment land or Government land not alienated to APSWREIS, or assigned land the ownership of which was under dispute. One school<sup>41</sup> taken up under DPIP in August 2002 was yet to be completed after incurring an expenditure of Rs 1.99 crore.

<sup>40</sup> Andhale, Pudur, Nagulapalem, Rayaparthi, Ingurthy, Yaddanapudi, Pattikonda, Adavi Mallela, Yerrupalem and Veerapanenigudem.

<sup>41</sup> at Bhamini (Srikakulam District)

## **Distress migration**

**3.4.19** Reduction in distress migration of the rural poor is one of the aims of the project and the project has to monitor and watch the trend of distress migration periodically in order to ensure whether the aim is achieved. CEO stated (September 2005) that to reduce distress migration during lean seasons, foodgrains were made available to the poor through rice credit line and other food security measures. Mid-term review made by the Centre for Economic and Social Studies (CESS) revealed that due to improvement in income-levels, migration of the poor for work had declined to a significant extent.

## **Project Monitoring**

**3.4.20** Fund provision of Rs 33.66 crore under DPIP (2000-05) and Rs 95.38 crore under RPRP (2002-08) was made for Project Management, Monitoring and Evaluation and Studies. The Monitoring and Evaluation system would comprise input and output monitoring, process monitoring and impact evaluation. As of March 2005, a total expenditure of Rs 61.59 crore was incurred.

## **Monitoring and Evaluation**

**3.4.21** The impact monitoring system would establish the net impact of the project on the socio-economic indicators, including poverty. Impact evaluation would be carried out in three stages viz., (i) baseline survey, (ii) second stage to coincide with the mid-term review of the project and (iii) the third stage to coincide with the end of the project cycle. In DPIP (Phase-I), the Project Baseline Survey, Monitoring and Evaluation was outsourced (October 2000) to the CESS. Similarly, in RPRP (Phase-II), the above aspects were outsourced to the CESS in April 2003 and three other agencies<sup>42</sup>.

As per the agreement the agencies were to conduct Baseline Survey and Process Monitoring and Evaluation and submit quarterly reports with their recommendations.

The mid-term review of the project carried out by the CESS revealed the following:

- The project not only improved access to credit but also significantly increased women's empowerment. These significant effects were, however, not matched by increased beneficiary savings, because the resources generated by productive activities initiated under the project were yet to mature. To explore this, a closer look at the extent to which the project has increased access of the poor to resources and effective utilisation of resources is needed.
- The analysis of CIF sub-projects indicates that nearly all members have benefited equally but the majority of the beneficiaries have reported that the objectives of the CIF sub-projects have not been realised fully. The convergence with other departments is needed to improve this situation.

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<sup>42</sup> Society for Human Rights and social Development in May 2003, Agricultural Finance Corporation Limited and Action for Food Production in January 2004

- For the poor who are benefited through market interventions from DPIP, the proportion of income from agriculture increased significantly, and also from animal husbandry, especially dairy.
- Data provided evidence to the decline of poverty. However, the panel data also showed that a considerable proportion of poor still remained poor in the project area.

It was also observed in audit that, these agencies in their reports pointed out several systemic deficiencies such as poor recovery and recycling of CIF, poor internal lending, non-registration of VOs, formation of repayment Committees, non-provision of bank linkage to SHGs, etc. However, there was no adequate follow-up on the recommendations. Further, there was no mechanism of monitoring the action taken on the gaps and concerns pointed out in the reports, through regular reports.

CEO replied (September 2005) that though appropriate action was taken on the deficiencies pointed out by the consultants, action taken reports were not devised on the observations made by the consultants. The CEO however, assured that appropriate mechanism would be devised to watch the action taken.

#### **3.4.22 Impact assessment through survey of beneficiaries**

In the seven test-checked districts, Audit selected 113 VOs (out of 10866) through random sampling and 1144 SHG members (out of 23711) in the 113 VOs were interviewed through a structured questionnaire. It was observed that:

- out of the 1144 SHG members interviewed 626 members (55 per cent) were imparted training and 465 members (41 per cent) were sanctioned sub-projects. Most of them felt that the training was useful for them.
- out of the 465 members who were sanctioned sub-projects 444 members (95 per cent) stated that their sub-projects were running profitably and their income has increased, though they could not quantify the increase.

