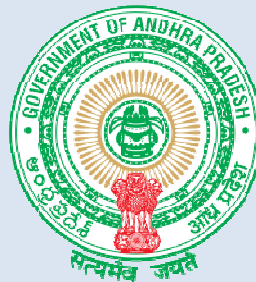




सत्यमेव जयते

**Report of the
Comptroller and Auditor General of India
on
Local Bodies
for the year ended 31 March 2015**



Government of Andhra Pradesh

Report No 1 of 2016

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Preface

This report for the year ended March 2015 has been prepared for submission to the Governor of Andhra Pradesh under the CAG's DPC Act, 1971.

The Report contains significant results of the audit of the Panchayat Raj Institutions and Urban Local Bodies in the State including departments concerned.

The issues noticed in the course of test audit for the period 2014-15 as well as those issues which came to notice in earlier years, but could not be dealt within the previous Reports have also been included, wherever necessary.

The audit has been conducted in conformity with Auditing Standards issued by the Comptroller and Auditor General of India.

Overview

1 About this Report

This Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from performance audit of selected programmes of Panchayat Raj and Rural Development (PR&RD) and Municipal Administration and Urban Development (MA&UD) departments implemented with involvement of Local Bodies along with compliance audit of PRIs and ULBs.

This report also contains overview of finances and accounts of local bodies and observations on financial reporting.

2 Significant Audit findings

This Audit Report includes results of one performance audit and three compliance audit paragraphs of PRIs and ULBs. Draft performance audit and compliance audit paragraphs were forwarded to Government and replies wherever received have been duly incorporated in the Report. Significant audit findings relating to their audits are discussed below.

2.1 Performance Audit on Infrastructural development in slums identified under IHSDP

Integrated Housing and Slum Development Programme (IHSDP) is one of the components of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) launched by Government of India (GoI) in December 2005 to encourage reforms and fast track planned development of identified cities. This programme combines the Valmiki Ambedkar Awas Yojana (VAMBAY) and National Slum Development Programme (NSDP) to bring about an integrated approach in improving the living conditions of urban slum dwellers by providing adequate shelters, amenities and community infrastructure. The programme is applicable to all the cities and towns as per census 2001 except those covered under JNNURM. The basic objective of the programme is to strive for holistic slum development with a healthy and enabling urban environment. Out of 27 projects sanctioned (2007-09) in the State for infrastructure development under IHSDP at a cost of ₹241.30 crore, ten¹ projects costing ₹110.43 crore were selected for detailed scrutiny based on the highest approved cost in each of the districts. Performance Audit of Infrastructural Development in slums identified under IHSDP revealed the following:

Programme was implemented in 27 non-notified slums, three hazardous/objectionable slums and 65 slums in private owned lands by incurring an expenditure of ₹44.93 crore in violation of Government orders.

(Paragraphs 4.6.1(iii, iv and v))

¹ Anakapalli, Chirala, Kakinada, Kavali, Kurnool, Machilipatnam, Madanapalli, Narasaraopet, Pulivendula and Guntur (Pilot study)

Preparation of Detailed Project Reports suffered from various deficiencies viz., non-inclusion of existing facilities/amenities in the slums, non-convergence with other departments etc.

(Paragraph 4.6.2)

Due to non-completion of housing components, infrastructure created at a cost of ₹16.38 crore in three layouts in Kakinada, Kavali and Madanapalli ULBs remained unutilised.

(Paragraph 4.7.2.1)

Due to non-availability of sites, construction of community utility centres and community toilets were not taken up. Further, eleven community utility centres constructed in test-checked projects were not put to use defeating the intended purpose.

(Paragraphs 4.7.2.5 & 4.7.4)

Despite completion of all the projects, State Level Nodal Agency (SLNA) retained an amount ₹57.10 crore as of March 2015 without refunding to the GoI/State Government.

(Paragraph 4.8.2)

Monitoring system was not effective as evident from shortfall in training programmes, non-conducting of social audits etc.

(Paragraphs 4.11.2, 4.11.3 & 4.11.4)

Despite implementation of various programmes/schemes for providing basic infrastructure facilities and improving conditions in the slums from time to time, de-notification process was not taken up by the ULBs of test-checked projects. The overall number of slums increased despite implementation of the programme.

(Paragraph 4.11.5)

2.2 Compliance Audit Paragraphs

2.2.1 Municipal Solid Waste Management (MSWM)

Government of India notified “The Municipal Solid Waste (Management and Handling) Rules 2000” in September 2000 to manage the increasing quantum of waste generated due to urbanisation. Pursuant to this, Government of the composite State of Andhra Pradesh formulated guidelines in June 2005 to promote awareness among the public about the principles of waste management and ensure that the cities and towns in the State are clean with high quality of public health.

Audit of implementation of Solid Waste Management (SWM) by Urban Local Bodies (ULBs) in Andhra Pradesh was conducted in five Municipal Corporations (Guntur, Kadapa, Nellore, Tirupati and Vijayawada) and four Municipalities (Adoni, Machilipatnam, Nandyal and Vizianagaram) in the State. It was observed

that ULBs have not been compliant with the Municipal Solid Waste (Management and Handling) Rules in several regards relating to collection, segregation, storage, processing and disposal.

Segregation of Municipal Solid Waste (MSW) was not done at source point and door-to-door collection of wastes was practiced sporadically.

(Paragraphs 5.1.4.2 (ii) & (iii))

Manpower was engaged and vehicles were procured in excess of requirement.

(Paragraphs 5.1.4.2 (v) & 5.1.4.3)

Appropriate technology was not adopted for processing of waste to minimize burden on landfill. Segregation of e-waste was not done either at source or at transfer station/dumping yard in any of the test-checked Municipalities/Corporations leading to environmental hazard.

(Paragraphs 5.1.4.4 & 5.1.4.4 (i))

There was no system for generation of power from garbage.

(Paragraph 5.1.4.5 (ii))

Monitoring mechanism was not adequate.

(Paragraph 5.1.4.6)

2.2.2 Delayed remittances resulted in avoidable expenditure

Failure of the Society for Elimination of Rural Poverty (SERP) in remitting Provident Fund Contributions on time resulted in avoidable expenditure of ₹1.67 crore on damage charges and interest, besides incurring liability of ₹0.19 crore on pending charges.

(Paragraph 2.1)

2.2.3 Avoidable late payment charges of ₹5.10 crore

Failure of Nellore Municipal Corporation to ensure payment of electricity bills in respect of eight High Tension services in time resulted in avoidable late payment charges to the tune of ₹5.10 crore.

(Paragraph 5.2)

Part - A
Panchayat Raj Institutions

Chapter – I

An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayat Raj Institutions

Chapter I

An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayat Raj Institutions

An Overview of the Functioning of the Panchayat Raj Institutions (PRIs) in the State

1.1 Introduction

Government of India (GoI) enacted (1992) 73rd amendment to the Constitution to empower Panchayat Raj Institutions (PRIs) as local self-governing institutions to ensure a more participative governing structure in the country. GoI further entrusted to the PRIs the implementation of various socio-economic development schemes including those enumerated in the Eleventh Schedule to the Constitution.

The States, in turn, were required to entrust these local bodies with such powers, functions and responsibilities as to enable them to function as institutions of self-governance and implement schemes for economic development and social justice.

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

1.1.1 State profile

As per 2011 census, total population of the 13 districts of Andhra Pradesh State was 4.96 crore, of which 3.50 crore (71 *per cent*) lived in rural areas. A profile of rural Andhra Pradesh is given below:

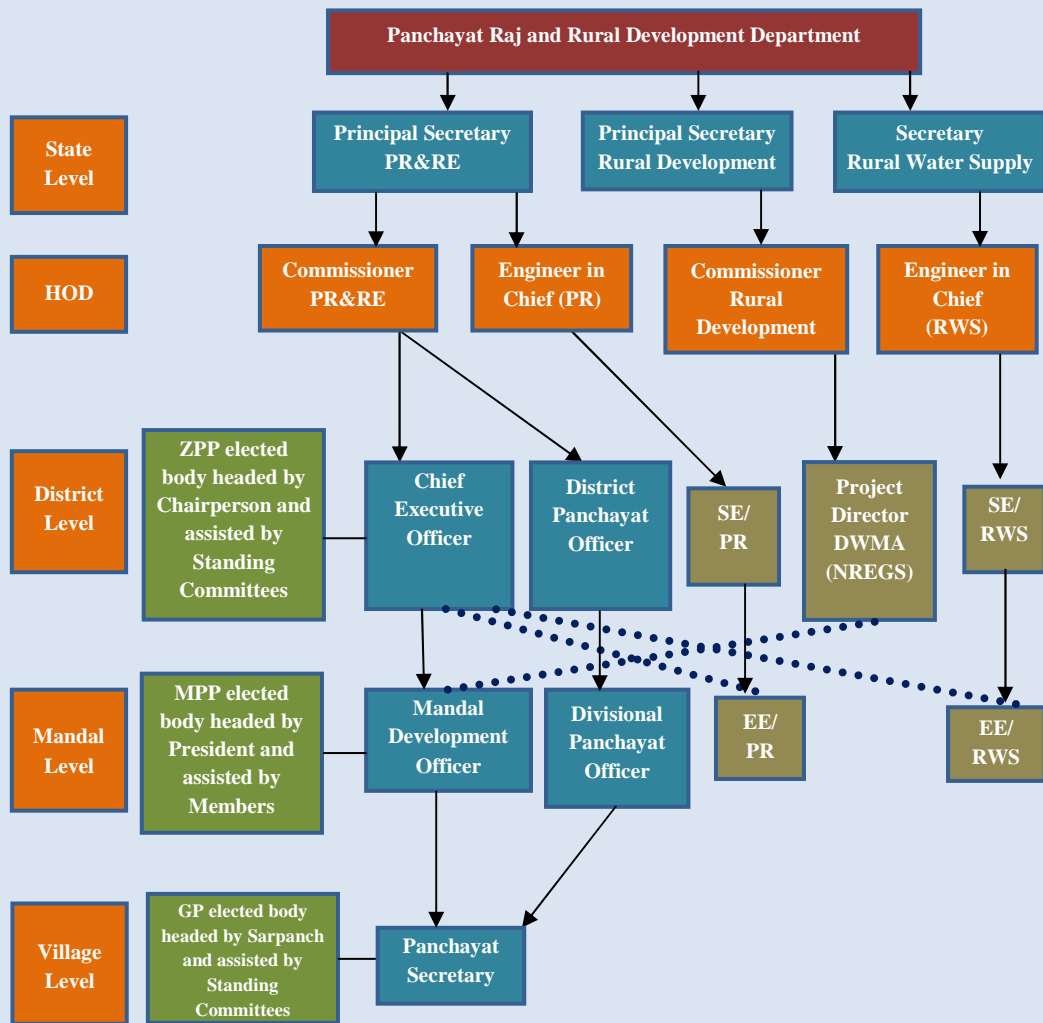
Table 1.1

Sl. No.	Indicator	Unit	State
1.	Rural population	Crore	3.50
2.	Rural population density	Sq. Km	224
3.	Rural sex ratio	Females per 1000 Males	994
4.	Rural literacy rate	Percentage	62.37
5.	Zilla Praja Parishads	Number	13
6.	Mandal Praja Parishads	Number	660
7.	Gram Panchayats	Number	12,918
Total number of PRIs (5+6+7)			13,591

Source: Information furnished (June 2015) by Commissioner Panchayat Raj and Rural Development (CPR&RD) and 'Andhra Pradesh at a Glance' published (January 2015) by State Government

1.2 Organisational set-up of PRIs

Organisational arrangements for the PRIs, inclusive of Government machinery and elected representatives in the State, are as follows.



Dotted lines represent partial supervision

The PRIs are under the administrative control of the Commissioner, Panchayat Raj and Rural Employment (CPR&RE). The elected members of ZPP, MPP and GP are headed by Chairperson, President and Sarpanch respectively. They convene and preside over the meetings of standing committees and General body. The executive authorities of ZPP, MPP and GP are Chief Executive Officer, Mandal Parishad Development Officer and Panchayat Secretary respectively. They hold the executive powers for the purpose of carrying out the provisions of the APPR Act, 1994.

1.3 Functioning of PRIs

Eleventh Schedule, to 73rd Constitutional Amendment Act, 1992, listed 29 subjects for devolution to strengthen the PRIs. During 2007-08, State Government devolved

10¹ functions to PRIs and, thereafter, no functions were devolved. Funds relating to devolved functions are being released to PRIs through line departments concerned. As per the information furnished (November 2015) by CPR&RD, only three departments released funds amounting to ₹17.05 crore to PRIs in 13 districts during 2014-15 (*Appendix-1.1*).

1.4 Formation of various committees

As per the provisions of APPR Act, 1994 various committees are constituted at ZPP, MPP and GP level along with District Planning Committee (DPC). At ZPP level, seven² standing committees are to be constituted to monitor the progress of implementation of works and schemes related to subjects assigned to them. In every MPP and GP, there shall be functional committees for agriculture, public health, water supply, sanitation, family planning, education, communication etc., to monitor the progress of implementation of works and schemes. During the year 2014-15, scrutiny of the records of 68 PRIs revealed that in respect of 11³ PRIs, functional committees were not constituted.

The State is empowered to constitute a District Planning Committee (DPC) at district level. DPC shall ensure that each Panchayat in the district prepares a development plan for the financial year, which shall be consolidated into the District Development Plan and shall be submitted to the Government for incorporation into the State plan. Scrutiny of records of Anantapur and YSR districts revealed that there were delays in finalisation of annual plans for the years 2012-13 to 2014-15 by the DPCs and the delays ranged from 196 days to 317 days.

1.5 Audit arrangement

1.5.1 Primary Auditor

Director, State Audit (DSA) functioning under the administrative control of Finance Department, is the statutory auditor for PRIs under Andhra Pradesh State Audit Act, 1989. As per Section 11(2) of the Act, DSA is required to prepare a Consolidated State Audit and Review Report and present it to the State Legislature. The DSA has four Regional Offices and 13 District offices in Andhra Pradesh State. As per Section 10 of the Act, DSA is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of local authorities or other authorities and such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

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

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

³ 8 GPs of Chittoor district and 3 GPs of Guntur district

As per the information furnished (May 2015) by DSA, audit of two ZPPs, four MPPs and 182 GPs were in arrears. DSA attributed (May 2015) non-production of records by GPs and MPPs for delay in audit of accounts. As of March 2015, there were 66,432⁴ cases pending recovery of surcharge for ₹86.82 crore. No amounts were recovered during the year 2014-15.

DSA submitted Consolidated State Audit and Review Reports up to the year 2010-11 to Finance department and the Government tabled (February 2014) the Report in the State Legislature. DSA stated (May 2015) that Consolidation of Report for 2011-12 was completed and printing work was not taken up due to lack of funds. Consolidation of Report for the years 2012-13 and 2013-14 is yet to be taken up. Audit on the accounts for the year 2014-15 is under progress. Some of the major findings noticed in 2010-11 report relate to excess utilisation/non-utilisation/diversion/mis-utilisation of grants, non-collection of taxes and fee, advances pending adjustments etc.

1.5.2 Audit by Comptroller and Auditor General of India

CAG conducts audit of PRIs under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of the Eleventh Finance Commission, State Government entrusted (August 2004) the responsibility for providing Technical Guidance and Supervision (TGS) in connection with the accounts and audit of Local Bodies under Section 20(1) of CAG's (DPC) Act.

Based on test check of PRIs, a consolidated report (TGS Note) is prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. TGS note for the year 2014-15 was issued in October 2015.

Planning and conduct of audit

Audit process commences with assessment of risk of department/local body/scheme/programme etc., based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers and assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit is decided and an annual audit plan is formulated to conduct audit. During 2014-15, 68 PRIs (2 ZPPs, 6 MPPs and 60 GPs) falling under the department of Panchayat Raj and Rural Development were subjected to compliance audit.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2014 was tabled in the State Legislature in March 2015.

1.6 Response to Audit Observations

After completion of audit, Inspection Reports (IRs) containing audit findings are issued to head of the unit concerned. Heads of offices and next higher authorities are

⁴ Upto 2013-14 66,422 cases ₹86.69 crore and during 2014-15 10 cases ₹0.13 crore

required to respond to observations contained in IRs within one month and take appropriate corrective action. Audit observations communicated in IRs are also discussed in meetings at district level by officers of the departments with officers of Principal Accountant General’s office.

As of August 2015, 210 IRs containing 1,282 paragraphs pertaining to the period up to 2014-15 were pending settlement as given below. Of these, first replies have not been received in respect of 26 IRs and 316 paragraphs.

Table 1.2

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2013-14	208	1,229	24	263
2014-15	2	53	2	53
Total	210	1,282	26	316

Lack of action on IRs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports, dilution of internal controls in preventing corruption and loss to public exchequer.

As per the instructions issued by Finance and Planning Department in November 1993, the administrative departments are required to submit Explanatory Notes on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken. As of August 2015, Explanatory Notes in respect of 37⁵ paragraphs/performance audit reports that featured in Audit Reports for the years 2005-06 to 2013-14 are awaited.

Accountability Mechanism and Financial Reporting Issues

Accountability Mechanism

1.7 Ombudsman

Establishment of an independent Local body ombudsman system is one of the conditions to be complied with to have access to the performance grants recommended by Thirteenth Finance Commission (2011-15). CPR&RD stated (August 2015) that ombudsman system was not adopted. Though independent ombudsman system was not adopted in the state, the State Government complied this condition by making amendments to the existing AP Lokayukta Act 1983 and hence, grants were released by GoI.

⁵ 2005-06 (6 Paragraphs), 2006-07 (9 Paragraphs), 2007-08 (7 Paragraphs), 2008-09 (5 Paragraphs), 2009-10 (6 Paragraphs), 2012-13 (2 Paragraphs) and 2013-14 (2 Paragraphs)

1.8 Social Audit

Social audit involves verification of implementation of programme/scheme and delivery of its envisaged results by the community with active involvement of primary stakeholders. Social Audit is widely accepted as an important mechanism to address corruption and strengthen accountability in government service delivery. The State Government initiated social audits in 2006 through the Strategic Performance Innovation Unit (SPIU) to undertake social audit of implementation of Food for Work Programme in the State on a pilot basis. In May 2009, State Government created an independent autonomous body called the Society for Social Audit, Accountability and Transparency (SSAAT) to carry out social audits of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and other anti-poverty/welfare programmes of the Department of Rural Development.

