

## CHAPTER III

### AUDIT OF TRANSACTIONS

#### 3.1 Panchayat Raj Institutions

##### 3.1.1 Non-recovery of House Building Advance

**Laxity of Chief Executive Office, Zilla Parishad, Warangal in monitoring the recovery of House Building Advances led to non-recovery of Rs 86.95 lakh besides Rs 15.49 lakh is a loss to Government.**

Grant of House Building Advance (HBA) to the employees of Local Bodies is governed by the HBA rules of the State Government and the orders issued thereon from time to time. According to these rules, recovery of HBA shall invariably be affected 19 months from the drawal of first installment or the month following completion of the house, whichever is earlier. The balance advance due at the time of retirement shall be recovered from the retirement benefits of the employee.

Audit scrutiny of records of the Chief Executive Officer (CEO), Zilla Parishad (ZP), Warangal disclosed that out of 248 sanctions made during 1991-2004, recovery of HBA amounting to Rs 1.02 crore was not affected from 191 employees. Of these, 23 employees from whom HBA recovery amounting to Rs 10.42 lakh was due had already retired and 11 employees with HBA liability of Rs 5.07 lakh had died.

It was also noticed that the conditions prescribed for release of HBA, viz., adherence to the schedule of payment of installments of HBA, insuring the house at the cost of loanee, obtaining mortgage deeds, recovery of Penal interest (at the rate of one and half *per cent*) in case of failure to meet the prescribed conditions by the loanee, etc., were not being followed in the Zilla Parishad. The Zilla Parishad also did not ensure recovery of the balance HBA from the retirement benefits of the retiring employees. This reflects laxity in internal control and weak financial management. On this being pointed out (October 2005), the Chief Executive Officer accepted these facts and assured that necessary action would be taken to recover the outstanding HBA from the concerned employees. However, no recovery details were furnished to Audit as of November 2006.


Thus, failure of the CEO to monitor the recoveries of HBA resulted in non-recovery of Rs 86.95 lakh, besides Rs 15.49 lakh has become a loss as the officials from whom this amount is due have either retired or expired. The matter was referred to Government in November 2006. Government replied that necessary instructions have been issued to CEO/ZP to affect the recoveries promptly. In case of deceased employees, proposals for waiving the amounts due were under scrutiny. However, no reply was given with regard to retired employees and how recoveries can be affected from them.


### 3.1.2 Unfruitful expenditure and cost escalation on MPP Buildings

**Failure of the CEOs, Zilla Parishad, Nellore and Chittoor to effectively monitor the progress of the MPP building works led to expenditure of Rs 32.73 lakh remaining unproductive for periods ranging from three to 20 years besides cost escalation of Rs 41.65 lakh.**

The State Government releases funds from time to time to Panchayat Raj Institutions for construction of Mandal Parishad Office (MPP) buildings under State Finance Commission (SFC), Mandal Parishad Buildings grant, etc. The funds are kept at the disposal of the Executive Engineers of the divisions concerned and the Chief Executive Officers (CEOs) of Zilla Parishads monitor the completion of building works.

Audit scrutiny of records of the divisions in Nellore and Chittoor Districts revealed that construction of some of the MPP buildings sanctioned between 1987 to 2004, had not been completed as of January 2007 despite availability of funds, as discussed below:

District/ Name of the MPP Building	Month of sanction	Estimated cost of the building (Rs in lakh)	Expenditure incurred till Jan 2007 (Rs in lakh)	Audit findings/Remarks
Nellore : Ananthasagaram	October 2003	25.00	3.96	 <p>The agreement concluded with first contractor was terminated (August 2004) at his cost duly forfeiting deposits, as the work had not been taken up. Immediate action was, however, not initiated to entrust the work to another contractor. After a delay of 18 months, the work was entrusted (Feb. 2006) to another contractor. This resulted in cost escalation of Rs 5.43 lakh. As of January 2007, the work was completed only up to lintel level. Total delay in this case so far is over three years.</p>
Marripadu	June 2003	25.00	19.90	<p>The agreement concluded with first contractor was terminated (August 2004) due to ill health of the contractor. Immediate action was, however, not initiated to entrust the work to another contractor. It was only after a delay of 18 months that the work was entrusted (Feb. 2006) to another contractor, which resulted in cost escalation of Rs 12.45 lakh. The construction work was completed only by January 2007 and the building is yet to be put to use. Total delay in this case was over three years.</p>

Vidavalur	1987	6.00	8.87	 <p>After execution of work valued at Rs 2.38 lakh, it was abandoned for eight to nine years for no specific reasons on record. The estimate was then revised to Rs 10 lakh and the work was re-entrusted to another contractor (June 1997). The work was, however, abandoned by the Contractor (November 2003). Later S.V. University of Engineering advised (July 2005) revision in the structure and suggested modifications to improve the quality of the old building. Accordingly, the estimates were revised to Rs 22 lakh. This has resulted in escalation of Rs 18.77 lakh (compared to the first estimated contract value of Rs3.23 lakh). As per the CEO, ZP, Nellore, as of January 2007, the building had been completed only up to roof level, leaving various other works yet to be completed. Total delay in this case so far is 20 years.</p>
<b>Chittoor:</b> Y.V. Palem	March 1999	19.00	---	<p>The Mandal Parishad Development Officer (MPDO) did not pursue with Revenue authorities about taking over possession of land till July 2003. The delay in handing over of the site has resulted in revision of cost from Rs 19 lakh to Rs 24 lakh as per SSR 2003-04. The work had not commenced as of January 2007. Total delay in this case so far is over seven years.</p>

