

## CHAPTER II

### PERFORMANCE AUDIT

This chapter contains performance audit of Integrated Child Development Services (2.1), Mahatma Gandhi (Kalwakurthy) Lift Irrigation Scheme (2.2), Functioning of Visakhapatnam Urban Development Authority (VUDA) (2.3) and Rajiv Yuva Sakthi (2.4).

### WOMEN DEVELOPMENT, CHILD WELFARE AND DISABLED WELFARE DEPARTMENT

#### 2.1 Integrated Child Development Services

##### Executive summary

The Integrated Child Development Services (ICDS) is a Centrally sponsored scheme (CSS) launched throughout the State in October 1975. It is designed to promote holistic development of children in the age group of 0 - 6 years, expectant and lactating mothers and adolescent girls of 11 - 18 years. The objectives of ICDS are to be achieved through a package of services comprising Supplementary Nutrition, Immunisation, Health Check-ups, Nutrition and Health Education and Non-formal Pre-school Education of children of 3 - 6 years.

During the five year period 2005-10, a sum of ₹ 3,633 crore was provided including the Government of India (GOI) releases of ₹ 1,966 crore in the budget for implementing the ICDS programme. Against this, an amount of ₹ 2,783 crore was spent.

The implementation of the programme in the State was last reviewed and the findings included in the Audit Report for the year ended 31 March 1999. As a follow-up audit assessed and evaluated the action taken by the Government on the audit observations included in the Audit Report for 1998-99. The purpose of follow-up, is to inform the Legislature about actions that the department has taken to address previous observations and recommendations of the Comptroller and Auditor General of India.

The present performance audit review covers the period from 2005-06 to 2009-10. For this purpose, test-check of the records of Government in the State Secretariat, Directorate of Women Development and Child Welfare and the offices of Child Development Project Officers (CDPO) in seven (out of 23) districts<sup>1</sup> including Anganwadi centres (AWCs) was conducted.

The department has not complied with the audit observations and most of the deficiencies continued to exist during the five year period 2005-10.

<sup>1</sup> Anantapur (8 Projects), Chittoor (11 Projects), East Godavari (14 Projects), Guntur (8 Projects), Kurnool (6 Projects), Nalgonda (14 Projects) and Visakhapatnam (8 Projects)

**Major audit observations/main points**

- Eight to as high as forty *per cent* of the allocated funds under ICDS (including Supplementary Nutrition Programme - SNP) remained unspent during the years 2005-06 to 2009-10. Audit noticed shortfalls in establishment of AWCs, inadequate delivery of package of services like feeding interruptions, etc.
- There was a shortage of 26,362 AWCs (28 *per cent*) under urban/rural sector and 1,237 AWCs (20 *per cent*) in the tribal sector. Strengthening of the existing projects with population of more than two lakh envisaged (November 2008) by GOI remains unachieved. Two urban projects in Ranga Reddy District and 9,743 additional AWCs in existing projects in the State, sanctioned (December 2008) by GOI were also not yet operationalised.
- The construction of AWCs suffered significantly due to failure of the department to effectively utilise NABARD/World Bank assistance. More than 72 *per cent* functional AWCs in the test checked ICDS projects lacked basic infrastructure facilities like safe drinking water, toilets, etc. More than 33 *per cent* AWCs in the State were not provided even the utensils required for cooking and distribution of food. Absence of basic infrastructural facilities in AWCs had adverse implications on the delivery of services to the targeted beneficiaries.
- Neither all the eligible beneficiaries were enrolled (shortfall: 6 to 23 *per cent*) under Supplementary Nutrition nor all the enrolled beneficiaries were covered defeating the objective of achieving universalisation of the scheme as envisaged.
- Adolescent girls who were to be covered under SNP as contemplated by GOI way back in 2004, were not even identified in the State thereby depriving the population of the benefit under the scheme besides foregoing the Central assistance.
- Supply of substandard/time expired food, etc. was noticed. The objective of ensuring micronutrients in diet as per Recommended Dietary Allowance (RDA) norm remains unachieved in the State.
- The number of children who remained out of Pre-school Education in the State during 2005-10 varied from 0.73 lakh to as high as 1.31 lakh.
- The department has made progress in addressing the findings with regard to 'Referral Services' pointed out in Para 3.4.5 (iii) of the Audit Report for the year ended 1999. However, in about half of the test checked projects no mechanism was in place to watch proper distribution of medicines to the targeted children, pregnant and lactating mothers.

- Underweight children is an indicator of inadequate nutrition. Weighment of children assumes significance as it gives a good feedback on the impact of nutrition programme. This important aspect was ignored.
- Immunisation of children under ICDS was not fully carried out. Under the component 'Nutrition and Health Education' the achievements were far below the targets.
- Huge number of vacancies existed in the key posts viz., CDPOs (upto 55 *per cent*) and Supervisors (upto 20 *per cent*) during the period 2005-10. There were huge shortfalls (upto 47 *per cent*) in the visits of Supervisors to AWCs during 2007-10. Thus, the objective of physical monitoring of the functioning of AWCs has not been fully achieved in all the projects.

### **Recommendations**

- Efforts should be made to augment Anganwadi centres and provide them with adequate infrastructure.
- Database of beneficiaries should be prepared for all components of the scheme to facilitate effective implementation of the scheme.
- Ready to Eat (RTE)/Hot Food Mixes supplied to Anganwadi centres should conform to ICDS norms.
- Implementation of Supplementary Nutrition Programme should be strengthened by identifying adolescent girls and periodical weighment for monitoring the impact of the programme.
- Vigorous monitoring of the ICDS programme should be done to make it more effective.

### **2.1.1 Introduction**

The Integrated Child Development Services (ICDS) is a Centrally sponsored scheme (CSS) launched throughout the State in October 1975. It is designed to promote the holistic development of children in the age group of 0 - 6 years, expectant and lactating mothers and adolescent girls of 11 - 18 years. The objectives of the ICDS are (i) to improve the nutritional and health status of children in the age group of 0 - 6 years, (ii) to lay the foundation for proper psychological, physical and social development of the child, (iii) to reduce the incidence of mortality, morbidity, malnutrition and school drop-out, (iv) to enhance the capability of the mother to look after the normal health and nutritional needs of the child through proper nutrition and health education and (v) to achieve effective coordination of policy and implementation among the various departments to promote child development. The objectives are to be achieved through a package of services comprising Supplementary Nutrition, Immunisation, Health Check-ups, Nutrition and Health Education and Non-formal Pre-school Education of children of 3 - 6 years.

### **2.1.2 Organisational Setup**

At the State level, the Special Chief Secretary, Women Development, Child Welfare and Disabled Welfare Department, is the administrative head for overall implementation of the programme. The Director of Women Development and Child Welfare (Director) is the implementing and coordinating officer. The Director is assisted by two Joint Directors, three Deputy Directors, five Assistant Directors, two Accounts Officers, etc. Six Regional Deputy Directors function in six zones<sup>2</sup> in the State. At the district level, the programme is implemented by Project Director (PD) who is assisted by Child Development Project Officers (CDPOs) at project level and Supervisors at Anganwadi centres (AWCs). The ICDS services are delivered through AWCs in a village or urban ward (especially slum areas) by engaging trained female workers designated as Anganwadi Workers (AWWs) and Anganwadi Helpers (AWHs) on honorarium<sup>3</sup> basis. As of June 2010, out of 387 ICDS projects sanctioned there were 385 ICDS projects functioning in the State and on average a project covers 190 AWCs.

### **2.1.3 Audit objectives**

The objectives of the performance audit were to assess and evaluate whether

- funds allotted were utilised economically, effectively and efficiently for achieving the scheme objectives;
- required infrastructure facilities viz., buildings, drinking water, supporting manpower, etc. created for the projects were adequate for efficient and smooth delivery of quality services; and
- delivery of services under various packages i.e. Supplementary Nutrition, Non-formal Pre-school Education, Health Check-ups and Referral Services, Immunization, Nutrition and Health Education, etc. of the scheme was effective.

### **2.1.4 Scope and Methodology of Audit**

The implementation of the programme in the State was last reviewed and the findings included in the Audit Report for the year ended 31 March 1999. The present performance audit review covers the period from 2005-06 to 2009-10. For this purpose, test-check of the records of Government in the State Secretariat, Directorate of Women Development and Child Welfare and 69 out of 385 offices of Child Development Project Officers (CDPO) in seven<sup>4</sup> (out of 23) districts including AWCs was conducted. As a follow-up, Audit assessed and evaluated the action taken by the Government on the audit observations included in the Audit Report for the year ended 31 March 1999.

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<sup>2</sup> Eluru, Hyderabad, Kurnool, Ongole, Visakhapatnam and Warangal

<sup>3</sup> ₹ 2,200 (₹ 1,400 upto 31 August 2008) to AWW; ₹ 1,200 (₹ 700 upto 31 August 2008) to AWH

<sup>4</sup> Anantapur (8 Projects), Chittoor (11 Projects), East Godavari (14 Projects), Guntur (8 Projects), Kurnool (6 Projects), Nalgonda (14 Projects) and Visakhapatnam (8 Projects)

Selection of districts and the projects was done based on Simple Random Sampling without Replacement method. The methodology of the performance audit was explained to the Officers of the State Government in the entry conference held in February 2010. Views of the Supervisors/CDPOs and the Director have been taken into account while arriving at the audit conclusions. The audit observations were discussed with the Director and other officers concerned in the exit conference held in August 2010.

### **Audit analysis of follow-up action by the Government on earlier audit observations**

The following major deficiencies in the implementation of the scheme were pointed out in the Audit Report for the year ended 31 March 1999:

- (i) Non-utilisation of allocated scheme funds in full;
- (ii) Non-operation of sanctioned ICDS projects;
- (iii) Shortfall in coverage of identified beneficiaries under the Supplementary Nutrition and other components of the scheme;
- (iv) Shortfall in number of feeding days under Supplementary Nutrition;
- (v) Inadequate coverage of beneficiaries for immunization/supply of Vitamin-A solution to the targeted beneficiaries;
- (vi) Shortage in attendance of children in Pre-schools;
- (vii) Shortage in deployment of staff for scheme implementation;
- (viii) Shortfall in training of personnel in the key areas of the programme implementation;
- (ix) Shortfall in field visits to Anganwadi centres by CDPOs/Supervisors; and
- (x) Non-conduct of Project level Coordination Committee meetings.

In the Explanatory Notes submitted (October 2000) to the Public Accounts Committee (PAC) the Government assured that steps would be taken to address the audit findings.

Audit also analysed whether the Government have addressed the audit observations included in the Audit Report for the year ended 31 March 1999. The analysis revealed that the audit findings were not fully addressed and the deficiencies continued to exist as discussed in the succeeding paragraphs.

### **Audit findings**

#### **2.1.5 Utilisation of funds**

##### **2.1.5.1 Financial outlay and expenditure**

The Programme was fully funded by GOI (except SNP) upto 2008-09 and from the year 2009-10 onwards, the funding is in the ratio of 90:10 (GOI : State).

**Upto forty per cent of the allocated funds remained unspent during the five year period 2005-10**

For Supplementary Nutrition Programme (SNP), the expenditure is borne by GOI and the State Government on 50:50 basis (from 2006-07<sup>5</sup>).

Non-utilisation of substantial scheme funds was pointed out earlier in the Audit Report for the year ended 31 March 1999 (Para 3.4.4). Audit noticed similar deficiency during the current review period 2005-10. During the five year period 2005-10, a sum of ₹ 3,633 crore was provided (including the GOI releases of ₹ 1,966 crore) in the budget for implementing the ICDS programme. Against this, an amount of ₹ 2,783 crore was spent. The year-wise details are given in Table-1.

**Table-1** (Rupees in crore)

Year	GOI* releases	Budget provision** (GOI as well as State Share <sup>§</sup> )	Expenditure**	Unutilised funds (Percentage)
2005-06	148.91	295.86	242.65	53.21 (18)
2006-07	327.47	504.15	452.83	51.32 (10)
2007-08	384.21	790.38	598.31	192.07 (24)
2008-09	427.60	811.65	750.43	61.22 ( 8)
2009-10	677.50	1231.03	738.94	492.09 (40)
<b>Total</b>	<b>1965.69</b>	<b>3633.07</b>	<b>2783.16</b>	<b>849.91 (23)</b>

\*Figures as furnished by the department; \*\*Figures as booked by the PAG (A&E) Office

<sup>§</sup>towards Honorarium payable to Anganwadi Workers and Anganwadi Helpers

**Note:** Apart from the above, for construction of Anganwadi centres, the State Government made a budget provision of ₹ 80.50 crore (World Bank assistance: ₹ 49 crore; NABARD (RIDF-XIV) loan: ₹ 22.50 crore; and Scheme funds: ₹ 9 crore) during 2005-10. Against this a meagre amount of ₹ 14.24 crore was spent

Table-1 indicates that 8 to as high as 40 *per cent* of the allocated funds remained unspent during the five year period 2005-10. The Director while accepting the audit observation, attributed (August 2010) the non-utilisation of funds to submission of Budget proposals on the basis of sanctioned AWCs instead of operational AWCs and release of funds by the Government at the fag end of the financial year, non-finalisation of tenders for procurement of food material, etc. Thus, deficient budgetary exercise, as well as non-utilisation of funds in time pointed towards lax financial controls.

Audit noticed shortfalls in establishment of AWCs, inadequate delivery of package of services like feeding interruptions, etc. as discussed in succeeding paragraphs. The fund-wise Budget provision made, GOI releases and the expenditure incurred thereon during 2005-10 towards ICDS and SNP are given separately in [Appendix-2.1](#).

<sup>5</sup>Upto 2005-06 the expenditure on SNP was fully borne by the State Government

### 2.1.5.2 Item-wise expenditure

The item-wise expenditure on scheme implementation is detailed in Table-2.

Table-2

(Rupees in crore)

Item of expenditure	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Supply of food under Supplementary nutrition	78.20	204.28	307.00	337.77	270.15	1197.40
Material and Supplies*	1.09	8.13	10.49	10.37	17.91	47.99
IEC**	0.43	0.82	0.94	0.73	5.17	8.09
<b>Total</b>	<b>79.72</b>	<b>213.23</b>	<b>318.43</b>	<b>348.87</b>	<b>293.23</b>	<b>1253.48</b>
Salaries	37.38	49.12	57.13	71.35	85.49	300.47
Honorarium to AWWs/AWHs	90.17	143.98	157.47	263.05	292.38	947.05
Office expenses	35.38	46.50	65.28	67.16	67.84	282.16
<b>Total</b>	<b>162.93</b>	<b>239.60</b>	<b>279.88</b>	<b>401.56</b>	<b>445.71</b>	<b>1529.68</b>
<b>Grand Total</b>	<b>242.65</b>	<b>452.83</b>	<b>598.31</b>	<b>750.43</b>	<b>738.94</b>	<b>2783.16</b>

\* Pre-school kits under 'Pre-school Education', Medical kits under 'Health check-ups', etc.

\*\*Information, Education and Communication activities under 'Nutrition and Health Education'

**Source:** Figures as booked by the PAG (A&E) Office

While the basic purpose of the scheme is to improve the nutritional status of children, the above table shows that the expenditure on procurement of food and material component was only 45 *per cent* indicating that a very large percentage (55 *per cent*) was spent on delivering the material to the ultimate beneficiaries. It is also pertinent to note that the salaries do not include salaries of Health officials<sup>6</sup> involved in carrying out the Health Check-ups.

### 2.1.6 Infrastructure and capacity building

Anganwadi centre is a focal point for delivery of ICDS services in a village or an urban ward. In order to discharge the functions effectively, the AWCs require basic infrastructure facilities such as spacious buildings with store, kitchen and toilets, drinking water, utensils, furniture, etc.

Non-operation of sanctioned ICDS projects was already commented upon earlier in the Audit Report for the year ended 31 March 1999. In the Explanatory Notes submitted (October 2000) to the PAC although the Government assured that as a part of universalisation of ICDS programme, it was proposed to cover all the erstwhile blocks with ICDS projects in a phased manner. Audit noticed non-augmentation of the required number of AWCs, delays in construction of AWCs and inadequate infrastructure facilities in AWCs, etc. as follows.