Post bifurcation of the State of Andhra Pradesh into Telangana and residuary State of Andhra Pradesh with effect from 2 June 2014, the existing Society has been retained for Telangana and a new Society was registered under the Registrar of Societies Act, 2001 for the residuary State of Andhra Pradesh.

A review of 'Audit of Scheme Rules, 2011 (Social Audit)' was undertaken by audit for the period 2012-15. Major audit findings are listed below:

- i. SSAAT was envisaged to be an independent body for facilitating and monitoring the social audit process in the State. However, all the policy decisions, finance and administrative issues with long term implications or any new social audit programmes proposed to be taken up by SSAAT are being administered by the Principal Secretary, RD. Further, decisions relating to release of funds or involving expenditure of over rupees one lakh were taken by the Commissioner, RD (CRD). Even the calendar of social audit schedule was approved by the CRD. Thus, the Social Audit Unit (SAU) lacked functional independence in the State.
- ii. GoI guidelines (March 2009) on MGNREGS provided for six *per cent* of the expenditure on the programme for administrative expenditure. Up to one *per cent* of the total annual expenditure under MGNREGS may be used for meeting cost of establishment of SAU and conducting of social audit of MGNREGS works. Audit scrutiny of the funds released during 2012-15 for Social Audit revealed that SSAAT was pegged at approximately 0.56-0.70 *per cent* of the total expenditure on MGNREGS.
- iii. As per Section 3(1) of Scheme Rules, State Government should facilitate conduct of Social Audit of works taken up under the Act in every Gram Panchayat at least once in six months and the Social Auditors are required to audit 100 *per cent* verification of muster rolls and work site. During 2012-15, Social Audit covered 93 to 96 *per cent* of GPs implementing MGNREGS in each year and only 7 to 8 *per cent* of GPs were covered half yearly as stipulated due to paucity of funds and inadequate manpower.
- iv. As per State Social Audit Rules, the District Vigilance Cell is responsible to take

follow up action on the social audit observations immediately (within three days) on conclusion of the Mandal social audit public hearing. Deviations found in social audit during 2012-15 were ₹405.17 crore, of which ₹203.65 crore was approved by presiding officer⁶. Against this, only ₹2.13 crore (one *per cent*) was recovered as of March 2015. The post of Vigilance Officer is vacant in 12 out of the 13 districts of the State.

1.9 Submission of Utilisation Certificates (UCs)

Scheme guidelines of Centrally Sponsored Schemes (CSS) and Central Finance Commissions (CFCs) stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI. Scrutiny of records of 68 PRIs during 2014-15 revealed that in respect of 25⁷ PRIs, UCs amounting to ₹1.83 crore for the period (2010-2014) were yet to be furnished as of March 2015.

1.10 Internal Audit and Internal Control System of PRIs

As per the information furnished (August 2015) by CPR&RD no internal audit system was adopted. As per Andhra Pradesh Panchayat Raj Officers, Delegation of Powers Rules, 2000 the Commissioner shall inspect all ZPPs once in calendar year and submit copies of Inspection Notes for review by the Government. CPR&RD stated (June 2015) that inspections would be taken up in due course. Scrutiny of records of two ZPPs during 2014-15 revealed that no inspections were being conducted during 2010-14.

In respect of GPs, as per Section 44(2)(a)(b) of APPR Act, 1994 the Government should appoint District Panchayat Officer, Divisional Panchayat Officer and Extension Officers as Inspecting Officers for overseeing the operations of Gram Panchayat (GP). Scrutiny of records of 60 GPs during 2014-15 revealed that in respect of 10⁸ GPs, inspections were not conducted (2010-14) by any of the above authorities, while no inspection reports were found in support of inspections conducted by the authorities concerned in four⁹ GPs.

Financial Reporting Issues

1.11 Sources of funds

Resource base of PRIs consists of own revenue generated by collection of tax¹⁰ and non-tax¹¹ revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development

⁶ District Programme Officer nominates a senior officer not less than the rank of the Additional District Programme Coordinator for presiding over the public hearing

⁷ 11 GPs of Chittoor district, 5 GPs of East Godavari district and 9 GPs of Guntur district

⁸ 6 GPs of Chittoor district, 3 GPs of East Godavari district and 1 GP of Guntur district

⁹ 3 GPs of Chittoor district and 1 GP of East Godavari district

¹⁰ Property tax, advertisement fee etc.

¹¹ Water tax, rents from markets, shops and other properties, auction proceeds etc.

purposes and other receipts¹². The authorities responsible for reporting the use of funds in respect of Zilla Praja Parishads (ZPPs), Mandal Praja Parishads (MPPs) and Gram Panchayats (GPs) are the Chief Executive Officer (CEO), Mandal Parishad Development Officer (MPDO) and Panchayat Secretary respectively.

Summary of receipts of PRIs for the years 2010-15 are given below. Receipts for the period 2010-14 pertain to the composite state whereas the receipts for 2014-15 pertain to the state of Andhra Pradesh.

Table 1.3

(₹ in crore)

Sl. No.	Receipts	2010-11	2011-12	2012-13	2013-14	2014-15
1	Own Revenue	955.77	1,009.24	976.50	736.50	306.31*
2	Assigned Revenue¹³	262.39	344.02	154.36	457.24	1,137.12#
3	State Government Grants	797.05	1,185.85	343.97	350.59	136.78
4	GoI Grants	2,639.37	2,342.19	1,201.03	1,330.86	21.86
5	Other Receipts	362.45	331.68	84.18	Nil	NA**
	Total	5,017.03	5,212.98	2,760.04	2,875.19	1,602.07

Source: Commissioner, Panchayat Raj

* Data pertains to 12 ZPPs, MPPs of 9 districts and GPs of 13 districts

Data pertains to 11 ZPPs, MPPs of 8 districts and GPs of 13 districts

** Data not made available

1.11.1 Financial assistance to PRIs

Financial assistance is provided by State Government to PRIs by way of grants and loans. Details of the financial assistance provided by the Government to PRIs, for the years 2010-14 pertaining to the composite state and for 2014-15 pertaining to the state of Andhra Pradesh, are given below:

Table 1.4

(₹ in crore)

Sl. No.	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Budget	292.29	302.75	329.27	328.89	214.68	1,467.88
Actual Release	141.64	151.31	158.10	164.57	106.39	722.01
Expenditure	122.08	96.87	98.20	114.85	116.04	548.04

Source: Commissioner, Panchayat Raj

¹² Donations, interest on deposits etc.

¹³ Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to Local Bodies in the form of assigned revenue

1.11.2 Fund flow arrangement in flagship programmes

Details of fund flow with regard to the two flagship programmes of GoI are given below:

Scheme	Fund flow
Backward Region Grant Fund (BRGF)	<p>The funding under the scheme is made by GoI through two funding windows namely i) capability building fund and ii) development grant. The funds should be released by State Government to PRIs within 15 days of release of funds by GoI failing which State Government has to pay penal interest to PRIs at RBI rate of interest for the period of delay. Funds are to be kept in a nationalised bank or post office by the PRIs and interest earned on these is to be utilised in accordance with the guidelines of the programme.</p> <p>Capability building fund: During 2011-15 (upto 1 June 2014), ₹39.73 crore¹⁴ was released by composite state of Andhra Pradesh towards Capability building fund, of which ₹24.94 crore was incurred as expenditure. Details for the year 2014-15 were not furnished despite specific request.</p> <p>Development grant: During 2011-15, ₹373.54 crore was released by state of Andhra Pradesh towards development grant, of which ₹281.45 crore was incurred as expenditure.</p>
Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	<p>The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) was enacted (September 2005) and implemented in a phased manner. The Act aims at enhancement of livelihood security of the households in rural areas of the country, by providing at least 100 days of guaranteed wage employment in every financial year to every rural household whose adult members volunteer to do unskilled manual work. Creation of durable assets is also an important objective of the Act, with other auxiliary objectives including protection of environment, empowering rural women, reducing rural urban migration, fostering social equity, and strengthening rural governance through decentralization and processes of transparency and accountability.</p> <p>The funds received from GoI and GoAP are pooled in State Employment Guarantee Fund (SEGF). The fund flow is monitored through Central Fund Management System (CFMS). Share of both State and Central is kept with the nodal bank at Hyderabad. The respective designated drawing officers are required to raise the Fund Transfer Orders (FTOs) directly to the Director, EGS as and when wages/payments are due.</p> <p>During 2011-15 (upto 1 June 2014), ₹20,844.32 crore¹⁵ was released by GoI and State Government and ₹21,789.07 crore¹⁶ was incurred as expenditure by</p>

¹⁴ includes interest credited

¹⁵ includes miscellaneous receipts

¹⁶ expenditure from releases during the years and also the balances of previous years

composite state of Andhra Pradesh. From 02 June 2014 to 31 March 2015, ₹1,890.33 crore¹⁷ was released by GoI and State Government and ₹2,059.82 crore¹⁸ was incurred as expenditure by state of Andhra Pradesh.

1.11.3 Application of funds

Summary of expenditure incurred by PRIs for the years 2010-14 pertaining to composite state and 2014-15 to state of Andhra Pradesh is given in Table 1.5.

Table 1.5

(₹ in crore)

Sl. No.	Type of expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
1	Revenue expenditure	3,314.82	2,968.66	1,405.50	3,562.39	1,021.72 [#]
2	Capital expenditure	1,545.82	1,464.15	1,033.47	1,756.98	700.27 [*]
	Total	4,860.64	4,432.81	2,438.97	5,319.37	1,721.99

Source: Commissioner, Panchayat Raj

Data pertains to only 12 ZPPs, MPPs of 9 districts and GPs of Krishna district

* Data pertains to only 11 ZPPs, MPPs of 7 districts and GPs of Krishna district

1.12 Recommendations of the State Finance Commission (SFC)

As per Article 243-I of the Constitution and Section 235 of APPR Act, 1994, constitution of SFC once in five years to recommend devolution of funds from the State Government to Local bodies is mandatory. Third SFC was constituted in January 2003 and submitted its report in 2008. However, State Government issued orders for implementation of the recommendations of SFC only in December 2013. Against ₹1,274.34 crore recommended by SFC for devolution of funds to PRIs of composite State of Andhra Pradesh every year, Government accepted to release only ₹113.64 crore per annum. While ₹664.59 crore per annum was treated as fulfilled on the grounds of allocating the funds under respective heads¹⁹ in Budget, ₹496.11 crore per annum was not accepted²⁰ by the Government. As parallel State Finance Commission was not appointed by December 2013, the Committee of Ministers and Secretaries felt that recommendations of Third Finance Commission could be applied for the period from 2010 to 2015 also. During 2010-15, State Government released ₹214.35 crore to PRIs of Andhra Pradesh state.

¹⁷ includes miscellaneous receipts

¹⁸ expenditure from releases during the year and also the balances of previous year

¹⁹ construction of GP buildings, provision for basic civic amenities and core amenities in GPs, construction and maintenance of rural roads, provision for drinking water facilities in schools, maintenance of cyclone shelters, maintenance of rural water supply schemes and hand pumps released to GPs etc.

²⁰ apportionment of excise income and income from market committees, reimbursement of education contingent grant to ZPPs, provision for rural water supply schemes and rural sanitation

Scrutiny (2014-15) of records of 13²¹ GPs pertaining to SFC grants revealed that an amount of ₹6.82 lakh was lapsed to Government as funds were not utilised in time.

1.13 Recommendations of the Thirteenth Finance Commission

Based on the recommendations of Thirteenth Finance Commission, GoI released funds to ZPPs, MPPs and GPs. The grant is released under two components (basic component and performance based component). A portion of basic as well as performance grant is allocated to special areas²². Allocation and releases for the years 2010-14 pertaining to composite state and information in respect of 2014-15 pertaining to state of Andhra Pradesh are given below:

Table 1.6

(₹ in crore)

13th CFC	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Allocation	486.64	834.77	1,179.62	1,357.06	828.10	4,686.19
Releases	486.64	307.65	0	1,585.57	1,744.40	4,124.26

Source: Ministry of Rural Development, GoI

Scrutiny (2014-15) of records of 8²³ PRIs pertaining to Thirteenth Finance Commission grants revealed that out of ₹17.14 crore released to these PRIs during (2010-14), 22 per cent of funds amounting to ₹3.69 crore remained unspent as of March 2015.

1.14 Maintenance of Records

Records such as Cash book, Assets Register, Advance Register, Stock Registers etc., are to be maintained as per the provisions of APPR Act, 1994 in respect of ZPPs and MPPs and for GPs as per GP Accounts Manual of Panchayat Raj and Rural Development Department. Scrutiny of records of 68 PRIs revealed improper maintenance of cash book in three²⁴ PRIs, non-maintenance of stock registers in seven²⁵ PRIs and improper maintenance of stock registers in two²⁶ PRIs.

1.14.1 Unspent balances in bank accounts of closed schemes

Scheme guidelines stipulate surrender of unspent amount into Government account in respect of closed schemes. State level authorities of the schemes concerned and the Commissioner, PR should watch the balances of closed schemes lying in the accounts of different PRIs. Scrutiny of records of 68 PRIs, during 2014-15, revealed that in respect of one GP in Chittoor district, an amount of ₹3.07 lakh remained unspent in the accounts of closed schemes.

²¹ 1 GP of Chittoor district, 8 GPs of East Godavari district and 4 GPs of Guntur district

²² Schedule areas listed under Schedule-V of Constitution

²³ 4 GPs of Chittoor district, 1 GP of East Godavari district, 2 GPs of Guntur district and ZPP Kadapa

²⁴ 3 GPs of Chittoor district

²⁵ 4 GPs of Chittoor district and 3 GPs of East Godavari district

²⁶ 1 GP each in East Godavari and Guntur districts

1.14.2 Advances pending adjustment

As per Andhra Pradesh Financial Code, advances paid should be adjusted without any delay and the Drawing and Disbursing Officers (DDOs) concerned should watch their adjustment. Scrutiny of records of 68 PRIs during 2014-15 revealed that in respect of six²⁷ PRIs, funds amounting to ₹3.57 lakh advanced to staff for various purposes during 2010-14 remained unadjusted as of March 2015.

1.14.3 Physical verification of stores and stock

Article 143 of Andhra Pradesh Financial Code stipulates that all stores and stock should be verified physically once in a year and a certificate to this effect be recorded by the Head of the Office in the Register concerned. Scrutiny of records of 68 PRIs during 2014-15 revealed that in respect of 20²⁸ PRIs, annual physical verification of stock and stores was not being conducted.

1.14.4 Non-reconciliation of departmental figures with treasury

As per paragraph 19.6 of Andhra Pradesh Budget Manual, DDOs are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent drawals. Scrutiny of records of 68 PRIs during 2014-15 revealed that in respect of 23²⁹ PRIs, reconciliation was pending from 2010-11 onwards.

1.14.5 Cases of misappropriation

Andhra Pradesh Financial Code stipulates responsibilities of Government servants in dealing with Government money, procedure for fixing responsibility for any loss sustained by Government and action to be initiated for recovery. State Government ordered (February 2004) the Secretaries of all the departments to review the cases of misappropriation in their departments on a monthly basis and the Chief Secretary to Government to review these cases once in six months with all the Secretaries concerned. Misappropriation cases noticed by Director, State Audit during 2013-15 yet to be disposed as of May 2015 are given below.

Table 1.7

(₹ in lakh)

Unit	2013-14		2014-15	
	No. of cases	Amount	No. of cases	Amount
Zilla Praja Parishads	2	4.81	3	8.00
Mandal Praja Parishads	4	5.74	21	6.00
Gram Panchayats	111	48.72	625	140.50
Total	117	59.27	649	154.50

Source: Information furnished by Director, State Audit

Urgent action needs to be taken by the Government in this regard.

²⁷ 2 GPs of Chittoor district and 4 GPs of East Godavari district

²⁸ 7 GPs of Chittoor district, 7 GPs of East Godavari district, 5 GPs of Guntur district and ZPP Kadapa

²⁹ 10 GPs of Chittoor district, 4 GPs of East Godavari district, 8 GPs of Guntur district and ZPP Kadapa

1.15 Maintenance of Accounts by PRIs

PRIs maintain accounts on cash basis. Model accounting system was prescribed by GoI in consultation with the Comptroller and Auditor General of India. State Government issued orders (September 2010) for adopting this format using PRIASoft, i.e., Panchayat Raj Institutions Accounting Software developed by National Informatics Centre (NIC).

Government confirmed (September 2014) that online accounting was completed in all the PRIs. However, test check (2014-15) of accounts of 68 PRIs using PRIASoft revealed that four³⁰ PRIs, uploaded the Receipts and Payments in PRIASoft, but Annual Accounts were not being generated. In respect of eight³¹ PRIs, there were discrepancies between PRIASoft generated accounts and manually prepared accounts for the years from 2011-12 to 2013-14.

1.16 Maintenance of database and the formats therein on the finances of PRIs

State Government released (2002-10) Eleventh and Twelfth Finance Commission grants amounting to ₹67.36 crore³² to Commissioner, Panchayat Raj of composite State of Andhra Pradesh for creation of database on finances of PRIs. Of this ₹14.03 crore was allocated to Telangana State and transferred to Commissioner, Panchayat Raj, Telangana. Although Commissioner, Panchayat Raj, Andhra Pradesh stated (September 2015) that certain funds were utilised for purchase of computers and manpower charges, details in this regard were not furnished.

1.17 Conclusion

State Government is yet to devise a system for obtaining a consolidated picture about the finances of the PRIs. State Government devolved 10 out of 29 subjects listed in Eleventh Schedule to 73rd Constitutional Amendment Act, 1992. Of these, funds relating to only three departments (Animal Husbandry, Backward Classes Welfare and Fisheries) were released to PRIs. Thirty three *per cent* of sanctioned posts were lying vacant under various categories. The statutory audit of two ZPPs, four MPPs and 182 GPs to be conducted by DSA were in arrears due to non-production of records.

Accountability framework and financial reporting in PRIs were inadequate as evidenced by non-recovery of amounts towards deviations found in social audit, non-conducting of inspections of ZPPs and GPs by departmental authorities, non-maintenance of cash books and stock registers, non-furnishing of utilisation certificates, non-remittance of unspent balances of closed schemes and advances pending adjustment, non-conducting of physical verification of stores and stock, non-reconciliation of departmental figures with treasury, non-disposal of misappropriation cases, etc.