Thus, failure of the CEOs in Nellore and Chittoor Districts to effectively monitor the progress of the above works resulted in necessary infrastructure for the Mandal Parishad offices not being provided for periods ranging between three to 20 years. It had also resulted in unproductive expenditure of Rs 32.73 lakh (excluding ZP/Chittoor), besides increased costs amounting to Rs 41.65 lakh.

The matter was referred to Government in December 2006; their reply is awaited.

### 3.1.3. Non-transfer of earmarked funds by PRIs

**Earmarked funds aggregating Rs 11.75 crore either remained unutilised or were not transferred to the respective Finance Corporations of the SC/ST community and Women and Child Welfare in four Zilla Parishads and 17 Mandal Parishads depriving the targeted communities of the intended benefits.**

According to the provisions of Andhra Pradesh Panchayat Raj Act<sup>1</sup>, Zilla Parishad (ZP)/Mandal Parishad shall earmark 15 percent of their General fund for the welfare of the SC community and six *per cent* for the ST community. Out of the amounts so earmarked, one-third of the amount shall be transferred to the Finance Corporations of the respective communities and balance utilized by the ZP/MP for the benefit of SC/ST communities. Similarly, 15 *per cent* of the General fund shall also be earmarked for the welfare of women and children and the unspent balances transferred to AP Women and Child Welfare Finance Corporation Limited (APWCWFC). The unspent balances available at the end of each financial year from out of two-thirds share shall also be made over to the respective Finance Corporations.

Audit scrutiny of records of four ZPs and 14 MPs for the period 2005-06 revealed that funds amounting to Rs 2.23 crore, being the earmarked funds for the welfare of the SC and ST communities, had not been transferred to the respective Finance Corporations as of January 2007 (*Appendix-6*). Similarly, four ZPs and 17 Mandals had not transferred unutilized funds totaling Rs 3.36 crore for the period 2005-06 (*Appendix -7*). Similarly, the unspent balances of Rs 6.16 crore, earmarked for women and child welfare during 1997-98 to 2005-06 were also not transferred to the APWCWFC (*Appendix-8*). It was stated by two MPDOs<sup>2</sup> that due to administrative reasons, the earmarked funds were not utilised. The CEO of ZP Ananthapur replied that the earmarked funds were utilized towards payment of pensions to non-provincials.

Thus, in all, earmarked funds amounting to Rs 11.75 crore either remained unutilized or were not transferred to the respective agencies depriving the targeted communities of the intended socio economic benefits.

The matter was referred to Government in January 2007; reply is awaited.

### 3.1.4 Diversion of scheme funds

**Scheme funds amounting to Rs 3.09 crore were diverted by two Zilla Parishads and three Mandal Parishads in violation of the scheme guidelines.**

Government of India (GOI) and the State Government have been releasing funds to Panchayat Raj Institutions (PRIs) from time to time for implementing various schemes. The guidelines of all the schemes invariably require that the

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<sup>1</sup> Sub-section (1) of Section 197 and sub-section (1) of Section of 268 of Andhra Pradesh Panchayat Raj Act, 1994

<sup>2</sup> Yadagirigutta, Narayanpur

funds released be utilized only for the purpose specified and not be diverted for other purposes.

Test-check of two Zilla Parishads (ZP) and three Mandal Parishad Development offices revealed that funds amounting to Rs 3.09 crore were diverted for other purposes in violation of respective scheme guidelines.

Name of the office	Year in which diverted	Name of the scheme/Fund from which funds were diverted	Amount (Rs in lakh)	Purpose for which the funds were diverted
ZP, Adilabad	2002-03	SGRY <sup>3</sup>	124.24	Laying of CC roads and side drains
ZP, Adilabad	2002-03 and 2003-04	SGRY	43.00	Laying of BT roads and bridges
ZP, RR Dist.	2001-02 to 2004-05	Statutory recoveries	133.06	Work bills
MPDO, Narayanpur	1998-99 to 2000-01	Education funds	3.39	Staff salaries
MPDO, Maddur,	2003-04 to 2005-06	SFC <sup>4</sup>	0.97	Construction of ZP compound wall
MPDO, Ghatkesar	2002-03 to 2005-06	SGRY stream I	4.08	Construction of DWCRA buildings and veterinary hospital
<b>Total</b>			<b>308.74</b>	

Under SGRY, works viz., laying of CC Roads, BT roads, construction of office buildings were explicitly prohibited as they involve inadequate labor component and would defeat the very objective of the scheme. Thus, the diversion of Rs 1.71 crore under SGRY deprived the rural poor of the intended benefits of the schemes. The statutory recoveries deducted from the work bills, instead of being remitted to the respective heads of accounts (IT, Seigniorage charges, etc.,) were diverted for payment of other works bills thereby accumulating the arrears of dues of the Zilla Parishad.