<sup>6</sup>except Health Officials working in urban projects

## Operationalisation/re-organisation of Anganwadi centres

There was a shortage of 26,362 AWCs (28 per cent) under urban/rural sector and 1,237 AWCs (20 per cent) in tribal sector

Two urban projects (in Ranga Reddy District) and 9,743 additional AWCs in the State sanctioned (December 2008) were also not operationalised

Strengthening of the existing projects with population of more than two lakh remains unachieved

- According to the prescribed norms<sup>7</sup>, the requirement of AWCs in urban/rural areas of the State was 95,263<sup>8</sup> during the period (2005-10) covered under the review. Against this, 68,901 AWCs were sanctioned. In tribal projects, as against the requirement of 6,280 AWCs, only 5,043 were sanctioned. Thus, there was a shortage of 26,362 AWCs (28 per cent) under the urban/rural sector and 1,237 AWCs (20 per cent) in the tribal sector. Failure to augment AWCs needs to be looked into.
- As per the revised population norms under Phase-III expansion of the ICDS programme GOI sanctioned (December 2008) two Urban projects (Sherlingampally and Quthbullapur) in Ranga Reddy District and 6,537 additional AWCs and 3,206 Mini-AWCs in the State, along with staff. None of the additional projects (and the AWCs) were operationalised as of September 2010.
- Although GOI asked the States way back in November 2008, to furnish specific requirement of additional projects based on the revised population norms<sup>9</sup> under 3<sup>rd</sup> phase (April 2007) of expansion of ICDS Scheme, proposals for reorganisation of 80 projects into 161 projects were sent belatedly in April 2010. Thus, strengthening of the existing projects with population of more than two lakh remains unachieved with adverse implications on the coverage of the whole targeted population under ICDS.
- Under the expansion of Phase-IV (June 2009) there was also failure of the Director in submitting the proposals for sanction of additional AWCs/Mini-AWCs consequent on mapping of uncovered habitations. Failure to operationalise the sanctioned projects/AWCs not only resulted in losing Central assistance of about ₹ 62 crore every year but also deprived the targeted population of the benefits under the scheme.

## Construction of Anganwadi centres

Majority of AWCs (67 per cent) in the State are functioning in rented buildings without adequate facilities

- Out of 73,409 operational AWCs (other than Mini-AWCs) in the State, 48,900 (67 per cent) AWCs were functioning in rented accommodation (of which 4,045 AWCs were located in houses of AWWs/AWHs) as of May 2010. In the seven test checked districts, out of 8,820 AWCs only 1,972 AWCs (22 per cent) were housed in Government accommodation and 6,035 AWCs (69 per cent) were functioning in rented accommodation as shown in Table-3.

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<sup>7</sup> The scheme envisaged (April 2007) establishment of one AWC for 400 - 800 population in a rural/urban project and one AWC for 300 - 800 population in a tribal project

<sup>8</sup> worked out on the basis of 2001 census norms

<sup>9</sup> GOI revised the population norms in November 2008, according to which, for blocks with more than two lakh population, the State could opt for more than one project or strengthen the existing staff pattern



Table-3

District	Number of Projects	Number of AWCs	Number of AWCs functioning in		
			Government accommodation	Rented accommodation	Community Centres, etc.
Anantapur	8	1696	409	1207	80
Chittoor	7	1200	437	652	111
East Godavari	9	1810	372	1365	73
Guntur	2	364	21	184	159
Kurnool	6	1191	222	946	23
Nalgonda	10	1733	316	1219	198
Visakhapatnam	6	826	195	462	169
<b>Total</b>	<b>48*</b>	<b>8820</b>	<b>1972</b>	<b>6035</b>	<b>813</b>
<b>Percentage</b>			<b>22</b>	<b>69</b>	<b>9</b>

\* The information in respect of 17 Projects (consisting of 3,252 AWCs) is not available

Source: Data as furnished by the CDPOs



AWCs functioning ( 13<sup>th</sup> & 20<sup>th</sup> March 2010) under a small roof in Udatalapalli (V) (Nalgonda District) and dilapidated kutchha house in Bommarajupalli (V) (Guntur District)

**The construction of AWCs suffered significantly due to failure to effectively utilise World Bank/NABARD assistance**

- NABARD sanctioned (May 2008) a loan of ₹ 47.82 crore (apart from State Government's share of ₹ 8.50 crore) for construction of 1,976 AWCs (unit cost: ₹ 2.85 lakh). Out of the 1,976 AWCs taken up for construction, a meagre 152 AWCs (8 per cent) had been completed; 857 AWCs (43 per cent) were at various stages of construction and construction of 967 AWCs (49 per cent) has not yet started as of May 2010. While the target date for completion of all the AWCs was fixed as 31 March 2011 the progress made so far is not satisfactory. Low unit cost (₹ 2.85 lakh per AWC), site disputes, delay in finalisation of tenders, election code, etc. were quoted as reasons for the delay/non-taking up of construction of the remaining AWCs by the Director.
- As a part of the World Bank assistance envisaged for the period 1998-2006 (for which the project period ended in 2000 but extended upto 30 September 2005) the State Government released (2005-06) ₹ 5 crore for construction of 400 additional Anganwadi centres (AWCs) under Tsunami relief in 21 districts. All the 400 additional AWCs remained incomplete by the end of the project period. Consequently, World Bank assistance of

₹ 5 crore could not be availed of. As a result, as of May 2010, 166 AWCs<sup>10</sup> (out of the 400 sanctioned) still remained incomplete at various stages as against the stipulated date (30 September 2005) of completion.

### Basic infrastructure facilities in Anganwadi centres

Seventy two to eighty two per cent functional AWCs in the test checked ICDS projects lacked basic infrastructure facilities

- In all the 65 test checked projects in the seven test checked districts (consisting of 12,072 AWCs) basic amenities (safe drinking water, separate kitchen, toilets, etc.) were not available in 72 to 82 per cent of the AWCs as shown in Table-4. Absence of basic infrastructural facilities in AWCs had adverse implications on the delivery of services to the targeted beneficiaries as was also confirmed by the CDPOs.

Table-4

District	Number of Projects	Number of AWCs	Non-provision of basic facilities					
			Safe drinking water	Separate kitchen and Store room	Gas stoves	Furniture	Toilets	Play-ground
Anantapur	8	1667	1487	1163	1667	1458	1438	1525
Chittoor	11	2079	1604	1633	1923	1552	1542	1801
East Godavari	10	1936	1164	1296	1033	1244	1354	1452
Guntur	8	1284	767	1130	380	965	907	949
Kurnool	6	1191	1092	1036	1191	1191	1096	1167
Nalgonda	14	2659	2054	1722	2063	1627	2225	2058
Visakhapatnam	8	1256	533	775	753	600	996	959
<b>Total</b>	<b>65</b>	<b>12072</b>	<b>8701</b>	<b>8755</b>	<b>9010</b>	<b>8637</b>	<b>9558</b>	<b>9911</b>
<b>Percentage</b>			<b>72</b>	<b>73</b>	<b>75</b>	<b>72</b>	<b>79</b>	<b>82</b>

Note: Information pertaining to four Projects of East Godavari District is not available

Source: Data as furnished by the CDPOs



AWCs functioning (20<sup>th</sup> & 13<sup>th</sup> March 2010) without basic infrastructure facilities in Ipur (V) (Guntur District) and Udatalapalli (V) (Nalgonda District)

<sup>10</sup>Adilabad (14), Chittoor (4), East Godavari (20), Guntur (16), Karimnagar (6), Khammam (15), Krishna (2), Mahbubnagar (15), Medak (14), Nalgonda (10), Nizamabad (4), Prakasam (5), Ranga Reddy (7), SPS Nellore (16), Srikakulam (4), Vizianagaram (3), Warangal (8) and YSR (3)

More than 33 per cent AWCs in the State were not provided even the utensils required for cooking and distribution of food

- Though for cooking of Hot Food Mixes and distribution thereof necessary utensils are required to be supplied to AWCs, more than 33 per cent of AWCs in the State were not provided (June 2010) even the utensils<sup>11</sup> required for cooking and distribution of Hot Food Mixes. The Director while confirming the audit observation stated that procurement of utensils was being made.

### 2.1.7 Supplementary Nutrition

Mention was earlier made in the Audit Report (Para No. 3.4.5 (i) and (iv) (c)) for the year ended 31 March 1999 pointing out non-enrolling (upto 25 per cent) the eligible beneficiaries and non-coverage of even the enrolled beneficiaries under SNP and shortage in number of feeding days. In the Explanatory Notes submitted (October 2000) to the PAC the Government stated that steps would be taken to ensure 100 per cent coverage under SNP. These assurances remained unfulfilled and the shortfalls still continued to exist as discussed below:

- (i) Preparation and maintenance of database of beneficiaries facilitate assessment of logistics of delivery in terms of requirement of funds and procurement/supply of supplementary food material, etc. Audit observed that such database of beneficiaries was not maintained at State level by the Director. Further, there was no provision in the Scheme guidelines for maintaining such a database.
- (ii) There was a significant shortfall upto 23 per cent in enrolling the eligible beneficiaries themselves under SNP during 2005-10. Even out of the enrolled beneficiaries, 1.84 lakh to as high as 4.34 lakh beneficiaries were not covered under SNP during the five year period 2005-10 as could be seen in Table-5.

Six to twenty three per cent of eligible beneficiaries were not enrolled under SNP. Not all the enrolled beneficiaries were fed

Table-5

(Population in lakh)

Year	Total number of eligible beneficiaries	Number of beneficiaries enrolled	Number of beneficiaries covered under SNP	Shortfall in enrolling eligible beneficiaries (Percentage)	Shortfall in coverage of enrolled beneficiaries under the SNP (Percentage)
2005-06	42.82	33.15	31.31	9.67 (23)	1.84 (6)
2006-07	51.10	43.14	41.04	7.96 (16)	2.10 (5)
2007-08	57.96	53.21	50.78	4.75 (8)	2.43 (5)
2008-09	60.26	56.40	53.95	3.86 (6)	2.45 (4)
2009-10	59.16	55.04	50.70	4.12 (7)	4.34 (8)

Source: Figures as furnished by the department

The details of coverage of different categories of beneficiaries under SNP during 2005-10 are given in [Appendix-2.2](#). In the seven test checked districts, the shortfall in enrolling the eligible beneficiaries was upto

<sup>11</sup>Aluminium Bogonas, Stainless Steel plates, glasses, basins, hastams, etc.

34 per cent during the years 2005-10 as detailed in [Appendix-2.3](#). Thus, neither all the eligible beneficiaries were enrolled nor all the enrolled beneficiaries provided with supplementary nutrition defeating the objective of achieving universalisation of the scheme as envisaged.

The Director while accepting the audit observation attributed (August 2010) the low coverage of beneficiaries under SNP to people preferring private educational institutions, lack of attractive infrastructure in existing AWCs, etc.

**Seven to ten per cent of the AWCs in the State were provided SNP below 21 days in a month (as against minimum 25 days) during 2005-10**

- (iii) Seven to ten per cent of the AWCs in the State were provided SNP for below 21 days in a month during the five year period 2005-10 as detailed in Table-6.

**Table-6**

Year	Number of AWCs operated (on average)	Number of AWCs (on average) provided SNP below 21 days per month
2005-06	55204	4413 (8%)
2006-07	58891	4146 (7%)
2007-08	66040	4848 (7%)
2008-09	71552	7198 (10%)
2009-10	73155	6214 (8%)

**Source:** Figures as furnished by the department

- (iv) Of the 69 test checked ICDS projects, SNP was not provided for all the 300 days to the targeted beneficiaries in 28 projects<sup>12</sup> as prescribed as shown in Table-7.

**Table-7**

Year	Number of AWCs	Number of AWCs which provided feeding for		
		150-200	201-250	251-299
2005-06	925	594	103	228
2006-07	1509	246	362	901
2007-08	3368	182	306	2880
2008-09	4452	301	1979	2172
2009-10	2876	717	855	1304

**Source:** Data as furnished by the CDPOs

Thus, the minimum requirement with regard to provision of nutrition to the beneficiaries was not ensured by the CDPOs of the aforementioned 28 projects in the seven sampled districts.

<sup>12</sup> Anantapur (2), Chittoor (4), East Godavari (5), Guntur (2), Kurnool (3), Nalgonda (7) and Visakhapatnam (5)

**The objective of ensuring micronutrients in diet as per Recommended Dietary Allowance norm remains unachieved**

(v) Provision of 50 per cent of micronutrients as per Recommended Dietary Allowance norm through 80 gram of supplementary food<sup>13</sup> to different target groups as prescribed by GOI remains unimplemented in the entire State even after lapse of over four years of the GOI's directive (January 2006). The CDPOs in the test checked districts stated that the instructions of GOI would be implemented from the year 2010-11 due to non-finalisation of tenders for supply of food material by the District Purchase Committee.

**Adolescent girls who were to be covered under SNP as contemplated by GOI way back in 2004 were not even identified in the State**

(vi) Though GOI accorded approval way back in October 2004, adolescent girls were not identified (June 2010) in the State for coverage under supplementary nutrition thereby depriving the population of the benefit under the scheme besides foregoing the Central assistance. The Director confirmed (August 2010) the audit observation.

**Deficiencies viz., erratic supply of RTE food, supply of substandard food, etc. were noticed in supply of RTE food/ Hot Food Mixes**

(vii) The RTE and Hot Food Mixes supplied by AP foods are to be utilised within 45 days and 30 days respectively from the date of manufacture. Audit observed that the AP Foods was not supplying the RTE food/Hot Food Mixes based on the requirement/need based allocation to the projects and the supply was erratic. Some times more quantity of food was being dumped at a time (sufficient for more than two months) to the projects without considering the monthly requirement. In the test checked ICDS projects, as against the average requirement of about 4,000 to 7,000 kg per month, the AP Foods had supplied (2008-10) 6,000 kg to 34,000 kg to the projects resulting in the excess quantity of food (1.96 lakh kg<sup>14</sup> costing ₹ 62 lakh) becoming time expired. On the other hand, there was short supply of RTE food/Hot Food Mixes to the extent of 16,000 MT in the year 2007-08; 15,000 MT in the year 2008-09; and 19,000 MT in the year 2009-10 while the actual requirement for the 222 projects was 76,800 MT for the years 2007-08 and 2008-09 and 91,800 MT for the year 2009-10.

(viii) The report of 'Social Audit'<sup>15</sup> stated that the supplementary menu consisting of upma, kichidi and halwa mix was found unpalatable by the beneficiaries and some of the children had fallen ill after consuming the above items. Further, the analysis of reports of Food and Nutrition Board<sup>16</sup>, Ministry of Women and Child Development also revealed that Kichidi Mix and Modified Therapeutic Food (MTF) supplied were

<sup>13</sup> with the help of vitamin-mineral premix and incorporation of green leafy vegetables, seasonal fruits, milk, egg in supplementary feeding

<sup>14</sup> (i) CDPOs of six projects (Ipur, Singanamala, Visakhapatnam Urban-II, Chennakotha Pally, Korukonda and Peddapuram) distributed 79,940 kg (value: ₹ 27.98 lakh) time expired food to the AWCs during 2008-10

(ii) AWWs of six projects (Puttur, Chennakotha Pally, Karvetinagaram, Singanamala, Kudair and Narsipatnam) distributed 1,15,698 kg (value: ₹ 33.84 lakh) time expired food to the beneficiaries during 2008-10

<sup>15</sup> conducted (September - November 2008) by Council for Social Development, New Delhi, in respect of 154 AWCs in Anantapur District

<sup>16</sup> inspected (April and May 2009) the AWCs which are located at Visakhapatnam Urban-II, Ponnur (Guntur District) and Vijayawada and collected the samples of SNP from AWCs and got the samples analysed at Quality Control Laboratory at Chennai

found to be not conforming to ICDS nutritional norms. However, there has been no improvement in the quality of food (as of August 2010) as 'AP Foods' continued to supply the same food which are not liked by children/pregnant and lactating mothers as reported by the CDPOs as well as the beneficiaries during the field visits by Audit.

The Director replied (August 2010) that action had been initiated by constituting a cell to monitor the issue.

- (ix) VAT at 12.5 per cent was being paid instead of 4 per cent to AP Foods for supply of RTE foods and Hot Food Mixes. Though the AP Food was also remitting VAT at 12.5 per cent to the Sales Tax Department, due to the excess payment of VAT on the food supplies (₹ 43.65 crore<sup>17</sup> during 2007-10), the ICDS scheme was deprived of the funds to that extent, which could have been utilised to cover more number of beneficiaries under the SNP. The Director replied (June 2010) that the matter would be pursued with AP Foods.

### 2.1.8 Pre-school Education

Mention was earlier made in the Audit Report for the year ended 31 March 1999 (Para 3.4.5 (v)) regarding the shortage in attendance of children in Pre-schools. The deficiency continued to exist as discussed below:

**0.73 lakh to as high as 1.31 lakh children remained out of Pre-school education during 2005-06 to 2009-10**

- As per the data furnished by the department, 96 lakh children in the age group of three to six years were enrolled during the five year period 2005-10 in AWCs for Pre-school Education; of which, only 91 lakh children attended Pre-school during the period as shown in Table-8.

**Table-8** (figures in lakh)

Year	Number of children		
	Enrolled	Attended	Shortfall
2005-06	16.10	15.28	0.82
2006-07	19.03	18.30	0.73
2007-08	20.97	20.18	0.79
2008-09	20.98	19.70	1.28
2009-10	19.04	17.73	1.31
<b>Total</b>	<b>96.12</b>	<b>91.19</b>	<b>4.93</b>

**Source:** Figures as furnished by the department

The shortages in attendance were considerably high in [East Godavari](#) and [Visakhapatnam](#) Districts as detailed in [Appendix-2.4](#). The CDPOs in the test checked projects attributed the shortage in the attendance of wards to lack of infrastructure facilities in the AWCs and sending of children to convents by parents.