#### **3.4.23 Conclusions**

The scheme had attempted a holistic approach in poverty alleviation of the rural poor in the poorest districts. It could, however, finance only 3.82 lakh (41 per cent) against the target of Rs 9.30 lakh poor households in Phase I (DPIP) and a meagre 2.42 lakh in three years against the target of 20 lakh households for six years in Phase II (RPRP) for the income generating sub-projects. Although more SHGs were formed than the actual targets fixed, the CEO and DPMUs were unable to organise bank linkages for funding the sub-projects even for the targeted SHGs. Due to insufficient bank linkages, CIF was utilised in excess which led to denial of the benefit of the project to other eligible SHGs. Inadequate monitoring at the levels of SERP and DPMUs affected overall implementation of the project. Non-recovery of the dues of CIF resulted in short availability of corpus with the project authorities which could benefit many more VOs.

Mid-term evaluation of the implementation of the project through an independent agency CESS revealed that due to improvement in income levels, migration of the poor for work had declined to a significant extent. But it also revealed that a considerable proportion of the poor still remained poor in the project area.

#### **3.4.24 Recommendations**

The CEO, SERP needs to effectively monitor all the project activities undertaken by the DPMUs/TPMUs in all districts as well as maintain effective coordination with other departments and agencies.

- Adequate steps should be taken for registration of the VOs to facilitate bank linkages.
- Government should ensure bank linkage as envisaged in the project guidelines.
- Appropriate monitoring mechanism should be put in place for effective recovery of amounts financed from CIF.

**3.4.25** The above points were referred to Government in August 2005; reply had not been received. The audit observations were discussed with CEO, SERP in the exit conference held in September 2005. The recommendations made were discussed and accepted by the SERP.



## MUNICIPAL ADMINISTRATION AND URBAN DEVELOPMENT DEPARTMENT

### 3.5 Computerisation in Municipal Corporation of Hyderabad

#### Highlights

*The Audit of the computerisation efforts in MCH revealed that all functions of MCH have yet to be computerised and integrated in spite of incurring about Rs 2 crore per year on maintenance of IT infrastructure. Audit noticed security inefficiencies, incomplete and incorrect data in key fields under 'Property tax', 'Births and Deaths' and 'Trade licenses', variations in computation of advertisements fee, etc.*

- ◆ The database servers/application servers, hardware and software for changing the architecture remained unutilised.

*[Paragraph 3.5.6]*

- ◆ There was no Database Administrator (DBA) and contract programmers were carrying out the duties of DBA.

*[Paragraph 3.5.7]*

- ◆ Business Continuity Plan/Disaster Recovery Plan was absent. This could lead to disruption of activities in case of any unforeseen events.

*[Paragraph 3.5.9]*

- ◆ Adequately IT trained personnel of MCH were not associated with development of programmes. This resulted in the business functionality not being properly mapped to IT solutions.

*[Paragraph 3.5.10]*

- ◆ There was no documented policy with the MCH related to changes done in applications. It did not have documentation relating to system/server/router/firewall configurations.

*[Paragraph 3.5.11]*

- ◆ MCH had no security policy. There was no documentation of security processes. For network monitoring MCH was using free/trial versions of software.

*[Paragraph 3.5.13]*

- ◆ The Database contained many unprescribed tax rates. MCH did not effectively use the computing facilities of the available hardware/software.

*[Paragraph 3.5.16]*

- ◆ Audit also noticed Application inefficiencies, incomplete data in master tables and incorrect data in key fields under Property tax, Births and Deaths.

*[Paragraphs 3.5.17, 3.5.18 and 3.5.19]*

#### 3.5.1 Introduction

The Municipal Corporation of Hyderabad (MCH), discharges obligatory and discretionary functions as per the provisions of the Hyderabad Municipal Corporation Act, 1955 and provides civic services and infrastructure facilities

to the citizens of the twin cities of Hyderabad and Secunderabad. MCH has been providing services relating to property tax, 'births and deaths' registration, trade licences, advertisements, etc. The collection of property tax amounted to Rs 160.91 crore, advertisement fee - Rs 7.91 crore, and trade licence fee - Rs 6.56 crore, during the year 2003-04. MCH set up its own Intranet with connectivity established to all its subordinate offices consisting of four zonal offices and seven circle offices functioning under these zonal offices in order to (i) increase the speed of civic services, (ii) provide transparency in the system, (iii) cut administrative delays and (iv) link various internal organs that enhances efficiency.