The matter was referred to Government in January 2007; reply is awaited.

### 3.1.5 Unfruitful expenditure of Protected Water Supply Schemes

**The ineffective monitoring of works by the Village Water and Sanitation Committees of Raparthy and Doruvulapalem Gram Panchayats resulted in the Protected Water Supply schemes remaining incomplete, even three and a half years after commencement. This had rendered the expenditure of Rs 49.65 lakh incurred on the projects, unproductive.**

Protected Water Supply schemes to Raparthy Village of East Godavari District and Doruvulapalem village of Nellore district were sanctioned in April 2003 and August 2003 under Swajaladhara Project (with 10 *per cent* matching share by the Gram Panchayat). The schemes were expected to cost Rs 49 lakh and

<sup>3</sup> SGRY: Sampurna Grameena Rozgar Yojana

<sup>4</sup> SFC: State Finance Commission

Rs 45 lakh respectively. Despite availability of funds, both the schemes were incomplete as of April 2007 as discussed below.

**PWS scheme to Raparthy:**

The East Godavari District Water and Sanitation Committee entrusted the work to Village Water and Sanitation Committee (VWSC) in July 2003 on nomination basis without, however, stipulating the date of completion. An amount of Rs 32.29 lakh<sup>5</sup> was placed in the savings bank account of the VWSC between November 2002 and February 2003. However, though the work was commenced in October 2003, VWSC could complete works<sup>6</sup> to the extent of Rs 26.05 lakh only as of January 2007 leaving the balance works<sup>7</sup> valued Rs 13.10 lakh yet to be carried out.

The Executive Engineer, Rural Water Supply, in his reply stated that the original site for laying the pumping main line was found to be unsuitable and had to be relocated. The new site was identified only in June 2006.

**PWS scheme to Dorvulapalem:**

The Nellore District Water and Sanitation Committee (NDWSC) entrusted the work (August 2003) to the Village Water and Sanitation Committee (VWSC) on nomination basis, with a stipulation to complete it by February 2004. Though funds amounting to Rs 16.65 lakh<sup>8</sup> were placed with the VWSC in August 2003, the VWSC executed works<sup>9</sup> valued at Rs 9.60 lakh as of November 2004 and thereafter the work was abandoned (May 2005). The VWSC had misused Rs 7.40 lakh<sup>10</sup> and had not remitted the balance amount. Though the District Collector had started recovery proceedings, the amount could not be recovered as of January 2007 as the Hon'ble High Court (December 2005), stayed the proceedings. The District Collector entrusted (October 2006) the balance works as per the current SSRs (value assessed at Rs 24.91 lakh) to the new VWSC. The VWSC executed only works valuing Rs 14 lakh, without taking up construction of two lakh liters overhead storage reservoir (OHSR) (1) and 90000 liters OHSR (1), distribution system and other miscellaneous items of work (January 2007).

Thus, the ineffective monitoring of works by the Village Water and Sanitation Committees of Raparthy and Dorvulapalem Gram Panchayats resulted in the Protected Water Supply schemes remaining incomplete, even three and a half years after commencement. This had rendered the expenditure of Rs 49.65

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<sup>5</sup> Release by GOI Rs 29.64 lakh, contribution by GP: Rs 2.65 lakh

<sup>6</sup> Construction of sump at OHSR, drilling of two borewells at source, and some works at pumping main

<sup>7</sup> Distribution system to village, supply and erection of submersible and related motors staircase and required accessories to OHSR

<sup>8</sup> GOIs first installment release of Rs 12.15 lakh and GPs contribution of Rs 4.5 lakh

<sup>9</sup> partly completed the construction works of two lakh liters OHSR and 90000 liters OHSR

<sup>10</sup> Rs 2.90 lakh being the GOI share and the entire GP contribution: Rs 4.5 lakh

lakh incurred on the projects, unproductive, and had also resulted in denial of drinking water to 8235 inhabitants of the respective villages.

### 3.1.6 Ineffective functioning of Gram Panchayats

**Scrutiny of records of 479 Gram Panchayats during regular audit revealed huge arrears in collection of tax and non tax revenues, diversion of scheme grants, non-accountal of stock, non-maintenance of vital records/registers and poor accounting arrangements.**

During October 2005-March 2006, 479 Gram Panchayats (GP) constituting about 2.2 *per cent* of the 21943 GPs in the State, were randomly selected and audited for measuring economy, efficiency and effectiveness of their operations. Tax and non-tax levies account for the major portion of the revenues of GPs. Their regular collection is essential to finance developmental activities and to provide infrastructural facilities so that the benefits of economic progress are assured to the rural poor. Similarly, efficient and effective functioning lies in ensuring that grants released to GPs for implementation of various schemes are fully utilized for the purpose they are released. Audit scrutiny of the records of the 479 GPs, inter alia revealed the following:

(i) **Collection of taxes:** House tax followed by water tax account for the major share of the tax collection, with lighting tax and drainage tax being the other taxes collected. It was noticed that in 407 GPs, the collection of taxes was in arrears. As against the demand of Rs 41.94 crore in 479 GPs, only Rs 18.27 crore was collected leaving a balance Rs 23.67 crore (56 *per cent*) in arrears as of March 2006 as detailed in *Appendix-9*.