<sup>17</sup> 2007-08: ₹ 11.33 crore; 2008-09: ₹ 14.24 crore; 2009-10: ₹ 18.08 crore

There was excess procurement of about 21,000 Pre-school kits (value: ₹ 1.09 crore) during the five year period 2005-10

- Pre-school kits were being procured by the department for all sanctioned AWCs instead of operational AWCs and also without taking into account the balance stocks available at the beginning of year. The excess kits procured in the respective years were not being used statedly due to change in syllabus every year and this has resulted in the 21,171 excess kits worth ₹ 1.09 crore lying in the godowns (May 2010). The details are given in Table-9.

Table-9

Year (Month & Year of supply)	2005-06 (July 2006)	2006-07 (June 2007)	2007-08 (June 2008)	2008-09 (October 2009)	2009-10 (March 2010)
Actual requirement of kits	56278	60761	77013	79501	79888
Number of kits procured	66101	66101	81564	80423	80423
Number of excess kits procured	9823	5340	4551	922	535

Source: Figures as furnished by the Department

The Director replied (February 2010) that the Pre-school kits were procured for all the sanctioned AWCs presuming that all the sanctioned AWCs would be operational at any time during the year. The reply does not explain as to how the unused kits would be utilised in subsequent years in the context of prescription of usage of new items of kits as per the new learning curriculum (adopted by the Government) every year.

The Director assured (August 2010) that the action would be taken to avoid such type of lapses/errors in future.

### 2.1.9 Health check-ups

Health check-up service includes antenatal care of expectant mothers, post natal care of nursing mothers and care of newborn babies and children below 6 years of age. There was satisfactory performance with regard to 'Referral Services' which was pointed out earlier in the Audit Report for the year ended 31 March 1999. The Health check-ups of ICDS beneficiaries was however, inadequate as discussed below:

- No database of eligible beneficiaries was maintained at State level.
- As per the scheme guidelines, each Medical Officer (MO) should visit each sub-centre under his supervision at least once in a week including AWCs located at sub-centre/village area. However, in 19<sup>18</sup> (out of 69) test checked ICDS projects, no MO visited the AWCs located under his sub-centres during the period 2007-10. Further, in 17 projects<sup>19</sup>, no joint visits of CDPOs and MOs were conducted during 2007-10<sup>20</sup>. The year-wise and project-wise details are given in [Appendix-2.5](#).

There was 100 per cent shortfall in visits of MOs to the AWCs in 19 (out of 69) test checked projects; no joint visits of CDPOs and MOs in 17 projects during 2007-10

<sup>18</sup> Anantapur (1), Chittoor (4), East Godavari (3), Kurnool (1), Nalgonda (9) and Visakhapatnam (1)

<sup>19</sup> Anantapur (1), Chittoor (1), East Godavari (3), Guntur (3), Nalgonda (8) and Visakhapatnam (1)

<sup>20</sup> Particulars for the period 2005-07 were not furnished by CDPOs

The Director while accepting the audit observation, stated (August 2010) that efforts would be made to coordinate with the Health, Medical and Family Welfare Department to ensure regular visits by the MOs to the AWCs.

Medical kits were not being supplied in a regular and timely manner to the AWCs. These were supplied in excess of requirement resulting in most of the medicines becoming time expired

- Scheme guidelines stipulate that the Medical kits<sup>21</sup> should be procured and supplied to AWCs in a regular and timely manner and should be made available in AWCs before the onset of monsoon especially in tribal and hilly areas to prevent outbreak of common seasonal diseases among children. It was observed that while the department placed the supply orders for Medical kits, the medicines were supplied to AWCs during the subsequent years as could be seen in Table-10.

**Table-10**

Year	Date of issue of supply order	Month/year of allotment of funds	Date of supply by the firm
2005-06	30 January 2006	March 2006	May 2006
2006-07	27 December 2006	March 2007	May 2007
2007-08	5 March 2008	March 2008	November 2008
2008-09	14 March 2009	March 2009	January 2010
2009-10	11 March 2010	March 2010	Under process

**Source:** Figures as furnished by the department

The Director attributed (June 2010) the delay to belated release of budget by the Government, and delayed supply of Medical kits by the firms, etc.

In about half of the test checked projects mechanism was not in place to watch proper distribution of medicines to the beneficiaries

Monitoring of growth was hampered due to non-functioning of weighing scales in all the test checked ICDS projects

- As in the case of Pre-school kits, Medical kits were also being procured for all the sanctioned AWCs instead of operational AWCs. During the period 2006-10 there was excess procurement of 12,489 Medical kits (including 2,282 mini-kits) worth ₹ 53.02 lakh. In nine ICDS projects<sup>22</sup> the Medical kits supplied to the CDPOs (96 kits worth ₹ 0.43 lakh) in excess of the requirement were lying in the project godowns and the possibility of the medicines (shelf life: two years) in the kits becoming time expired cannot be ruled out.
- In 30 out of 69 test checked ICDS projects, no mechanism was in place to watch proper distribution of medicines and there was no recorded evidence of these having been distributed.
- Underweight children is an indicator of inadequate nutrition. Weighment of children assumes significance as it gives a good feedback on the impact of nutrition programme. The scheme guidelines stipulate that children in the age of 0 - 6 years are to be weighed every month in the AWCs to watch

<sup>21</sup> As a vital input to provide the essential service of Health check-up, each operational AWC is to be provided every year with a Medical kit (worth ₹ 600) consisting of easy to use and dispensable medicines to remedy common ailments like cough and common cold, skin infections, etc.

<sup>22</sup> Anantapur (CK Palli, Singanamala & Kudair), Chittoor (Gangadhara Nellore), Nalgonda (Suryapet, Huzurnagar, Munugodu and Peddavoora) and Visakhapatnam (Kotauratla)



their growth and to assess their nutritional status (monthly reports thereof are to be sent to the CDPOs). In none of the test checked ICDS projects in the seven districts baby and adult weighing scales supplied to the AWCs were even functioning, thus hampering the monitoring of growth of the targeted children and pregnant and lactating mothers.

### 2.1.10 Immunization

Non-coverage of beneficiaries for immunization was already pointed out earlier in the Audit Report for the year ended 31 March 1999 (Para No. 3.4.5 (ii)). In the Explanatory Notes submitted (October 2000) to the PAC the Government assured that the Medical and Health Department would be asked to ensure 100 *per cent* immunization and also to keep bottles of Vitamin-A solution in every Anganwadi centre. This problem was not addressed and the deficiency continued to exist. Audit scrutiny revealed that immunisation of children was deficient under ICDS as discussed below:

- No database of children to be immunised was being maintained.
- There was significant performance in immunization of children of below one year age enrolled in the State. Out of 64 lakh children enrolled in the State, 45 lakh children (70 *per cent*) and 51 lakh children (80 *per cent*) were given immunization of BCG and Measles during the period 2005-10.

The shortfall was 100 *per cent* in [Anantapur](#), [Chittoor](#) and [Guntur](#) for Measles followed by [East Godavari](#) (80 *per cent*) during 2005-06 and [Nalgonda](#) (68 *per cent*) during 2006-07. In respect of BCG, the shortfall ranged between 25 to 55 *per cent* in [Guntur](#), 32 to 49 *per cent* in [Nalgonda](#) and 32 to 48 *per cent* in [Chittoor](#) Districts during 2005-10.

- As per the schedule of immunization, children of 18 months to 24 months age are to be given first dose of Typhoid Monovalent or Bivalent vaccine (injection) and after an interval of 1 - 2 months second dose is to be administered. It was observed that, in none of the test checked projects in the seven districts, vaccination against Typhoid was given to the children under ICDS projects during 2005-10.
- The Deputy Director (ICDS) had no information with regard to the supply of Vitamin-A solution to the ICDS projects as the entire supply was being made by the Health Department. Further, the details regarding supplies made by the Health Department were also not available in the Directorate. In none of the test checked ICDS projects in the seven districts, Vitamin-A solution was administered to infants.

### 2.1.11 Nutrition and Health Education

Scheme guidelines contemplate imparting of Nutrition and Health Education to all women in the age group of 15 - 45 years, priority being given to nursing and expectant mothers. The department incurred ₹ 8.09 crore on Information, Education and Communication (IEC) activities during 2005-10. The performance under various health indicators *vis-à-vis* the targets during the years 2007-08, 2008-09 and 2009-10 are detailed in Table-11.

Forty five lakh children (70 *per cent*) and fifty one lakh children (80 *per cent*) were immunised against BCG and Measles respectively during 2005-10

The achievements were far below the targets under the component 'Nutrition and Health Education'

**Table-11**

Health Indicator	Target	Achievement
	in the years 2007-08, 2008-09 and 2009-10	
Infant mortality rate	Below 40 per 1,000 live births	53 per 1,000 live births
Child mortality rate	Below 75 per 1,000 live births	98 per 1,000 live births
Maternal mortality rate	Below 145 per 1,00,000 live births	175 per 1,00,000 live births
Consumption of iodized salt	35/35/40 <i>per cent</i>	20/20/20 <i>per cent</i>
<b>For SC/ST population</b>		
Colostrum feeding within one hour of birth	20/30/80 <i>per cent</i>	15/10/10 <i>per cent</i>
Child exclusively breast feeding for first six months	80/40/80 <i>per cent</i>	30/63/63 <i>per cent</i>
Children given semi-solid food at six months along with breast milk	75 <i>per cent</i>	64 <i>per cent</i>
Children given first dose of Vitamin-A	40 <i>per cent</i>	21 <i>per cent</i>

**Source:** Data as furnished by the department (No targets were fixed for the years 2005-06 and 2006-07)

Audit observed that the achievements were far below the targets.

### 2.1.12 Manpower

The programme aims at providing adequate services at AWCs to the targeted beneficiaries. Shortfall in deployment of staff and shortfall in training of personnel in the key areas of the programme implementation were commented upon in the Audit Report for the year ended 31 March 1999 (Para 3.4.8 and 3.4.6). In the Explanatory Notes submitted (October 2000) to the PAC Government assured that action would be taken to fill up the vacant posts. Audit observed that the deficiency persisted as discussed below:

**Shortage in deployment of CDPOs was upto 55 per cent and that of Supervisors upto 20 per cent during the period 2005-10**

- As against the sanctioned strength of 661 CDPOs/ACDPOs and 2,708 Supervisors (in AWCs), only 413 CDPOs/ACDPOs and 2,452 Supervisors were in place leaving a shortage of 248 (38 *per cent*) CDPOs/ACDPOs and 256 (9 *per cent*) Supervisors as of May 2010. The year-wise shortages ranged from 38 to 55 *per cent* (CDPOs/ACDPOs) and 9 to 20 *per cent* (Supervisors) as detailed in [Appendix-2.6](#). The shortages in deployment of manpower especially in CDPOs and Supervisors posts has adverse implications with regard to delivery of reliable and quality services to the targeted population.

**Shortfall in imparting training to CDPOs/ Supervisors/ AWWs, etc. was 27 per cent**

- For successful implementation of different components of the programme to promote a convergence of actions in the areas of health, nutrition and early education, the scheme envisaged training of ICDS functionaries. As against the target of 4.66 lakh personnel, only 3.43 lakh personnel (73 *per cent*) in various cadres were trained; leaving 1.24 lakh personnel (27 *per cent*) not being covered for training during 2005-10 as shown in [Appendix-2.7](#).

### 2.1.13 Monitoring

For effective implementation of the scheme and for its physical monitoring, each CDPO is required to undertake field visits at least 18 days per month. Similarly, field visits are required to be made by the Supervisors to all the AWCs under their jurisdiction every month.

Shortfall in field visits to Anganwadi centres and non-conduct of Project level Coordination Committee meetings were earlier commented upon in the Audit Report for the year ended 31 March 1999 (Paras 3.4.7 and 3.4.11). Audit noticed that these deficiencies were not addressed by the department and continued to exist as discussed below:

**There were huge shortfalls (upto 47 per cent) in visits of Supervisors to AWCs during 2007-10**

- Huge shortfalls (upto 47 per cent) in visits of Supervisors to AWCs were noticed during 2007-10 as shown in Table-12.

**Table-12**

District	Number of projects	Number of visits required to be made	Actual visits (Percentage)	Shortfall (Percentage)
Anantapur	8	52734	32016 (61)	20718 (39)
Chittoor	8	42839	23153 (54)	19686 (46)
East Godavari	10	66045	48283 (73)	17762 (27)
Guntur	3	17276	10930 (63)	6346 (37)
Kurnool	6	41833	30121 (72)	11712 (28)
Nalgonda	14	86668	52025 (60)	34643 (40)
Visakhapatnam	8	44080	23421 (53)	20659 (47)

**Source:** Data as furnished by the CDPOs

**Note:** Information for the years 2005-06 and 2006-07 is not available

The CDPOs attributed the shortfall in field visits of Supervisors to shortage of staff. Thus, the objective of physical monitoring of the functioning of the AWCs has not been fully achieved in all the projects.

- ICDS is a multi-sectoral programme involving several departments like Health and Family Welfare, Social Welfare. Therefore, their services are required to be coordinated at village, project, district and State level to facilitate planning, monitoring and evaluation of the programme. The Coordination Committees under the scheme are required to meet monthly at the project and the district level and quarterly at the State level. However, out of the 69 ICDS projects test checked, Project Coordination Committees were not even formed in 29 projects. Though committees were formed there were no regular meetings in 18 projects as detailed in [Appendix-2.8](#).

#### **2.1.14 Constraints and achievements**

The constraints and achievements as reported by the Department are discussed below:

Although, spread of ICDS increased in the last five years due to universalisation, vacancies at various levels have not been filled up and there was no direct recruitment of Supervisors since 1994-95. There were also delays in deployment of Anganwadi Workers/Helpers. Besides, Anganwadi Workers were getting entrusted with the works of other departments like weeding out of bogus ration cards, etc. Infrastructural support was not being provided for encouraging enrolment of children. Despite these constraints, the department stated that the following achievements were made:

- About 51 lakh pregnant, lactating mothers and children were covered under SNP during the year 2009-10.
- About 20 lakh children were covered under Pre-school Education (PSE) and to stabilise PSE, child friendly curriculum was introduced in all AWCs from July 2009. Award of Pre-school certificates to all children was introduced from 2009.
- About 5 lakh children were admitted in primary schools by the AWWs under the school readiness programme.
- Five best practices viz., (i) Effective fixed nutrition and health day, (ii) Prioritised home contacts by AWWs, (iii) Prioritised AWC visits by ICDS Supervisor, (iv) Prioritised conduct of structured sector meeting by Supervisor, and (v) Supply chain management of food commodities for un-interrupted feeding were introduced (2009) to improve the services.

#### **2.1.15 Conclusions**

The implementation of Integrated Child Development Services (ICDS) scheme suffered as the State failed to cover the whole targeted population under the scheme despite availability of Central assistance. The department has not complied with the audit observations included in the Audit Report for the year ended 31 March 1999 and the deficiencies persisted during the five year period 2005-10. Augmentation of Anganwadi centres was not given adequate priority. Majority of Anganwadi centres (67 per cent) were functioning in rented buildings which lacked basic facilities such as safe drinking water, toilets, non-provision of utensils. Adolescent girls who were to be covered under SNP as contemplated by Government of India way back in 2004 were not even identified in the State. Audit also noticed deficiencies such as erratic supply of Ready to Eat (RTE) food/Hot Food Mixes (by AP Foods), supply of substandard/time expired food to children, huge shortfalls in visits of Medical Officers to Anganwadi centres, etc. The objective of ensuring micronutrients in diet as per Recommended Dietary Allowance norm remains unachieved. Underweight children is an indicator of inadequate nutrition. Weighment of children assumes significance as it gives a good feedback on the impact of

nutrition programme. This important aspect was ignored. No mechanism was in place to watch proper distribution of medicines to the beneficiaries. There were huge shortages in deployment of CDPOs and Supervisors. Monitoring of the functioning of Anganwadi centres by CDPOs/Supervisors was inadequate.

#### **2.1.16 Recommendations**

- Efforts should be made to augment Anganwadi centres and provide them with adequate infrastructure.
- Database of beneficiaries should be prepared for all components of the scheme to facilitate effective implementation of the scheme.
- Ready to Eat/Hot Food Mixes supplied to Anganwadi centres should conform to ICDS norms.
- Implementation of Supplementary Nutrition Programme should be strengthened by identifying adolescent girls and periodical weighing for monitoring the impact of the programme.
- Vigorous monitoring of the ICDS programme should be done to make it more effective.

The above audit observations were discussed with the Director and other officers concerned in the exit conference held in August 2010. The Director assured to take remedial action on the audit observations. The recommendations made were also discussed and accepted. Government's reply had not been received (November 2010).