³⁰ 3 GPs of Chittoor district and 1 GP of East Godavari district

³¹ 6 GPs of Chittoor district and 2 GPs of East Godavari district

³² including interest

Chapter – II
Compliance Audit Paragraph

Panchayat Raj and Rural Development Department

2.1 Delayed remittances resulted in avoidable expenditure

Failure of the Society for Elimination of Rural Poverty (SERP) in remitting Provident Fund Contributions on time resulted in avoidable expenditure of ₹1.67 crore, besides incurring liability of ₹0.19 crore on pending damage charges and interest

As per the provisions of Employees' Provident Funds and Miscellaneous Provisions Act 1952, the recoveries effected by the employer from the wages of employees on account of Provident Fund (PF) have to be remitted to the Fund Commissioner within 15 days after the end of the month. Failure to remit such recoveries within the prescribed time attracts damage charges ranging from 5 per cent (for delays less than two months) to 25 per cent (for delays for six months and above) along with interest at the rate of 12 per cent per annum.

Scrutiny (December 2014) of records of Society for Elimination of Rural Poverty¹ (SERP), Andhra Pradesh relating to recovery and remittance of PF contributions revealed that the Fund Commissioner issued (May 2011 to February 2015) notices amounting to ₹1.86 crore for delays in remittance of contributions as detailed in **Appendix 2.1**. As against the demand, an amount of ₹1.67 crore was paid (June 2012 to December 2014) to Fund Commissioner towards damage charges and interest.

Chief Executive Officer, SERP stated (August 2015) that damage charges were attracted due to decision (July 2009) of SERP Council to implement Employees' Provident Fund (EPF) scheme to all the SERP employees on par with Fixed Tenure Employees (FTE) retrospectively from 01 January 2008 instead of 01 April 2008. Reply is not acceptable as the date of remittance becomes due from the actual month of recovery, and is not dependent on any decision of SERP. SERP had, in fact, been defaulting in remitting recoveries for the period from November 2002 to April 2014, long before the decision regarding FTE was taken in 2009.

Thus, failure of authorities of SERP in remitting Provident Fund Contributions on time resulted in avoidable expenditure of ₹1.67 crore and committed liability of ₹0.19 crore on the pending damage charges and interest.

¹ Established (2000) by the State Government as a sensitive support structure to facilitate poverty reduction through social mobilization and improvement of Livelihoods of rural poor. District Project Monitoring Unit (DPMU) and Tribal Project Monitoring Unit (TPMU) implements the programmes of SERP in districts and tribal areas respectively

Part - B

Urban Local Bodies

Chapter – III

An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Urban Local Bodies

Chapter III

An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Urban Local Bodies

An Overview of the Functioning of the Urban Local Bodies (ULBs) in the State

3.1 Introduction

Government of India (GoI) enacted (1992) 74th amendment to the Constitution to empower Urban Local Bodies (ULBs) as local self-governing institution to ensure a more participative governing structure in the country. GoI further entrusted the ULBs with implementation of various socio-economic development schemes, including those enumerated in the Twelfth Schedule to the Constitution.

The States, in turn were required to entrust these local bodies with such powers, functions and responsibilities as to enable them to function as effective institutions of self-governance and implement schemes for economic development and social justice.

Accordingly, State Government enacted Andhra Pradesh Municipal Corporations Act, 1994 to set up Municipal Corporations in the State. Provisions of Hyderabad Municipal Corporation (HMC) Act, 1955 including the provisions relating to levy and collection of taxes or fees were extended to all other Municipal Corporations in the State of Andhra Pradesh. Municipalities are, however, governed by the Andhra Pradesh Municipalities Act, 1965.

3.1.1 State profile

As per the 2011 census, the total population of the 13 districts of Andhra Pradesh State was 4.96 crore, of which 1.46 crore (29 *per cent*) lived in urban areas. A profile of urban Andhra Pradesh is given below:

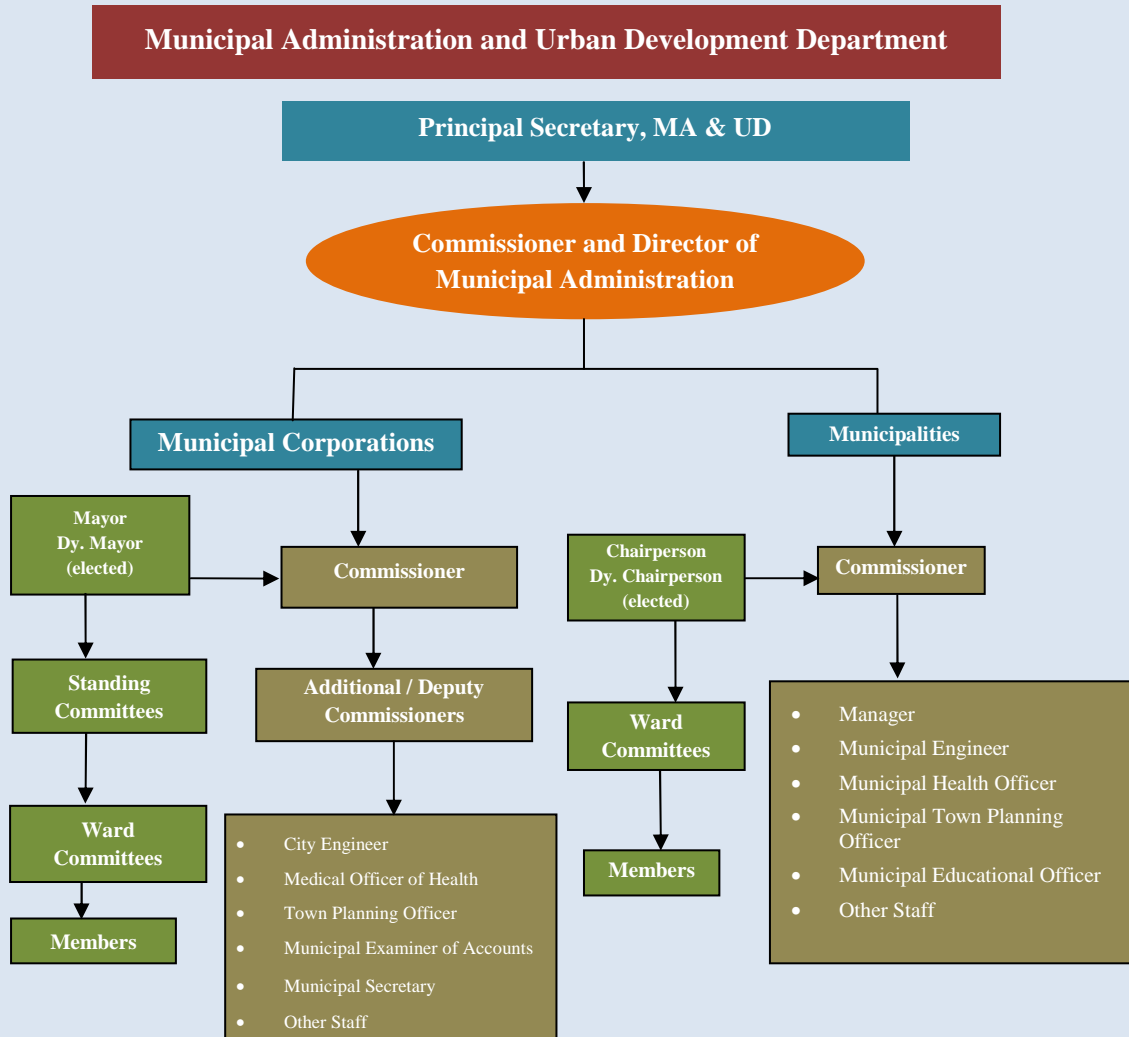
Table 3.1

Sl. No.	Indicator	Unit	State
1.	Urban population	Crore	1.46
2.	Urban population density	Sq. Km	3,593
3.	Urban sex ratio	Females per 1000 Males	1,004
4.	Urban literacy rate	Percentage	79.17
5.	Municipal Corporations	Number	13
6.	Municipalities	Number	72
7.	Nagar Panchayats	Number	25
Total number of ULBs (5+6+7)			110

Source: Information furnished (September 2015) by Commissioner and Director Municipal Administration (CDMA) and 'Andhra Pradesh at a Glance' published (January 2015) by State Government

3.2 Organisational set-up of ULBs

Organisational arrangements for the ULBs, inclusive of Government machinery and elected representatives in the State, are as follows.



The ULBs are under the administrative control of the Commissioner and Director of Municipal Administration (CDMA). The elected members of ULBs are headed by Chairperson. They convene and preside over the meetings of Standing committees and General body. The Municipalities and Corporations transact their business as per the provisions of the Acts concerned. Day-to-day administration of all the ULBs rests with the Commissioner.

3.3 Functioning of ULBs

The 74th Constitutional Amendment Act, 1992 identified 18 functions for ULBs as incorporated in Twelfth Schedule to the Constitution. All the functions mentioned in this Schedule were devolved to ULBs in the State except 'Fire Services'. The Department stated (September 2015) that devolution of 'Fire Services' was under consideration at Government level.

3.4 Formation of various committees

The Municipalities and Corporations transact their business as per the provisions of the Acts concerned. In respect of the Corporations, the Standing Committees, comprising the Chairpersons of all the Ward Committees under them, meet at intervals prescribed by the Act. Similarly, in respect of the Municipalities, the Municipal Ward Committees meet at prescribed intervals to transact business, make regulations and scrutinise municipal accounts. The main functions of the Ward Committees (both Municipalities as well as Corporations) include provision and maintenance of sanitation, water supply and drainage, street lighting, roads, market places, playgrounds, school buildings, review of revenue collections, preparation of annual budget etc.

3.5 Audit arrangement

3.5.1 Primary Auditor

Director, State Audit (DSA) functioning under the administrative control of Finance Department, is the statutory auditor for ULBs under Andhra Pradesh State Audit Act, 1989. As per Section 11(2) of the Act, DSA is required to prepare a Consolidated State Audit and Review Report and present it to the State Legislature. The DSA has four Regional Offices and 13 District offices in Andhra Pradesh State. As per Section 10 of the Act, DSA is empowered to initiate surcharge proceedings against the persons responsible for causing loss to the funds of local authorities or other authorities and such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

As per the information furnished (May 2015) by DSA, audit of 196 accounts were in arrears. DSA attributed (May 2015) non-production of records/non-finalisation of accounts by Municipal Corporations, Municipalities and Nagar Panchayats for delay in audit of accounts. As of March 2015, there were 98¹ cases pending for recovery of surcharge amounting to ₹1.19 crore. During 2014-15, no surcharge amount was recovered and no surcharge proceedings were issued.

DSA submitted Consolidated State Audit and Review Reports up to the year 2010-11 to the Finance department and the Government tabled (February 2014) the Report in the State Legislature. DSA stated (May 2015) that Consolidation of Report for 2011-12 was completed. However, printing work was not taken up due to lack of funds. Consolidation of Report for the years 2012-13 and 2013-14 is yet to be taken up. Audit of the accounts for the year 2014-15 is under progress. Some of the major findings noticed in 2010-11 report relate to excess utilisation/non-utilisation/diversion/mis-utilisation of grants, non-collection of taxes and fee, advances pending adjustments etc.

¹ Upto 2013-14 98 cases ₹1.19 crore

3.5.2 Audit by Comptroller and Auditor General of India

CAG conducts audit of ULBs under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of the Eleventh Finance Commission, State Government entrusted (August 2004) the responsibility for providing Technical Guidance and Supervision (TGS) in connection with the accounts and audit of Local Bodies under Section 20(1) of CAG's (DPC) Act.

Based on test check of ULBs a consolidated report (TGS Note) is prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. TGS note for the year 2014-15 was issued in October 2015.

Planning and conduct of audit

Audit process commences with assessment of risk of department/local body/scheme/programme etc., based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers and assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit is decided and an annual audit plan is formulated to conduct audit. During 2014-15, 10 ULBs (four Municipal Corporations and six Municipalities) falling under the department of Municipal Administration and Urban Development were subjected to performance and compliance audit.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2014 was tabled in the State Legislature in March 2015.

3.6 Response to audit observations

After completion of audit, Inspection Reports (IRs) containing audit findings are issued to head of the unit concerned. Heads of offices and next higher authorities are required to respond to observations contained in IRs within one month and take appropriate corrective action. Audit observations communicated in IRs are also discussed in meetings at district level by officers of the departments with officers of Principal Accountant General's office.

As of August 2015, 123 IRs containing 3,154 paragraphs pertaining to the period up to 2014-15 were pending settlement as given below. Of these, first replies have not been received in respect of 79 IRs and 2,249 paragraphs.

Table 3.2

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2010-11	82	1,786	42	952
2011-12	3	53	1	26
2012-13	25	800	24	784
2013-14	3	90	2	62
2014-15	10	425	10	425
Total	123	3,154	79	2,249

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

As per the instructions issued by Finance and Planning Department in November 1993, the administrative departments are required to submit Explanatory Notes on paragraphs and reviews included in the Audit Reports within three months of their presentation to the Legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken. As of August 2015, Explanatory Notes in respect of 47² paragraphs/performance audit reports that featured in Audit Reports for the years 2005-06 to 2013-14 are awaited.

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

3.7 Ombudsman

Establishment of an independent Local body ombudsman system is one of the conditions to be complied with to have access to the performance grants recommended by Thirteenth Finance Commission (2011-15). Though independent ombudsman system was not adopted in the state, the state government complied with this condition by making amendments to the existing AP Lokayukta Act 1983. Hence grants were released by GoI.

3.8 Social Audit

Social Audit setup is yet to be constituted for programmes/schemes implemented by Department of MA&UD.

3.9 Property Tax Board

Thirteenth Finance Commission stipulated that State Government must put in place a Property Tax Board to assist all Municipalities and Municipal Corporations to put in place an independent and transparent procedure for assessing property tax. Accordingly, State Government issued (March 2011) orders for constituting Property Tax Board and amended (2012) Andhra Pradesh Municipalities Act, 1965 to bring the Legislative framework for the functioning of Andhra Pradesh State Property Tax Board.

State Government sanctioned (October 2013) 28 posts under 11 categories for effective functioning of the board. Department stated (January 2015) that the posts of Member Secretary and Assistant Directors were filled and CDMA was in charge of the post of Chairman. However, the Board could not transact their regular business as posts of Chairman and other officers were not filled up on regular basis due to non-finalisation of service rules by the Government.

² 2005-06 (9 Paragraphs), 2006-07 (10 Paragraphs), 2007-08 (10 Paragraphs), 2008-09 (7 Paragraphs), 2009-10 (6 Paragraphs), 2012-13 (1 Paragraphs) and 2013-14 (4 Paragraphs)

3.10 Service Level Benchmark

Thirteenth Finance Commission stipulated that State Government must notify or cause the Urban Local Bodies to notify the service standards of four core sectors viz., water supply, sewerage, storm water drainage and solid waste management to be achieved by them by the end of fiscal year. State Government issued (March 2014) gazette notification fixing targets to be met by ULBs during 2014-15 under these sectors. However, the performance of ULBs in this regard is awaited.

3.11 Fire hazard response

Guidelines of Thirteenth Finance Commission stipulates that all Municipal Corporations with a population of more than one million must put in place a fire hazard response and mitigation plan and to notify in the State Gazette for demonstrating compliance by end of March 2014. Accordingly, State Government notified (March 2014) the fire hazard response and mitigation plans to be implemented during the year 2014-15 by Greater Visakhapatnam Municipal Corporation (GVMC) and Vijayawada Municipal Corporation (VMC) with a population of more than one million.

3.12 Submission of Utilisation Certificates (UCs)

Scheme guidelines of Centrally Sponsored Schemes (CSS) and Central Finance Commissions (CFCs) stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI. Scrutiny of records of 10 ULBs during 2014-15 revealed that in respect of two³ ULBs, UCs amounting to ₹2.24 crore were yet to be furnished as of March 2015.

Financial Reporting Issues

3.13 Sources of funds

Resource base of ULBs consists of their own revenue generated by collection of tax⁴ and non-tax⁵ revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts⁶. The Commissioner concerned is responsible for reporting the utilisation of funds in respect of Corporations and Municipalities.

Summary of receipts of ULBs for the years 2010-15 are given in Table 3.3. Receipts for the period 2010-14 pertain to the composite state whereas the receipts for 2014-15 pertain to the state of Andhra Pradesh.

³ Tenali and Tirupati ULBs

⁴ Property tax, advertisement fee etc.

⁵ Water tax, rents from markets, shops and other properties, auction proceeds etc.,

⁶ Donations, interest on deposits etc.

Table 3.3

(₹ in crore)

Sl. No.	Receipts	2010-11	2011-12	2012-13	2013-14	2014-15
1	Own Revenue	2,013.74	2,297.17	2,898.52	3,183.43	840.86
2	Assigned Revenue ⁷	684.00	795.70	819.28	695.66	181.81
3	State Government Grants	430.00	608.00	921.00	1,358.60 ⁸	NA**
4	GoI Grants					
	Scheme funds	734.27	704.24	378.36	-	NA**
	12 th and 13 th Finance Commission	177.78	111.85	Nil	-	818.28
5	Other Receipts	Nil	Nil	Nil	275.60*	79.66
	Total	4,039.79	4,516.96	5,017.16	5,513.29	1,920.61

Source: Data furnished by Commissioner and Director of Municipal Administration

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

** Data not made available

3.13.1 Financial Assistance to ULBs

Financial assistance is provided by State Government to ULBs by way of grants and loans. Details of the financial assistance provided by the Government to ULBs, for the years 2010-14 pertaining to the composite state and for 2014-15 pertaining to the state of Andhra Pradesh, are given below:

Table 3.4

(₹ in crore)

Sl. No.	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Budget	180.80	177.45	177.45	483.45	77.07	1,096.22
Actual Release	123.95	91.42	90.57	441.37	25.65	772.96

Source: Information furnished by CDMA

As seen from above, State Government released only 33 per cent of the grant proposed in budget during 2014-15.