(ii) **Collection of Non-taxes:** The GPs generate revenue through various non-taxes receipts also such as library cess, rentals, tap fee, cattle auctions, markets, etc. As against the demand of Rs 6.21 crore, only Rs 3.13 crore was collected leaving a balance of Rs 3.08 crore (50 *per cent*) in arrears as of March 2006. The details are given in *Appendix-10*.

**Utilisation of grants:** Grants released to GPs for implementation of various schemes were not fully utilized by GPs as shown below:

(Rupees in crore)

Nature of grant/scheme	Amount of grant received	Amount of Grant un-utilized	Amount of grant diverted
Sampoorna Grameena Rozgar Yojana	10.74	2.44	0.02
Eleventh Finance Commission	11.34	5.37	0.03
State Finance Commission	5.47	2.43	0.01
<b>Total</b>	<b>27.55</b>	<b>10.24 (37 per cent)</b>	<b>0.06</b>

Year wise details of grants released and utilized were not available with the GPs. Thus, it is evident that the GPs failed to utilize the scheme funds

provided by GOI, in full, thereby, adversely affecting their implementation and denying the beneficiaries of the intended benefits.

**(iv) Purchase of Material:** As per codal provisions, purchases should be made duly following the prescribed procedures after obtaining competitive prices, by calling for quotations. Stock registers are required to be maintained to watch proper accounting of stocks procured and their legitimate utilization. However, it was observed that in 99 GPs, (out of 479 audited) sanitary/electrical items worth Rs 3.24 crore were purchased without obtaining quotations, thereby, losing the advantage of competitive prices. The details are given in **Appendix-11**. Further, in 92 Gram Panchayats, material worth Rs 2.59 crore was not recorded in stock registers at all, indicating absence control over availability/utilization of stocks. The possibility of misuse of government money can also not be ruled out. The matter needs investigation, and review in all the GPs in the State.

**(v) Preparation of Budget:** According to the provisions of AP Panchayat Raj Act, 1994, every Gram Panchayat should prepare budget estimates for a financial year before December of the preceding financial year and obtain approval of the Divisional Panchayat Officer under Section 77 (2) of the Act. However, it was seen that 138 out of 479 test checked GPs (29 per cent) had not prepared budget estimates for the year 2004-05. In the absence of budgets, the GPs lost the opportunity of receiving the allocation of funds based on their estimated requirements.

**(vi) Reconciliation:** As per the provisions of the Budget Manual, all GPs are required to carry out reconciliation of cash book figures with treasury balances every month. The purpose of reconciliation of Treasury Personal Deposit accounts and bank accounts is to watch whether remittances made into the accounts and the booking of sanctioned expenditure are correct and also to certify the genuineness of remittances made through challans. However, it was observed that 300 out of 479 GPs (63 per cent) audited had not conducted reconciliation with the treasury. As a result, possible misuse of government money in the form of fictitious drawals/remittances and irregular booking of expenditure under various heads of account/ scheme/ programmes would remain unearthed. The matter needs immediate attention for rectificatory action.

**(vii) Maintenance of vital Records:** Vital records such as Asset Register, Works Register, DCB Register, Stock Register, Challan Register, Register of Estimates/Agreements and Furniture Register were not maintained in as many as 415 out of 479 GPs test checked (87 per cent) though stipulated in (Para13.1 to 13.30) GP Accounts Manual of Panchayat Raj & Rural Development Department, reflecting inadequate accounting arrangements in the GPs. Non/improper maintenance of the aforementioned records may lead to mis-utilization/ mis-appropriation of funds, since proper utilization of stocks procured in implementation of various schemes cannot be verified. The matter needs immediate attention for rectificatory action.

**(viii) Recovery of Standard Deductions from Work Bills:** Recoveries towards income tax, seigniorage charges, turnover tax, etc., are to be recovered from



work bills as per the provisions of respective Acts. It was, however, noticed that the following deductions were not effected from the work bills of contractors.

(Rupees in lakh)

Nature of deduction	Amount to be deducted
Income tax	6.85
Seigniorage Charges	3.16
Turnover tax / VAT	1.11
Building Fund	0.88
<b>Total</b>	<b>12.00</b>

*(ix) Conduct of Gram Sabhas, etc:* In addition, there were also instances of Gramsabhas, not being conducted<sup>11</sup>, execution of works without approval of Gram Sabha<sup>12</sup>, non-obtaining of approval for budget proposals<sup>13</sup>, etc., in some of the GPs. The audit of 479 Gram Panchayats (GP), revealed serious shortcomings in the functioning of GPs. It was seen inter alia, that there was non-compliance with rules, manuals and codes in general, poor financial discipline and budget preparation, as well as weak expenditure controls. There is thus an urgent need for a instituting proper internal control system in the GPs for protecting resources from waste, loss, theft, misuse or mismanagement.