Online collection of property tax is done through 45 eSeva centres<sup>43</sup> and four MCH Citizen Service Centres which also provide other services like registration of births & deaths, trade licenses, etc. The database had 16 lakh(approx.) records pertaining to births and deaths, five lakh(approx.) records pertaining to property tax, 15000(approx.) records pertaining to advertisement fee and 75000(approx.) records pertaining to trade licences. The annual outlay towards maintenance of IT related infrastructure was around Rs 2 crore.

### **3.5.2 Organisational set up**

MCH is headed by a Commissioner who functions under the overall supervision of the Principal Secretary, the Municipal Administration and Urban Development Department. The Information Technology section of the MCH functions under the control and supervision of the Additional Commissioner (Finance).

### **3.5.3 Information Systems set up**

For administrative purposes MCH is divided into four zones, seven circles, 100 constitutional wards and 254 localities. The data centre at its head office is connected to the LAN (Local Area Network) of all its zonal offices through 64 kbps leased lines backed up by ISDN lines. The Head Office has connectivity to eSeva data-centre managed by the Director, eSeva, functioning under the Information Technology and Communication Department. Two leased lines i.e., BSNL (128 Kbps) and VSNL (512 Kbps) were used for web hosting and internet access.

As of March 2005, MCH has one RS 6000 server, and nine other IBM e-series servers at head office and four zonal offices, and four more servers (two database servers and, two application servers) procured (March 2005) for change of architecture. The operating systems in use were AIX for database server, Linux for mail server and development server and Windows 2000 for web server. There were 355 desktops, which were networked and 203 printers. All the applications were developed using Oracle 8i at back end and

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<sup>43</sup> eSeva is an e-governance project caters to many services like electricity bills, telephone bills, water charges, property tax, etc.

D2K<sup>44</sup>, ASP<sup>45</sup> and JSP<sup>46</sup> at front-end. Two Hardware Multi-com Ethernet-III firewalls along with e-trust software firewall, seven Cisco routers and 13 Switches were in use.

M/s. ECIL was entrusted (December 1997) with the development of Integrated On Line Information Processing System (IOLIPS) at a cost of Rs 17.50 lakh with the objective to computerize and integrate all the functions of MCH. The IOLIPS has the following modules, viz., solid waste management, engineering, finance, personal management, inventory management, property tax, trade licences, births and deaths, grievances and estate. Of these, solid waste management, finance, inventory management, births and deaths, grievances and estate modules were not in use.

### 3.5.4 Objectives, Scope and Methodology of Audit

The IT Audit had the following objectives:

- studying specified objectives and goals vis-à-vis designed and implemented applications with regard to Property tax, Registration of births and deaths, Trade Licences and Advertisement modules.
- checking of general and environmental controls and IT application controls in respect of specific applications mentioned above.

Information Technology (IT) Audit was conducted by analysing relevant data tables/records relating to the period 2001-05 (as of February 2005) using CAATs<sup>47</sup> (IDEA<sup>48</sup>). The results of the review are mentioned in the succeeding paragraphs.

### 3.5.5 Wasteful expenditure on procurement of RAID Card

**Procurement of RAID card in November 2004 did not serve the purpose (August 2005)**

IBM RS 6000 F80 server was acquired in 2001 for implementing IOLIPS without the RAID<sup>49</sup> Card, which was procured only in November 2004 at a cost of Rs 2.18 lakh. Meanwhile, MCH proposed (May 2004) a change to three-tier architecture with cluster server features on the ground that the server with single processor had become obsolete and hence inadequate for their needs. Thus, the expenditure incurred on procuring RAID card for the obsolete server became wasteful. The Commissioner replied (September 2005) that the RAID would be used for other modules to be developed. The reply is not tenable, as procurement of RAID card did not serve any purpose particularly when the MCH planned to switch over to three-tier architecture in May 2004 and the server itself had become obsolete for use with IOLIPs.