3.13.2 Fund flow arrangement in flagship programmes

Details of fund flow with regard to the flagship programmes of GoI, released to ULBs are given below:

Scheme	Fund flow
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	This flagship programme was launched in December 2005 to encourage reforms and fast track planned development of identified cities, with focus on efficiency in urban infrastructure and service delivery mechanisms etc. Initially the mission period was for seven years (2005-12), which was extended upto March 2017. The four components under JNNURM are Urban Infrastructure and Governance (UIG), Basic Services to the Urban Poor (BSUP), Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) and Integrated

⁷ Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to the Local Bodies in the form of assigned revenue

⁸ This includes grants received from GoI

Housing and Slum Development Programme (IHSDP). The details of funds released and expenditure incurred on JNNURM projects as of March 2015 are given below:

(₹ in crore)

Component	No. of projects	Approved cost	Releases	Expenditure
UIG	40	2,777.47	1,532.34	2,071.12
BSUP	22	1,681.85	891.71	1,256.50
UIDSSMT	52	1,874.76	1,567.99	1,560.55
IHSDP	45	737.31	418.26	442.99
Total	159	7,071.39	4,410.30	5,331.16

Andhra Pradesh Municipal Development Project (APMDP)

Andhra Pradesh Municipal Development Project (APMDP) is implemented (March 2010) with the assistance of World Bank for providing basic amenities to the urban population. The total outlay of the project is ₹1,671 crore. The project comprises of four components viz., (i) State level policy and institutional development, (ii) Capacity enhancement, (iii) Urban infrastructure and (iv) Project management and technical assistance. Initially, State Government releases funds and actual expenditure reported in quarterly 'Interim unaudited financial reports' by Chartered Accountants would be reimbursed by World Bank. Against approved cost of ₹1,218.24 crore, State Government released ₹258.43 crore to the implementing agencies of which ₹258.08 crore was incurred by them as of March 2015.

3.13.3 Application of funds

Details of expenditure incurred by ULBs for the years 2010-14 pertaining to composite state and 2014-15 pertaining to state of Andhra Pradesh are given below.

Table 3.5

(₹ in crore)

Sl. No.	Type of expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
1	Revenue expenditure	2,621.40	2,941.85	3,153.33	3,418.10	836.82
2	Capital expenditure	1,399.83	1,253.08	1,166.59	1,573.30	410.23
	Total	4,021.23	4,194.93	4,319.92	4,991.40	1,247.05

Source: Data furnished by Commissioner and Director of Municipal Administration

3.14 Recommendations of the State Finance Commission (SFC)

As per Article 243Y of the Constitution, State Government has to constitute SFC once in five years to recommend devolution of funds from the State Government to Local bodies. Third SFC was constituted in January 2003 and submitted its report in 2008.

However, State Government issued orders for implementation of the recommendations of SFC only in December 2013. Against ₹489.38 crore recommended by SFC for devolution of funds to ULBs every year, Government agreed to release only ₹123.12 crore per annum. While ₹319.52 crore per annum was not accepted by the Government, ₹46.74 crore per annum was treated as fulfilled on the grounds of budget allocation during earlier years in respect of salaries paid by

Government. As parallel State Finance Commission was not appointed by December 2013, the committee of Ministers and Secretaries felt that recommendations of Third Finance Commission could be applied for the period 2010-2015 also. Details of releases during 2010-15 were not furnished despite specific request.

3.15 Recommendations of the Thirteenth Finance Commission

Based on the recommendations of Thirteenth Finance Commission, GoI releases funds to State Government for distributing among the Municipal Corporations and Municipalities in the State. The grant is released under two components (basic component and performance based component). A portion of basic as well as performance grant is allocated to special areas⁹. GoI allocated (2010-15) ₹1,918.85 crore to ULBs of composite state of Andhra Pradesh. During 2010-15, state of Andhra Pradesh released ₹970.89 crore to ULBs of which ₹529.78 crore (55 per cent) was expended.

3.16 Maintenance of Records

3.16.1 Unspent balances in bank accounts of closed schemes

Scheme guidelines stipulate surrender of unspent amount into Government account in respect of closed schemes. State level authorities of the schemes concerned and CDMA should watch the balances of closed schemes lying in the accounts of different ULBs. Scrutiny of records of 10 ULBs during 2014-15 revealed that in respect of four¹⁰ ULBs, an amount of ₹11.18 crore remained unspent in the accounts of closed schemes.

3.16.2 Advances pending adjustment

As per Andhra Pradesh Financial Code, advances paid should be adjusted without any delay and the Drawing and Disbursing Officers (DDOs) concerned should watch their adjustment. Scrutiny of records of 10 ULBs during 2014-15 revealed that in respect of seven¹¹ ULBs, funds amounting to ₹3.36 crore advanced to staff for various purposes during 1994 to 2015 remained unadjusted as of March 2015.

3.16.3 Physical verification of stores and stock

Article 143 of Andhra Pradesh Financial Code stipulates that all stores and stock should be verified physically once a year and a certificate to this effect be recorded by the Head of the Office in the Register concerned. Scrutiny of records of 10 ULBs during 2014-15 revealed that in respect of Kadapa ULB, annual physical verification of stock and stores was not being conducted.

⁹ Schedule areas listed under Schedule-VI of Constitution

¹⁰ Proddutur, Tenali, Vijayawada and Vizianagaram ULBs

¹¹ Bapatla, Guntur, Kadapa, Proddutur, Nandyal, Vijayawada and Vizianagaram ULBs

3.16.4 Non-reconciliation of departmental figures with treasury

As per Andhra Pradesh Budget Manual, DDOs are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent draws. Scrutiny of records of 10 ULBs during 2014-15 revealed that in respect of five¹² ULBs, reconciliation was pending.

3.16.5 Cases of misappropriation

Andhra Pradesh Financial Code stipulates responsibilities of Government servants in dealing with Government money, procedure for fixing responsibility for any loss sustained by Government and action to be initiated for recovery. State Government ordered (February 2004) the Secretaries of all the departments to review the cases of misappropriation in their departments on a monthly basis and the Chief Secretary to Government to review these cases once in six months with all the Secretaries concerned.

Misappropriation cases noticed by Director, State Audit during 2013-15 yet to be disposed off as of May 2015 are given below.

Table 3.6

(₹ in lakh)

Unit	2013-14		2014-15	
	No. of cases	Amount	No. of cases	Amount
Municipal Corporations	24	30.66	17	22.79
Municipalities	25	14.09	64	2,173.02
Nagar Panchayats	0	0	0	0
Total	49	44.75	81	2,195.81

Source: Information furnished by Director, State Audit

Urgent action needs to be taken by the Government in this regard.

3.17 Maintenance of Accounts by ULBs

GoI, in consultation with the Comptroller and Auditor General of India, had formulated (December 2004) National Municipal Accounts Manual (NMAM) with double entry system for greater transparency and control over finances and requested (May 2005) the States to adopt it with appropriate modifications to meet their specific requirements. Accordingly, a Steering Committee was constituted (May 2005) by State Government and Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. State Government issued orders in August 2007 for adoption of APMAM in all the ULBs in State. Similarly, other manuals viz., Andhra Pradesh Municipal Budget Manual and Andhra Pradesh Municipal Asset Manual, were also accepted by State for implementation (August 2007) by ULBs. Finalisation of 133 accounts by 37 ULBs was in arrears as of May 2015.

¹² Bapatla, Nandyal, Tenali, Vijayawada and Vizianagaram ULBs

Double Entry Accrual Based Accounting System (DEABAS) is being adopted in 82 out of 110 ULBs. The Department stated (September 2015) that remaining 28 ULBs have been constituted recently and action is being initiated for implementing DEABAS.

3.18 Maintenance of database and the formats therein on the finances of ULBs

The ULBs have adopted the software, developed by the Centre for Good Governance, of Model Accounting System for maintenance of Accounts. The Department stated (August 2015) that the staff was not fully trained in preparation and maintenance of accounts as per the formats. Chartered Accountant firms were positioned as monitors and were requested to prepare accounts for the period 2009-13. Based on the guidelines from CA firms to the staff, accounts from 2013-14 onwards were proposed to be maintained by the ULBs staff. However, ULBs have not implemented the same due to shortage of staff.

3.19 Conclusion

There were delays in compilation of accounts by ULBs, with consequent delays in their audit by the Director, State Audit. Double Entry Accrual Based Accounting System (DEABAS) was yet to be adopted by 28 out of 110 ULBs. Maintenance of database formats was not implemented as planned due to shortage of staff. Accountability framework and financial reporting in ULBs was inadequate as evidenced by non-furnishing of utilisation certificates, non-remittance of unspent balances of closed schemes, advances pending adjustment, non-conducting of physical verification of stores and stock, non-reconciliation of departmental figures with treasury and non-disposal of misappropriation cases.

Chapter - IV

Performance Audit

4 Performance Audit on Infrastructural Development in slums identified under IHSDP

4.1 Introduction

Integrated Housing and Slum Development Programme (IHSDP) is one of the components of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) launched by Government of India (GoI) in December 2005 to encourage reforms and fast track planned development of identified cities. This programme combines the Valmiki Ambedkar Awas Yojana (VAMBAY) and National Slum Development Programme (NSDP) to bring about an integrated approach in improving the living conditions of urban slum dwellers by providing adequate shelters, amenities and community infrastructure. The programme is applicable to all the cities and towns as per census 2001 except those covered under JNNURM.

Objective of the Programme

The basic objective of the programme is to strive for holistic slum development with a healthy and enabling urban environment. The admissible components under the programme include provision of:

- Shelter including up-gradation and construction of new houses including sites and services/houses at affordable costs for Economically Weaker Section (EWS)/Lower Income Group (LIG) categories
- Community toilets
- Physical amenities such as water supply, storm water drains, widening and paving of existing lanes and street lights etc.
- Community infrastructure/social amenities such as provision of community centres for pre-school education, non-formal education, adult education and recreational activities
- Community primary health care centre buildings etc.
- Model demonstration projects
- Slum improvement and rehabilitation projects.

4.2 Responsibility centres

<i>Level</i>	<i>Main Responsibilities</i>
<i>National</i>	JNNURM functions under the overall guidance of a National Steering Group (NSG) at the central level, which sets policies for implementation, monitors, reviews progress and suggests corrective action wherever necessary. The NSG is supported by a Technical Advisory Group (TAG), to appraise the proposals, and a Central Sanctioning Committee (CSC) for further appraisal and sanction of the proposals. The Detailed Project Reports (DPRs) are

	scrutinised by the technical wings of the GoI Ministries/specialised technical agencies, before submitting them to the CSC for sanction.
<i>State</i>	The programme is co-ordinated by the State Level Steering Committee (SLSC), headed by the Chief Minister/Minister of Urban Development/Minister of Housing, which reviews and prioritises proposals for inclusion of projects for seeking assistance under JNNURM from the GoI. The SLSC is supported by the State Level Nodal Agency (SLNA) which is set up for appraising the projects submitted by ULB/parastatal agencies and obtaining sanction of SLSC; management of grants received from the Central and State Governments for release to ULBs/parastatal agencies, submission of quarterly progress report to GoI etc. Andhra Pradesh Urban Finance and Infrastructure Development Corporation (APUFIDC) has been designated (February 2006) by the Government as SLNA.
<i>Implementing agencies</i>	Responsibilities at implementing agency level (Public Health Engineering Divisions/Urban Local Bodies) include submission of detailed project reports to the SLNA for appraisal, account of funds received from SLNA, tendering, award of contracts, ensuring adherence to the time schedule and quality of the works executed by the contractors, furnishing of periodical reports on physical and financial progress, submitting utilisation certificates, maintaining inventory of assets created and operate assets and facilities created etc.

4.3 Funding pattern

Guidelines stipulate that funds under IHSDP are shared in the ratio of 80:20 by Central and State Governments/ULB. Central grant is directly released to nodal agencies identified by the State Government as Additional Central Assistance (ACA). Release of Central share to nodal agency depends on release of matching State share and submission of utilisation certificates. State share has to be deposited in a separate account to become eligible for the Central grant. 50 per cent of the Central grant is to be released to the State nodal agency after verification of the State share, and on signing the tripartite Memorandum of Agreement. Second instalment is released based on the progress of the works. However, GoI is releasing funds directly to the State Government, which in turn releases to SLNA (APUFIDC) through budget release orders. SLNA releases GoI, State and ULB share of funds to the implementing agencies.

4.4 Audit framework

4.4.1 Audit objectives

Out of the two components of housing and infrastructure development undertaken under IHSDP, this performance audit focuses on implementation of infrastructure development in slum areas with the objective of assessing the following:

- i. Whether slums in need of basic infrastructural facilities were identified in accordance with Government guidelines/orders.
- ii. Whether infrastructural facilities in terms of physical amenities, community infrastructure and social amenities were provided within the approved cost and timeline.
- iii. Whether internal controls relating to financial management, project execution and monitoring were effective.

4.4.2 Audit criteria

Audit findings have been benchmarked against the criteria sourced from the following:

- GoI guidelines and operational manuals
- Orders/circulars issued by GoI and State Government from time to time
- Andhra Pradesh Public Works Code and
- Andhra Pradesh Financial Code

4.4.3 Audit scope and methodology

Performance audit of slum development programme covered implementation of infrastructure development related projects executed during the five year period 2010-15. Audit methodology involved scrutiny of relevant documents in Municipal Administration and Urban Development (MA&UD) department in Secretariat, Andhra Pradesh Urban Finance and Infrastructure Development Corporation (APUFIDC) the State Level Nodal Agency, Office of Mission for Elimination of Poverty in Municipal Areas (MEPMA), Office of Engineer-in-Chief and implementation units¹ of selected projects.

An Entry Conference was held in February 2015 with Commissioner and Director of Municipal Administration (CDMA) wherein audit scope, objectives, criteria and methodology, including conduct of joint site inspection were explained and agreed upon. Exit conference was held with Principal Secretary, MA&UD in December 2015 to discuss audit findings and response of the Government have been incorporated at

¹ Seven projects were implemented by Public Health Engineering Divisions (Anakapalli, Kakinada, Kurnool, Machilipatnam, Madanapalli, Narasaraopet and Pulivendula) and three projects by Municipalities (Chirala, Guntur and Kavali)

appropriate places in the report. However, reply from the Government is awaited (December 2015).

4.4.4 Audit sample

Out of 27 projects sanctioned (2007-09) in the State for infrastructure development under IHSDP at a cost of ₹241.30 crore, ten² projects costing ₹110.43 crore were selected for detailed scrutiny based on highest approved cost in each of the districts.

4.5 Financial and Physical performance

Infrastructure facilities include physical amenities like water supply, storm water drains, community latrines, widening and paving of existing lanes, street lights etc. In addition, these include community infrastructure and social amenities like pre-school education, non-formal education, adult education, maternity, child health and primary health care including immunisation etc.

All the 27 infrastructural development projects sanctioned in the State during 2007-09 were completed. Details of financial performance of these projects as of March 2015 are given below.

Table 4.1

(₹ in crore)

Year of Sanction	No. of projects sanctioned	GoI approved project cost		Releases as of March 2015	Expenditure as of March 2015
		Original	Revised		
2007-08	19	175.39	175.15	157.86	157.71
2008-09	8	65.91	61.16	50.87	44.94
Total	27	241.30	236.31	208.73	202.65

Source: Records of SLNA

Details of financial performance in test-checked projects as of March 2015 are given below:

Table 4.2

(₹ in crore)

Year of Sanction	Name of the ULB	GoI approved cost		Releases as of March 2015	Expenditure as of March 2015	Completed
		Original	Revised			
2007-08	Guntur	19.83	19.83	17.55	17.05	August 2014
2007-08	Narasaraopet	19.79	19.67	20.31	20.26	March 2013
2007-08	Anakapalli	3.50	3.50	2.70	2.35	December 2012
2007-08	Kakinada	10.64	11.79	8.92	8.12	March 2013

² Anakapalli, Chirala, Kakinada, Kavali, Kurnool, Machilipatnam, Madanapalli, Narasaraopet, Pulivendula and Guntur (Pilot study)

2007-08	Chirala	3.52	3.47	2.89	3.26	August 2013
2007-08	Madanapalli	4.74	4.29	4.45	3.77	June 2011
2007-08	Kavali	4.33	3.47	3.89	4.49	January 2011
2007-08	Pulivendula	14.69	14.69	8.35	10.35	March 2013
2008-09	Kurnool	19.76	18.55	13.33	9.88	March 2013
2008-09	Machilipatnam	9.63	9.17	9.47	7.16	June 2012
Total		110.43	108.43	91.86	86.69	

Source: Records of SLNA

Original DPRs were revised (upward and downward) in all the test-checked projects due to change in scope of work and none of the test-checked projects were completed within the stipulated time. The delay in this regard ranged from less than one year to five years³ due to non-availability of clear site for construction of Community Utility Centres (CUCs) and community toilets. In three⁴ out of ten test-checked projects, expenditure exceeded releases by ₹2.97 crore (20 per cent). Audit findings on the test-checked projects are discussed in the subsequent paragraphs.

Audit findings

4.6 Planning

As per the provisions of Andhra Pradesh Slum Improvement (Acquisition of Land) Act, 1956 any area that is a source of danger to the public health, safety or convenience of its neighbourhood by reason of the area being low lying, insanitary, squalid or otherwise, may by notification in the Andhra Pradesh Gazette be declared to be a slum area.

4.6.1 Identification of slums

As of July 2015, there were 5,559 slums in 110 ULBs spread over in 13 districts of the State. The programme was implemented in 24 ULBs of nine⁵ districts. Criteria adopted for identification of slums in ULBs as well as reasons for non-identification of any slum in four districts (Anantapur, Srikakulam, Vizianagaram and West Godavari) were not forthcoming from the records. During the exit conference (December 2015), Government stated that slums in Anantapur district were not identified, as district was covered under Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) programme. Since UIDSSMT programme is not specific to slum development alone, identification of slums should have been considered while taking up works under IHSDP.

- i. **Uneven distribution of projects:** Out of 27 projects sanctioned for the State, one project each was sanctioned in 22 ULBs for implementation of programme. However, in Kavali and Kadapa ULBs, two and three projects were sanctioned

³ with a delay of less than 1 year (1 project), 1-2 years (2 projects), 2-3 years (1 project), 3-4 years (5 projects) and 4-5 years (1 project)

⁴ Chirala ₹0.37 crore, Kavali ₹0.60 crore and Pulivendula ₹2 crore

⁵ Chittoor (2 ULBs), East Godavari (1), Guntur (10), Krishna (1), Kurnool (3), Prakasam (2), SPSR Nellore (1), Visakhapatnam (2) and YSR (2)

respectively. It was observed that ten projects (37 per cent) were sanctioned in one district (Guntur) alone.

- ii. **Prioritisation of slums:** State Government instructed (September 2004) the ULBs to prepare the poverty and infrastructure deficiency matrix and prepare the list of prioritised slums for taking up infrastructure development activities in the slums.

In the ULBs of the ten⁶ test-checked projects, there were 604 slums as per the Detailed Project Reports (DPRs) (2007-2009), of which, only 185 slums were identified by seven⁷ test-checked projects for implementation of the programme whereas in the other three viz., Kakinada, Kavali and Madanapalli projects, infrastructure works were proposed in new layouts. DPRs of the test-checked projects did not indicate the criteria adopted for identification of slums. Further, documents relating to poverty and infrastructure deficiency matrix, list of prioritised slums and criteria adopted by ULBs for identification of slums were not forthcoming from records produced to audit. Hence, audit could not verify whether slums were prioritised as per Government orders.

