



सत्यमेव जयते

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



**Government of Telangana**

***Report No. 2 of 2016***



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## Preface

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

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

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

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



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# Overview

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## 1 About this Report

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

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

## 2 Significant Audit findings

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

### 2.1 Performance Audit on Infrastructural development in slums identified under IHSDP

*Integrated Housing and Slum Development Programme (IHSDP) is one of the components of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) launched by Government of India (GoI) in December 2005 to encourage reforms and fast track planned development of identified cities. This programme combines the Valmiki Ambedkar Awas Yojana (VAMBAY) and National Slum Development Programme (NSDP) to bring about an integrated approach in improving the living conditions of urban slum dwellers by providing adequate shelters, amenities and community infrastructure. The programme is applicable to all the cities and towns as per census 2001 except those covered under JNNURM. The basic objective of the programme is to strive for holistic slum development with a healthy and enabling urban environment. Out of 16 projects sanctioned (2007-09) in the State for infrastructure development under IHSDP at a cost of ₹181.17 crore, nine<sup>1</sup> projects costing ₹113.53 crore were selected for detailed scrutiny based on the highest approved cost in each of the districts. Performance audit of Infrastructural Development in slums identified under IHSDP revealed the following:*

*Programme was implemented in 32 non-notified slums, 11 hazardous/objectionable slums and 66 slums in private owned lands by incurring an expenditure of ₹76.52 crore in violation of Government orders.*

*(Paragraphs 4.6.1(ii, iii and iv)*

<sup>1</sup> Bodhan, Jangaon, Mancherial, Miryalaguda, Narayanpet, Palwanacha, Siddipet, Tandur and Suryapet (Pilot study)

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

*(Paragraph 4.6.2)*

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

*(Paragraphs 4.7.1.4 & 4.7.3)*

*State Level Nodal Agency (SLNA) retained an amount ₹44.95 crore as of March 2015 without releasing to implementing agencies/refunding to the GoI/State Government.*

*(Paragraph 4.8.2)*

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

*(Paragraphs 4.11.2 to 4.11.5)*

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

*(Paragraph 4.11.6)*

## **2.2 Compliance Audit Paragraphs**

### **2.2.1 Municipal Solid Waste Management (MSWM)**

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

*Audit of implementation of Solid Waste Management (SWM) by Urban Local Bodies (ULBs) in Telangana was conducted in two Municipal Corporations (Nizamabad and Warangal) and two Municipalities (Mahbubnagar and Nalgonda) in the State. It was observed that ULBs have not been compliant with the Municipal Solid Waste (Management and Handling) Rules in several regards relating to collection, segregation, storage, processing and disposal.*

*(Paragraph 5.1.2.)*

*Only 30 per cent segregation of Municipal Solid Waste (MSW) was done at source point.*

*(Paragraph 5.1.4.1(v))*

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

*(Paragraph 5.1.6)*

## **2.2.2 Misappropriation of receipts in Narayankhed Gram Panchayat**

*In Narayankhed GP of Medak district daily collections of various taxes and non-taxes amounting to ₹16.92 lakh pertaining to 2012-15 were not remitted into treasury. Non-compliance with Government rules and lack of internal controls resulted in possible misappropriation of ₹15.18 lakh and temporary misappropriation of ₹1.74 lakh.*

*(Paragraph 2.1)*

## **2.2.3 Delayed remittances resulted in avoidable expenditure**

*Failure of Society for Elimination of Rural Poverty (SERP) in remitting Provident Fund Contributions on time resulted in avoidable expenditure of ₹1.11 crore, besides incurring liability of ₹0.23 crore on pending charges.*

*(Paragraph 2.2)*

## **2.2.4 Unfruitful expenditure of ₹18.29 crore**

*Failure to pursue with Hyderabad Metropolitan Water Supply & Sewerage Board (HMWS&SB) and non-identification of alternate source of supply of safe drinking water to the Chevella Comprehensive Protected Water Supply Scheme (CPWSS) project resulted in unfruitful expenditure of ₹18.29 crore*

*(Paragraph 2.3)*

## **2.2.5 Avoidable payment of interest and damages - ₹1.08 crore**

*Delayed remittance of Employees State Insurance (ESI) contributions by Warangal Municipal Corporation resulted in avoidable payment of ₹1.08 crore towards interest and damages*

*(Paragraph 5.2)*



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**Part - A**  
**Panchayat Raj Institutions**

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# **Chapter – I**

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

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## Chapter I

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

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

##### 1.1 Introduction

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

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

Accordingly, State Government enacted Andhra Pradesh Panchayat Raj (APPR) Act<sup>1</sup> in 1994 repealing all the existing Acts, to establish a three-tier system *viz.*, Gram Panchayat (GP), Mandal Praja Parishad (MPP) and Zilla Praja Parishad (ZPP) at Village, Mandal and District levels respectively.