Towards this end, it is also essential that the arrears in audit of GPs by Director, State Audit as mentioned in Para 1.1.6 be cleared on a priority basis. Failure to do so can have an adverse effect on the implementation of various developmental schemes meant for the rural population.

## 3.2 URBAN LOCAL BODIES

### 3.2.1 Non-commissioning of Solid Waste Management Project

**The systematic disposal of Municipal Solid Waste in Guntur Municipal Corporation had not been achieved even five years after concluding an agreement with a company. Due to the inaction of the Commissioner, the uncontrolled and unscientific dumping of waste continues, creating an environmental health hazard for the residents. It has also led to avoidable expenditure of Rs 10.97 lakh on provision of infrastructural facilities besides loss of revenue of Rs 29.52 lakh and non-recovery of penal interest of Rs 10.38 lakh.**

Unscientific handling, storage, collection and disposal of Solid Waste is fraught with the risk of becoming an environmental and public health hazard as some waste can be extremely toxic and infectious. Uncontrolled and unscientific dumping of such waste is hazardous to human health, especially through contamination of surface and ground water.

<sup>11</sup> Damaramadugu of Nellore District

<sup>12</sup> Chebrolu, Prathipadu of Guntur district

<sup>13</sup> Gouravaram, Naidupalem, Valimeraka, Rajullatamma valasa, Revikamatham of VSP Dist

The Municipal Solid Waste (M&H) Rules 2000 issued by Government of India seek to regulate for the management of Solid Waste by Urban Local Bodies. Municipal Solid Waste (MSW) in Guntur Municipal Corporation (GMC) has traditionally been disposed of unscientifically and in an unorganized manner. The GMC generates 350 MTs of Municipal Solid Waste (MSW) per day, out of which 35.45 MTs is agro waste from vegetable markets and 31.15 MTs is industrial waste and the remaining 283.40 MTs include domestic and other solid waste.

To encourage its systematic disposal, GMC proposed to manufacture 'Refused Derived Pellets' utilizing the garbage as raw material for production of power. In this connection, GMC entered into an agreement with a company<sup>14</sup> in February 2001 for manufacturing Refuse Derived Fuel (RDF) Pellets and co-products.

The agreement *inter alia* included that (a) the company would pay annual lease rent equivalent to five *per cent* of the prevailing registration value of the land for each quarter and penal interest of 18 *per cent* on belated payments (b) the Company would take 270 MTs of MSW to the proposed site every day and would pay royalty of Rs 10 per MT of garbage and lift 10 *per cent* of garbage on their own and (c) required infrastructural facilities would be arranged by the company including clearance from A.P. Pollution Control Board for setting up the plant.

Although the land was handed over to the company in February 2001, with a stipulation to set up the plant within 18 months from the date of the site being handed over, the plant was not set up even as of December 2006. Though GMC issued show cause notices to the company in October 2001 and January 2002 for not setting up the Solid Waste Treatment Plant, it entered into a supplementary agreement with the company in December 2004 with regard to lifting of garbage. No works had, however, been commenced by the company even as of December 2006.

It was also observed that the company was not paying the lease rent (worked out to Rs 29.52 lakh as of December 2006) to GMC though agreed to. The penal interest leviable up to December 2006 amounted to Rs 10.38 lakh<sup>15</sup>. As the company had not started lifting garbage, GMC had also to forgo expected royalty of Rs 42 lakh (up to December 2006). Further, though the agreement stipulated arrangement of all infrastructural facilities by the Company, GMC itself expended (October 2005 and January 2006) Rs 10.97 lakh, on construction of CC platform and laying of (WBM) road to the compost yard.

The inaction of the Commissioner, GMC, in getting the works executed had thus resulted in the objective of efficient disposal of MSW not being realized even after five years of concluding an agreement with the company. The delay in putting in place a systematic garbage disposal plant in the face of increased population in Guntur town constituted an environmental hazard and posed a threat to human health. Further, apart from incurring avoidable expenditure of Rs 10.97 lakh on road works, etc., it had also resulted in loss of potential lease

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<sup>14</sup> M/s Shri Ram Energy Systems Private Limited

<sup>15</sup> Vide separate **Appendix-12**

rent for over five years of Rs 29.52 lakh and non-recovery of penal interest of Rs 10.38 lakh.

The matter was referred to Government in December 2006; reply is awaited.

### 3.2.2 Undue benefit to a bidder in award of Advertisement Tax collection rights

**Guntur Municipal Corporation failed to get competitive rates in awarding advertisement tax collection rights. It extended undue financial benefit to a particular bidder by relaxing the tender/agreement conditions thereby losing revenue of Rs 44.49 lakh.**

For the period 2002-07, the Guntur Municipal Corporation (GMC) proposed to outsource the Advertisement Tax collection rights excluding cable networks and Unipoles. The reserve price was fixed at Rs 55 lakh per annum.