- iii. **Non-notification of slums:** State Government issued (September 2004) orders to ULBs to identify and notify non-notified slums in an objective and transparent manner within a specified time frame of four months, as various Government programmes were implemented only in the notified slums and the poor in non-notified slums were being deprived of the benefits of developmental processes due to their non-notification. As of July 2015, there were 1,339 (29 per cent) non-notified slums out of 4,575⁸ slums in the State and 179 slums out of 747 were non-notified (24 per cent) in the ULBs of ten⁹ test-checked projects. Action initiated, if any, for notification of these slums was not forthcoming from the records produced to audit.

Contrary to Government orders, the programme was implemented in 27 non-notified slums of five¹⁰ test-checked projects at an estimated cost of ₹15.68 crore. These slums were yet to be notified as of July 2015 even after eight years of sanction of projects (2007-09). Further, the programme was implemented in nine villages which were merged (June 2005) with the Pulivendula Municipality by treating the villages as slums. However, there were no documented reasons for considering these merged villages as slums. Further, all the slums in Pulivendula ULB were yet to be notified as of July 2015. During the exit conference (December 2015), Government stated that action would be initiated for speeding up the process of notification of non-notified slums.

⁶ Anakapalli (30 slums), Chirala (42), Guntur (133), Kakinada (75), Kavali (25), Kurnool (103) Machilipatnam (85), Madanapalli (42), Narasaraopet (41) and Pulivendula (28)

⁷ Anakapalli (24 slums), Chirala (12), Guntur (40), Kurnool (27), Machilipatnam (30), Narasaraopet (41) and Pulivendula (11)

⁸ data in respect of 984 slums was not furnished

⁹ Anakapalli (1 non-notified slum), Chirala (18), Guntur (17), Kakinada (38), Kavali (10), Kurnool (49), Machilipatnam (1), Madanapalli (12), Narasaraopet (5) and Pulivendula (28)

¹⁰ Anakapalli (1 slum), Guntur (6), Kurnool (7), Narasaraopet (2) and Pulivendula (11)

- iv. **Slums in Hazardous/Objectionable areas:** The slum areas located on hazardous¹¹ and objectionable lands were not to be redeveloped¹². The beneficiaries of these slums should be rehabilitated in an area, to the extent possible, nearer to their original location to prevent potential loss of livelihood opportunities suited to their skill-set. As of July 2015, there were 220 hazardous slums out of 4,575¹³ slums in the State and 35 hazardous slums in the ULBs of five¹⁴ test-checked projects. Instead of relocating these slums, ULBs of two¹⁵ test-checked projects identified three hazardous slums for implementation of programme and executed works at a cost of ₹3.58 crore.

Incidentally, it was observed that in Ameer Hyder Ali Khan Nagar slum of Kurnool ULB, instead of relocating the people residing in the slum, programme was implemented and later stopped (2009) after incurring an expenditure of ₹3 lakh as per instructions from the District Administration to rehabilitate the people residing in the slum.

- v. **Slums in private owned lands:** As per the provisions of Andhra Pradesh Slum Improvement (Acquisition of Land) Act, 1956, Government shall acquire any land in a slum area from the owners of the land for the purpose of clearing or improving the area. As of July 2015, there were 1,509 slums in private owned lands out of 4,575¹⁶ slums (33 per cent) in the State and 248 slums in private owned lands out of 571 (43 per cent) slums in the ULBs of seven¹⁷ test-checked projects. ULBs of five¹⁸ test-checked projects have identified 65 slums in private owned lands for implementation of the programme at an estimated cost of ₹25.67 crore. It was reiterated (July 2011) during the State Principal Secretaries meeting to review all schemes of the Ministry of Housing and Urban Poverty Alleviation to prevent misuse of the provision and encouragement of illegal settlements.
- vi. **Delay in taking up survey for database:** Ministry of Housing and Urban Poverty Alleviation (MoHUPA) launched (February 2008) a new scheme called Urban Statistics for HR and Assessment (USHA) for development of a national information system on urban poor, focusing on national, state and city level data and knowledge base for the purpose of planning, policy-making, project formulation, implementation, monitoring and review especially in the areas of slum development, provision of basic services to the poor and affordable housing.

¹¹ the areas where human habitation entails undue risk to the safety or health or life of the residents themselves or where the habitation on such areas viz., canal bunds, tank beds, road margins, burial grounds, solid waste landfill sites etc., is considered contrary to public interest

¹² action through which an area is developed for better living environment

¹³ data in respect of 984 slums was not furnished

¹⁴ Anakapalli (1 slum), Machilipatnam (1), Kakinada (16), Kurnool (1) and Pulivendula (16)

¹⁵ Anakapalli (Pillavarigeorge ₹2.79 lakh), Pulivendula (Rotarypuram ₹89.50 lakh and Yerragudipalli ₹266.16 lakh)

¹⁶ data in respect of 984 slums was not furnished

¹⁷ Anakapalli (23 slums), Chirala (20), Guntur (75), Kakinada (38), Kurnool (67), Madanapalli (1) and Pulivendula (24)

¹⁸ Anakapalli (18 slums), Chirala (6), Guntur (20), Kurnool (11) and Pulivendula (10)

GoI released (September 2008 to March 2012) ₹5.47 crore to APUFIDC (SLNA) for conducting survey of towns with instructions to complete the survey within 3 to 4 months from the date of release of funds. MEPMA conducts survey of towns and uploads data in its web-site. It was observed that data of 984 slums was yet to be captured as of July 2015. During the exit conference (December 2015), Government stated that MEPMA conducted the survey in all ULBs and the uploading of data is pending.

4.6.2 Detailed Project Reports

Urban Local Bodies and implementing agencies are to submit DPRs to the SLNA for appraisal and forwarding to MoHUPA for consideration of Central sanctioning committee/State level Co-ordination committee. Review of DPRs of test-checked projects revealed the following:

- i. **Non-inclusion of slum-wise existing infrastructural facilities in DPRs:** DPRs are required to be prepared after taking into consideration the existing infrastructural facilities viz., roads, drains, community toilets, water supply, drainage, street lights etc., and also availability of various facilities such as schools, anganwadi centres, primary health centres etc., in each slum. Health, education and social security infrastructure facilities should be taken up through convergence with respective departments. However, slum-wise details of existing facilities were not forthcoming from the DPRs furnished to audit.

In Kurnool and Pulivendula ULBs, works¹⁹ proposed in DPR were already executed through other grants resulting in savings under the programme funds of ₹7.23 crore and ₹4.34 crore respectively. Improper preparation of DPRs resulted in non-utilisation of programme funds.

- ii. **Convergence with other sectors:** As per guidelines, DPRs should invariably be prepared by implementing agencies and include provision for components under health, education and social security through convergence of schemes and also by dovetailing funds through budgetary provisions under the programmes of respective sectors (Health, Human Resource Development, Social Justice and Empowerment etc.). DPRs of three²⁰ out of ten test-checked projects denoted convergence with health, education and social security sectors. However, details of components proposed through convergence were not available in DPR. Hence, no works in convergence as envisaged were taken up. In DPRs of other seven²¹ test-checked projects, works through convergence were not proposed. During the exit conference (December 2015), Government stated that availability of land is one of the major constraints in taking up any infrastructural development project and possibility of convergence would be looked into.

¹⁹ Kurnool (CC roads, drains, water supply) and Pulivendula (CUCs, community toilets)

²⁰ Kurnool, Madanapalli and Narasaraopet

²¹ Anakapalli, Chirala, Guntur, Kakinada, Kavali, Machilipatnam and Pulivendula

- iii. **Improper preparation of DPRs resulting in reduction of Central share:** Kavali ULB submitted revised DPR after execution of children’s park etc., at a cost of ₹42.18 lakh. However, the work was not considered in the revised DPR approved (February 2014) by GoI as it was not part of original DPR. Further, during the approval of revised DPR by GoI (February 2012), provision towards VAT²², labour cess etc., to the extent of ₹50.98 lakh in test-checked project of Anakapalli ULB was not approved on the ground that it was not part of original DPR. Absence of complete details in initial DPRs not only resulted in reduction of Central share, but also caused additional financial burden to ULB.
- iv. **Revision of DPRs:** In all the test-checked projects, revised DPRs proposed by ULBs were approved (February 2012–September 2014) by GoI due to change in scope of work. The upward revision was on account of inclusion of works not proposed in the original DPR and downward as a result of deletion of community utility centres due to non-availability of site, length of roads/drains due to site conditions and execution of works (roads/drains) sanctioned in original DPR through other funds. The projects were termed as completed though all the works sanctioned in revised DPR were not executed due to non-availability of site/site conditions. In six²³ test-checked projects, revised DPRs were approved (February 2012–September 2014) after completion of projects resulting in execution of works without approval of the deviations. Details of components proposed in original/revised DPRs and executed in respect of test-checked projects are detailed in *Appendix 4.1*. During the exit conference (December 2015), Government attributed non-availability of land/site conditions as reasons for revision of DPRs. This indicated improper survey and also failure to ensure availability of site before submission of proposals.

4.7 Execution

As per IHSDP guidelines, infrastructure facilities include physical amenities like water supply, storm water drains, community latrines, widening and paving of existing lanes, street lights etc., community infrastructure and social amenities like pre-school education, non-formal education, adult education, maternity, child health and primary health care including immunisation etc. Infrastructure facilities under health, education and social security infrastructure should be taken up through convergence with respective departments.

All the 27 projects sanctioned (2007-09) in the State for infrastructure development under IHSDP were completed. Ten²⁴ projects were selected for detailed scrutiny and none of these were completed within the stipulated time. All the works sanctioned in the revised DPR were executed in three (Chirala, Kavali and Narasaraopet) test-checked projects. In Kakinada project, works were not taken up as approved in

²² Value Added Tax

²³ Anakapalli, Guntur, Kakinada, Kavali, Madanapalli and Pulivendula

²⁴ Anakapalli, Chirala, Guntur, Kakinada, Kavali, Kurnool, Machilipatnam, Madanapalli, Narasaraopet and Pulivendula

revised DPR due to non-completion of housing programme. In the remaining six²⁵ test-checked projects, quantities as approved in the revised DPR were not executed on account of non-availability of site for construction of CUCs, community toilets and due to site conditions/executed with other funds in respect of roads/drains. However, the projects were termed as completed, resulting in non-achievement of intended benefits to the slum dwellers. Out of ten test-checked projects, project completion certificates were furnished by ULBs of eight projects. In respect of two test-checked projects (Chirala and Guntur) project completion certificates were not furnished.

Audit findings relating to execution of physical amenities, social amenities and community utility centres in the test-checked projects are detailed below:

4.7.1 Execution of works by implementing agencies

In the State, implementing agencies for execution of infrastructural projects were either Public Health Engineering (PHE) Divisions or ULBs concerned. State Government issued (May 2008) orders entrusting works valued over ₹5 crore to PHE Division and works less than ₹5 crore to the ULBs themselves. Projects in Guntur (approved cost ₹19.83 crore) and Anakapalli (approved cost ₹3.50 crore) were approved for execution by PHE Division and ULB respectively. However, contrary to Government orders, these two projects were swapped and the project in Guntur was executed by ULB. There was considerable delay (58 months) in completion of this high value project by Guntur ULB. Reasons for the delay were not available in the records. Specific reasons were not furnished during the exit conference.

4.7.2 Physical amenities

Physical amenities include water supply, storm water drains, community latrines, widening and paving of existing lanes, street lights etc. Audit findings relating to physical amenities provided in the test-checked projects are detailed below:

4.7.2.1 Execution of works in a new layout

Infrastructure projects in Kakinada, Kavali and Madanapalli ULBs were taken up in new layouts on the assurance that housing component would be taken up by the State Government. Physical verification of these projects revealed that housing component was still in progress. As such, the infrastructure created (January 2011 to March 2013) in advance at a cost of ₹16.38 crore in three²⁶ layouts remained unutilised, due to lack of proper synchronisation of works.

Although Kakinada project was sanctioned to relocate the households residing in 23 slums, scrutiny of records revealed that some of the houses were allotted to families of ex-servicemen belonging to Above Poverty Line (APL) and some of the allottees were not residents of Kakinada. This was against the objective of improving the living conditions of slum dwellers.

²⁵ Anakapalli, Guntur, Kurnool, Machilipatnam, Madanapalli and Pulivendula

²⁶ Kakinada ₹8.12 crore, Kavali ₹4.49 crore and Madanapalli ₹3.77 crore

DPRs of Kavali and Madanapalli projects did not indicate the slums identified for rehabilitation. Thus, infrastructure was developed without identifying the beneficiaries.



During the exit conference (December 2015), Government stated that matter would be discussed with Andhra Pradesh Housing Board (APHB) for completion of housing component.

4.7.2.2 Cement Concrete (CC) Roads

Laying of roads is an important component in providing infrastructure in the slums. Works relating to laying of CC roads were sanctioned and executed in all the ten test-checked projects. In six²⁷ test-checked projects, CC roads were laid as sanctioned and in the remaining four²⁸ test-checked projects there was variation between quantities sanctioned and executed due to site conditions or roads were already laid with other funds. Audit observations based on physical verification are given below:

- i. **Non-utilisation of road laid:** Physical verification of Hari Krishnanagar slum of Narasaraopet ULB revealed that the road laid with IHSDP funds was blocked and existing gravel road on the other side of the slum was being used for transportation. The expenditure of ₹4.02 lakh incurred towards laying of CC road therefore, remained unfruitful. During the exit conference (December 2015), Government stated that corrective action had been taken by the ULB. However, it did not provide documentary evidence to this effect.



Slum: Hari Krishnanagar (Narasaraopet ULB)

- ii. **Irregular connectivity to developed area:** The primary objective of the programme was to provide basic infrastructure in the identified slums. During physical verification, it was observed that a road was laid from Heart and Brain Centre (hospital situated at the main junction of the city) to Joharapuram slum in

²⁷ Anakapalli, Chirala, Kakinada, Kavali, Machilipatnam and Narasaraopet

²⁸ Guntur, Kurnool, Madanapalli and Pulivendula

Kurnool ULB, the entire stretch of which did not form part of slum and it consisted of multi-storied buildings. Further, the work was executed in deviation to the original DPR and was approved (February 2012) in revised DPR at an estimated cost of ₹3.07 crore. During the exit conference (December 2015), Government stated that road was laid to facilitate proper connectivity to slum. However, roads outside the slum area should not have been taken up with scheme funds.



Slum: Joharapuram (Kurnool ULB)

- iii. **Execution of work outside the slum area:** GoI approved (December 2007) infrastructure works to be executed in a layout in Kavali ULB. However, CC roads were laid in 'Pulla Reddy Nagar' at a cost of ₹20 lakh, which was outside the jurisdiction of layout and also not categorised as slum as per data furnished by Government. Execution of work in such a location was therefore irregular. During the exit conference (December 2015), Government stated that roads were laid on the approach road to the layout. Roads outside the slum area should not have been taken up with scheme funds.
- iv. **Non-laying of road for the complete stretch:** Physical verification of Velamavaripalli slum of Pulivendula ULB revealed that CC roads were laid in patches instead of in a complete stretch resulting in non-achievement of intended objective of providing motorable road to the residents in the slums. During the exit conference (December 2015), Government stated that corrective action had been taken by the ULB. However, it did not provide documentary evidence to this effect.

4.7.2.3 CC Drains

CC drains were sanctioned and executed in all the ten test-checked projects. In five²⁹ test-checked projects, CC drain works were executed as sanctioned and in remaining five³⁰ test-checked projects, there was variation between quantities sanctioned and executed due to site conditions or works executed with other funds. Audit observations are given below:

- i. **Improper alignment of drains:** Scrutiny of records and physical verification of slums³¹ of Chirala ULB revealed that CC drains were laid and connected to main drains constructed under UIDSSMT³² scheme. Water was flowing back into the houses particularly during rainy season resulting in inundation of slums. After

²⁹ Anakapalli, Chirala, Guntur, Kavali and Narasaraopet

³⁰ Kakinada, Kurnool, Machilipatnam, Madanapalli and Pulivendula

³¹ Yanadi colony-Swarna road and Yanadi colony-1st ward

³² 70 per cent of major drains and 30 per cent of lateral drains were constructed under Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) a component of JNNURM

laying of drains, ULB proposed (October 2010) comprehensive survey of the drains for rectification for disposal of drain water. Thus, construction of the drains at a cost of ₹17.79 lakh did not serve the purpose. During the exit conference (December 2015), Government stated that corrective action had been taken by the ULB. However, it did not provide documentary evidence to this effect.



Slum: Yanadi Colony–Swarna road (Chirala ULB)

- ii. **Poor maintenance of assets created:** As per guidelines, the responsibility to maintain and operate the assets and facilities created under the scheme rests with the ULB. However, physical verification of six slums and three layouts in seven³³ test-checked projects revealed that CC drains laid were not put to use as these drains were either not connected to any major drain or filled with mud and garbage resulting in stagnation of water and unhygienic surroundings.
- iii. **Non-construction of side drains:** As per provisions of Indian Road Congress Codes adopted by Ministry of Urban Development, side drains are required to be constructed to facilitate flow of water. Physical verification of three slums³⁴ in Chirala ULB revealed that side drains were not constructed. Thus, the ULB failed to ensure proper drainage.
- iv. **Execution of work outside the slum area:** GoI approved (December 2007) infrastructure works to be executed in a layout in Kavali ULB. However, CC drains were laid in ‘Pulla Reddy Nagar’ at a cost of ₹14.70 lakh, which was outside the jurisdiction of layout and also not categorised as slum as per data furnished by Government. Execution of work in such a location was therefore irregular. During the exit conference (December 2015), Government stated that drains were laid on the approach road to the layout. However, drains outside the slum area should not have been taken up with scheme funds.

4.7.2.4 Street lighting

Works relating to Street lighting were sanctioned in five³⁵ test-checked projects. Works were executed as sanctioned in three (Chirala, Madanapalli and Narasaraopet) test-checked projects. In Kakinada project, works were not taken up due to non-completion of housing programme and in Pulivendula project street lighting poles were provided by ULB with other funds. Physical verification of slums in test-checked projects of Anakapalli and Kavali ULBs revealed following.