## IRRIGATION AND COMMAND AREA DEVELOPMENT DEPARTMENT (Projects Wing)

### 2.2 Mahatma Gandhi (Kalwakurthy) Lift Irrigation Scheme

#### Highlights

*Mahatma Gandhi (Kalwakurthy) Lift Irrigation Scheme was taken up with the objective of providing irrigation facilities to 3.40 lakh acres and drinking water facility for a population of 4.36 lakh in 303 villages of chronically drought prone areas in Mahbubnagar District. Audit noticed that the Scheme was badly planned and shoddily executed. The works were awarded without fully acquiring lands and consequently, even though the stipulated execution period is over the lands are yet to be acquired in full. This resulted in the project remaining incomplete despite substantial investment of funds and even two years after the lapsing of the stipulated time for completion of the project. Consequently, no irrigation or drinking water facility has reached the targeted areas/people. Cost control was lacking in the contract procedure adopted for this project. There was failure to incorporate necessary safeguards in the agreements to protect Government interest and as a result, the benefit of reduction in expenditure arising from execution of less quantities than contracted for did not accrue to Government and thereby substantial undue benefits were passed on to the contractors. There were deficiencies in formulation of contract clauses and their implementation.*

**As a cost control measure, the Government stipulated that works should be awarded to contractors only if the quoted value does not exceed 105 per cent of the estimate. The spirit of this order was vitiated by preparation of inflated estimates.**

*[Paragraphs 2.2.6.1 and 2.2.7.1]*

**Due to failure to incorporate necessary safeguarding clauses in the agreements to protect Government interest, undue benefits of ₹ 402.66 crore passed on to the contractors as the payments were substantially higher than the amounts payable.**

*[Paragraph 2.2.6.4]*

**There was failure to specify time frames in the agreements for the obligations to be fulfilled by the department in addition to the obligations of the contractors, for effective operation of the clause with regard to Liquidated Damages.**

*[Paragraph 2.2.7.4]*

**Lack of proper sequencing/synchronization of activities/works led to prolonged gestation period of the project on which an amount of ₹ 1,696.76 crore had already been spent. Not a single acre has been irrigated even after a lapse of five years.**

*[Paragraph 2.2.5.2]*

### 2.2.1 Introduction

Mahatma Gandhi (Kalwakurthy) Lift Irrigation Scheme was taken up to provide irrigation facilities to 3.40 lakh acres and drinking water facility for a population of 4.36 lakh in 303 villages of chronically drought prone areas in Mahbubnagar District by lifting 25.00 TMC<sup>23</sup> of water from foreshore of Neelam Sanjeeva Reddy Sagar (Srisailam) Project on Krishna river at Regumangadda of Yellur village in Kollapur Mandal of Mahbubnagar District. Government accorded (November 2005) administrative sanction for ₹ 2,990 crore for the scheme. The scheme consists of three packages for lifting of water and three packages for excavation of main canals and distributary network. The schematic diagram is given in [Appendix-2.9](#).

### 2.2.2 Organisational setup

The administration and coordination of the scheme rests with the Secretary to Government, Irrigation and Command Area Development Department (Telangana region). Planning, budgeting, implementation, coordination and monitoring of the project are in the purview of Engineer-in-Chief (Irrigation) and Chief Engineer (Projects), Mahbubnagar (CE). The Superintending Engineer, MGJLIP Circle, Mahbubnagar (SE) supported by three Executive Engineers (EEs) is responsible for monitoring the execution of works.

### 2.2.3 Audit objectives

The objective of this Performance Audit was to assess whether

- the project was taken up after due benefit-cost assessment;
- project planning ensured proper sequencing/synchronization of various activities/works under the project for optimal utilisation of precious financial resources and effective cash flow management;
- cost control mechanism was effective at the formulation, estimation, award and execution stages of works to ensure economising the project cost; and
- contract management effectively protected Government interests.

### 2.2.4 Scope and Methodology of Audit

The performance audit covers the period from 2003-04 to 2008-09<sup>24</sup>. Audit of records of the offices of the CE, SE and all the three EEs was undertaken from February 2009 to May 2009. The Detailed Project Report, Estimates, agreements, running account bills of agencies and related correspondence were scrutinised in audit. The replies of the Government have been taken into consideration while arriving at the audit conclusions.

<sup>23</sup> Thousand million cubic feet

<sup>24</sup> Subsequently updated in February 2010

An entry conference was held in January 2009 with Secretary to Government I&CAD (Telangana Region), ENC, CE, SE and the EEs and the objectives of the Performance Audit were explained to them. Physical evidences were obtained in the form of replies to audit queries, copies of documents, photographs, maps, etc. The exit conference was held in August 2010 with the Secretary to Government and the departmental officers. The results of the performance audit are discussed in the succeeding paragraphs.

## **Audit findings**

### **2.2.5 Project planning**

#### **2.2.5.1 Benefit-Cost ratio**

Before embarking on a major project, it is a normal practice to assess benefits vis-à-vis cost on the project. Benefit may be economic, social or a combination of both. Good governance pre-supposes informed decisions, based on rational considerations.

In the instant case, as per the original Detailed Project Report (DPR) (August 2002), the scheme envisaged creation of irrigation facilities to 2.50 lakh acres and provision of drinking water facility to villages enroute. The estimated cost was ₹ 1,766 crore and the Benefit-Cost (B/C) ratio of the project was computed as 1.29. Subsequently the DPR was revised (November 2005) in which the cost of the project was increased to ₹ 2,990 crore due to increase in the proposed ayacut to 3.40 lakh acres. Audit observed that the increased cost was worked out without computing the quantities of soil to be excavated. The revised B/C ratio was yet to be worked out.

The Government replied (June 2010) that the lift irrigation scheme was taken up in a most backward and drought prone area and the B/C Ratio is important but not the sole factor. While the Government has social compulsions yet the social benefits derived from any project should be computed in order to justify such financial outlays.

#### **2.2.5.2 Project execution**

The execution of the project broadly involves the following activities:

- (a) Land acquisition; and
- (b) Execution of civil works, electro and hydro-mechanical works.

Audit observed lack of proper sequencing/synchronization in execution of the above activities as follows:

The project works were divided into six packages and entrusted (March/September 2005) to different contractors under Engineering, Procurement and Construction (EPC) contract system. The works were in progress. The status of the works as of February 2010 was as shown in Table-13:



Table-13

Package/ Component	IBM value (Rupees in crore)	Agreement value (Rupees in crore)	Stipulated period for completion	Date of Commencement	Stipulated date for completion	Progress as of February 2010	Time overrun (in months)
<b>Canal works</b>							
Package-28	243.04	249.75	24 months	20.03.2005	20.03.2007	82.78%	35
Package-29	549.34	546.30	24 months	19.03.2005	19.03.2007	23.61%	35
Package-30	220.88	201.40	24 months	20.03.2005	20.03.2007	61.53%	35
<b>Lift works</b>							
Lift-I package	517.25	495.21	36 months	02.03.2005	02.03.2008	91.41%	23
Lift-II package	560.29	578.04	36 months	26.09.2005	26.09.2008	81.06%	17
Lift-III package	639.55	631.99	36 months	28.09.2005	28.09.2008	65.70%	17

None of the works were completed even though stipulated dates of completion were long over. Audit observed the following:

### Land acquisition

**Land required to ensure smooth progress of work was not acquired in advance before award of works**

Para 180 of Andhra Pradesh Public Works Department code stipulates that no work should be started without acquiring land. Government orders<sup>25</sup> also stipulated that lands should be acquired in advance for taking up of works without interruption for the first two years.

Besides the land already in the possession of the department, the project needed acquisition of additional 20,107.22 acres of land from private owners. The time stipulated for execution of different works in this project was not more than three years. Given the short duration of the project works, large parcels of land to be acquired and the complex process for its acquisition, sizeable portion of land should have been acquired before award of works. Audit noticed that lands were not even identified for acquisition at the time of award of works. Works were being executed in the lands already available with the department and on the portions of lands acquired from time to time after award of works. Even though the period stipulated for completion of the project works is over, more than 7,200 acres of land is yet to be acquired even after five years since commencement of the works.

The Government replied (June 2010) that since the task of conducting detailed survey and investigation is also entrusted to the same contractor under EPC<sup>26</sup> system, the land acquisition was initiated only after award of work after completion of investigation and finalization of canal alignments. The reply is not tenable. Commencement of works without acquiring land is not only against the codal provisions/Government orders, but also is an unprofessional way of project planning and execution. Such an approach has a risk of progress of works getting hampered, as evident in the instant case.

<sup>25</sup>G.O. Ms. No.177, dated 27 September 1997 of I&CAD Department

<sup>26</sup>Engineering, Procurement and Construction

Due to commencement of works without acquiring land, the project has not been completed even two years after the scheduled date of its completion and not a single acre has been provided with irrigation facility so far. The drinking water facility has also not been provided. An amount of ₹ 1,696.76 crore<sup>27</sup> incurred on the portions of works executed in the available lands has remained blocked in an incomplete project for a prolonged period without any benefit accruing to the targeted areas and people.

## 2.2.6 Cost control

Audit observed that in the contract procedure followed for execution of this project there was failure to incorporate certain controls. Consequently, undue benefits of ₹ 402.66 crore either already passed on or committed for payment to the contractors, as discussed in subsequent paragraphs.

### 2.2.6.1 Preparation of estimates

Preparation of estimates is an important element in cost control mechanism which helps to define the quantity of work to be executed and its cost. For the various components of irrigation projects, such as execution of main canal, excavation of distributary network, construction of concrete structures, laying of pipelines, etc. the appropriate unit rate can be derived from the Standard Schedule of Rates (SSRs) issued by the department every year. In this project, the estimates were not properly prepared for a number of components of the work.

**Preparation of estimates after opening of price bids:** The Government orders stipulated that works should be awarded only if price bids do not exceed 105 *per cent* of the estimated value. Thus, transparency demands that the estimates are prepared before receipt of bids. In the Lift packages (Lifts-I, II and III) audit noticed that tenders were invited before obtaining technical sanctions of estimates as shown in Table-14.

Table-14

	Date of NIT	Last date of bids	Date of Technical sanction of estimates	Date of opening of price bids	Date of Tender evaluation	Date of agreement
Lift-I	13.07.2004	08.11.2004	31.12.2004	19.01.2005	01.02.2005	02.03.2005
Lift-II	12.01.2005	10.03.2005	26.09.2005	08.04.2005	28.07.2005	26.09.2005
Lift-III	12.01.2005	10.03.2005	26.09.2005	08.04.2005	28.07.2005	28.09.2005

In respect of Lift-II and Lift-III the technical sanction was accorded (September 2005) more than five months after opening (April 2005) of price bids. Further, the reasons for the more than five months gap between the date of opening of price bids and the date of concluding (September 2005) the agreements were not on record.

<sup>27</sup> Expenditure as of February 2010

The estimates of distributary network were exaggerated due to adoption of incorrect higher rate - ₹ 119 crore

**Inflated estimates:** In respect of distributary network the bulk of the cost is on excavation of distributaries/field channels. SSRs have unit rates for different categories of soils to be excavated. In all the three packages, the glaring deficiency noticed was that while preparing the estimates the quantities of different types of soils to be excavated were not assessed in respect of distributary network and the values were computed by adopting a figure of ₹ 15,000 per acre of ayacut to be irrigated. This procedure was inappropriate and overlooks the basic principle that the cost of execution is directly linked to quantities of soil to be excavated. There is no unit rate for excavation work expressed in terms of acre of ayacut to be irrigated. Indication of quantities is one of the vital controls. In the absence of quantities, the risk of undue benefits accruing to contractor (due to the amount paid being higher than the cost of quantities executed) cannot be ruled out.

Inflated estimates leading to extra expenditure of ₹ 58.47 crore

Audit noticed that the estimates were exaggerated by adopting a higher rate of ₹ 15,000 per acre as compared to ₹ 11,500 per acre adopted in two other projects viz., Koilsagar Lift Irrigation Scheme and Jawahar Nettampadu Lift Irrigation Scheme located in the same district having the same topography, taken up in the same year (2005). Due to adoption of higher rate, the estimates were inflated by ₹ 119 crore<sup>28</sup>. This resulted in incorrect acceptance of bids, despite exceeding the stipulated ceiling of 105 per cent by ₹ 58.47 crore, defeating the cost control objective of the Government, as shown in Table-15.

Table-15

(Rupees in crore)

Package (Ayacut to be developed)	Estimate value of the total work	Excess amounts* provided in the estimate	Estimate value if correct amount is provided		Actual agreement value	Extra expenditure to Government
			100 %	100% + 5%		
Package-28 (70,000 acres)	243.04	24.50	218.54	229.47	249.75	20.28
Package-29 (1,80,000 acres)	549.34	63.00	486.34	510.66	546.30	35.64
Package-30 (90,000 acres)	220.88	31.50	189.38	198.85	201.40	2.55
<b>Total</b>		<b>119.00</b>				<b>58.47</b>

\* 'Acres of ayacut to be developed' X '₹ 3,500 (i.e. the difference in rate) per acre'

The Government replied (June 2010) that the rate of ₹ 15,000 per acre was adopted based on the similar rate provided in the Alimineti Madhava Reddy (AMR) Project as the terrain was similar in both cases. The reply is not acceptable as AMR Project is located in Nalgonda District whereas Koilsagar, Jawahar Nettampadu and Kalwakurthy Lift Irrigation Schemes are located in Mahbubnagar District.

### 2.2.6.2 Selection of contractors

Audit could not verify the aspect of selection of bidders, as the department did not produce the tender documents, bids and the related files to audit on the plea that the same were taken by Upa-Lokayukta.

<sup>28</sup>(₹ 15,000 – ₹ 11,500) X 3,40,000 acres

### **2.2.6.3 Measuring the quantities of work executed**

Measurement of the quantities executed is a critical element of cost control as the cost of the work has a direct relation to the quantities. Audit observed that as per clause 42.1 of the agreements, the critical task of measuring the work and recording the measurements in the Measurement Books was left to the contractors executing the work, instead of doing it departmentally which would have assured better accountability.

Besides, in respect of excavation work relating to canals, distributary network and lift packages though the measurements of earthwork excavated were being recorded in the measurement books no details as to the category of soil excavated were noted. The payments released were thus not with reference to the volume of work executed in each category of soil.

In respect of concrete structures also, though measurements were being recorded, the payments were not with reference to the cubic meters of concrete used.

During the exit conference, the department replied that only the outcomes of the project are important and that the quantities do not form the basis for payments. The reply is not acceptable as the reply of the Government that quantities are not relevant is not correct. Absence of the cost control mechanism has led to payments higher than the amounts payable, as discussed below:

### **2.2.6.4 Payments to contractors**

As per the procedure prevailing prior to August 1998, when tenders were invited for execution of works relating to Public Works Departments in the State, the bidders used to quote their unit rates for each item of work separately. In August 1998, the Government changed the procedure for regulation of payments through standardisation of unit rates adopted for making payments to contractors. The Government ordered<sup>29</sup> that:

- (i) The tender schedules should contain:
  - the quantities of each item of work;
  - the rates worked out by the department for each item of work (i.e. unit rates);
  - the amount for each item; and
  - total estimated contract value
- (ii) The bidders will not have to quote rates for each item but only quote their overall tender percentage for the entire work.

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<sup>29</sup>Para g (5) of G.O. Ms. No. 132, dated 11 August 1998 of Transport, Road and Buildings Department

Government of Andhra Pradesh, as an additional cost control measure, decided<sup>30</sup> that contracts can be awarded only if the tender percentage does not exceed 105 *per cent* of the estimated value.

With the introduction of these measures, in the conventional Unit Price Contract system, the unit rate for each item of work is derived from the Standard Schedule of Rates (SSR)<sup>31</sup> and is adjusted for the overall tender percentage quoted by the contractors. This rate is applied to the quantities finally executed, to compute the value payable to the contractor. Thus, the amount payable for each item of work under a contract gets restricted to the amount computed as shown below:

$$\text{Value payable} = (\text{unit rate derived from SSR}) \times (\text{tender percentage}) \times (\text{quantity executed})$$

A mention was made in the Performance Audit (Para 3.2) on ‘Godavari Water Utilisation Authority’ which featured in the Audit Report (Civil) for the year ended 31 March 2007 that “there was no suitable provision in the agreements to safeguard the Government interest, resulting in reduction of substantial quantity of material, with benefit passing on to the contractor” and that “the agreements were one sided in favour of the contractors”. It was recommended therein that “suitable changes/provisions may be made to safeguard Government interest in EPC system of contract”. While reiterating this aspect in the Audit Report (Civil) for the year ended 31 March 2009 (Para 1.4) on ‘Accelerated Irrigation Benefit Programme’ it was specifically recommended that “when the quantities of work to be executed have not been firmed up it would be in the interest of the Government to link payments to quantities executed rather than awarding works on fixed price basis”.