<sup>44</sup> Developer 2000

<sup>45</sup> Active Server Page

<sup>46</sup> Java Server Page

<sup>47</sup> Computer Assisted Audit Techniques

<sup>48</sup> Interactive Data Extraction and Analysis

<sup>49</sup> Redundant Array of Inexpensive Disks

### **3.5.6 Change of Architecture**

With a view to changing the architecture from two-tier to three-tier MCH acquired (2004-05) new hardware and software. These included two database servers, two application servers and other hardware along with the required software. Although these were installed in June 2005 the same had not been put to use as of August 2005 for want of data migration. The Commissioner replied (September 2005) that the plan for data and application migration was being prepared.

### **Control management**

#### **3.5.7 Database Administrator**

**No DBA was in place, posing serious threats to the security of the data**

The database administrator (DBA), as the custodian of an organisation's data, is responsible for the administration and management of database management systems. He is also responsible for the creation and management of databases, database performance, monitoring, tuning and capacity planning etc. There was no regular DBA in the organisation exposing the system to risks of inefficiencies. In the absence of DBA, the DBA activities were carried out by the System Administrator/Senior Programmer (contract personnel) for the past one and half years in an ad-hoc manner.

The Commissioner replied (September 2005) that one DBA was being recruited.

#### **3.5.8 Segregation of duties**

Segregation of duties avoids the possibility that a single person could be responsible for diverse and critical functions in such a way that errors or misappropriations could occur and not be detected in time. However, in MCH, the programmers (contract personnel) themselves were involved in creation of data structures, developing procedures and executing them in production environment by accessing the production programs, overlapping into DBA activities. This left the database open to manipulation. In the absence of the activity logs, detection of such manipulations would also be difficult.

The Commissioner replied that document for demarcation of the role would be prepared and checks on permission to the production server access and proper access authentication to the database server would be put in place.

#### **3.5.9 Business Continuity Plan and Disaster Recovery Plan (BCP/DRP)**

**BCP/DRP not in place and might lead to disruption of activities in case of any unforeseen events**

Business continuity and Disaster recovery plan is to enable a business to continue operations in the event of a disruption and to survive disastrous interruption to their information systems. MCH has no documented BCP and DRP, and this would lead to disruption of activities in case of any unforeseen events.

Classification of assets based on risk assessment was not done. Business impact analysis involving various events that could impact the continuity of operations and their financial, human and reputation impact on the organisation had not been done.

MCH did not have any backup of core network switches/routers and failure of any such device would result in jeopardizing the entire network especially in peak transaction periods causing interruption to the functionality. The backup media were kept in the same server room, which could prove fatal to the vital data in case of any unforeseen accident like fire and other calamities. Further, recovery from backup media had not been tested in the case of database servers. Fire extinguishers were not available at Circle Offices to reduce the damage in the event of fire.

Audit also observed high attrition rate among contract personnel adversely affecting the continuity of ongoing projects.

Commissioner replied (September 2005) that appropriate steps would be taken to develop the BCP and DRP.

### **3.5.10 Adequate IT trained personnel not available**

**Adequate IT trained personnel not associated in development of programs**

Most of the MCH personnel were imparted only basic training, and the contract personnel were doing work on computers both at Head Office and Circle Offices. In the absence of suitable IT trained officials of MCH, business functionality could not be mapped to IT solutions and the MCH had to depend totally on contract personnel for all IT related aspects.

Commissioner assured (September 2005) that suitable personnel would be identified.

### **3.5.11 Documentation**

**No documentation for system/server/router/firewall configurations, parameter files and changes made to such configuration**

To ensure the effective utilisation and future maintenance of a system, it is important that all relevant system documentation be updated. Lack of documentation hampers the continuity of development activity. Audit noticed that the development, maintenance and changes to the applications were done by the contract personnel without preparing documents such as flow charts, data dictionaries, dataflow diagrams, end user procedural manuals, etc. Even the documentation such as SRS and SDD relating to abandoned IOLIPS module developed by ECIL was not available with the MCH. MCH did not also have documentation relating to system configurations, server configurations, router configurations, firewall configurations, parameter files and changes made to such configurations.

Commissioner replied (September 2005) that steps would be taken to prepare proper documentation on system development.