Though tenders were floated in February 2002 and in April 2002, they were cancelled by the GMC for non-compliance of the requirements by the bidders. Subsequently, another tender-cum-auction notice was issued in June 2002 and in response, two tenderers 'A'<sup>16</sup> and 'B'<sup>17</sup> responded. In the open auction, M/s 'A' and an auctioneer 'C'<sup>18</sup> quoted Rs 99 lakh and Rupees one crore respectively. The contract was offered to M/s 'C', being the highest bidder and he was asked to make 50 *per cent* of the bid amount as an advance by July 2002, as per one of the tender conditions. However, the agency 'C' did not pay the amount within the due date, despite repeated reminders and the tender was finally cancelled in November 2002 and the EMD forfeited. Thereafter, GMC, instead of negotiating with 'A', the second highest bidder, negotiated once again with M/s 'C', the agency which had defaulted, and awarded (January 2003) the contract to them for Rs 76 lakh, as against the one crore initially offered. It was replied by the Commissioner that since M/s 'A' had no reputation in the advertising field, it was not offered the contract. The contention is not acceptable since M/s 'A' had been qualified and was allowed to compete in the open auction held in March 2002 and June 2002, despite his stated lack of experience.

Further, it was also observed that though all the three tender notifications excluded the tax collection rights in respect of 'Unipoles', the agreement finally entered into with M/s 'C' included advertisement tax collection rights of 'Unipoles' also. Consequently, GMC sustained loss of revenue of Rs 44.49 lakh on this account for the five-year period 2002-07. Further, although the tender conditions prescribed that 50 *per cent* of the bid amount was payable by the bidder as advance, the bidder 'C' who was awarded the contract, was directed to remit only 25 *per cent*. Thus, that bidder 'C' had been extended undue financial benefit at the cost of GMC which not only failed to get competitive rates in awarding advertisement tax collection rights but also

<sup>16</sup> M/s Ad-Games

<sup>17</sup> M/s Harsha Digital Sign Boards

<sup>18</sup> M/s Guntur Outdoor Advertisers Association

sustained loss of revenue at least to the extent of Rs 44.49 lakh as a consequence.

The matter was referred to Government in December 2006; reply is awaited.

### **3.2.3 Unfruitful expenditure on a shopping complex**

**Failure of the Commissioner, Wanaparthy Municipality to rectify defects in design of a shopping complex for over three years, resulted in the municipality foregoing potential revenue of Rs 11.46 lakh towards rent, etc., besides rendering the entire expenditure of Rs 23.60 lakh unfruitful.**

To promote resource generation and to improve the overall financial position of the municipality, Government sanctioned (May 1993) construction of a shopping complex at Lingareddy Kunta of Wanaparthy Municipality at a cost of Rs 52.60 lakh. The funds were made available by the Central Government (Rs 18.94 lakh), State Government (Rs 12.62 lakh) and the balance (Rs 21.04 lakh) was raised by way of loan<sup>19</sup> from financial institutions. The shopping complex consisting of 17 shops in the cellar portion in addition to the ground and first floor was completed in August 2003 at a total cost of Rs 71.24 lakh<sup>20</sup>.

It was observed during audit (March 2006) that the cellar portion, though completed in August 2003, had not been let out even as of December 2006 due to lack of facility to drain rain water from the cellar. The Commissioner attributed this to defective design. However, no remedial action had been taken by the Commissioner for over three years in order to let out the shops in the basement. It was only after this was pointed out in audit, that the municipality proposed to construct a storm water drain at a cost of Rupees three lakh for flushing out rainwater.

Thus, the failure of the Commissioner to take remedial measures for rectifying the defects of the design for over three years after completion of the building in August 2003, not only rendered the expenditure of Rs 23.60 lakh<sup>21</sup> incurred on the cellar portion of the complex unfruitful, but also resulted in the municipality forgoing potential revenue of Rs 11.46 lakh on rent<sup>22</sup> including initial deposits<sup>23</sup> realizable from the lessees. Moreover, since the work was yet to be taken up (December 2006), there was a continuing loss in revenue.

The matter was referred to Government in December 2006; reply is awaited.

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<sup>19</sup> interest at 17 per cent per annum

<sup>20</sup> information regarding the source of funding the balance cost over and above that initially mobilized, awaited from the municipality

<sup>21</sup> Apportioned amount of the cost of the building with cellar plus two

<sup>22</sup> at the rate of Rs 1000 per month per shop during August 2003 –March 2006 and thereafter Rs 600 per month

<sup>23</sup> in the form of goodwill fixed @ Rs 30000 per shop

### 3.2.4 Unproductive expenditure on construction of shopping complexes

**Failure of the Commissioner, Bobbili Municipality to effectively monitor the progress of works, resulted in construction work of four shopping complexes remaining incomplete even eight years after commencement. This has resulted in the expenditure of Rs 54.47 lakh incurred so far being unproductive besides loss of potential revenue in the form of rent and deposits from the buildings.**

With a view to augmenting the financial resources of Bobbili Municipality, Government sanctioned (April 1997) the construction of four shopping complexes comprising 164 shops<sup>24</sup> in all, at an estimated cost of Rs 1.42 crore under the IDSMT programme. Necessary funds<sup>25</sup> were kept (between October 1997 and June 2002) with Andhra Pradesh Urban Finance and Infrastructure Development Corporation Limited (APUFIDC), the funding agency for the scheme. Based on the instructions of Government, Director Town and Country Planning (DTCP) entrusted the works to National Building Construction Corporation (NBCC) through MOU entered into in March 1999 along with the other projects taken up under the scheme in the State. The sites for the proposed complexes were handed over during January-December 1999. The works were stipulated to be completed between November 1999 and 2000.