³³Anakapalli: Balajiraopet slum; Kurnool: Weaker section Colony-I and Leprosy colony; Narasaraopet: Gunduraopet slum; Pulivendula: Ulimella and Polapalli slum and layouts in Kakinada, Kavali and Madanapalli

³⁴ Yanadi colony (swarna road), Srungarapeta and Vykuntapuram slums

³⁵ Chirala, Kakinada, Madanapalli, Narasaraopet and Pulivendula

- i. In Anakapalli ULB, no provision was made for street lighting in two³⁶ slums.
- ii. In Kavali ULB, electric poles were erected but lights were not provided.

Non-provision of street lighting resulted in denial of intended amenities in the identified slums.

4.7.2.5 Community toilets

Community toilet is one of the basic facilities to be provided in urban slums to avoid open defecation for hygienic environment. As of July 2015, out of 7.97 lakh households, 1.28 lakh households (16 per cent) were resorting to open defecation in the slums of the State. In the ULBs of nine³⁷ test-checked projects, 0.30 lakh households (15 per cent) out of 2 lakh households were resorting to open defecation. Provision for construction of toilets was proposed in two ULBs (Narasaraopet-9 Nos. and Pulivendula-11 Nos.) at an estimated cost of ₹1.25 crore. However, no community toilet was taken up for construction due to non-availability of site. Identification and acquisition of land should have been completed prior to preparation of DPR. Failure to do so indicated defective planning.

Physical verification of 12 slums of five³⁸ test-checked projects revealed that community toilets were not available in the slums; as such the slum dwellers were resorting to open defecation.

4.7.3 Social amenities

As per guidelines, provision of Social amenities included pre-school education, non-formal education, adult education, maternity, child health and primary health care including immunisation etc. DPRs should invariably be prepared for each of the projects and should include provision for components under health, education and social security through convergence of schemes and also by dovetailing funds through budgetary provisions under the programmes of respective sectors (Health, Human Resource Development, Social Justice and Empowerment etc.). Review of DPRs of ten test-checked projects revealed that no works were proposed through convergence. Incidentally, it was observed that Madanapalli ULB incurred ₹8.80 lakh towards construction of Urban Health Centre from programme funds instead of convergence with concerned sectors.

In this connection audit observed as under:

- i. **Primary Health Centres:** Primary Health Centre (PHC) is a basic health care facility that is to be made available with close proximity to the people to provide an integrated curative and preventive health care with emphasis on preventive and promotive aspects of health care.

³⁶ Anakapalli: New Burma colony and K. Ramanaidu colony slums

³⁷ data in respect of Pulivendula ULB was not furnished

³⁸ Anakapalli: Balajiraopet slum; Kurnool: Weaker Section Colony-I, Leprosy colony; Machilipatnam: YSR colony and PKM Colony; Narasaraopet: Christainpalem, Hari Krishnanagar, Venkatreddy Nagar; Pulivendula: Ulimella, Rotaripuram, Velamavaripalli and Yerragudipalli slum

As of July 2015, PHC services were not available to 1,644 slums out of 4,575³⁹ slums (36 per cent) in the State and 301 slums out of 717 slums (42 per cent) in the ULBs of nine⁴⁰ test-checked projects. During physical verification, dwellers of 26 slums in six⁴¹ test-checked projects expressed that PHCs were located far away from their slums. However, provision for PHCs in convergence with Health department was not proposed. This resulted in deprivation of basic health care facilities in the slums.

4.7.4 Community infrastructure

As per guidelines, community infrastructure includes provision for construction of community utility centres (CUCs) to be used for pre-school education, non-formal education, adult education, recreational activities, etc. Audit observations in this regard are as follows:

- i. **Non-provision of CUCs:** As of July 2015, there were only 1,122 CUCs in 4,575⁴² slums of the State and 169 CUCs in 747 slums of ULBs of test-checked projects. GoI sanctioned (2007-09) 28 CUCs as proposed in original DPRs of nine⁴³ test-checked projects at an estimated cost of ₹6.77 crore. In the revised DPRs approved (February 2012–September 2014) by GoI, the number of CUCs sanctioned was reduced to 21 in seven⁴⁴ test-checked projects and no CUCs were approved in two (Chirala and Guntur) test-checked projects due to non-availability of site. Identification and acquisition of land should have been completed prior to preparation of DPR. This indicated defective planning.

Further, out of 21 CUCs sanctioned in revised DPRs, only 11 CUCs were constructed in five⁴⁵ test-checked projects at a cost of ₹3.55 crore and construction of nine CUCs in Pulivendula project was not taken up as community centres were proposed under other scheme funds. In Kakinada project, one CUC sanctioned in revised DPR was not taken up for construction due to non-completion of housing programme.

Due to non-availability of CUCs, slum dwellers remain deprived of the intended benefits viz., non-formal education, adult education, recreational activities etc.

- ii. **Non-utilisation of facilities created:** As per guidelines it is the responsibility of ULBs to maintain and operate the assets and facilities created. However, physical verification of 11 CUCs constructed in five⁴⁶ test-checked projects revealed that

³⁹ data in respect of 984 slums was not furnished

⁴⁰ Chirala (30 slums), Guntur (125), Kakinada (16), Kavali (24), Kurnool (3), Machilipatnam (17), Madanapalli (38), Narasaraopet (43) and Pulivendula (5)

⁴¹ Anakapalli (3 slums), Chirala (5), Kurnool (6), Machilipatnam (4), Narasaraopet (5) and Pulivendula (3)

⁴² data in respect of 984 slums was not furnished

⁴³ Anakapalli (2 CUCs), Chirala (1), Guntur (4), Kakinada (2), Kavali (1), Machilipatnam (2), Madanapalli (1) Narasaraopet (6) and Pulivendula (9)

⁴⁴ Anakapalli (1 CUC), Kakinada (1), Kavali (1), Machilipatnam (1), Madanapalli (2), Narasaraopet (6) and Pulivendula (9)

⁴⁵ Anakapalli (1 CUC), Kavali (1), Machilipatnam (1), Madanapalli (2) and Narasaraopet (6)

⁴⁶ Anakapalli (1 CUC), Kavali (1), Machilipatnam (1), Madanapalli (2) and Narasaraopet (6)

none of the CUCs were being utilised and the condition of the buildings was in bad shape due to poor maintenance. As such, the intended benefits could not be derived by the beneficiaries. During the exit conference (December 2015), Government stated that corrective action had been taken by the ULBs. However, it did not provide documentary evidence to this effect.

4.8 Financial management

4.8.1 Sharing arrangement

Even though guidelines stipulate sharing by Central and State Government/ULB in the ratio of 80:20, in 14 out of 27 projects, release of State/ULB's share ranged from 21 to 32 *per cent*. Further, in respect of State share in 27 infrastructure projects, it was agreed to share between GoAP and ULBs equally. However, in 14 projects, release of ULB's share exceeded that of State Government by ₹7.58 crore, affecting the resources of ULBs.

State Government accorded (May 2008) revised administrative sanction for 19 projects due to increase in cost attributed to revision of steel, cement and Standard Schedule of Rates (SSR) and also due to non-inclusion of statutory provisions such as VAT, labour cess etc. The increased cost amounting to ₹30.45 crore was not covered by GoI sanction. As a result, this was borne by ULBs concerned.

4.8.2 Substantial amounts retained by SLNA

As per guidelines, SLNA is responsible for management of funds received from Central and State Governments and for disbursement of funds to implementing agencies as per the funding arrangement. Scrutiny of records revealed that as of March 2015, ₹265.83 crore was adjusted to SLNA (APUFIDC), of which ₹208.73 crore was released to implementing agencies and an amount ₹57.10 crore (Central share ₹20.12 crore, State share ₹6.51 crore and ULB share ₹30.47 crore) was retained by SLNA. Funds should be either released to implementing agencies wherever necessary or should be refunded with interest to the GoI/State Government. However, 21 *per cent* of the fund adjusted remained with SLNA, even though all the 27 sanctioned projects were completed. During the exit conference (December 2015), Government stated that as per orders of GoI, funds retained would be utilised for other components of JNNURM.

4.8.3 Non refund of excess Central share by implementing agencies

As per the provisions of General Financial Rules (GFRs), funds released by Central Government may be utilised for the purpose for which they were released and the unspent balance, if any, shall be refunded along with interest. Scrutiny of SLNA records revealed that in respect of 16 projects, reduction in the approved cost in the

revised DPR resulted in excess release of Central share by ₹7.06 crore⁴⁷. Of these projects, Chirala, Kavali, Kurnool, Machilipatnam and Madanapalli were test-checked. However, the amount was yet to be refunded to GoI.

4.8.4 Expenditure in excess of releases

As per guidelines, SLNA is responsible for disbursement of funds to implementing agencies as per the financing pattern. Scrutiny of SLNA records revealed that in respect of ten projects, expenditure incurred exceeded releases to the extent of ₹5.20 crore⁴⁸ as of March 2015. Of these ten projects, Chirala, Kavali and Pulivendula projects were test-checked. It was observed that amounts were diverted to/received from projects implemented by other ULBs.

4.8.5 Fund for establishment of Urban Poverty and Livelihoods Cell

GoI released (February 2007) ₹22 lakh towards establishment of Urban Poverty and Livelihoods Cell. However, the details of utilisation certificate furnished by State Nodal Agency (APUFIDC) to GoI for the amount released and also the establishment of cell were not on record.

4.8.6 Non-reimbursement of expenditure incurred on DPRs

As per toolkit⁴⁹, SLNA shall forward proposals from implementing agencies for reimbursement of expenses⁵⁰ to Mission Directorate for recommendation to CSC for the release of funds. GoI prescribed (May 2014) simplified procedure for reimbursement of DPR expenses. In spite of simplified procedure, SLNA had not forwarded the proposals as of March 2015 towards reimbursement of expenditure of ₹2.21 crore.

4.8.7 Funds not earmarked by ULBs for utilisation in slum area

State Government orders (July 2009) stipulate that ULBs shall earmark 40 per cent of net funds for undertaking developmental activities in slum areas by making a suitable provision in the budget estimate every year by opening separate account for Urban Poverty Alleviation fund in the existing Personal Deposit (PD) account. Scrutiny of records of test-checked ULBs revealed that funds were not earmarked as required. Commissioner and Director of Municipal Administration stated (April 2015) that separate accounts were not opened by ULBs of test-checked projects except Kakinada ULB, which opened separate account and incurred expenditure.

⁴⁷ Adoni ₹16.30 lakh, Chirala ₹3.86 lakh, Chittoor ₹39.13 lakh, Dhone ₹89.83 lakh, Kadapa ₹144.45 lakh, Kadapa (Azadnagar) ₹7.64 lakh, Kadapa (Mamillapalli) ₹33 lakh, Kavali ₹68.24 lakh, Kurnool ₹96.96 lakh, Macherla ₹0.04 lakh, Machilipatnam ₹36.70 lakh, Madanapalli ₹36.19 lakh, Ongole ₹40.48 lakh, Ponnur ₹42.61 lakh, Repalle ₹34.60 lakh and Tenali ₹16.52 lakh

⁴⁸ Bhimunipatnam ₹0.30 crore, Chirala ₹0.37 crore, Chittoor ₹0.10 crore, Kadapa (Azadnagar) ₹0.17 crore, Kavali Phase-I ₹0.13 crore, Kavali Phase-II ₹0.60 crore, Ongole ₹0.03 crore, Ponnur ₹0.48 crore, Pulivendula ₹2 crore and Vinukonda ₹1.02 crore

⁴⁹ developed by GoI (MoHUPA) detailing the procedure for reimbursement of expenses

⁵⁰ at one per cent of the project cost or actual cost incurred for preparation of DPRs whichever is lower

4.8.8 Other financial deviations

- i. **Non-remittance of statutory recoveries:** Statutory recoveries effected from the work bills of the contractors towards Income Tax, Value Added Tax, Labour cess and Seigniorage charges etc., are to be remitted to the accounts of concerned departments as per the provisions of the concerned Acts. However, ₹55 lakh recovered from works bills in three⁵¹ test-checked projects was not remitted to the departments concerned.
- ii. **Expenditure on inadmissible components:** As per guidelines, admissible components include provision for construction of community toilets, community centres, laying of roads, drains etc. It was noticed that ₹17.19 lakh was utilised towards inadmissible components viz., construction of school building, procurement of digital camera, engagement of contract labour, hiring of vehicles etc., in four⁵² test-checked projects.
- iii. **Improper maintenance of cash book:** Cash book has to be closed and reconciled with the treasury pass book to arrive at the correct cash balances under attestation of competent authority. However, scrutiny of records of test-checked projects of Chirala, Guntur, Narasaraopet and Kavali revealed instances of non-closing of cash books at monthly intervals, non-reconciliation with treasury/Bank etc. Audit was therefore unable to vouch for the correctness of transactions.

4.9 Tendering and contract management

4.9.1 Delay in conclusion of agreements

Engineer-in-Chief issued instructions to conclude the agreements for the works taken up under the project with the contractors within 21 days from the date of issue of Letter of Acceptance (LOA). In three⁵³ test-checked projects, three agreements were concluded with a delay ranging from 40 to 71 days from the date of issue of LOA. This adversely effected the execution of project as per schedule.

4.9.2 Avoidable expenditure- Non-acceptance of tender in first call

In test-checked project of Madanapalli ULB, although the single tender (0.01 per cent less than estimated contract value (ECV) of ₹4.57 crore) received in response to the first call (June 2008) was rejected (August 2008) during technical evaluation on the grounds that the works⁵⁴ indicated in the experience certificate did not fall under

⁵¹ Chirala ₹8.84 lakh, Guntur ₹39.21 lakh and Kavali ₹6.95 lakh

⁵² Chirala ₹0.36 lakh (procurement of digital camera), Guntur ₹0.19 lakh (hiring of vehicles), Kavali ₹0.48 lakh (hiring of vehicles) and ₹6.20 lakh (construction of school building), Pulivendula ₹9.96 lakh (engaging contract labour)

⁵³ Kakinada (71 days), Kurnool (40 days) and Madanapalli (56 days)

⁵⁴ Execution of supply channel for Ayyappa Reddy Cheruvu surplus weir to Chinnagoligallu tank and Investigation, design, estimation and fabrication, supply and fixing of 5 Nos. radial gates to the spillway regulator including left and right main canal distribution field channel etc., of Velagolu Reservoir

similar category of works⁵⁵ for which tenders were called for, in the second call (September 2008), bid from the same tenderer was accepted (December 2008) with 4.59 per cent excess over ECV based on a similar certificate. The Department replied (February 2015) that acceptance of the bid in second call was not based on the similar experience certificate as was submitted in the first call. The reply is not acceptable as the technical experience quoted in the second call did not fall under similar category of works for which tenders were called for. The action of the department has resulted in avoidable expenditure of ₹21 lakh.

4.9.3 Non-revalidation of Bank Guarantee

As per agreement conditions, the bank guarantees should be obtained from the contractors till the date of completion of the work and further 24 months of defect liability period. In Pulivendula project, validity of Bank Guarantee (BG) amounting to ₹42.84 lakh expired (May 2012) in advance of completion of work and defect liability period (June 2015). Revalidation of BG was not done even as of February 2015. During the exit conference (December 2015), Government assured that instructions would be issued to ULBs for revalidation of Bank Guarantees.

4.9.4 Non-recovery of Seigniorage charges

Statutory recoveries like Income Tax, Seigniorage charges etc., are to be effected from the work bills of contractors and remitted to the accounts of concerned departments as per the provisions of the concerned Acts. Although a provision for ₹7.19 lakh towards Seigniorage charges was included in the estimate in test-checked project of Pulivendula ULB, it was not recovered from the contractor. During the exit conference (December 2015), Government assured that instructions would be issued to ULBs for recovery of Seigniorage charges.

4.10 Quality control

4.10.1 Delay in appointing TPIMA

As per toolkit, Third Party Inspection and Monitoring Agencies (TPIMA) for projects were to undertake monitoring of works pertaining to pre-construction, construction, commissioning, trial-run, testing and post construction stages. TPIMA is to monitor the projects till one year from the filing of project completion report and submit final report on the overall performance of the project. However, agreement with TPIMA was concluded (August 2009) after entrustment of works to the contractors in eight⁵⁶ test-checked projects. As a result, pre-construction stage⁵⁷ inspections could not be carried out by TPIMA. During the exit conference (December 2015), Government assured to conclude agreements with TPIMA in time for future assignments.

⁵⁵ Providing water supply, laying of roads, construction of drains and community utility centres etc.

⁵⁶ Anakapalli, Chirala, Guntur, Kakinada, Kavali, Madanapalli, Narasaraopet and Pulivendula

⁵⁷ Review of land requirement/availability and other clearances to begin construction, examination of bid documentation and bid process, review of project implementation plan and procurement process, review of site preparation etc.

4.10.2 Non-rectification of defects pointed out by TPIMA

TPIMA pointed out (December 2009) various defects⁵⁸ in execution of project in Chirala ULB. Action taken reports were not forthcoming from the records produced to audit. Incidentally, some of these defects were also observed by audit during physical verification of slums.

4.10.3 Inadequacies in exercising quality control tests

Public Health Quality control division, Anantapur reported (June 2009) that quality of High Density Polyethylene (HDPE) pipes procured for providing water supply to INDIRAMMA⁵⁹ housing colony, Madanapalli as satisfactory. On the contrary, the Central Institute of Plastics Engineering and Technology (CIPET) conducted (June 2010) the quality control tests of pipes and stated that pipes laid did not meet the required standards. While SLNA instructed (October 2010) the implementing agency to replace the entire HDPE pipes with good quality pipes, there was no evidence of compliance with these instructions.

4.10.4 Third Party Quality Control Agency

In the test-checked project of Narasaraopet ULB, Third Party Quality Control Agency (TPQCA) pointed out (2009-13) certain defects in execution of the project. However, some of these like non-provision of outfall drains, bulging of room beam, undulations on drain side walls etc., were not rectified by the contractor as of December 2014. Department replied (December 2014) that despite issue of notices, the contractor was yet to rectify the defects, and further stated that payment against final bill would be made only after rectification of defects.

4.11 Monitoring system

4.11.1 Meetings

Programme guidelines stipulate that SLSC should ensure monitoring of various projects sanctioned and meet at quarterly intervals to review the progress of ongoing projects and sanction of new projects. From inception (December 2005) till March 2015, only 10 meetings were conducted against the minimum requirement of 36 meetings. Further, no meetings were conducted after September 2013. Clearly, monitoring of the projects was lacking. During the exit conference (December 2015), Government stated that although the SLSC did not hold the meetings on regular basis, Principal Secretary conducted meetings regularly on monitoring proper implementation of programme. However, review meetings were not held by SLSC, an apex body.