### 3.5.12 Database design and maintenance

Database design and maintenance was seriously flawed

The database design and maintenance were seriously flawed as indicated below:

- It was seen from the catalogue of existing database objects, that all the tables (both current and past) related to particular application were placed in the same schema exposing the past data to tampering and other malpractices. This would also result in performance degradation and oversizing of database growth.
- Objects related to one application, was spreading across different schemas and two application related objects were located in the single schema (objects related to advertisement and trade licences are in the same schema of 'ADVT'). This gives scope for security problems and makes backup activity cumbersome.
- There was no provision for capturing the important detail of date of generation of Property Tax Identification Number (PTIN), which would help in generation of MIS reports like Number of PTINs generated during a particular period.
- There was no specified strategy towards most important resource of the organisation i.e., data. Database health checkup was not done regularly. Database has many junk tables generated arbitrarily for creating periodical reports. The operating system slice on which datafiles exist showed '92 per cent' space occupied, which indicates improper database design and lack of database maintenance.

Commissioner replied (September 2005) that steps would be taken to ensure proper care of the database while migrating to new architecture.

### Security management

#### 3.5.13 Intranet and Internet Security

No security/email usage/internet/intranet policy exists. There was no licensed IDS system

MCH has no security policy, email usage policy, internet /intranet usage policy and required standards and guidelines that are essential to manage, distribute and protect sensitive information of the organisation. Though financial transactions were done over the Intranet on public leased lines, encryption and PKI features were not implemented making the data vulnerable.

In MCH there was no licensed IDS<sup>50</sup> system and the trial versions were in use, which doesn't ensure full functionality.

Commissioner replied (September 2005) that documentation and modification implementation policy would be implemented with immediate effect and the IDS would be implemented at intranet level.

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<sup>50</sup> Intrusion detection system (IDS) secures networks and works in conjunction with routers and firewalls by monitoring network usage anomalies and it protects the information system resources from external and internal misuse by notifying administrators of a perceived threat

### 3.5.14 Database security

**Audit trails not verified periodically to ensure proper authorisation to the deletions and updations**

Apart from 'Sys' and 'System' there were three more users with DBA privileges granted, though not even a single DBA had been administering database thereby exposing the database to risks of unauthorised manipulations. It was observed that eSeva user entrusted with collections of taxes had 'create table, and create view' privileges though not required and only 'insert' privilege on collection table would suffice.

Database Audit trail has been enabled on the "collection" tables. The trail gives the details of the actions performed on those tables. As seen from the trails there were 'updations' and 'deletions' made on this table but the updated value and the old values were not captured in logs. These audit trails were not verified periodically to ensure that the deletions and updations had proper authorisation.

Commissioner replied (September 2005) that a clear policy in this regard would be formed. He also stated that the additional privileges given to e-Seva user have been revoked and additional DBA grants have also been deleted.

### 3.5.15 Password policy

**No documented password policy exists**

The Password Policy was found to have the following deficiencies causing threats of unauthorised attempts and modifications etc.:

- No mandatory change of password after first log-on, no minimum length of passwords, no restriction for number of login attempts;
- No system of maintaining emergency passwords for servers, network devices, etc. dealt by the System Administrator (a contract personnel). At counters relating to a particular circle same username and password were used by multiple users;
- Application displayed all the usernames in dropdown list, leaving scope for intrusion by knowing only the password.

Commissioner accepted the audit objection and stated (September 2005) that all security related issues would be addressed in the new security documentation to be developed.

## Error management

### 3.5.16 Computation of taxes

**Computing facilities of hardware/software not effectively used**

Computation of property tax, trade licences and advertisement fees were not done by the system. Instead the tax was always computed by the concerned valuation officers and entered in the input form. It was observed that property tax data contained 67906 records where the benchmark rates were not applied. Even if the least of the benchmark rate (Rs 0.40), where category is residential (22797 records), is applied, 7896 records showed short tax assessment amounting to Rs 56.81 lakh. Thus the MCH did not effectively use the computing facilities of the hardware and software. It was only using the database with simple interface for collection of taxes.

## **Property tax**

### **3.5.17 Software validations**

As of August 2005 the bill collectors were still doing many collections manually and such transactions were updated from local servers at Circle Offices. There was no filtration of data accessed at the Circle Offices. This resulted in payments towards records kept under delete status in the database.

Many key fields like door numbers, assessee names and plinth area were kept blank in the database due to lack of validation, leading to the possibility of non-communication of demand notices to the assessees.