An amount of Rs 17.88 lakh representing the mobilization advance and interest thereon (Rs 14.94 lakh) and a Special advance (Rs 2.94 lakh) was paid to NBCC towards execution. After execution of works<sup>26</sup> valued at Rs 34.11 lakh (payment made: Rs 12.50 lakh), Government issued orders (in May 2002) to terminate the contract with NBCC on account of their slow progress.

After a delay of about three years, during April-August 2005, the balance works were entrusted to sub-contractors of NBCC by the Commissioner, Bobbili Municipality duly restricting the number of shops to 134 as against 164 initially sanctioned at a contract value of Rs 86.74 lakh. Although the balance works were to be completed within three months i.e. by July-November 2005, the works had not been completed even as of January 2007 with works<sup>27</sup> valued at Rs 47.51 lakh only being executed (Payment made: Rs 41.97 lakh). The overall delay in the execution of the project was clearly attributable to poor monitoring at the Commissioner's level.

The Commissioner, however, sought to justify the delay by quoting labour problem and shortage of sand. The Commissioner's contention (February 2007) that the delay in entrusting the work was on account of late receipt of funds for the balance works is untenable since the necessary funds were already available with the APUFIDC.

<sup>24</sup> Forty two shops at Medara banda, 34 at Municipal office, 52 at market yard and 36 at old bus stand

<sup>25</sup> Central Government share of Rs 63.94 lakh and State Government share of Rs 42.62 lakh

<sup>26</sup> slab works completed in respect of three complexes and in other case, work was completed up to lintel level only

<sup>27</sup> Civil works completed, electrification and water supply works remained in respect of three complexes and shutters work was going on in other case

Thus, the failure of the Commissioner to effectively monitor the progress of works, led to the delay of more than eight years in completion of the shopping complexes. As a result, the intended objective of improving the financial position of the municipality from the revenue to be realized from rentals/deposits of the shops in the four complexes remains unfulfilled. Moreover, the expenditure of Rs 54.47 lakh incurred so far has been unproductive.

The matter was referred to Government in December 2006; reply is awaited.

### **3.2.5 Parking of schemes funds in fixed deposits**

**Schemes funds amounting to Rs 4.89 crore were kept in fixed deposits by the Kurnool Municipal Corporation and three other municipalities, contrary to the schemes guidelines, adversely affecting the implementation of the schemes**

Government of India and the State Government provide funds to Urban Local Bodies (ULBs) for implementation of various Centrally/State sponsored schemes for economic and social development of the population below the poverty line. Guidelines of the schemes stipulated that the respective scheme fund should be kept with nationalized banks or in a post office in an exclusive and separate bank account and should be utilised only for the intended purpose and not be invested in fixed deposits. The interest accrued should also be credited to the concerned scheme funds. Audit scrutiny revealed that Kurnool Municipal Corporation (KMC) and three municipalities<sup>28</sup> had, in clear violation of the guidelines, kept scheme funds aggregating Rs 4.89 crore in fixed deposits and the amounts were lying unutilized as shown below:

<b>Name of the Scheme</b>	<b>Year in which amount deposited and lying unutilised</b>	<b>Amount (Rs in lakh)</b>
Low Cost Sanitation fund	1994-95	21.09
National Slum Development Programme	2002-05	167.84
Swarna Jayanthi Sampoorna Rozgar Yozana	2003-05	100.99
Greater Hyderabad Environmental Programme	2004-05	50.00
AP Urban Services for Poor	2004-05	40.00
Integrated Development of Small and Medium Towns	2004-05	25.00
Eleventh Finance Commission	2003-04	80.00
MPLADs	2004-05	4.00
<b>Total</b>		<b>488.92</b>

Keeping the scheme funds in fixed deposits was irregular and reduced the availability of funds to that extent for various socio-economic development

<sup>28</sup> Uppal Kalan , Kukatpalli in Ranga Reddy District and Parvathipuram in Vizianagaram District

schemes. The impact of such unutilized amounts lying in fixed deposits resulting in non-implementation of action plans in the context of Andhra Pradesh Urban Services for the Poor has already been highlighted in Para 2.1.8.5 of this Report. Commissioners of KMC and the test checked municipalities did not furnish specific reasons for keeping funds in contravention of scheme guidelines in fixed deposits for several years without utilisation.

The matter was referred to Government in January 2007; reply is awaited.