##### 1.1.1 State profile

As per 2011 census, total population of the 10 districts of Telangana State was 3.52 crore, of which 2.16 crore (61 *per cent*) lived in rural areas. A profile of rural Telangana is given below:

Table 1.1

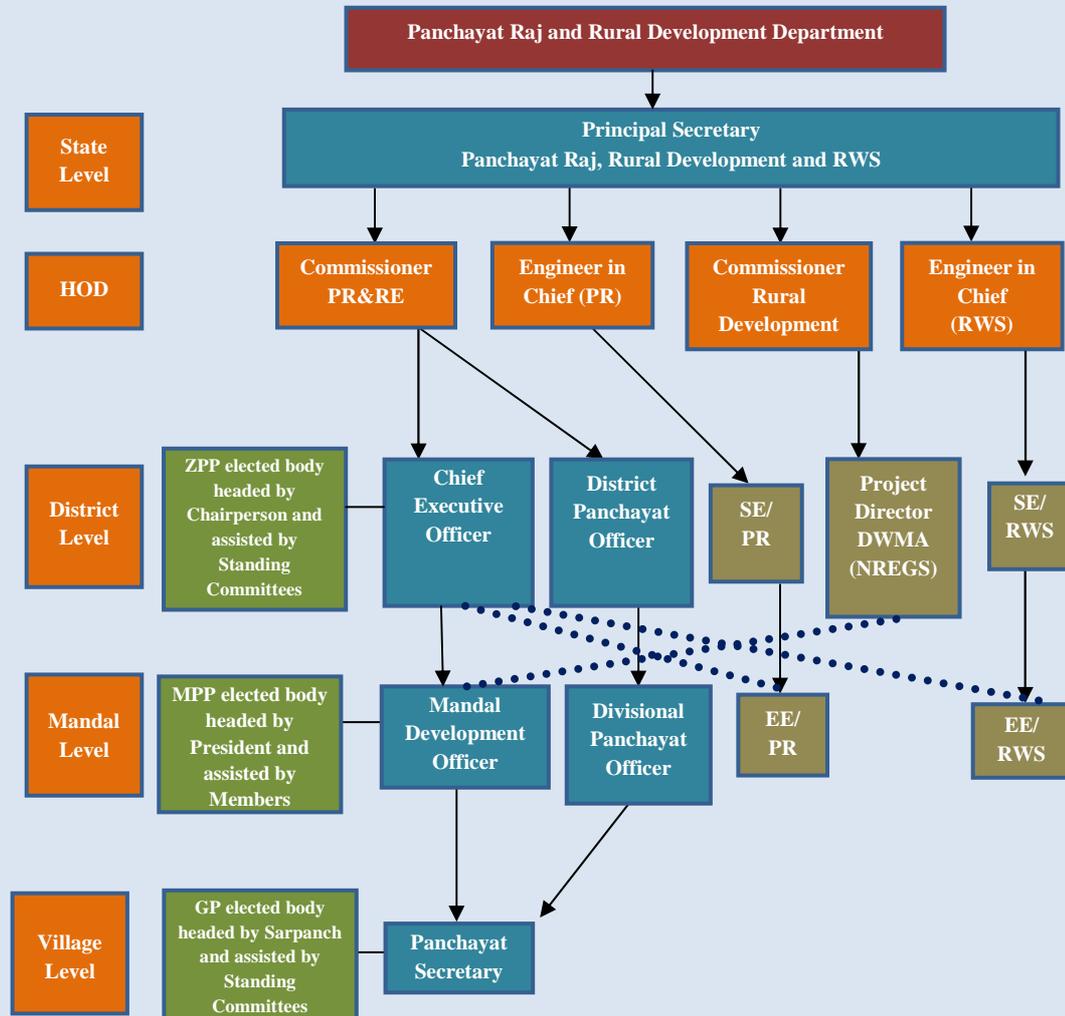
Sl. No.	Indicator	Unit	State
1.	Rural population	Crore	2.16
2.	Rural sex ratio	Females per1000 Males	999
3.	Rural literacy rate	Percentage	57.25
4.	Zilla Praja Parishads	Number	9
5.	Mandal Praja Parishads	Number	438
6.	Gram Panchayats	Number	8,695
<b>Total number of PRIs (4+5+6)</b>			<b>9,142</b>