Before award of work, the reasonableness of the price quoted by the bidder is assessed by comparing it with the value of the estimated quantities. To address the risk of inflated estimates and to restrict payment to the work already executed, payments were to be regulated by comparing the quantities finally executed with the estimated quantities and rates. Audit observed that this was not the case. As a consequence, the benefit of reduction in expenditure due to execution of less work than contracted for did not accrue to Government. Audit compared the payments under EPC contracts with the Unit Price Contract by adoption of unit rates as adopted in the departmental estimates (derived from SSR) and adjusting it with the tender percentages quoted by the contractors<sup>32</sup>.

### Canal Packages

Works under the Canal packages (Packages 28, 29 and 30) broadly involve:

- Construction of main canal/distributary network
- Construction of concrete structures

<sup>30</sup> G.O. Ms. No. 133, dated 20 November 2004 of I&CAD (PW Reforms) Department

<sup>31</sup> Prepared by the department every year

<sup>32</sup> Amount payable = (unit rate as per departmental estimates) X (tender percentage) X (quantity executed)

Release of payments without reference to the quantities executed - undue benefit of ₹ 130.19 crore to the contractors

### Construction of Main Canals

In canal packages, the department prepared the estimates in respect of main canals based on the anticipated quantities and the unit rates derived from SSR. Audit noticed that the payments for main canals were substantially higher than the amount payable if safeguards had been incorporated. Consequently, undue benefits of ₹ 130.19 crore accrued to the contractors as detailed in Table-16:

Table-16

Package No.	Estimated quantity of excavation (in Cum)	Estimate value (Rupees in crore)	Tender percentage quoted by the contractors	Cost of this component with tender percentage (Rupees in crore)	Quantities executed (in Cum)	Value payable as per actuals (Rupees in crore)	Amount scheduled for payment (Rupees in crore)	Excess (Rupees in crore)
1	2	3	4	5	6	7	8	9 (8-7)
Pkg-28	82,33,499	82.99	(+) 2.76 %	85.28	63,97,525	66.26	126.19	59.93
Pkg-29	1,54,04,760	145.31	(-) 0.55 %	144.51	Work in progress	144.51	193.28	48.77
Pkg-30	39,57,505	37.69	(-) 8.82 %	34.37	51,79,246	44.97	66.46	21.49
<b>Total undue benefit to contractors</b>								<b>130.19</b>

The package wise details are as under:

**Package-28:** The estimated value for excavation of main canal was ₹ 82.99 crore. The cost of this component after adjusting towards the tender percentage works out to ₹ 85.28 crore. Audit noticed that the quantities executed were less than the estimated quantities. The monetary value payable to the contractor taking into account this reduction works out to ₹ 66.26 crore. As against this an amount of ₹ 126.19 crore is scheduled for payment giving a clear undue benefit of ₹ 59.93 crore to the contractor.

**Package-30:** The cost of this component, after giving due allowance for tender percentage on the estimated value of ₹ 37.69 crore, works out to ₹ 34.37 crore. Considering the quantities executed by the contractor, the monetary value payable works out to ₹ 44.97 crore. As against this an amount of ₹ 66.46 crore is scheduled for payment giving undue benefit of ₹ 21.49 crore to the contractor.

In respect of **Package-29**, the estimated value was ₹ 145.31 crore. The cost of this component after adjusting the tender percentage works out to ₹ 144.51 crore. Amount scheduled for payment was ₹ 193.28 crore. The canal work was still in progress. Even if the quantities executed are equal to the estimated quantities, the benefit to the contractor would be ₹ 48.77 crore.

### Construction of concrete structures

The cost of construction of concrete structures depends on the quantities of different types of concretes (and the quantities of cement, steel, etc.) to be used. A structure comprises of different sections. Thus, the unit to be adopted

for regulation of payment is the 'quantity (expressed in terms of Cum)' of each 'type of concrete'. The SSRs facilitate determination of unit rate for each concrete structure expressed in terms of monetary value per Cum for that structure. In the three canal packages the following provisions were made in the estimates.

Table-17

	Number of structures contemplated	Amount provided
Package - 28	75	₹ 27.58 crore
Package - 29	317	₹ 92.87 crore
Package - 30	165	₹ 32.02 crore

In all the three packages (28, 29 and 30) audit noticed the following:

- The estimates were not prepared on the basis of quantities which have a direct relation to the cost of execution. There were no records to show that these amounts were arrived at based on the designs of the structures and the quantities of materials to be used in their construction.
- The NITs did not stipulate the designs of the structures indicating the dimensions, specifications and the quantities of materials required. In the absence of this, the description of scope of work was inadequate.
- The amounts scheduled for payment for concrete structures in Packages 28, 29 and 30 are ₹ 37.46 crore, ₹ 54.63 crore and ₹ 20.14 crore respectively. However, the payments were not with reference to the cubic meters of concrete used.

**The payments were not with reference to cubic meters of concrete used - ₹ 112.23 crore**

In the absence of these safeguards, the risk of inflated estimates and the Government not getting the benefit of reduction in quantities after award of work was not addressed.

### Lift Packages

In the Lift works, there were substantial reduction in quantities as compared to those initially estimated and the payments for some components like pipelines, tunnel works and for earthwork in pump houses and surgepools were substantially higher than the amounts payable. Consequently, undue benefits of ₹ 272.47 crore accrued to the contractors as detailed below:

**No reduction in payments to contractors despite reduction in earth work quantities - ₹ 75.39 crore**

**Earthwork excavation for surgepools and pump houses:** All the lift packages envisaged construction of surgepools and pump houses which *inter alia* involve earthwork excavation. In all the three packages estimates were prepared based on the quantities of earthwork in each category of soil based on the dimensions of the structures. Audit noticed that during execution there was substantial reduction in the earthwork quantities in these structures as shown in Table-18.

Table-18

	Item of work	Quantities as per estimate (Cum)	Estimated value (Rupees in crore)	Quantities being excavated (Cum)	Amount payable as per actuals (Rupees in crore)	Amount scheduled for payment (Rupees in crore)	Undue benefit to contractor (Rupees in crore)
Lift-I	Surgepool & Pump House	6,89,210	27.75	4,56,040	17.58	53.89	36.31
Lift-III	Surgepool	9,62,078	47.95	4,45,000	21.92	61.00	39.08
<b>Total undue benefit to contractors</b>							<b>75.39</b>

**No reduction in payments to contractors despite reduction in pipeline quantities - ₹ 74.76 crore**

Due to absence of requisite safeguarding clauses in the agreements, payments to contractors were not being reduced despite the reduction in quantities, resulting in undue benefit to contractors.

**Delivery mains (pipeline):** Similarly, there were reductions in the length of delivery mains as against the estimated length with attendant adverse consequences as shown in Table-19.

Table-19

	Length of pipeline as per estimate	Estimated value (Rupees in crore)	Actual execution		Amount payable <sup>#</sup> (Rupees in crore)	Amount scheduled for payment (Rupees in crore)	Excess (Rupees in crore)
Lift-I	700 m	59.21	Pipeline	233.66 m	18.18	50.18	27.94
			Tunnel	388.50 m	4.06 *		
			Total	622.16 m	22.24		
Lift-II	495 m	33.36	320 m		21.37	25.66	4.29
Lift-III	538 m	31.99	243.60 m		13.80	56.33	42.53
<b>Total undue benefit to contractors</b>							<b>74.76</b>

<sup>#</sup> worked out on pro-rata basis duly applying the contractors tender percentage

\* worked out with rates adopted for tunnel in Lift-III package and applying contractor's tender percentage

**Amounts scheduled for payment to contractors were far in excess of the amounts payable - ₹ 122.32 crore**

**Tunnel:** In respect of tunnel works under Lift-II and Lift-III packages, audit noticed that the amounts scheduled for payment to the contractors was far in excess of the amounts they would be eligible, considering the estimated cost and overall tender percentages quoted by them.

Table-20

(Rupees in crore)

	Item of work	Estimated value	Amount payable	Amount scheduled for payment (percentage)	Excess
Lift –II	Tunnel, Surgepool, pump house and Draft Tube tunnels	156.28	161.23	229.13 (142.11 %)	67.90
Lift –III	Tunnel	74.59	73.70	128.12 (173.84%)	54.42
<b>Total undue benefit</b>					<b>122.32</b>



Audit observed that there was no mechanism in the agreements to ensure that the amounts scheduled for payment for this component is released to the contractors only when they execute 42.11 *per cent* and 73.84 *per cent* extra over and above the estimated quantities.

**Payments to the tune of ₹ 54.43 crore were being made without recording measurements in support of actual execution of work**

**Payments for Shotcreting<sup>33</sup>:** In respect of Lift-II and Lift-III packages, the contractors quoted ₹ 40.41 crore and ₹ 14.02 crore respectively towards shotcreting. However, while making payments towards execution of this item no measurements were recorded in the Measurement Books in terms of quantity of concrete used to authenticate its actual execution.

The Government replied (June 2010) that the recording of execution of shotcreting work was not possible. The reply is incorrect as while preparing the estimate the quantities of various materials to be used in the work were assessed.

In its reply, the Government did not deny the fact of undue benefits to contractors due to reduction in quantities than those initially estimated. Incorporation of the requisite safeguarding clauses in the agreements would have avoided the undue benefits to contractors.

## **2.2.7 Implementation of contract clauses**

### **2.2.7.1 Clauses relating to taxes and duties**

NIT stipulated that the contractor should include in his price bid the taxes and duties payable. The basic flaw in the NIT was that it did not insist for exhibition of taxes and duties separately. Such a clause would have had the following benefits:

- (a) If the tax element has been included incorrectly in the bid, it would have been rectified. It also helps to regulate payments in case of change in taxes and duties.
- (b) It helps tax authorities for the correct realisation of taxes and duties from contractors.

In case of Lift-I package, excise duties and taxes were included in the estimate. The contractor was awarded the work in March 2005. The contractor indicated an amount of ₹ 30.23 crore towards taxes and duties separately, but no tax-wise break up was furnished. At the time of award of work the Central Excise Duty (CED) was exempted and the Turnover Tax (TOT) was not applicable<sup>34</sup> from April 2005 after introduction of Value Added Tax (VAT). There are no corresponding adjustments in payments to contractor towards tax components.

<sup>33</sup> Shotcrete is small-aggregate of concrete conveyed through a hose and shot from an air gun onto a backup surface. It is a temporary safety arrangement against falling of muck at weak zones while excavating a tunnel

<sup>34</sup> TOT was applicable only for turnover below ₹ 40 lakh

**Extra expenditure of ₹ 65.87 crore due to inflated estimates**

Government order stipulated award of contract only if the quoted value does not exceed 105 *per cent* of the estimate. The spirit of this order was vitiated as the estimates of Lift-II and Lift-III packages became inflated by inclusion of such cost element as CED on the value of Electro Mechanical components though the exemptions were available on irrigation works and TOT which was not applicable. The IBM values resulted in incorrect acceptance (September 2005) of bids, despite exceeding the 105 *per cent* limit by ₹ 65.87 crore as detailed in Table-21.

**Table-21**

(Rupees in crore)

Package	Estimate value	Amounts incorrectly provided in the estimate towards CED and TOT	Correct estimate value without CED and TOT	Maximum permissible award value (105% of Col. No. 4)	Agreement value	Extra expenditure to Government
(1)	(2)	(3)	(4)	(5)	(6)	(7)=(6)-(5)
Lift-II	560.29	54.92	505.37	530.64	578.04	47.40
Lift-III	639.55	55.25	584.30	613.52	631.99	18.47
<b>Total extra expenditure</b>						<b>65.87</b>

The prices quoted by the contractors for Lift-II and Lift-III packages did not indicate separately tax elements included in the total price bid. There is thus no assurance with regard to correct regulation of payments towards taxes and duties.

During the exit conference (August 2010), the Secretary to Government agreed that insistence of break up of taxes and duties separately in the price bids would help in regulation of payments for tax components.

**2.2.7.2 Clause relating to collection of EMD**

**Short collection of EMD due to incorrect stipulation in NIT – ₹ 5.80 crore**

As per the prevailing orders an Earnest Money Deposit (EMD) of ₹ 15.80 crore was to be collected at 2.5 *per cent* on the agreement value of ₹ 631.99 crore. However, the NIT of Lift-III package prescribed collection of ₹ 10 crore as EMD. This led to short collection of security of ₹ 5.80 crore.

Government replied (June 2010) that the agency paid the EMD as per the NIT conditions and when payment of EMD at 2.5 *per cent* was insisted by the department as per the Government orders, the High Court restrained the department from doing so. The reply is evasive inasmuch as it was silent on why the correct amount of EMD was not mentioned in the NIT.

**2.2.7.3 Clause relating to rate of interest on Mobilisation Advance**

**Post tender reduction in the rate of interest on Mobilisation Advance – ₹ 2.76 crore**

Mobilisation advance of ₹ 24.05 crore was paid (March 2005) to contractors. As per NIT and Agreement of Lift-I package, the rate of interest to be charged was at 12 *per cent* per annum on mobilisation advance. No conditions were prescribed to the effect that any change in rate of interest in future would be made applicable to advances paid earlier. Despite this, the rate of interest was

reduced (September 2007) to 8/10 *per cent* retrospectively, thereby vitiating the sanctity of tender conditions. The incorrect decision of extending the benefit resulted in reduction of recovery of interest by ₹ 2.76 crore.

Government in its reply (June 2010) while agreeing that as per the agreement the mobilisation advance carried interest of 12 *per cent*, stated that it subsequently revised the rate of interest to be at par with the prevailing interest rate. The reply is not tenable. Since there was no clause in the agreement for change in rate of interest from time to time, post tender reduction in the interest rate contrary to agreement conditions led to loss of revenue to Government and undue benefit to contractor.

#### **2.2.7.4 Operation of liquidated damages clause**

##### **Non-operation of liquidated damages clause**

As per the contract conditions, if the contractor fails to complete the whole work or part thereof within the stipulated individual milestones due to the reasons attributable to them, the competent authority may impose liquidated damages. However, there was no specific time frame fixed or stipulated in the agreement for the obligation to be fulfilled by the Department. Despite delays in execution of works no liquidated damages (LD) were collected from the contractors.

Government replied (June 2010) that the agencies could not adhere to the initial programme due to delay in land acquisition, finalisation of selection of pumps/motors, delay in payments by the department, etc. and hence there was no ground for levy of LDs. The reply is not tenable as the agreement did not stipulate the specific dates for completion of the various tasks on the part of the department. In the absence of specific time frames, attributing all the delays to the department was incorrect.

#### **2.2.8 Conclusions**

Since irrigation projects involve huge financial outlays, 'cash flow management' and 'cost control' are vital for achieving the objective of value for money. Lack of proper planning and sequencing/synchronization of various activities/works under the project resulted in premature consumption of funds in non-critical activities. Abnormal delay in land acquisition, a critical activity, prolonged the gestation period and the same resulted in denial of any benefit to the targeted beneficiaries. Even though the stipulated execution period is already over, the department has not provided irrigation facility to a single acre of land. Serious flaws in cost control resulted in excessive spending without any commensurate benefit. Reduction in the quantities of work executed did not result in commensurate reduction in project cost. Thus, bad planning and flawed contracts only benefited the contractors.

### **2.2.9 Recommendations**

- For effective cash flow management, proper planning and sequencing/synchronization of various activities/works should be followed in execution of projects so that precious funds are not spent earlier than required and get blocked up in incomplete assets for prolonged periods without deriving benefits.
- Government may consider bringing about suitable changes in the EPC system of contracts to make the preparation of estimates as realistic as possible both in terms of quantities to be executed as well as financial commitments in order to protect Government interests and achieve closure.
- Where the quantities of work to be executed have not been firmed up it would be in the interest of the Government to link payments to quantities executed rather than awarding works on fixed price basis, by making suitable changes in the EPC system of contract.
- Specific time frames should be fixed and stipulated in the agreements for the obligations to be fulfilled by the department in addition to the obligations of the contractors, for effective operation of liquidated damages clause.

## MUNICIPAL ADMINISTRATION AND URBAN DEVELOPMENT DEPARTMENT

### 2.3 Functioning of Visakhapatnam Urban Development Authority (VUDA)

#### 2.3.1 Introduction

Visakhapatnam Urban Development Authority (VUDA) was constituted (June 1978), under AP Urban Areas (Development) Act, 1975 (Act). Its jurisdiction extends to Visakhapatnam Municipal Corporation and four municipal towns namely Anakapalli, Bheemunipatnam, Gajuwaka and Vizianagaram including 287 villages in 178 Gram Panchayats, comprising an area of 1,721 sq km.

The major functions undertaken by VUDA *inter alia* include the following:

- Preparation of Master Plan and its implementation
- Development of housing projects/satellite townships, sites, etc.
- Sale/auction of Government lands
- Laying and widening of roads
- Shopping complexes/Office establishments
- Urban Forestry

The management of VUDA is vested with a nominated Board headed by a Chairman, constituted by the State Government from time to time under the Andhra Pradesh Urban Areas (Development) Act, 1975. The Chief Executive of the organisation is the Vice Chairman (VC) who is a senior officer from the Civil Service assisted by various officers in specialised fields.