### **3.2.6 Cost escalation due to defective survey, inordinate delay in recasting estimates and calling of fresh tenders**

**Defective survey for selection of site for construction of Vegetable Market and shops and the inordinate delay in recasting the estimates and calling of fresh tenders, resulted in the vegetable market, sanctioned in August 2003, not being constructed as yet. The delay of more than three years has already led to cost escalation of about rupees one crore.**

To promote resource generation and to improve the overall financial position of Uppal Kalan Municipality, Government sanctioned (August 2003) the construction of a vegetable market with 203 shops at Uppal village at a cost of Rs 2.25 crore, under Integrated Development of Small and Medium Towns (IDSMT) Project. The funds were to be made available by Central Government (Rs 32.40 lakh), State Government (Rs 21.58 lakh) and balance to be raised by way of loans from financial institutions (Rs 1.71 crore).

After tender, the work was awarded in favour of a contractor in February 2004 at 19.40 *per cent* less than the estimated contract value, for Rs 1.60 crore. Based on the requisition of Commissioner, Uppal Municipality, the designs and drawings were prepared by the Director of Town and Country Planning (DTCP) and the same were furnished to the contractor in May 2004. However, the contractor could not commence the work as per the approved plan due to encroachment by authorities of Zilla Parishad School situated adjacent to the proposed land. Following the request (June 2004) of the Commissioner, the plan was revised (July 2004) by the DTCP reducing the number of shops from 203 to 170. The contractor, however, requested (November 2004) for revision of rates as per the latest SSRs which was turned down (March 2005) by the Engineer-in-Chief (PH) with an intention to call for fresh tenders. Although, a revised estimate of Rs 2.53 crore (cost escalation: Rs 93 lakh) was approved by the Council in October 2005 and technically cleared in February 2006, fresh tenders for taking up the works had not been invited even as of December 2006.

Thus, due to the initial defective survey for selection of site, followed by the inordinate delay in obtaining the technical clearance for the revised plan, estimates and calling of fresh tenders, the intended objective of improving the financial position of the municipality remains unachieved even after three years. This has already resulted in unnecessary burden of about Rupees one crore on the municipality due to cost escalation. Fresh tenders have not yet

been called for and there is every likelihood that the cost will further escalate when the work is finally awarded. Meanwhile, potential revenue towards rents and deposits has also been forgone.

The matter was referred to Government in December 2006; reply is awaited.

### **3.2.7 Locking up of funds in Urban Local Bodies (ULBs)**

**Non-utilisation of scheme funds of Rs 5.49 crore by Visakhapatnam Municipal Corporation and five other municipalities resulted in locking up of funds besides depriving the targeted urban population of the benefits of developmental schemes.**

The State Government releases funds to the Urban Local Bodies (ULBs), for implementing various schemes for the development of infrastructure and also for the urbanization of small and medium towns. In the process, the objective is also to generate employment opportunities. It is also obligatory that funds should be utilised scrupulously for the purposes specified. Financial discipline also requires that unutilised funds should be assessed and remitted back in time for necessary re-appropriation/ surrender to Government Account.

Scrutiny of records in Visakhapatnam Municipal Corporation (VMC) and five other municipalities<sup>29</sup> revealed that various scheme funds along with other reserve funds amounting to Rs 5.49 crore were lying unutilized as on January 2007 for several years as detailed below:

<b>Name of the Municipal Corporation/Municipality</b>	<b>Year from which funds not utilized</b>	<b>Name of the grants/funds</b>	<b>Amount (Rs in lakh)</b>
Greater Visakhapatnam Municipal Corporation	2003-04	Tree Guard charges	86.74
Pungarnur Municipality	1995-05	Scheme funds <sup>30</sup>	22.52
	2003-05	Building fund	90.00
Wanaparthy Municipality	2003-05	Building fund	80.00
	2002-03	ILCS-Stage-II	76.60
Narayanpet Municipality	2005-06	Development of parks and play ground fund	30.00
	2001-02	LCSP funds	16.33
	2003-04	Building fund	19.58
Kukatpally Municipality	2001-02	ECO funds	10.35
	2004-05	Scheme funds <sup>31</sup>	105.21
Bobbili Municipality	2003-05	NSDP	11.67
<b>Total</b>			<b>549.00</b>

<sup>29</sup> Pungarnur Municipality, Wanaparthy Municipality, Narayanpet Municipality, Kukatpally Municipality and Bobbili Municipality

<sup>30</sup> Integrated Low Cost Sanitation (ILCS), NRY, DWACRA, Janmabhoomi, Park Improvement Scheme etc.

<sup>31</sup> Mega City Project



Retention of scheme funds and other reserve funds, by the Commissioners of these ULBs for over one to 11 years not only resulted in locking up of Rs 5.49 crore with the Municipal Corporation/Municipalities but also deprived the urban population of the improved infrastructure to that extent. It also denied Government the opportunity to re-appropriate the funds for other development purposes. Since huge balances are lying unutilized, Government has to ensure utilisation of funds already placed before releasing funds during subsequent years.

The matter was referred to Government in January 2007; reply is awaited.

**Hyderabad**  
**The**

**(S. B. PILLAY)**  
**Principal Accountant General (Civil Audit)**  
**Andhra Pradesh**

**Countersigned**

**New Delhi**  
**The**

**(VIJAYENDRA N. KAUL)**  
**Comptroller and Auditor General of India**