⁵⁸ Road edges were not protected either with gravel/quarry dust, pipe crossings were not provided, alignment of drains were not straight, slopes of drains not maintained properly, comprehensive strength of CC roads were found to be less than the specified strength, approved specifications of pipes were not used for pipe crossings etc.

⁵⁹ Integrated Novel Development in Rural Areas and Model Municipal Areas

4.11.2 Training and Capacity building

Programme guidelines envisage that State Government should make continuous efforts for training and upgradation of the skills of the personnel responsible for the project and the elected representatives. In addition, it should also organise suitable training and capacity building programmes through reputed institutions in the field. During 2010-15, against the target of 62 training programmes, only 34 were conducted. This would affect the skill/capacity of the personnel involved with the projects. Reasons for shortfall were not on record.

4.11.3 Non-conducting of Social Audit

GoI introduced (December 2011) social audit to monitor IHSDP projects at community and ULB levels with the objective of ensuring transparency and accountability in implementing the scheme. Such Social Audit would ensure participation of all the stakeholders, help the community to realise their rights and entitlements and help to identify and resolve gaps with a view towards curbing mismanagement. Scrutiny of the records revealed that Social Audit was not conducted in any of the test-checked projects. This resulted in the objective of transparency and accountability not being achieved. During the exit conference (December 2015), Government agreed that no social audits were conducted.

4.11.4 Integrated Poverty Monitoring System

Online web enabled project performance tracking system as part of Integrated Poverty Monitoring System (IPoMS) was developed⁶⁰ to monitor the physical and financial progress of sanctioned projects. While the implementing agency is to carry out data entry for this, data was updated only upto April 2012. Due to technical problems data uploaded was invisible. The purpose of creating the monitoring system was therefore not achieved. During the exit conference (December 2015), Government agreed that there were problems in uploading data in IPoMS.

4.11.5 De-notification of slums

As and when the slum areas are redeveloped or rehabilitated, the Competent Authority⁶¹ should submit proposals to the State Slum Redevelopment Authority for de-notification of the slum areas and after satisfying that the slum areas are redeveloped or rehabilitated, the slums are to be de-notified. State Government intended (September 2009) to achieve the objective of slum free Andhra Pradesh by the year 2014. Despite implementation of various programmes/schemes for providing basic infrastructure facilities and improving conditions in the slums from time to time, de-notification process was not taken up by the ULBs of test-checked projects. Contrary to Government orders, there was an increase of 143⁶² slums in ULBs of test-checked projects, since sanction of the projects (2007-08) till July 2015. The aim of

⁶⁰ by Centre for Good Governance, Hyderabad for MoHUPA

⁶¹ District Slum Redevelopment Authority

⁶² Chirala (8 slums), Guntur (82), Kavali (15), Kakinada (26), Kurnool (2), Machilipatnam (2) and Narasaraopet (8)

slum free Andhra Pradesh is thus yet to be realised. During the exit conference (December 2015), Government assured that necessary steps would be initiated for de-notification of slums.

4.12 Conclusion

Detailed Project Reports were not prepared taking into consideration the facilities/amenities existing in the slums. Non-notified slums, slums in hazardous areas and slums in private lands were also identified for implementation of the programme. Provision for primary health centres was not made in convergence with departments concerned. Due to non-availability of sites various works relating to community infrastructure and community toilets were not taken up. Community Utility Centres were not put to use defeating the intended purpose. Action for de-notification of slums was not initiated by ULBs of test-checked projects, inspite of completion of projects. The overall number of slums increased despite implementation of the programme. Despite completion of all the projects, SLNA retained the balance amounts without refunding to GoI/State Government. There was shortfall in training programmes. Monitoring system was not effective and social audits were not conducted in the test-checked projects.

4.13 Recommendations

Audit recommends the following measures for consideration of the Government:

- *Identified slums should be notified within the stipulated period and immediate steps should be taken to relocate the people from slums in hazardous areas.*
- *Convergence of the programme with other stakeholders for provision of components under health, education and social security should be explored.*
- *Action should be initiated for de-notification of slums on completion of provision of infrastructure facilities.*
- *Monitoring mechanism should be strengthened in the areas of training and capacity building, social audit etc.*

During the exit conference in December 2015, Government accepted the recommendations of Audit and stated that initiatives would be taken to ensure notification and de-notification of slums. Further, Government stated that possibility of convergence would be looked into.

Chapter - V

Compliance Audit Paragraphs

Municipal Administration and Urban Development Department

5.1 Municipal Solid Waste Management

5.1.1 Introduction

Government of India notified “The Municipal Solid Waste (Management and Handling) Rules 2000” in September 2000 to manage the increasing quantum of waste generated due to urbanisation. Pursuant to this, Government of the composite State of Andhra Pradesh formulated guidelines in June 2005 to promote awareness among the public about the principles of waste management and ensure that the cities and towns in the State are clean with high quality of public health.

5.1.2 Audit Approach

Audit of implementation of Solid Waste Management (SWM) Rules 2000 by Urban Local Bodies (ULBs) in Andhra Pradesh was conducted during March - June 2015 covering the period 2010-11 to 2014-15. Audit methodology involved a test check of records of five Municipal Corporations (Guntur, Kadapa, Nellore, Tirupati and Vijayawada) and four Municipalities (Adoni, Machilipatnam, Nandyal and Vizianagaram) in the State. Audit findings were benchmarked against criteria sourced from Municipal Solid Waste (Management & Handling) Rules 2000, Guidelines for Municipal Solid Waste (MSW) Management issued by Commissioner and Director of Municipal Administration (CDMA), Hyderabad in June 2005, Bio Medical Waste (Management & Handling) Rules 1998, E-Waste (Management & Handling) Rules 2011 and orders and circulars issued by Government of Andhra Pradesh from time to time.

Audit findings

5.1.3 Fund Utilisation

The State Government did not earmark any specific budget allocation for implementation of the activities under MSW management rules. However, GoI released grants through Twelfth Finance Commission (TFC) for implementation of MSW management during the period from 2005-06 to 2009-10. Thereafter, ULBs have not allotted any specific funds for implementation of SWM, but the expenditure towards salaries of sanitation workers, maintenance of vehicles for transportation of garbage etc., was met from general fund of the ULBs concerned. The details of releases and expenditure incurred under 12th FC grants, in the nine test-checked ULBs are given below:

Table 5.1

(₹ in crore)

Name of the ULB	Grant received	Utilised	Unutilised
Guntur Municipal Corporation	14.02	12.41	1.60
Vijayawada Municipal Corporation	22.08	22.05	0.03
Nellore Municipal Corporation	9.97	9.97	0

Kadapa Municipal Corporation	8.03	7.46	0.57
Tirupati Municipal Corporation	11.01	6.87	4.14
Adoni Municipality	4.14	3.63	0.51
Vizianagaram Municipality	4.60	4.13	0.47
Machilipatnam Municipality	3.75	3.75	0
Nandyal Municipality	4.08	4.08	0

Source: Utilisation Certificates

Although the State Government had issued specific instructions for utilisation of TFC grants for implementation of SWM, the grants were not utilised fully. Besides the funds were expended on other unintended purposes by the test-checked ULBs. Specific instances in this regard are detailed below:

- i. In Machilipatnam Municipality, an amount of ₹1.53 crore was paid to the Revenue Department towards compensation to the farmers for alienation of land in Rudravaram village on behalf of the Municipality for utilising as dumping yard. Although this amount was paid during the period 2011-13, land was not alienated to the Municipality as of June 2015. However, reasons for the delay were not furnished by the ULB. Similarly, Kadapa Municipal Corporation paid an amount of ₹0.40 crore in July 2010 to the District Collector, YSR district towards compensation for acquisition of land of 21.09 acres¹ for setting up of dump yard at Kanumalopalli village in Sidhout Mandal. However, due to non-approval by the Andhra Pradesh Pollution Control Board, the ULB proposed to shift to an alternate site at Kolimulapalli of C.K. Dinne mandal. As of February 2015, neither the land was alienated nor was the amount refunded.
- ii. An amount of ₹35.95 lakh was transferred to CDMA, Hyderabad from TFC funds in respect of three ULBs² for meeting administrative expenditure of CDMA which was irregular.
- iii. Rupees 2 lakh of TFC funds was diverted (April 2012) to the Regional Director, Municipal Administration, Rajahmundry and Anantapur by two ULBs³ for incurring expenditure not related to SWM, which was irregular.
- iv. In Machilipatnam Municipality, four tractors purchased at a cost of ₹20.99 lakh from TFC grant were being utilised by the ULB for transportation of water.
- v. In Vizianagaram Municipality, an amount of ₹10 lakh from TFC grants was diverted to general fund account for meeting salary and other contingencies.
- vi. In Vijayawada Municipal Corporation, ₹54.60 lakh was transferred (September 2009) to Jawaharlal Nehru National Urban Renewal Mission (JNNURM) scheme in contravention of guidelines.

¹ 9.70 acres of Patta land and 11.39 acres of DKT land

² Machilipatnam Municipality: ₹14.37 lakh (June 2010), Tirupati Municipal Corporation: ₹21.58 lakh (November 2007 and July 2010)

³ Machilipatnam Municipality: ₹1.00 lakh and Tirupati Municipal Corporation: ₹1.00 lakh

5.1.4 Implementation stages of MSW

MSW Rules envisage collection, segregation, storage, transportation, processing and disposal of municipal solid waste. Guidelines were developed by the erstwhile Government of Andhra Pradesh for all these stages of municipal solid waste management in June 2005.

The MSW rules are to be implemented by every municipal authority within its territorial area. Parameters and criteria prescribed in MSW Rules 2000 in this regard are given below:

Parameter	Compliance criteria
Collection of Municipal Solid Waste (MSW)	Organising house-to-house collection and transfer to community bin.
Segregation of MSW	Organising awareness programmes for segregation of wastes and promote recycling or reuse of segregated material.
Storage of MSW	Accessible storage facilities based on quantities of waste generation and population densities. Colour coding system for different types of wastes.
Transportation of MSW	Covered vehicles for daily clearance of wastes and avoiding multiple handling of wastes.
Processing of MSW	Municipal authorities should adopt suitable technology or combination of such technologies to make use of wastes so as to minimise burden on landfill.
Disposal of MSW	Land filling should be restricted to non-biodegradable, inert wastes and other wastes that are not suitable either for recycling or for biological processing.

Audit findings with regard to planning for implementation of MSW rules are given below:

5.1.4.1 Collection and segregation of waste

(i) *Non-preparation of Action Plan for collection and disposal of waste*

State Government instructed (June 2006)⁴ all the ULBs to prepare Action Plans and get these approved by CDMA for specific operations like systematic segregation at source, collection and transportation from source to collection points, transportation from collection points to transfer stations and safe disposal of solid waste.

Audit scrutiny revealed that while six (Adoni, Kadapa, Nellore, Tirupati, Vijayawada and Vizianagaram) out of nine ULBs had prepared Action Plans, Guntur Municipal Corporation, Machilipatnam and Nandyal Municipalities had not prepared any Action Plan. Reasons for not preparing Action Plans were not on record.

⁴ Government of Andhra Pradesh, Department of Municipal Administration & Urban Development Memo No.11949/12/2006-1 Dated 27 June 2006.

5.1.4.2 Segregation and storage at source

Segregation and storage of solid waste is the most critical component in the whole process of MSW management since this guides the subsequent steps to be taken in handling solid waste, leading to the achievement of objectives as laid down in the MSW Rules 2000.

(i) Awareness among citizens

Generating awareness among the public with regard to the procedures and creation of an enabling environment is the key to success of proper segregation and storage at source. In order to encourage the citizens, municipal authorities should organise awareness programmes⁵ for segregation of wastes and promote recycling or reuse of segregated materials. However, in three⁶ test-checked ULBs, no such awareness campaigns have been carried out.

(ii) Non-segregation at source

Segregation of garbage at source is primarily meant to keep the two broad categories of solid waste generated separately in two different containers viz, biodegradable waste in one container and non-biodegradable waste in another. However, segregation of waste at source by adopting two bins system for bio-degradable and non-biodegradable waste was not implemented in the test-checked Corporations and Municipalities except Vijayawada Municipal Corporation and Nandyal Municipality.

Segregation and storage of solid waste at source will differ based on the type of solid wastes generated. Broadly the type of solid waste generated can be categorised into four types: (a) domestic and trade waste (b) construction waste (c) bio-medical waste and (d) industrial waste.

In the test-checked ULBs, there was no system for segregation and separate storage of waste generated at source in respect of the above categories.

(iii) Arrangements for primary collection points

Collection of MSW has to be done from dispersed sources of its generation/storage, taking into account the quantum of garbage generated in the municipal area. Quantum of garbage generated in the test-checked ULBs ranged from 2 MTs to 480 MTs per day. In these ULBs, garbage was collected door-to-door in tricycles through outsourced agencies. Since segregation was not done at the source point, door-to-door collection in two separate compartments for bio-degradable and recyclable waste was not done with the exceptions of Vijayawada Municipal Corporation and Nandyal Municipality. Further, rag pickers were not organised for improving MSW collection.

100 per cent door-to-door collection of garbage was not achieved in full in any of the test-checked ULBs. In Kadapa Municipal Corporation, door-to-door collection was

⁵ Sl. No.2 of Annexure 9 of State Guidelines on MSW issued in July 2005

⁶ Guntur Municipal Corporation, Machilipatnam and Nandyal Municipalities

not implemented in 30 out of 50 divisions as of February 2015. In Nellore Municipal Corporation, garbage was collected door-to-door in only 19 out of 54 divisions.

(iv) Non-levy of garbage collection fee

As per MSW Rules (Rule 5.4) issued by State Government in 2005, garbage collection fee should be collected from bulk garbage generators while simultaneously ensuring 100 per cent collection of garbage. Garbage collection fee is leviable on establishments such as hospitals and nursing homes, diagnostic centres, clinics, restaurants and hotels, function halls and lodges and private guest houses including clubs, private markets including agriculture markets, private commercial complexes with 20 and more shops inside, private hostels, cinema halls and places of entertainment, road side vegetable vendor addas and road side weekly markets, certain selected types of workshops etc.

In Guntur Municipal Corporation, there was loss of revenue to the tune of ₹2.20 crore due to non-collection of fee from such categories during the audit period 2010-11 to 2014-15. No other test-checked ULBs were levying fee from bulk garbage generators.

(v) Sweeping of streets and public places

As per MSW Guidelines (Rule 6) issued by State Government in 2005, all public roads, streets, lanes, bye-lanes etc., where there is habitation or commercial activity, should be swept daily. However, in exclusive public places, devoid of habitation or commercial activity like parks and huge open spaces, it can be done on a less frequent basis. MSW Guidelines, 2005 and Government circular dated 29 December 2009 specified the following normative formula for deployment/engaging of manpower through outsourcing/contract for collection of garbage and sweeping of streets and public places:

Sl. No	Average road width	Manpower required
i.	Average road width : 80ft	one worker / 350 mtrs length
ii.	Average road width : 60ft	one worker / 500 mtrs length
iii.	Average road width < or = 40 ft	one worker / 750 mtrs length
iv.	Street sweeping should include roadside drain cleaning	
v	Waste is to be collected by primary/secondary transport vehicle and to be sent to storage facility/processing unit	

Note: Sweeping of streets and public places and collection of solid waste from the households and shops and establishments etc., combined is to be taken while adopting the normative standards.

Audit observed that Guntur Municipal Corporation engaged workers in excess of the actual requirement during the period 2010-11 to 2013-14 resulting in avoidable excess expenditure of ₹8.29 crore.

5.1.4.3 Transportation of solid waste

Local bodies should identify the locations where the solid waste intermediate storage facilities should be created. Primary transportation of solid waste involves movement from source of generation to the intermediate storage facility. Secondary

transportation involves carriage of solid waste from intermediate storage facility to the waste treatment plants/landfill sites. Depending on the quantity of solid waste generated and nature of facilities at the final treatment/processing/landfill sites, a mix of transport devices should be put into place.

Audit observations in this regard are as follows:

- i. For Collection of waste, Machilipatnam Municipality had procured 23 tractors, 10 three wheeler autos and 50 tricycles with 12th Finance Commission (solid waste management) grants during 2008-09 and 2009-10. However, as per the prescribed norms (taking the minimum range of households), it was assessed in audit that 5 tractors were procured in excess of the requirement to cover the households. Excess procurement of tractors resulted in avoidable excess expenditure of ₹25.83 lakh.
- ii. In Kadapa Municipal Corporation, excess vehicles were assessed by audit based on their capacity for handling 219.70MT of garbage generated per day which resulted in avoidable excess expenditure of ₹0.55 crore⁷.
- iii. Machilipatnam Municipality had purchased 50 tricycles for door-to-door collection of garbage at a cost of ₹4.62 lakh during 2009-11. However, only 25 tricycles were being utilised and the remaining vehicles were kept idle resulting in wasteful expenditure of ₹2.22 lakh.
- iv. In Adoni Municipality, vehicle shed was constructed in February 2014 at a cost of ₹0.13 crore and compound wall to the vehicle shed was constructed in March 2014 at a cost of ₹0.26 crore. The shed is yet to be put to use resulting in the expenditure of ₹0.39 crore remaining unfruitful.

5.1.4.4 Processing of MSW

Suitable technology has to be adopted to make use of waste so as to minimise the burden on landfill. Bio-degradable wastes should be processed by composting, vermi-composting, anaerobic digestion or any other appropriate biological processing for stabilization of wastes. Mixed waste containing recoverable resources should follow the route of recycling. Incineration with or without energy recovery including pellatisation can also be used for processing wastes in specific cases.

- i. In the test-checked ULBs, no technology was in vogue for processing of waste to minimise burden on landfill. In Tirupati Municipal Corporation and Vijayawada Municipal Corporation it was observed that though vermi compost yards were constructed for processing of the waste, the same were not being utilised.
- ii. Vermi compost sheds were constructed at a cost of ₹0.30 crore in Vizianagaram Municipality (₹20.55 lakh) and Adoni Municipality (₹9.73 lakh), but these were not being utilised for processing of vermi compost.

⁷ 4 Tata Ace Autos and 12 four wheeler autos @₹1.80 lakh per vehicle and 12 three wheeler autos @₹2.16 lakh per vehicle.