Source: Information furnished by CPR&RD and 'Telangana at a Glance' published (January 2015) by State Government

<sup>1</sup> Applicable in relation to the State of Telangana also as per Andhra Pradesh Reorganisation Act, 2014

## 1.2 Organisational set-up of PRIs

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



Dotted lines represent partial supervision

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

### 1.3 Functioning of PRIs

Eleventh Schedule to 73<sup>rd</sup> Constitutional Amendment Act, 1992 listed 29 subjects for devolution to strengthen the PRIs. During 2007-08, State Government devolved 10<sup>2</sup> functions to PRIs and thereafter no functions were devolved. Funds relating to devolved functions are being released to PRIs through line departments concerned. As per the information furnished (November 2015) by CPR&RD, only four departments released funds amounting to ₹14.14 crore to PRIs in 8 out of 9 districts during 2014-15 (*Appendix-1.1*).

### 1.4 Formation of various committees

As per the provisions of APPR Act, 1994 various committees are constituted at ZPP, MPP and GP level along with District Planning Committee (DPC). At ZPP level, seven<sup>3</sup> standing committees are to be constituted to monitor the progress of implementation of works and schemes related to subjects assigned to them. In every MPP and GP, there shall be functional committees for agriculture, public health, water supply, sanitation, family planning, education and communication to monitor the progress of implementation of works and schemes. During the year 2014-15, scrutiny of the records of 38 PRIs revealed that in respect of 19<sup>4</sup> PRIs, functional committees were not constituted.

The State is empowered to constitute a District Planning Committee (DPC) at district level. DPC shall ensure that each Panchayat in the district prepares a development plan for the financial year which shall be consolidated into the District Development Plan and shall be submitted to the Government for incorporation into the State plan. Scrutiny of records of Khammam, Mahbubnagar and Medak districts revealed that there were delays in finalisation of annual plans for the years 2012-13 to 2014-15 by the DPCs and the delays ranged from 186 days to 360 days.

### 1.5 Audit arrangement

#### 1.5.1 Primary Auditor

Director, State Audit (DSA) functioning under the administrative control of Finance Department, is the statutory auditor for PRIs under Andhra Pradesh State Audit Act, 1989. As per Section 11(2) of the Act, DSA is required to prepare a Consolidated State Audit and Review Report and present it to the State Legislature. The DSA has two Regional Offices and nine district offices in the State. As per Section 10 of the Act, DSA is empowered to initiate surcharge proceedings against the persons

<sup>2</sup> (i) Agriculture and Agriculture Extension (ii) Animal Husbandry, Dairy and Poultry (iii) Fisheries (iv) Health and Sanitation (v) Education, including Primary, Secondary and Adult Education and non-formal education (vi) Drinking Water (vii) Poverty Alleviation Programme (viii) Women and Child Development (ix) Social Welfare, including Welfare of the Handicapped and Mentally retarded and (x) Welfare of the Weaker sections and in particular of the Scheduled Castes and Scheduled Tribes

<sup>3</sup> (i) Planning and Finance (ii) Rural development (iii) Agriculture (iv) Education and Medical service (v) Women welfare (vi) Social welfare and (vii) Works

<sup>4</sup> 9 GPs of Mahbubnagar district and 10 GPs of Rangareddy district

responsible for causing loss to the funds of local authorities or other authorities and such amounts are to be recovered by the executive authority concerned under Revenue Recovery (RR) Act.

As per the information furnished (May 2015) by DSA, audit of two ZPPs, accounts of 22 MPPs and 4,410 GPs were in arrears. DSA attributed (May 2015) non-production of records by GPs and MPPs for delay in audit of accounts. As of March 2015, 1,294 Surcharge Certificates for ₹3.50 crore were issued, out of which ₹36.52 lakh in respect of 114 cases were recovered.

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

### **1.5.2 Audit by Comptroller and Auditor General of India**

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

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

#### ***Planning and conduct of audit***

Audit process commences with assessment of risk of department/local body/scheme/programme etc., based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers and assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit is decided and an annual audit plan is formulated to conduct audit. During 2014-15, 38 PRIs (1 ZPP and 37 GPs) falling under the department of Panchayat Raj and Rural Development were subjected to compliance audit.