Scrutiny of the records of VUDA for the period 2005-06 to 2009-10 revealed the following:

#### Audit findings

### 2.3.2 Preparation of Master Plan and its implementation

#### 2.3.2.1 First Master Plan

**There were huge shortfalls in achievement of First Master Plan**

Orderly development of the city is a major task assigned to an urban development authority. VUDA prepared its First Master Plan (FMP) for the years 1989 to 2001 with a view to develop four Urban and 287 rural settlements which were spread over an area of about 1,721 sq km with an investment of ₹ 1,060 crore.

Huge shortfalls ranging from 64 *per cent* to 100 *per cent* were noticed in respect of laying of roads, construction of traffic junctions, truck terminals, satellite townships in implementation of the FMP as shown in Table-22.

Table-22

Description	Targets	Achievements	Shortfall
<b>Roads</b>	970.6 km	225.1 km	745.5 km (77%)
<b>Traffic Junctions</b>	16 Nos.	4 Nos.	12 Nos. (75%)
<b>Truck terminals</b>	5 Nos.	Nil	5 Nos. (100%)
<b>Recreational</b>	1400 acre	500 acre	900 acre (64%)
<b>Land use in Visakhapatnam Metropolitan Region</b>			
Residential	35843.49 acre	16601 acre	19242.49 acre (54%)
Transportation	20896.13 acre	793 acre	20103.13 acre (96%)
Industrial	11431.49 acre	7940 acre	3491.49 acre (31%)
Recreational	2761.75 acre	2533 acre	228.75 acre (8%)
<b>Satellite Townships</b>	15 Nos.	Nil	15 Nos. (100%)

VUDA attributed (June 2010) the shortfalls in the FMP to non-integration of industrial development, improper planning of environmental management with focus on disaster management, planning of parking places, etc. Audit observed that there was lack of coordination among the various departments including VUDA. There was also no institutional mechanism with VUDA for implementation of the master plan.

### 2.3.2.2 Revised Master Plan

VUDA prepared a Revised Master Plan (RMP) for the years 2002 to 2021 including major developmental works which were not projected in the earlier master plan. The following deficiencies were noticed:

- Government laid down certain conditions in the RMP for change of land use to necessitate having a well structured master plan with specific zones for each activity keeping in view the harmonious development of the city. Government, on the basis of representations submitted (April – June 2006) by the individuals directly, *suo-motu* approved (June 2006) certain changes of land use. VUDA also sent (November 2005) proposals recommending change of land use based on representations received from public before publishing of RMP. These were however, not incorporated in the RMP as detailed in [Appendix-2.10](#).
- Though sectoral investments (Phase-I - 2002-07: ₹ 4,540 crore; Phase-II - 2007-12: ₹ 5,266 crore) were mentioned in the RMP (details are given in [Appendix-2.11](#)), VUDA did not ensure compliance of this requirement. Even the details of actual investments made by various departments/agencies concerned were not available with VUDA. Thus, deficiencies identified in FMP were not addressed in the RMP.

VUDA replied (June 2010) that it would review the progress envisaged in the master plan by conducting the coordination committee meetings.

Deficiencies identified in FMP were not addressed while preparing/ approving RMP

Change of land use approvals were given in violation of RMP thus vitiating the sanctity of master plan

- During the five year period 2005-10, VUDA approved 74 cases of change of land use. In 10 out of 30 cases of change of land use test checked in audit, approvals were given in violation of the provisions of the RMP thus vitiating the sanctity of the master plan. The details are given in [Appendix-2.12](#).

VUDA replied (October 2010) that, as per AP Urban Areas (Development) Act 1975, the authority can make any modifications of the master plan. The reply is not acceptable as the power to modify does not mean plot by plot changes in violation of the master plan. In wider public interest there can be reclassification of large pieces of land where no narrow individual interests are involved.

- Contrary to the provisions of AP Urban Area (Development) Act, 1975, land use conversion charges to an extent of ₹ 4.39 crore were waived by Government in respect of two private Firms/Institutions<sup>35</sup> without laying down any conditions. VUDA replied (October 2010) that, to encourage entrepreneurs to set up industries, the conversion charges were waived. The reply is not acceptable. In the absence of notification stipulating which categories of entrepreneurs would be exempted from such conversion charges, waiver of conversion charges selectively to these firms was objectionable.

### 2.3.3 Development of housing projects/satellite townships, sites, etc.

**Loss of revenue of ₹ 355.23 crore due to deficient contract management**

During the five year period 2005-10, VUDA had taken up 17 projects<sup>36</sup>. Of these, only two projects<sup>37</sup> had been completed, two projects<sup>38</sup> were in completion stage, eight projects<sup>39</sup> were at the initial stage and the remaining five projects<sup>40</sup> were yet to start.

Audit scrutinised the contracts in 14 out of the 17 projects which revealed systemic weaknesses/lapses as discussed below:

- Clear title of lands was not ensured before undertaking projects resulting in VUDA being bogged down with legal disputes.
- Decisions were taken to the detriment of VUDA's interest leading to revenue losses.
- Mobilisation advances were paid to contractors even when the lands were not ready (pending clearance of title of land, etc.) for execution of housing projects.

The following are some of the case studies conducted by Audit. The aggregate loss of revenue to VUDA in these cases alone amounted to ₹ 355.23 crore.

<sup>35</sup> M/s Ramkey Pharmacy (₹ 4.29 crore) and Ambedkar Institute of Management Studies (₹ 10.12 lakh)

<sup>36</sup> Build-operate-transfer (BOT): 5, Public Private Partnership (PPP): 8, and VUDA: 4

<sup>37</sup> PPP: 1 and VUDA: 1

<sup>38</sup> PPP: 2

<sup>39</sup> BOT: 4, PPP: 3 and VUDA: 1

<sup>40</sup> BOT: 1 (pending in Court), PPP: 2 and VUDA: 2

### 2.3.3.1 Loss of revenue due to deficient contract management (Rushikonda Housing project)

One of the key features of a Public Private Partnership (PPP) project is the revenue sharing arrangement. Audit observed deficiencies in the revenue sharing arrangement with a Bangalore based firm resulting in substantial loss of revenue to VUDA.

**Loss of revenue of ₹ 348.23 crore due to deficient contract management**

VUDA entered into an agreement (March 2007) with M/s Global Entropolis Asia Private Limited, which is Special Purpose Vehicle of M/s ABS Infrastructure (India) Private Limited, Bangalore, for development of an Integrated Housing Project at Rushikonda on PPP mode on 80 acres of land with a project cost of ₹ 581.20 crore and estimated to yield revenue of ₹ 882.46 crore. The expenditure was to be borne by the firm and a minimum guarantee amount of ₹ 236.50 crore or 26.8 per cent gross revenue, whichever was higher, was payable to VUDA over a period of 30 months.

The firm approached (October 2007) State Level Environmental Impact Assessment Authority (SLEIAA) seeking environment clearance<sup>41</sup> for built-up area i.e. 86,33,274 sft with a projected cost of ₹ 1,800 crore, endorsing a copy to VUDA.

However, in the meantime, in January 2008, the firm approached VUDA and the Government for pre-closure<sup>42</sup> of the agreement proposing to pay on the basis of projected revenue of ₹ 1121.34 crore on the built-up area of 51,49,790.31 sft which is less than the built-up area (86,33,274 sft) projected at the time of seeking environment clearance. This was accepted (March 2008) by the Government and the firm paid ₹ 242.29 crore<sup>43</sup> on the projected revenue of ₹ 1,121.34 crore. The built-up area of 86,33,274 sft for which the firm got the clearance (February 2008) of SLEIAA would have meant higher revenue of ₹ 732.44 crore<sup>44</sup> to VUDA (26.8 per cent on gross revenue).

Having got a copy of the representation for 86,33,274 sft area utilisation in October 2007 itself, VUDA should not have agreed for pre-closure for a value of ₹ 242.29 crore as it was linked to comparatively less built-up area of 51,49,790.31 sft but ₹ 590.52 crore<sup>45</sup> on the basis of revised built-up area of 86,33,274 sft. This resulted in loss of revenue to VUDA to the extent of ₹ 348.23 crore<sup>46</sup>.

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<sup>41</sup> The firm got clearance of SLEIAA in February 2008 for the same

<sup>42</sup> Except in this case, the pre-closure clause which could be exploited by the private party to the detriment of VUDA was not included in any of the eight PPP Projects already undertaken by VUDA

<sup>43</sup> being the Net Present Value (at 11 per cent ) of ₹ 300.52 crore which is 26.8 per cent of projected gross revenue

<sup>44</sup> For a project cost of ₹ 581.20 crore, the projected revenue was ₹ 882.46 crore. Extrapolating for the project cost of ₹ 1,800 crore (projected revenue: ₹ 2,733 crore) the value of ₹ 732.44 crore is arrived at

<sup>45</sup> being the Net Present Value of ₹ 732.44 crore at 11 per cent

<sup>46</sup> ₹ 590.52 crore – ₹ 242.29 crore



VUDA replied (October 2010) that there was no condition in the sale deed for collection of balance VUDA's share for additional built-up area. VUDA did not however, specifically explain as to why the revenue share was not insisted upon with reference to the increased built-up area. The reply is not tenable and reinforces the audit contention that Government interests were not protected.

### 2.3.3.2 Mega Housing Project at Madhurawada

**Failure of VUDA in ensuring clear title of the land before commencing the project resulted in unintended benefit to the contractor**

VUDA took up (October 2004) a mega Housing project with 2002 houses on design-build-contract basis in 40 acres of Hill Forest area of Madhurawada. The execution of the project was entrusted (December 2004) to M/s Jurang Infrastructure (India) Private Limited, Bangalore, with a total built-up area of 21,81,000 sft with construction cost of ₹ 635.54 per sft at an estimated cost of ₹138.61 crore.

Audit observed that VUDA did not either verify the title of the land nor conduct feasibility survey regarding the utilisation of the land for the housing project. VUDA also did not obtain Government's approval for conversion of land use from 'hill forest area' to 'residential' for execution of the project. Pending these requirements, the firm was paid (December 2004) a mobilisation advance of ₹ 3 crore at 8.35 *per cent* per annum. Meanwhile, a writ petition was filed (February 2005) by the district unit of All India Trade Union Congress, Visakhapatnam, challenging that the mega project was in protected area of Buddhist Monument. Consequently, no progress could be made on the ground that the land was a reserved area. The fact was that it was not a reserved area as there was only an error<sup>47</sup> in the initial notification issued in the year 1981. The error could have been immediately rectified so that the construction could progress smoothly and the mobilisation advance recovered speedily. It took two years (2004 to 2006) to remedy the deficiency and three further years (2006 to 2009) to arrive at a revised cost. Pending this rectification, further mobilisation advance of ₹ 3.93 crore was paid (March 2005).

Early realisation of mobilisation advance (MA) is dependent on smooth progress of work. Grant of MA without clear title for land impedes smooth progress of work with the following adverse consequences:

- (i) The funds get blocked for prolonged period with the contractor.
- (ii) As the interest is charged on simple interest basis, the effective rate of interest would be much lower than the rate originally contemplated.

This resulted in the contractor enjoying the benefit of having the mobilisation advance with him for prolonged period of four to five years (December 2004 to November 2009) where the effective rate of interest would be much lower than the rate chargeable on simple interest basis. There was failure to have a detailed break up of various costs on the basis of which the initial rates were arrived at. Subsequently, supplementary agreement was concluded (November 2009) with built-up area of 9,43,168 sft and the contractor was given a higher rate of ₹ 1,054 per sft (as against ₹ 635.54 per sft initially agreed upon)

<sup>47</sup>the project area was stated to be in the protected area of Buddhist Monument though it does not fall under the protected area

without computation on the basis of such detailed break up and then linking it to inflation. Eventually work commenced in December 2009.

Thus, due to not conducting the feasibility study regarding the title of land, etc. VUDA had to face legal problems and as a result there was a delay of five years in implementing the project. This also caused unnecessary extra burden on the prospective buyers to the extent of ₹ 39.47 crore<sup>48</sup>.

VUDA while admitting the lapses stated (October 2010) that it could not foresee the problems.

### **2.3.3.3 Revenue forgone due to incorrect fixation of VUDA's share**

VUDA entrusted (December 2003) a Housing project to M/s Ambience Properties (India) Private Limited<sup>49</sup>, Hyderabad in Rushikonda Village on 50 acres of land.

VUDA demanded (November 2003) ₹ 15 - ₹ 17 crore as minimum guarantee share or 15 *per cent* share on gross revenue as VUDA's share, following a suggestion by its Chartered Accountant (CA), from the Firm. However, subsequently VUDA accepted (December 2003) a lesser share of ₹ 7 crore as minimum guarantee or 7.5 *per cent* share on gross revenue which ever is higher. Meanwhile, VUDA, on the directions (November 2004) of the Government, cancelled the tender process as there was steep hike in real estate prices and went for fresh tenders. Aggrieved by the decision, the firm filed (December 2004) a writ petition invoking arbitration clause. However, the court permitted VUDA to proceed for re-tendering and directed it not to finalise the tenders till the outcome of the judgement.

During the re-tender process (December 2004) the highest tenderer offered ₹ 20 crore as VUDA's share. When the matter was still pending in the court, with the intervention of the Government, the writ petition was withdrawn by the project proponent and the Government directed (July 2005) VUDA to enter into an agreement with the project proponent. Accordingly, VUDA entered into an agreement (July 2005) for a minimum share of ₹ 13 crore or 7.5 *per cent* of gross revenue whichever is higher, thus ignoring the highest offer in second bidding process. This out of court settlement resulted in loss of ₹ 7 crore to VUDA.

VUDA replied (June 2010) that, it would yield revenue of ₹ 20 crore (at 7.5 *per cent* on gross revenue) with a minimum guarantee of ₹ 13 crore. The reply of VUDA is not acceptable because even though VUDA cancelled the tender process keeping in view the steep hike in real estate prices it failed to get the minimum revenue share of ₹15 - ₹17 crore or 15 *per cent* of gross revenue as suggested by CA when the firm approached for an out of court settlement and also could not take the advantage of highest bidding in re-tender process.

Thus, the contract management of VUDA was deficient.

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<sup>48</sup> (₹ 1,054 - ₹ 635.54) X 9,43,168 sft

<sup>49</sup> one of the contenders of the four firms selected by the technical committee who offered higher revenue share

### 2.3.4 Sale/auction of Government lands

VUDA/  
Government  
sustained a loss of  
revenue of ₹ 15.71  
crore due to  
incorrect decisions  
by VUDA in  
sale/auction of  
Government lands

In order to support the State budget, Government entrusted VUDA with sale/auction of Government lands within their purview. Audit scrutiny revealed the following:

#### 2.3.4.1 Incorrect clubbing of clear title land with that of disputed land

In order to support State budget, VUDA decided to sell a Plot<sup>50</sup> consisting of 28 acres (later decided to reduce to 23.30 acres) at Madhurawada. Out of the 23.30 acres, 9.40 acres, which was under dispute was to be separated (as per the Collector's orders of 5 January 2008) and the remaining 13.90 acres with clear title was to be put for auction. Auction of 13.90 acres took place on 6 January 2008 with an upset price of ₹ 4 crore per acre. M/s Devona Infrastructure Limited, Mumbai, who quoted the highest price i.e. ₹ 7.06 crore per acre, out of the two bidders was allotted the land.

During the course of auction the Vice Chairman had offered to allot the additional extent of 9.40 acres of the land for the same price if the case in the High Court is cleared within 90 days in VUDA's favour. Accordingly, VUDA on the day of auction, ignoring the instructions of the Collector and without specifying any reasons, passed a resolution (6 January 2008) clubbing the clear title land (13.90 acres) with that of disputed land (9.40 acres). The resolution provided for an exit provision without however, specifically restricting it to 9.40 acres.

This lacuna was exploited by the private party by allowing it to go back on its initial offer to acquire the land of 13.90 acres without having to pay penalty of ₹ 13.27 crore<sup>51</sup>. The firm decided to exit and demanded (June 2008) for refund of entire amount of ₹ 98.13 crore<sup>52</sup> which was accepted (January 2009) by the Government.

VUDA replied (October 2010) that it never clubbed the disputed land with clear title land. Clubbing of the lands during the course of auction is unfair to other bidders as it was not known in advance and thereby many prospective bidders could have been left out.

#### 2.3.4.2 Loss of revenue due to reduction in upset price

VUDA decided (November 2007) to sell 10 plots<sup>53</sup> at Madhurawada through tender-cum-auction basis and fixed an upset price of ₹ 4 crore per acre for all the plots. Except plot No.17 all the plots which were put to auction on 6 January 2008, were sold between ₹ 4.02 crore to ₹ 7.06 crore per acre. Further, plot No.9 which has got the same features<sup>54</sup> of plot No. 17 was sold for ₹ 4.42 crore per acre. Thus, there was good response.