- iii. In Adoni Municipality, watchman rooms and office rooms were constructed at a cost of ₹0.07 crore (January 2013) at compost yards, but these were not being used. Hence, the expenditure incurred remained unfruitful.
- iv. In Adoni Municipality, trash bank sheds were constructed by incurring an expenditure of ₹0.20 crore at two compost yards located at Yemmiganur road and Siriguppa road. The sheds were kept vacant and trash was not being separated.
- v. MSWM Rules envisage that manual handling of waste should be carried out only under proper protection with due care for safety of workers. In this regard, a World Bank Review Mission, during their visit to Kadapa in March 2014, raised concerns regarding lack of proper protection and care of workers with the Municipal authorities as detailed below:
 - Some of the rag pickers were living on the dump site in tents.
 - The workers were not wearing any gloves or protective equipment.
 - The dumping of solid waste was not being done systematically in accordance with a plan.
 - The shed constructed at the site was not being utilised for segregation.
 - The log books of the vehicles indicating the trips/quantity were not being maintained.

The World Bank Team also suggested taking necessary steps to protect the health of pig rearers and rag pickers who were working at the site. However, condition remained the same as observed by audit during joint physical verification.

- vi. ULBs did not issue any directions to Health Care Establishments/hospitals for constructing sewerage treatment plant and effluent treatment plant.
- vii. Adoni Municipality procured an electric bio-pulveriser in 2010 at a cost of ₹0.07 crore, which has not been put to use as of July 2015 since no vermi compost activity was being taken up, leading to idling of funds due to injudicious purchase.

(i) E-waste

The Hazardous Waste (Management and Handling) Rules 2003 define e-waste as “Waste Electrical and Electronic equipment including all components sub-assemblies and their fractions”. E-waste is considered dangerous to human health and environment as it contains certain materials like Lead, Cadmium and Mercury that are hazardous depending on their conditions and density. The ULBs should ensure that, e-waste/orphaned products, if found to be mixed with MSW, is properly segregated, collected and is channelised to either authorised collection centre or dismantler or recycler.

Further, the Municipal authorities are responsible for ensuring safe collection, storage, segregation, transportation, processing and disposal of plastic waste, setting up of plastic waste collection centres, take measures to encourage the use of plastic waste by adopting suitable technology such as in road construction etc.

Segregation of E-waste was not done either at source or at transfer station/dumping yard in any of the test check Municipalities/Corporations leading to environmental hazard.

5.1.4.5 Disposal of MSW

Waste disposal practices comprise (i) composting/energy production after segregation of bio-degradable waste (ii) recycling of recyclable solid waste for different activities and (iii) disposing inert materials such as dust, sand, silt, street refuses, bricks, stones, broken glass pieces etc., in a sanitary landfill.

- i. In all the test-checked ULBs, MSW was being disposed off in dumping yards affecting the environment. None of the above mentioned disposal practices were followed in any of these ULBs.
- ii. In violation of MSW Rules, no system was in vogue for generation of power from garbage in the test-checked ULBs.
- iii. Bio-menthanization plant for power generation was set up in 2004 by Union Ministry of Non-Conventional Energy Sources (MNES) through a contract agency on cost sharing basis with Vijayawada Municipal Corporation (75:25) at a cost of ₹3.04 crore for generation of 3,225 KW of power a day. In 2009, the plant stopped functioning due to non-availability of spares, software related issues in control unit etc., resulting in idling of machinery costing ₹3.04 crore and non-generation of power. VMC expressed difficulty to restore the plant due to its obsolete technology, however, efforts were being made for seeking assistance of experts for its restoration.

5.1.4.6 Monitoring mechanism

MSW Rules stipulate that Annual Reports in prescribed format should be furnished by the Municipal Authority to the District Magistrate or the Deputy Commissioner concerned indicating the quantity and composition of solid waste, storage facilities, transportation, details of slums etc., with a copy to the State Pollution Control Board or the Committee on or before 30th day of June every year. The Andhra Pradesh Pollution Control Board (APPCB), in turn, prepares annual report with regard to implementation of MSW Rules, 2000 and forward to Central Pollution Control Board (CPCB).

Scrutiny of records of test-checked ULBs revealed that there was no evidence of compliance with the procedure of forwarding annual reports to State Pollution Control Board. APPCB also confirmed that barring the reports for the year 2014-15 by Vizianagaram Municipality and 2013-14 by Nandyal Municipality, none of the other seven test-checked ULBs forwarded the annual reports. Pending reports from ULBs,

Board forwarded the annual report to CPCB. It was replied that meeting of the co-ordination committee was conducted to consider the observations of CPCB. However, action taken by APPCB was not forthcoming from the records produced to audit.

As per the annual report of APPCB for the year 2014-15, none of the ULBs (110) in the State adopted 'two bin' system and manual handling of waste was being carried out in most of the ULBs. Only 8 *per cent* of households in State were covered under source segregation. Further, only 18 out of 110 ULBs in the State set up vermi composts as part of processing of waste and disposal facilities, while 64 other ULBs proposed to establish vermi compost/windrow compost plants by end of 2015. As such, most of the ULBs were dumping the waste in existing dump sites.

5.1.5 Conclusion

The ULBs have not been compliant with the MSWM Rules in several regards. Segregation of MSW was not done at source point and door-to-door collection of wastes was practiced sporadically. Requisite fee was not levied on generators of bulk garbage. Absence of arrangements for segregation of MSW at source or at the transfer stations/disposal site burdened the dumping yard, leading to health hazards and inconvenience to citizens. Vehicles were procured and manpower was engaged in excess of requirement. Appropriate technology was not adopted for processing of waste to minimise burden on landfill. There was no system for generation of power from garbage. The monitoring mechanism was not adequate.

5.2 Avoidable late payment charges of ₹5.10 crore

Failure of Nellore Municipal Corporation to ensure payment of electricity bills in time resulted in avoidable late payment charges to the tune of ₹5.10 crore

The Municipalities and Municipal Corporations incur obligatory/discretionary expenditure which includes lighting of public streets, construction and maintenance of hospitals/dispensaries, of water works etc. In Nellore Municipal Corporation, electricity through High Tension (HT) services was utilised for water supply pumping stations, being a public amenity. Energy charges towards HT services are being paid monthly by Nellore Municipal Corporation to Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL). As per Andhra Pradesh Electricity Regulatory Commission's regulation, in case the consumers do not pay the bills by the due date, additional charges (delayed payment surcharge) are payable for delayed payment.

Scrutiny (May 2015) of records pertaining to energy charges paid by Nellore Municipal Corporation revealed that the Corporation had not regularly made payments of energy charges and incurred penalty charges of ₹5.10 crore for late payment during the period 2009-15 in respect of eight⁸ HT services. Department

⁸ Service Nos. 012,026,224,315,374,449,457 and 465

attributed non availability of sufficient funds for non-payment of electricity charges in time. The reply of the Municipal Corporation was incorrect as it failed to make timely payments despite adequate budgetary provision and funds.

**Hyderabad
The**

**(L.TOCHHAWNG)
Principal Accountant General (G&SSA)
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Countersigned

**New Delhi
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**(SHASHI KANT SHARMA)
Comptroller and Auditor General of India**

Appendices

Appendix 1.1

(Reference to paragraph 1.3 page 3)

Statement showing district-wise and department-wise devolution of funds to PRIs during 2014-15

(₹ in lakh)

Sl. No	Name of the District	Animal Husbandry Department	Backward Classes Welfare Department	Fisheries Department	Total
1	Anantapur	0	0	1.00	1.00
2	Chittoor	0	0	59.86	59.86
3	East Godavari	67.81	3.20	105.00	176.01
4	Guntur	0	0	101.82	101.82
5	Krishna	52.03	0	0	52.03
6	Kurnool	0	0.15	49.99	50.14
7	SPSR Nellore	21.65	0	0	21.65
8	Prakasam	0	0	70.00	70.00
9	Srikakulam	44.26	0	43.00	87.26
10	Visakhapatnam	834.89	0	0	834.89
11	Vizianagaram	0	0	43.85	43.85
12	West Godavari	7.11	0	128.79	135.90
13	YSR	0	0	70.96	70.96
	Total	1,027.75	3.35	674.27	1,705.37

Appendix-2.1

(Reference to paragraph 2.1 page 15)

Statement showing the details of notices issued by Fund Commissioner

Sl. No	Details of notices issued by Fund Commissioner				Details of Payment	
	Name of the DPMU/TPMU	Noticed issued (Month and Year)	Amount (Damage charges and interest)	Period of recovery of EPF	Payment made (Month and Year)	Amount
1	Anantapur	March 2014	17,95,829	November 2004 to October 2013		0
2	Chittoor	April 2013	35,83,221	January 2008 to November 2010	July 2013	35,83,221
3	Chittoor	February 2015	70,841	January 2011 to October 2013		0
4	Guntur	January 2014	17,19,135	November 2002 to November 2013	July 2014	17,19,135
5	Kadapa	April 2013	14,34,041	December 2006 to March 2010	May 2013	14,34,041
6	Kadapa	December 2013	2,95,123	April 2010 to October 2013	April 2014	2,95,123
7	Krishna	May 2011	4,23,364	January 2008 to June 2010	June 2012	4,23,364
8	Nellore	March 2014	35,70,325	November 2002 to October 2013	October 2014	35,70,325
9	Ongole	January 2014	11,33,849	June 2010 to December 2013	June 2014	11,33,849
10	Paderu	December 2013	8,18,651	September 2009 to November 2013	April 2014	8,18,651
11	Seethampet	July 2012	2,48,617	January 2008 to February 2009	March 2013	2,48,617
12	Seethampet	December 2013	1,17,727	March 2009 to November 2013	December 2014	1,17,727
13	Srikakulam	December 2012	13,63,809	August 2004 to September 2012	March 2013	13,63,809
14	Visakhapatnam	July 2012	16,75,976	October 2006 to June 2010	November 2012	16,75,976
15	Visakhapatnam	January 2014	63,776	June 2010 to October 2013	May 2014	63,776
16	Vizianagaram	January 2014	3,00,374	February 2009 to October 2013	June 2014	3,00,374
Total			1,86,14,658			1,67,47,988

Source: Information furnished by SERP

Appendix-4.1

(Reference to paragraph 4.6.2 page 37)

Statement showing the details of components proposed and completed in test-checked projects

Sl. No.	Name of the ULB and Status of the project	Components	Quantities sanctioned in original DPR	Quantities sanctioned in revised DPR	Quantities executed	Quantities not executed	
1	Anakapalli (completed)	Roads	5.05 km	6.73 km	6.73 km	0	
		Drains	0	1.76 km	1.76 km	0	
		CUCs	2 Nos	1 No.	1 No.	0	
		Water supply works	13.30 km	12.43 km	12.35 km	0.08 km	
2	Chirala (completed)	Roads	6.85 km	8.65 km	8.65 km	0	
		Drains	10.17 km	5.28 km	5.28 km	0	
		CUCs	1 No.	0	0	0	
		Street lighting	163 Nos	216 Nos	216 Nos	0	
3	Guntur (completed)	Roads	150.71 km	164.91 km	162.01 km	2.9 km	
		Shoulders to roads	17.93 km	5.58 km	5.58 km	0	
		Drains	50.22 km	25.9 km	25.9 km	0	
		Culverts	2.22 km	1.31 km	1.31 km	0	
		Water supply works	25.49 km	11.49 km	11.18 km	0.31 km	
		CUCs	4 Nos.	0	0	0	
4	Kakinada (completed)	Roads	2.96 km	3.67 km	3.67 km	0	
		Drains	5.56 km	11.51 km	5.51 km	6 km	
		CUCs	2 Nos	1 No.	0	1 No.	
		Sewerage and disposal pipelines	1 No.	130 Nos	0	130 Nos	
		Livelihood centre	1 No.	1 No.	0	1 No.	
		Water supply works					
		Pipe lines	7.5 km	12.73 km	9.73 km	3 km	
		Sump	1 No.	6 Nos	6 Nos	0	
		Pumping stations	1 No.	6 Nos	0	6 Nos	
		Mains for bores	0	12 Nos	0	12 Nos	
		Construction of ELSR	1 No.	1 No.	1 No.	0	
		Street lighting					
		Lamp posts	34 Nos	225 Nos	0	225 Nos	
		Transformers	5 Nos	2 Nos	0	2 Nos	
		5	Kurnool (completed)	Roads	25.11 km	26.67 km	24.68 km
Drains	41.06 km			42.81 km	32.15 km	10.66 km	
Water supply works	15.39 km			15.39 km	7.43 km	7.96 km	
6	Kavali (completed)	Roads	6.64 km	5.29 km	5.29 km	0	

Sl. No.	Name of the ULB and Status of the project	Components	Quantities sanctioned in original DPR	Quantities sanctioned in revised DPR	Quantities executed	Quantities not executed	
		Drains	9.58 km	5.76 km	5.76 km	0	
		Culvert	1 No.	1 No.	1 No.	0	
		CUC	1 No.	1 No.	1 No.	0	
		Children's Park	1 No.	2 Nos	2 Nos	0	
		School	1 No.	1 No.	1 No.	0	
		Water supply works					
		250 KL ELSR	1 No.	1 No.	1 No.	0	
		Distribution system	5.58 km	3.65 km	3.65 km	0	
7	Machilipatnam (completed)	Roads	24.62 km	25.81 km	26.31 km	0	
		Drains	4.74 km	4.76 km	1.05 km	3.71 km	
		CUCs	2 Nos	1 No.	1 No.	0	
		Water supply works	9.99 km	10.16 km	4.46 km	5.7 km	
8	Madanapalli (completed)	Roads	11.59 km	18.34 km	14.11 km	4.23 km	
		Drains	10.25 km	11.25 km	9.87 km	1.38 km	
		CUCs	1 No.	2 Nos	2 Nos	0	
		Street lighting	550 Nos	760 Nos	760 Nos	0	
		Water supply works	6.25 km	7.7 km	7.7 km	0	
		Health centre	1 No.	1 No.	1 No.	0	
9	Narasaraopet (completed)	Roads	31.32 km	30.59 km	30.59 km	0	
		Drains	67.88 km	64.19 km	64.19 km	0	
		CUCs	6 Nos	6 Nos	6 Nos	0	
		Community toilets	9 Nos	0	0	0	
		Street lighting	69 Nos	125 Nos	125 Nos	0	
10	Pulivendula (completed)	Roads	31.71 km	18.76 km	16.78 km	1.98 km	
		Drains	46.80 km	35.47 km	33.80 km	1.67 km	
		CUCs	9 Nos	9 Nos	0	9 Nos	
		Community toilets	11 Nos	10 Nos	0	10 Nos	
		Street lighting	145 Nos	1130 Nos	0	1130 Nos	
		Water supply works	31.25 km	15.60 km	15.24 km	0.36 km	

Source: Records of implementing agencies

Glossary of Abbreviations

AC	Abstract Contingent
ACA	Additional Central Assistance
APHB	Andhra Pradesh Housing Board
APL	Above Poverty Line
APMAM	Andhra Pradesh Municipal Accounts Manual
APMDP	Andhra Pradesh Municipal Development Project
APPCB	Andhra Pradesh Pollution Control Board
APPR	Andhra Pradesh Panchayat Raj
APUFIDC	Andhra Pradesh Urban Finance and Infrastructure Development Corporation
BG	Bank Guarantee
BRGF	Backward Region Grant Fund
BSUP	Basic Services to the Urban Poor
CC	Cement Concrete
CDMA	Commissioner and Director Municipal Administration
CEO	Chief Executive Officer
CFC	Central Finance Commission
CFMS	Central Fund Management System
CIPET	Central Institute of Plastics Engineering and Technology
CPCB	Central Pollution Control Board
CPRRD	Commissioner, Panchayat Raj and Rural Development
CPRRE	Commissioner, Panchayat Raj and Rural Employment
CRD	Commissioner, Rural Development
CSC	Central Sanctioning Committee
CSS	Central Sponsored Schemes
CUC	Community Utility Centres

DC	Detailed Contingent
DDO	Drawing and Disbursing Officer
DEABAS	Double Entry Accrual Based Accounting System
DPC	District Planning Committee
DPMU	District Project Monitoring Unit
DPRs	Detailed Project Reports
DSA	Director State Audit
DWMA	District Water Management Agency
ECV	Estimated Contract Value
EPF	Employees' Provident Fund
EWS	Economically Weaker Section
FTE	Fixed Tenure Employees
FTO	Fund Transfer Order
GFRs	General Financial Rules
GoAP	Government of Andhra Pradesh
GoI	Government of India
GP	Gram Panchayat
GVMC	Greater Visakhapatnam Municipal Corporation
HDPE	High Density Polyethylene
HMC	Hyderabad Municipal Corporation
HT	High Tension
IHSDP	Integrated Housing and Slum Development Programme
INDIRAMMA	Integrated Novel Development in Rural Areas and Model Municipal Areas
IR	Inspection Report
JNNURM	Jawaharlal Nehru National Urban Renewal Mission

LIG	Lower Income Group
LOA	Letter of Acceptance
MA&UD	Municipal Administration and Urban Development
MCs	Municipal Corporations
MEPMA	Mission for Elimination of Poverty in Municipal Areas
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MNES	Ministry of Non-conventional Energy Sources
MoHUPA	Ministry of Housing and Urban Poverty Alleviation
MPDO	Mandal Parishad Development Officer
MPP	Mandal Praja Parishad
MPTC	Mandal Parishad Territorial Constituency
MSWM	Municipal Solid Waste Management
NIC	National Informatics Centre
NMAM	National Municipal Accounts Manual
NSDP	National Slum Development Programme
NSG	National Steering Group
PD	Personal Deposit
PF	Provident Fund
PHC	Primary Health Centre
PHE	Public Health Engineering
PRIs	Panchayat Raj Institutions
PRIASoft	Panchayat Raj Institutions Accounting Software
RR	Revenue Recovery
RWS	Rural Water Supply

SAU	Social Audit Unit
SEGF	State Employment Guarantee Fund
SERP	Society for Elimination of Rural Poverty
SFC	State Finance Commission
SLNA	State Level Nodal Agency
SLSC	State Level Steering Committee
SPIU	Strategic Performance Innovation Unit
SSAAT	Society for Social Audit, Accountability and Transparency
TAG	Technical Advisory Group
TFC	Thirteenth Finance Commission
TGS	Technical Guidance and Supervision
TPIMA	Third Party Inspection and Monitoring Agencies
TPMU	Tribal Project Monitoring Unit
TPQCA	Third Party Quality Control Agency
UC	Utilisation Certificate
UIDSSMT	Urban Infrastructure Development Scheme for Small and Medium Towns
UIG	Urban Infrastructure Governance
ULBs	Urban Local Bodies
USHA	Urban Statistics for HR and Assessment
VAMBAY	Valmiki Ambedkar Awas Yojana
VAT	Value Added Tax
VMC	Vijayawada Municipal Corporation
ZPP	Zilla Praja Parishad
ZPTC	Zilla Parishad Territorial Constituency

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