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

## **1.6 Response to Audit Observations**

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

As of August 2015, 256 IRs containing 1,805 paragraphs pertaining to the period up to 2014-15 were pending settlement as given below. Of these, first replies have not been received in respect of 47 IRs and 407 paragraphs.

**Table 1.2**

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2013-14	255	1,794	46	396
2014-15	1	11	1	11
<b>Total</b>	<b>256</b>	<b>1,805</b>	<b>47</b>	<b>407</b>

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

## **Accountability Mechanism and Financial Reporting Issues**

### **Accountability Mechanism**

#### **1.7 Ombudsman**

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

#### **1.8 Social Audit**

Social audit involves verification of implementation of programme/scheme and delivery of its envisaged results by the community with active involvement of primary stakeholders. Social Audit is widely accepted as an important mechanism to address corruption and strengthen accountability in government service delivery. The State Government initiated social audits in 2006 through the Strategic Performance Innovation Unit (SPIU) to undertake social audit of implementation of Food for Work Programme in the State on a pilot basis. In May 2009, State Government created an independent autonomous body called the Society for Social Audit, Accountability and

Transparency (SSAAT) to carry out social audits of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and other anti-poverty/welfare programmes of the Department of Rural Development.

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

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

- i. SSAAT was envisaged to be an independent body for facilitating and monitoring the social audit process in the State. However, all the policy decisions, finance and administrative issues with long term implications or any new social audit programmes proposed to be taken up by SSAAT are being administered by the Principal Secretary, Rural Development. Further, decisions relating to release of funds or involving expenditure of over rupees one lakh were taken by the Commissioner, Rural Development (CRD). Even the calendar of social audit schedule was approved by the CRD. Thus the Social Audit Unit (SAU) lacked functional independence in the State.
- ii. GoI guidelines (March 2009) on MGNREGS provided for six *per cent* of the expenditure on the programme for administrative expenditure. Up to one *per cent* of the total annual expenditure under MGNREGS may be used for meeting cost of establishment of Social Audit Unit (SAU) and conducting of social audit of MGNREGS works. Audit scrutiny of the funds released during 2012-15 for social audit revealed that SSAAT was pegged at approximately 0.56 to 0.70 *per cent* of the total expenditure on MGNREGS.
- iii. As per Section 3(1) of Scheme Rules, State Government should facilitate conduct of Social Audit of the works taken up under the Act in every Gram Panchayat at least once in six months and the Social Auditors are required to audit 100 *per cent* verification of muster rolls and work site. During 2012-15, Social Audit covered 77 to 94 *per cent* of GPs implementing MGNREGS in each year.
- iv. As per State Social Audit Rules, the District Vigilance Cell is responsible to take follow up action on the social audit observations immediately (within three days) on conclusion of the Mandal social audit public hearing. Deviations found in social audit during 2012-15 were ₹446.31<sup>5</sup> crore, of which ₹293.92 crore was approved by presiding officer<sup>6</sup>. Against this, only ₹1.03<sup>7</sup> crore (less than one *per cent*) was recovered as of March 2015. The post of Vigilance Officer is vacant in three out of nine districts of the State.

<sup>5</sup> 2012-13 - ₹170.97 crore, 2013-14 - ₹152.89 crore and 2014-15 - ₹122.45 crore

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

<sup>7</sup> 2012-13 - ₹0.34 crore, 2013-14 - ₹0.42 crore and 2014-15 - ₹0.27 crore

## 1.9 Submission of Utilisation Certificates (UCs)

Scheme guidelines of Centrally Sponsored Schemes (CSS) and Central Finance Commissions (CFCs) stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI. Scrutiny of records of 38 PRIs during 2014-15 revealed that in respect of 29<sup>8</sup> PRIs, UCs amounting to ₹7.55 crore for the period (2010-2014) were yet to be furnished as of March 2015.

### 1.10 Internal Audit and Internal Control System of PRIs

As per the information furnished (August 2015) by CPR&RD no internal audit system was adopted. As per Andhra Pradesh Panchayat Raj Officers, Delegation of Powers Rules, 2000 the Commissioner shall inspect all ZPPs once in calendar year and submit copies of Inspection Notes for review by the Government.

In respect of GPs, as per Section 44(2)(a)(b) of APPR Act, 1994 the Government should appoint District Panchayat Officer, Divisional Panchayat Officer and Extension Officers as Inspecting Officers for overseeing the operations of Gram Panchayat (GP). Scrutiny of records of 37 GPs during 2014-15 revealed that in respect of 10<sup>9</sup> GPs, inspections were not conducted (2010-14) by any of the above authorities, while no inspection reports were found in support of inspections conducted by the authorities concerned in two<sup>10</sup> GPs.