<sup>50</sup> bearing No.15

<sup>51</sup> EMD: ₹ one crore plus ₹ 12.27 crore (50 per cent of initial deposit of ₹ 24.53 crore)

<sup>52</sup> paid by the party during January – February 2008 for 13.90 acres @ ₹ 7.06 crore per acre

<sup>53</sup> plot No(s) 9 to 18

<sup>54</sup> as per the brochure released by VUDA

On the same day of auction (6 January 2008), for plot No. 17 (extent: 3.13 acres) however, the upset price was reduced from ₹ 4 crore to ₹ 3 crore and sold<sup>55</sup> for ₹ 3.22 crore per acre which had revenue loss implication of ₹ 2.44 crore<sup>56</sup> to Government.

VUDA replied (October 2010) that, due to recession in land values the upset price had been reduced. The reply is not acceptable, as six other plots were auctioned on the same day which fetched between ₹ 4.02 crore to ₹ 7.06 crore which is more than the upset price. The reduction in upset price was selectively applied to a single plot leading to a low realisation.

In the above two cases VUDA/Government sustained a total loss of revenue of ₹ 15.71 crore.

### **2.3.5 Laying and widening of roads**

VUDA deals with the execution of various developmental works in the layouts, infrastructural works and deposit works.

#### **Execution of Visakhapatnam - Bheemli beach road work - undue benefit to Contractor**

VUDA awarded two road works to an agency<sup>57</sup> in August 2006 (Phase-II) and January 2007 (Phase-III) for widening and improvement of Visakhapatnam - Bheemli beach road for a value of ₹ 9.77 crore. The works were to be completed by February 2007 and October 2007 respectively. The agency executed the work only to the extent of 23 *per cent* in Phase-II and 9 *per cent* in Phase-III within the stipulated period. The works were eventually stopped in January 2008 after completing 50 and 17 *per cent* respectively demanding an increase in contract price by the contractor in contravention of clause 33 of agreements. VUDA instead of forfeiting the EMD and other amounts payable (₹ one crore) due to the agency and terminating the contracts by invoking clause 60 (a) of Preliminary Specifications to APDSS<sup>58</sup>, agreed to the demand of the agency and paid price escalation of ₹ 1.33 crore without imposing any penalties. The works were completed in October 2008. The payment of rates as demanded by the contractor resulted in undue benefit to the contractor to the extent of ₹ 1.33 crore.

VUDA replied (October 2010) that, the price escalation was paid as a special case in the interest of the organisation and to fulfill the demand of public. The fact remains that an undue benefit has been conferred to the contractor by treating it as a special case. It has also raised doubts as to whether the instant contractor was ultimately the lowest tenderer.

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<sup>55</sup> to M/s Deccan Infrastructure, Hyderabad

<sup>56</sup> (₹ 4.00 crore – ₹ 3.22 crore) X 3.13 acres

<sup>57</sup> M/s GVR construction, Khammam

<sup>58</sup> Andhra Pradesh Detailed Standard Specifications

### 2.3.6 Shopping Complexes

VUDA had 374 shops/offices in 27 shopping/office establishments and the same were being let out to public and Government organisations. Audit observed that VUDA has not evolved a mechanism for prompt realisation of the rentals resulting in huge accumulation of dues.

- Rental dues from Government departments accumulated to ₹ 2.04 crore as of June 2010.
- Of the rental dues of ₹ 80 lakh from private parties, ₹ 55 lakh were due from three parties<sup>59</sup> alone. No lease agreements were concluded with these three parties.

VUDA admitted (October 2010) the lapses pointed out by audit and agreed to recover the dues from the parties concerned.

### 2.3.7 Urban Forestry

The functions of Urban Forestry wing under VUDA are to develop and maintain parks, greenery and recreational facilities.

#### Deficient revenue recovery arrangements

VUDA developed a hill top park at Kailasagiri and entered (July 2006) into an agreement with a contractor for sale of tickets at Kailasagiri Hill for a period of two years with lease rent of ₹ 4.32 lakh per month.

The contractor was irregular in payment of monthly rent and the dues accumulated (September 2008) to ₹ 8.02 lakh from time to time. Despite the accumulation of dues, VUDA extended (September 2008) the licence with enhancement of licence fee to ₹ 5.01 lakh per month from July 2008 and obtained bank guarantee of ₹ 15.03 lakh equivalent to three months lease rent. The contractor again defaulted. Instead of cancelling the agreement when the dues were equal to the bank guarantee, the agreement was cancelled at a belated stage in July 2009 when the dues accumulated to ₹ 63.77 lakh much higher than the bank guarantee whereby VUDA sustained a loss of ₹ 48.74 lakh<sup>60</sup>.

VUDA replied (October 2010) that a case has been filed for recovery of the amount and action would be taken to recover the dues. VUDA also assured to fix responsibility on the persons responsible for continuing the operations despite continuous defaults by the contractor.

<sup>59</sup> Fusion foods: ₹ 21.91 lakh; Pyda College: ₹ 29.85 lakh; and Adarsh School: ₹ 3.65 lakh

<sup>60</sup> ₹ 63.77 lakh - ₹ 15.03 lakh

### 2.3.8 Financial management

VUDA's funds include its own revenue i.e. development charges, sale receipts from disposal of developed plots and built-up houses, lease rents, etc. The receipts and expenditure of VUDA for the five year period 2005-10 are as shown in Table-23.

**Table-23** (Rupees in crore)

Year	Receipts *	Expenditure
2005-06	92.57	56.73
2006-07	92.42	50.98
2007-08	1172.87	1074.37
2008-09	150.28	229.72
2009-10	76.03	54.78

(Source: Data as furnished by VUDA)

**Note:** Figures for 2007-08 to 2009-10 are provisional as the Annual Accounts for the years were not prepared (August 2010)

\*out of ₹ 1,172.87 crore, ₹ 1,007.93 crore (2007-08) and out of ₹ 150.28 crore, ₹ 51.13 crore (2008-09) represent the sale proceeds of Government lands which were remitted to Government account

Financial management in VUDA was deficient as discussed below:

#### 2.3.8.1 Preparation of Annual Accounts

**Preparation of Annual Accounts was badly delayed**

As per sub-para 24(4) of Chapter-VI of the Act, the Authority is required to prepare annual accounts and get them certified by an Auditor appointed for the purpose and submit the same to the Government. The Government shall cause the copy of the same to be laid before both the Houses of the State Legislature. Audit observed that, as of June 2010, the Annual Accounts for the years from 2007-08 to 2009-10 had not been prepared. The delay was stated (VUDA) to be due to non-closure of certain accounts pertaining to transactions of earlier years on account of the Board meetings not taking place annually. It was observed that the Board has not met during the three year period August 2007 to July 2010. This is a serious lapse on the part of VUDA. Due to non-preparation of annual accounts the financial position of the Authority could not be vouchsafed and the possibility of irregularities, frauds, etc. remaining undetected cannot be ruled out.

VUDA stated (October 2010) that the compilation of annual accounts for the years 2007-08 and 2008-09 was in progress.

**Maintenance of cashbook was deficient. Reconciliation of cashbook balances were not done with the Bank statements**

#### 2.3.8.2 Improper Maintenance of Cash Book

VUDA maintains 21 bank accounts with four nationalised banks. The maintenance of cash books in respect of these accounts was deficient as follows.

### **Non-recording of opening/closing balances in cashbook**

As per sub-rule 3 of Rule 10 and sub-rule 2 of Rule 11 of Andhra Pradesh Treasury Code, cash book is to be closed regularly and at the end of each month. Further, closing balances are to be brought forward. Audit noticed that, during the five year period 2005-10, monthly opening/closing balances were not being reflected in the cashbooks maintained by VUDA. VUDA was maintaining year-wise receipts and payments only.

VUDA stated (October 2010) that closing balances were not brought forwarded as the bank reconciliation was not done properly (succeeding para also refers).

### **Reconciliation**

As per Para 19.6 of Andhra Pradesh Budget Manual, the cash book figures are to be reconciled with bank statements monthly and at the end of each year. Audit observed that reconciliation of cashbook figures with bank statements was not being done by the Accounts wing of VUDA during the five year period 2005-10. In the absence of reconciliation, the correctness or otherwise of the amounts credited to banks was not ensured with the attendant risk of misappropriations/embezzlements.

Despite the above deficiencies/lapses being pointed out repeatedly in earlier audits, no remedial measures were taken by VUDA and as a result these deficiencies continued to exist.

VUDA replied (October 2010) that reconciliation had been taken up on priority basis.

### **2.3.8.3 Non-utilisation of funds towards Development Activity**

**Utilisation of funds (collected towards developmental charges) towards development activity was a meagre 39 per cent**

As per Section 27 of the Act read with Government directions (February 1996), the Urban Development Authorities shall utilise 85 *per cent* of the income to implement the provisions of Master Plan viz., traffic improvement; construction of bridges; development of Green belt; and parks, etc. and the remaining 15 *per cent* can be utilised for administration and other maintenance.

During the years 2005-06 to 2009-10, VUDA collected development charges towards layout/building plan approvals amounting to ₹ 46.03 crore. As against ₹ 39.13 crore (85 *per cent*) to be spent, only an amount of ₹ 17.95 crore (39 *per cent*) was utilised towards development leaving ₹ 21.18 crore unspent. This could be one of the contributing factors for the shortfall in the achievement of targets envisaged in the master plan.

VUDA replied (October 2010) that these funds would be utilised for the development works being proposed in the year 2010-11.

### 2.3.9 Public Grievances Redressal Mechanism

**Proper control mechanism was not in place for redressal of public grievances**

VUDA is to deal with the public. For effective public grievances redressal, mechanism for registration of complaints, follow-up and monitoring, arrangement for receipt of complaints and their due acknowledgement, arrangement for diarising of the complaints, arrangement for disposal of complaints in first-cum-first served manner, noting of action taken in respect of complaints in a register, periodic monitoring of system of disposals by a superior authority were necessary. Such a system was lacking.

While there was a Citizen Charter for speedy disposal of various works such as approval of layouts, allotment of shops/office complexes, etc. there was no separate Public Grievances Redressal Cell in VUDA.

VUDA while accepting (October 2010) the audit observation stated that, presently all the Heads of Departments are directly dealing with grievances, and assured that public grievances cell would be set up shortly. Since there was no record of registering the complaints and their disposal, there was no assurance with regard to quality service in respect of redressal of public grievances.

### 2.3.10 Internal Audit

**Internal Audit was absent in VUDA**

Internal Audit examines and evaluates the level of compliance with the departmental rules and procedures and provides reasonable assurance to the management on the adequacy of the existing internal controls. The primary function of Internal Audit is to assist in ensuring the accuracy of the accounts and correct statement of financial transactions of the organisation.

It was however, observed that no Internal Audit wing was established (October 2010) by VUDA to conduct internal audit of various wings. In the absence of Internal Audit, there was no assurance to VUDA management that the Rules and Procedures were being complied with by various wings.

VUDA while attributing the absence of internal audit to constraints of staff stated that internal audit would be established after sanction of additional staff by the Government for which the proposals were stated to have been sent earlier.

### 2.3.11 Conclusions

The Authority, which was established for planned development of the city and to improve the quality of life of its inhabitants, failed to achieve its objectives to a large extent. Audit noticed huge shortfalls (64 to 100 *per cent*) in the achievement of the First Master Plan. VUDA did not also effectively coordinate with the departments/agencies concerned for implementation of the master plan. Approvals for change of land use were given on a case to case basis in violation of the master plan conferring undue benefits to the land owners thus vitiating the sanctity of the master plan. Contract management



was deficient. Preparation of Annual Accounts was in arrears. Maintenance of cashbook was deficient and reconciliation of cashbook balances was not done with the Bank statements. Internal Audit was also absent. Thus, there was no assurance to VUDA that the Rules and Procedures were being complied with by various wings of VUDA. Non-existence of a public grievance redressal mechanism was indicative of the lack of seriousness of the Authority in handling its mandate.

### **2.3.12 Recommendations**

- There should be effective coordination with all the departments/agencies concerned to achieve the targets envisaged in the master plan. Sanctity of Master Plan should be ensured.
- To safeguard its housing revenues in respect of infrastructure/projects, the contract management needs to be streamlined as these have large revenue implications.
- Immediate steps should be taken for preparation of Annual Accounts in time.

Government endorsed (October 2010) the replies of VUDA but did not offer their remarks on the above audit observations.

## YOUTH ADVANCEMENT, TOURISM AND CULTURE (Youth Services) DEPARTMENT

### 2.4 Rajiv Yuva Sakthi

#### 2.4.1 Introduction

The State Government launched Rajiv Yuva Sakthi (RYS) Programme in November 2004 with the objective of making the unemployed employable. While the Society for Training and Employment Promotion (STEP) is the implementing agency at the district level, the Commissioner of Youth Services (CYS<sup>61</sup>) oversees the implementation of RYS. The Programme has three sub-schemes<sup>62</sup>. In all, 93,309 units were operational with subsidy amounting to ₹ 106.25 crore sanctioned during 2006-10<sup>63</sup>.

Guidelines stipulated the quantum of assistance allowed under each component which ranged from ₹ 50,000 to ₹ 5 lakh. CYS releases 20 per cent of the unit cost as subsidy up-front. Banks sanction loan equivalent to 70 per cent of the unit cost and the balance 10 per cent is borne by the beneficiary.

Scrutiny of records relating to the implementation of the scheme covering the period 2006-07 to 2009-10<sup>63</sup> in four<sup>64</sup> District STEPs, where 18,975 units (64 per cent) were sanctioned against the target of 29,663 units involving subsidy of ₹ 25.11 crore, revealed the following:

#### Audit findings

### 2.4.2 Selection of beneficiaries

#### 2.4.2.1 Adequacy of publicity with regard to eligibility criteria

Publicity regarding eligibility criteria, permissible activities, etc. was not given

Guidelines of the scheme prescribed different eligibility norms for each sub-scheme. As a general norm, the applicants should be in the age group of 18 - 35 years with an annual income limit of the family below ₹ 50,000. Under Individual category, the applicant should be Class X (pass or fail)/Vocational course, etc. Under the Group component, at least one member should have passed Class X and other members should have passed Class VII. It would be sufficient if the applicant seeking assistance under Petty Business category is literate (VII pass or fail).

In order that all the potential applicants are aware of the Scheme, its eligibility criteria as well as the quantum of financial assistance, the issue of advertisements is vital. There were no advertisements specifying the eligibility criteria, permissible activities under the Scheme, guidelines for preparation of project

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<sup>61</sup> CYS is the Ex-officio Managing Director of APSTEP which is the apex Society for STEP

<sup>62</sup> Individual (Petty Business) - project cost: ₹ 0.50 lakh; Individual - project cost: ₹ 1 lakh; and Group - project cost: ₹ 3 lakh to ₹ 5 lakh

<sup>63</sup> During the year 2009-10 although funds were provided in the Budget, no releases were made and CYS reported zero progress during this year

<sup>64</sup> Chittoor, East Godavari, Medak and Visakhapatnam

reports, details of jurisdiction of participating banks, procedure for submission of applications, dates of interviews, place of publication of results, etc.

Audit also observed that the notifications appeared as mere news items without the above details. Further, except in East Godavari District the guidelines for availing activity-wise financial assistance under each sub-scheme were not made available to applicants through brochure, booklets.

The system of issuing acknowledgement and communication of results which would bring about greater transparency in the procedure was not followed by STEPs.

#### 2.4.2.2 Verification of eligibility criteria and assessment of viability of the proposed project/activity

**Selection of beneficiaries was deficient**

The guidelines provided for verification of applications with regard to the assessment of project reports, fulfillment of norms of income, education, caste, etc. by the Mandal Parishad Development Officer (MPDO). Audit observed the following:

- As per the guidelines of the Scheme the beneficiary was required to submit a project report for the proposed activity under Group Sub-scheme/ Individual Sub-scheme. The report was to be evaluated by the Designated Committee<sup>65</sup> to assess the viability of the activity. This critical exercise was missing in the operation of the Scheme.
- Of 1,813 applications (out of 18,975 sanctioned) test checked by audit in the four districts, only 68 applicants submitted the project reports and the balance 1,745 applicants were sanctioned the subsidy without the project reports. In these cases, the Unit cost was arrived at on *ad hoc* basis. District STEPs, Chittoor, East Godavari and Medak did not insist on submission of the mandatory project reports. In Visakhapatnam District though the beneficiaries submitted project reports at the time of attending the Entrepreneur Development Programme (EDP) during the year 2005-06, the project reports were not appraised by the designated committee.
- Possession of entrepreneurial skills is the most vital requirement. Audit observed that this requirement did not figure in the check slip thereby reducing the significance of the EDP training which is an important component of the Scheme. In respect of other criteria also, candidates who scored just 10 marks in the overall assessment were selected.
- District Youth Welfare Officers (DYWOs) of Chittoor, East Godavari and Visakhapatnam Districts did not register the 'Groups' of beneficiaries although there was a requirement to that effect.
- Each beneficiary was to submit a digital photograph of his unit after it was established. STEPs, Chittoor, East Godavari and Visakhapatnam did not obtain the digital photographs from the beneficiaries.