### **3.5.18 Incomplete data**

It was observed during audit that the database consisted of incomplete data or inaccurate data relating to property tax (*Appendix 3.12*) due to the following reasons:

- Data entry errors
- Incorrect/inconsistent information provided by the field staff in the input forms/assessment register.

Commissioner replied (September 2005) that necessary rectification measures have been taken up.

## **Births and Deaths**

**3.5.19** Data entry of births and deaths from 1986 to 2001 was outsourced (September 2001 and January 2002) to different private agencies at a cost of Rs 16 lakh. The payment was released to the private agencies after getting the clearance certificate from the concerned Health Section of MCH. Audit noticed that the data was incorrect, as many of the key fields like ward/circle numbers were not fed properly and this was stated to be due to wrong capture of data by agencies. Though the data exists with the MCH since December 2002, no concrete steps have been initiated by it (August 2005) to correct the data.

Test-check, through web, also disclosed irregularities in births and deaths data pertaining to 2001 and afterwards. There were duplicate records with same registration number in births and deaths data. Key field like place of birth contains values like 'not stated', and duplicate records with different registration numbers with same details existed. There was no provision for indicating twins in the certificate/register.

Commissioner replied (September 2005) that the measures to purify the data are being planned by checking with original records.



## **Engineering**

**3.5.20** The main objective of the module is to collect information regarding the works undertaken by the Engineering Department and produce reports as desired. Each work is allotted a unique identification number i.e., Work Identification Number (WIN). This covers technical sanctions, work awarding, work order issue, stage of work, bill preparation and contract registration. Except for generation of WIN code the engineering module of IOLIPS was not being used. Even the work status, which can be viewed through the website, was not up to date (August 2005).

Commissioner replied (September 2005) efforts are being made to link it up to the financial module.

## **Advertisement**

**3.5.21** MCH had been collecting advertisement fee from Hoardings, Glow/ Neon Sign Boards, Brand Names, Mobile Advertisements, etc.

It was found that the Advertisement module was not being used effectively, as the fee was being calculated manually, leaving incomplete data in the database.

Commissioner replied (September 2005) that all the records were updated as on 31 March 2005 and the discrepancies rectified.

## **3.5.22 Conclusions**

MCH decided, as a matter of policy, to develop Integrated Online Information Processing System as a part of *e-governance* to enhance civic services to the citizens. Although MCH has been spending around Rs 2 crore per year on maintenance of infrastructure relating to Information Technology it failed to implement the computerisation of all the functions of MCH and integrate them. Critical issues like logical access control measures, back up and business continuity procedures, etc. were not addressed. While the environmental and application controls were weak, no documentation policy or security policy existed with the MCH. The computerised system suffers from inadequate input controls and poor validations, resulting in generation of incomplete and inaccurate data. Data relating to property tax, birth and deaths and advertisement fee was incomplete and incorrect in many cases causing generation of faulty MIS reports rendering decision making risky. It could not also use effectively the computing facilities of the hardware/software available with it. These shortcomings resulted in short assessment/collection of taxes.

## **3.5.23 Recommendations**

- There is an urgent need for developing, testing and implementation of proper Business Continuity Plan and Disaster Recovery Plan.
- Suitable personnel need to be identified and be associated with the development of applications so as to create useful applications.

- Access logs should be created and maintained. Review of audit trails should be conducted periodically to take corrective action.
- Proper password policy should be framed, documented, circulated, and maintained.
- Proper maintenance and tuning of the database should be done periodically to maintain the health of the database.
- Efforts should be made to assess the demand through the application system itself instead of manual calculation.
- There is a need to redesign the forms with proper validations; modifications to the data from the back-end should be stopped.
- Data should be captured for all the field items, ensuring correctness, consistency, completeness and integrity. Efforts should be made to purify the data.

**3.5.24** The above points were discussed with the Commissioner, Assistant Commissioner (Finance) and all concerned officers of MCH in the exit conference held in September 2005. The recommendations were also discussed. The Commissioner accepted the points brought out by Audit and stated that rectificatory measures would be taken for effective delivery of civic services and other infrastructure facilities to the citizens of the twin cities of Hyderabad and Secunderabad. The Secretary to Government endorsed the views of the Commissioner.