<sup>65</sup>The Committee comprises the representatives of bank, STEP and Mandal Parishad

- Details of insurance of assets as well as personal insurance of beneficiaries were not obtained by [East Godavari](#) and [Visakhapatnam](#) district STEPs.

The whole process of selection of beneficiaries was thus deficient and arbitrary.

While accepting the observations, STEPs assured (November – December 2009) to take necessary action.

Audit also carried out an assessment of the mechanism for verification of various certificates issued by the Tahsildars<sup>66</sup>. The verification mechanism was also deficient as discussed below:

- The format of the Income Certificate provided for certification of annual family income of the beneficiary. Tahsildars have, however, been certifying the income of the applicants instead of certifying the income of the family.
- Tahsildars did not have the details of verification conducted prior to issue of income certificates. In the absence of requisite records, it cannot be said that Tahsildars are verifying the particulars of applicants before issuing certificates.
- STEPs also did not cross-check the certificates of income, caste, nativity, residence, etc. issued by the Tahsildars.
- As per the guidelines of the Scheme, financial assistance was to be given if the subsidy was not availed by the applicant under any other scheme. It was observed that there was no authentic centralised database at any level of such assistance given under various schemes. Total reliance was placed on the self certificate given by applicants with regard to this criterion.

Tahsildars accepted (March – April 2010) the audit observations and assured to maintain relevant registers and follow the procedure with regard to verification mechanism.

### **2.4.3 Disbursement of subsidy**

#### **2.4.3.1 Shortfall and delay in disbursement of subsidy**

**The shortfall in disbursement of subsidy was as high as 51 per cent**

As against the receipt of ₹ 39.50 crore for 29,663 units, Chief Executive Officers (CEOs) disbursed only ₹ 25.11 crore to 18,975 units. Under-performance of STEP resulted in shortfall of 10,688 units (36 per cent). The shortfall was as high as 51 per cent in [Visakhapatnam](#) followed by [East Godavari](#) District with 39 per cent.

**There were huge delays in release of loans by the banks**

Guidelines provided for release of subsidy by banks within a period of 10 days from the date of sanction by STEP. Audit observed that there were delays in release of the loan by the banks in all the four districts so much so that the funds earmarked for 2005-06 were utilised in 2006-07, that of 2006-07

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<sup>66</sup>erstwhile Mandal Revenue Officers

in 2007-08 and so on. An amount of ₹ 11.60 crore<sup>67</sup> representing subsidy amount remained unutilised (during 2004-09) depriving 8,050 beneficiaries<sup>68</sup>. Details are given in Table-24.

Table-24

(Rupees in crore)

Year	Units targeted	Subsidy drawn	Units sanctioned	Subsidy sanctioned	Units set up	Subsidy utilised	Units not established	Unutilised subsidy
2004-05	5959	9.77	5286	8.06	4527	6.68	759	1.38
2005-06	11918	21.66	8684	12.62	7094	10.25	1590	2.37
2006-07	16337	22.84	10707	14.28	8213	10.94	2494	3.34
2007-08	6156	8.27	7269	10.07	5781	7.72	1488	2.35
2008-09	7170	8.39	6700	8.62	4981	6.46	1719	2.16
<b>Total</b>	<b>47540</b>	<b>70.93</b>	<b>38646</b>	<b>53.65</b>	<b>30596</b>	<b>42.05</b>	<b>8050</b>	<b>11.60</b>

STEPS attributed (November – December 2009) the delays to defaults of family members, extension of due dates by CYS, migration of beneficiaries to major cities and non-submission of collateral security. In addition, banks also insisted on collateral security which was contrary to the guidelines of the Scheme.

#### 2.4.3.2 Sanction of subsidy to Group Units

In the four districts, against the target of 1,589 new units<sup>69</sup> (project cost: ₹ 66.23 crore and subsidy: ₹ 9.28 crore) covering 7,945 beneficiaries during 2006-09 under the Group Sub-scheme, 381 units/groups<sup>70</sup> were sanctioned and only 217 units/groups<sup>71</sup> comprising 1,080 beneficiaries were set up. Subsidy of ₹ 1.79 crore (19 per cent) (project cost: ₹ 8.94 crore i.e. 13 per cent) could only be utilised. The extent of under-performance was as high as 81 per cent. This resulted in shortfall of 1,372 new units depriving 6,865 beneficiaries. STEPs attributed (November 2009) the poor performance to preference of beneficiaries to individual sub-schemes, internal disputes among the members, inability of the beneficiaries to produce collateral security and inadequacy of the EDP to set up industrial units.

#### 2.4.3.3 Reduction in project cost

**STEPS arrived at Project cost without insisting for project reports from the applicants/ assessment reports from banks**

Seventy six applicants sought total financial assistance of ₹ 1.09 crore in the districts of Chittoor (₹ 25.90 lakh), East Godavari (₹ 21.50 lakh) and Visakhapatnam (₹ 61.20 lakh). As against this, STEPs sanctioned ₹ 65.70 lakh (Chittoor: ₹ 15.15 lakh; East Godavari: ₹ 10.65 lakh; and Visakhapatnam: ₹ 39.90 lakh) by scaling down the project cost in the range of 25 to 75 per cent. Further, STEP, Chittoor sanctioned unit cost in excess of the unit cost sought, indicating inconsistency of approach. STEPs attributed (April 2010) the variation in project cost to applicant's lack of required knowledge of the

<sup>67</sup> Chittoor: ₹ 2.43 crore; East Godavari: ₹ 5.43 crore; Medak: ₹ 1.02 crore; and Visakhapatnam: ₹ 2.72 crore

<sup>68</sup> Chittoor: 1,716; East Godavari: 4,035; Medak: 751; and Visakhapatnam: 1,548

<sup>69</sup> Chittoor (388), East Godavari (540), Medak (267) and Visakhapatnam (394)

<sup>70</sup> Chittoor (61), East Godavari (124), Medak (32) and Visakhapatnam (164)

<sup>71</sup> Chittoor (32), East Godavari (73), Medak (17) and Visakhapatnam (95)

proposed unit and the assessment of the selection committee keeping in view the location and type of the unit and the exposure of the applicant. Audit, however, noticed that STEPs arrived at the project cost without insisting for project reports from the applicants and without also obtaining the assessment reports from banks. Scaling down the project cost not only results in the projects getting the inadequate funding but could also lead to closure of units ultimately.

#### 2.4.3.4 Irregular sanction of units

Subject	Audit observation
<b>Non-asset based business activities</b>	CYS advised (June 2007) District Collectors to encourage asset based schemes suitable to the area by giving adequate publicity and not to encourage non-asset based activities such as kirana, general store, etc. Scrutiny revealed that STEPs continued to sanction non-asset based units like Cloth/Saree business, Ladies Emporium, Kirana and General Store, etc. Aggregate subsidy released to such activities during 2007-09 amounted to ₹ 3.63 crore <sup>72</sup> . The district-wise details are given in <a href="#">Appendix-2.13</a> .
<b>Sanction to existing units</b>	Contrary to norms, financial assistance of ₹ 27.99 lakh <sup>73</sup> (project cost: ₹ 31.10 lakh) to 29 already existing units was released. This indicates lack of due diligence on the part of authorities as they appeared not to have sought details of the premises from which the new business units would operate and prior verification of such units before disbursement of financial assistance.
<b>Medical shops to ineligible applicants</b>	The stipulated qualification for sanction of subsidy for setting up Medical Shops was Diploma in Pharmacy. STEPs <sup>74</sup> , <a href="#">East Godavari</a> , <a href="#">Medak</a> and <a href="#">Visakhapatnam</a> sanctioned 32 out of 34 Medical Shops to Matriculates (SSC) which is a serious lapse.
<b>Insurance of cows/ buffaloes</b>	STEPs sanctioned 2,633 Dairy units <sup>75</sup> in Animal Husbandry Sector. The amount of subsidy released to beneficiaries under this activity was ₹ 2.63 crore <sup>76</sup> . Although insurance of cows/buffaloes is a pre-requisite, STEPs did not obtain details of number of the cows/ buffaloes insured.

#### 2.4.3.5 Drawal of funds ahead of requirement and diversions

In contravention of Article 3 of AP Financial Code, CEOs have kept the moneys in multiple savings bank accounts and in term deposits with several banks (₹ 39.50 crore during the period 2006-09). Interest earned on the term deposits was utilised towards the activities not related to the Scheme, as follows:

<sup>72</sup> 2007-08: ₹ 2.11 crore and 2008-09: ₹ 1.52 crore

<sup>73</sup> [Chittoor](#): 10 units – ₹ 1.42 lakh (₹ 7.10 lakh); [East Godavari](#): 9 units – ₹ 2.30 lakh (₹ 11.50 lakh); [Medak](#): 3 units – ₹ 0.40 lakh (₹ 2 lakh); and [Visakhapatnam](#): 7 units – ₹ 2.10 lakh (₹ 10.50 lakh); beneficiary contribution of 10 per cent excluded

<sup>74</sup> data not available in respect of [Chittoor](#) District

<sup>75</sup> [Chittoor](#) – 1,804; [East Godavari](#) – 241; [Medak](#) – 334 and [Visakhapatnam](#) – 254 units

<sup>76</sup> Calculated at the subsidy of ₹ 10,000 per unit under Petty Business component

- STEP, **East Godavari** District spent ₹ 30.54 lakh towards construction of office building (₹ 10 lakh), repairs and renovation to office building (₹ 4.75 lakh), construction of cement concrete platform (₹ 1.30 lakh), procurement and supply of Gym material to Youth Associations (₹ 2.16 lakh), VIP visit expenses (₹ 9.60 lakh), charges on advertisements not related to the scheme (₹ 2.73 lakh), etc.
- STEP, **Visakhapatnam** spent ₹ 31 lakh (from out of receipts from interest on term deposits) on ineligible activities such as release to Greater Visakhapatnam Municipal Corporation (₹ 30 lakh) and ₹ one lakh for the Yuva Yatra organised by Brahmakumaris, contrary to the codal provisions<sup>77</sup>.

STEPs stated (November – December 2009) that the funds were utilised with the approval of the District Collectors. The reply is not acceptable as Scheme funds were utilised for purposes other than those for which they were released.

## 2.4.4 Post-disbursement follow-up

### 2.4.4.1 Utilisation Certificates

**Deficiencies were noticed in Utilisation Certificates furnished by Banks**

At present, Banks are furnishing Utilisation Certificates (UCs) which are basically disbursement certificates. These contain the following deficiencies:

- UCs did not contain the names to whom the amount of subsidy and loan was disbursed.
- Dates of disbursement were not indicated.
- Details of personal insurance of beneficiaries and insurance of assets procured were not indicated.

There was no system of obtaining vouchers from the applicants in support of the utilisation of finances followed by sample check of such utilisation particulars. In the absence of this, there is no assurance that the money was utilised for the purpose for which it was disbursed. STEP s stated (November – December 2009) that, to obtain the desired information, necessary columns would be included in the proforma.

On receipt of UCs from the banks, STEP s were to book the expenditure. Scrutiny revealed that the expenditure of ₹ 81.31 lakh booked by **Chittoor** (₹ 19.37 lakh), **East Godavari** (₹ 46.01 lakh) and **Visakhapatnam** (₹ 15.93 lakh) Districts was not supported by UCs. Booking of expenditure without receipt of UC thus resulted in overstatement of expenditure. This also casts doubts about the veracity of actual disbursement of subsidy to the beneficiaries.

STEP s while accepting the observations assured to obtain UCs from banks concerned.

<sup>77</sup> Rule 22 of General Financial Rules and Article 3 of AP Financial Code (Volume-I)

#### 2.4.4.2 Recovery mechanism

Large scale defaults (65 per cent) indicates major failure of the scheme

The loans financed through Banks are repayable, along with interest, in monthly instalments without any moratorium. Recovery Cells to be established at the Mandal level are responsible for monitoring and recovery of dues to banks. Audit observed the following:

- Recovery Cells were not established.
- Fully verifiable particulars of the premises from which the person operates the business were not maintained by any of the STEPs in the four districts. Survey agency<sup>78</sup> has also found it difficult to locate addresses of a majority of the beneficiaries.
- Though required, STEPs did not obtain the financial statements, details of assets, minutes of meetings of beneficiary with co-beneficiaries of the Group sub-scheme, etc. from the beneficiaries.
- Neither the STEPs nor the CYS have the data relating to the amounts recovered by banks from the beneficiaries. Prompt repayment would have served as one indicator of a successfully run enterprise. No amount was recovered under Revenue Recovery Act despite identification of defaults and the agreements concluded with beneficiaries did not have penal provisions for defaults/wilful defaults in repayment of loans. The information relating to the defaulters/outstanding loans though available with the banks was not made available to the CYS.

Due to major flaws in the operation of the Scheme such as non-assessment of the viability of the business being financed, non-verification of the premises from which the new units would operate, there were large scale defaults in payments by the beneficiaries.

As ascertained (February 2010) by audit from the State Level Bankers' Committee, an aggregate loan of ₹ 446.22 crore (State Bank of India (SBI): ₹ 268.44 crore and Andhra Bank (AB): ₹ 177.78 crore) to 62,022 units (SBI: 36,235; AB: 25,787 units) in the State had been sanctioned. As against the amount of ₹ 151.91 crore due for recovery (March 2009), only ₹ 52.73 crore was re-paid leaving a huge overdues of ₹ 99.18 crore (65 per cent). The above two banks classified an amount of ₹ 131 crore (SBI: ₹ 129.48 crore and AB: ₹ 1.49 crore) as non-performing assets.

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<sup>78</sup>AP Industrial and Technical Consultancy Limited – an agency entrusted with the task of conducting survey of sanctioned units



### 2.4.5 Monitoring and evaluation

Guidelines prescribed (April 2006) fortnightly monitoring of the units by the MPDO and submission of reports to the Government. CYS requested (February 2007) the District Collectors to have a regular mechanism at their level due to insufficiency of the staff in the Youth Services Department. As such, STEPs were absolved of the responsibility of monitoring the implementation of the Scheme and it remained unmonitored by the department at the ground level.

In order to evaluate the functioning/status of RYS units, CYS commissioned two semi-Government agencies<sup>79</sup> to conduct rapid appraisal survey during May 2007 to June 2008 at the instance of the Government. The survey pointed out 2,642 units (non-existing – NE: 1,424 and non-performing – NP: 1,218). Subsidy released to the defaulting units in three<sup>80</sup> districts was ₹ 2.59 crore<sup>81</sup>. Details are given in [Appendix-2.14](#). Proposals to recover the subsidy released to the NE units and NP units under RR Act were not yet submitted to the District Collectors concerned by the STEPs. Further, Vigilance and Enforcement Directorate pointed out that 71 *per cent* of the 101 units verified by it in Chittoor District were either ghost (not existing) units or not established units and that loans and subsidy were given to 16 already existing units, contrary to norms. However, as of October 2009, no follow-up action was taken by the STEP on the report. These findings confirm the two major flaws pointed out by audit.

### 2.4.6 Conclusions

The Scheme ‘Rajiv Yuva Sakthi’ on which an expenditure of ₹ 106 crore was incurred, was implemented in a shoddy and unprofessional manner. Publicity regarding eligibility criteria, permissible activities, etc. was not given and the whole process of selection of beneficiaries was deficient. There was no authenticated centralised database of assistance given to beneficiaries under other scheme(s)/programmes. Audit also noticed non-insisting of project reports from the applicants/assessment reports from banks while arriving at project cost, sanctions to non-asset based activities, sanction of subsidy to already existing units and ineligible applicants, huge delays in release of loans by banks, deficiencies in Utilisation Certificates furnished by banks, etc. Due to major flaws in the operation of the Scheme, such as non-assessment of viability of the business being financed, non-verification of premises from which the new units would operate, there were large scale defaults (65 *per cent*) in payments by the beneficiaries. Large scale defaults indicates that the scheme was not so successful and it also resulted in losses for the public sector banks.

<sup>79</sup> AP Productivity Council and AP Industrial and Technical Consultancy Limited

<sup>80</sup> Chittoor, East Godavari and Medak Districts

<sup>81</sup> Amount of subsidy in Visakhapatnam has not been furnished

#### **2.4.7 Recommendations**

- The format of application and the eligibility criteria should be uploaded in the website of the Department and a reference to the website may be given in the notifications calling for applications.
- A centralised database of assistance given to beneficiaries under all Government schemes/programmes should be maintained at all levels.
- Appraisal mechanism should be put in place to ensure that the funds are utilised for productive purposes to enable the borrowers to service the loans. Post-disbursement monitoring needs to be strengthened.

The above observations were reported to Government in March 2010 (also reminded in May 2010); reply had not been received (November 2010).