## Financial Reporting Issues

### 1.11 Sources of funds

Resource base of PRIs consists of own revenue generated by collection of tax<sup>11</sup> and non-tax<sup>12</sup> revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts<sup>13</sup>. The authorities responsible for reporting the use of funds in respect of Zilla Praja Parishads (ZPPs), Mandal Praja Parishads (MPPs) and Gram Panchayats (GPs) are the Chief Executive Officer (CEO), Mandal Parishad Development Officer (MPDO) and Panchayat Secretary respectively.

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

<sup>8</sup> 19 GPs of Mahbubnagar, 9 GPs of Rangareddy and CEO, ZP, Khammam

<sup>9</sup> 5 GPs of Mahbubnagar, 1 GP of Nalgonda and 4 GPs of Rangareddy district

<sup>10</sup> Aloor and Changonda GPs of Mahbubnagar district

<sup>11</sup> Property tax, advertisement fee etc.,

<sup>12</sup> Water tax, rents from markets, shops and other properties, auction proceeds etc.,

<sup>13</sup> Donations, interest on deposits etc.,

**Table 1.3**

(₹ in crore)

Sl. No.	Receipts	2010-11	2011-12	2012-13	2013-14	2014-15
1	Own Revenue	955.77	1,009.24	976.50	736.50	16.96*
2	Assigned Revenue <sup>14</sup>	262.39	344.02	154.36	457.24	10.97*
3	State Government Grants	797.05	1,185.85	343.97	350.59	19.60
4	GoI Grants	2,639.37	2,342.19	1,201.03	1,330.86	1,131.28
5	Other Receipts	362.45	331.68	84.18	Nil	NA
	<b>Total</b>	<b>5,017.03</b>	<b>5,212.98</b>	<b>2,760.04</b>	<b>2,875.19</b>	<b>1,178.81</b>

Source: Commissioner, Panchayat Raj

\* data pertains to only 4 ZPPs and GPs of Adilabad district

### 1.11.1 Financial assistance to PRIs

The quantum of financial assistance provided by State Government to PRIs by way of grants and loans for the years 2010-14 pertain to composite state of Andhra Pradesh and 2014-15 pertain to state of Telangana is given below:

**Table 1.4**

(₹ in crore)

Sl. No.	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Budget	292.29	302.75	329.27	328.89	203.18	1,456.38
Actual Release	141.64	151.31	158.10	164.57	30.30	645.92
Expenditure	122.08	96.87	98.20	114.85	30.30	462.30

Source: Commissioner, Panchayat Raj

### 1.11.2 Fund flow arrangement in flagship programmes

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

Scheme	Fund flow
<b>Backward Region Grant Fund (BRGF)</b>	The funding under the scheme is made by GoI through two funding windows namely i) capability building fund and ii) development grant. The funds should be released by State Government to PRIs within 15 days of release of funds by GoI failing which State Government has to pay penal interest to PRIs at RBI rate of interest for the period of delay. Funds are to be kept in a nationalized bank or post office by the PRIs and interest earned on these is to be utilized in accordance with

<sup>14</sup> Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to Local Bodies in the form of assigned revenue

	<p>the guidelines of the programme.</p> <p><b>Capability building fund:</b> During 2011-15 (upto 1 June 2014), ₹39.74 crore<sup>15</sup> was released by composite state of Andhra Pradesh towards Capability building fund, of which ₹24.94 crore was incurred as expenditure. Details for the year 2014-15 were not furnished despite specific request</p> <p><b>Development grant:</b> During 2011-14, ₹831.11 crore was allocated by GoI to composite state of Andhra Pradesh as against ₹681.15 crore only was released and ₹634.55 crore was spent. In 2014-15 as against allocation of ₹285.50 crore, ₹89.42 crore only was released to Telangana State, expenditure details not furnished.</p>
<p><b>Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)</b></p>	<p>The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) was enacted (September 2005) and implemented in a phased manner. The Act aims at enhancement of livelihood security of the households in rural areas of the country, by providing at least 100 days of guaranteed wage employment in every financial year to every rural household whose adult members volunteer to do unskilled manual work. Creation of durable assets is also an important objective of the Act, with other auxiliary objectives including protection of environment, empowering rural women, reducing rural urban migration, fostering social equity, and strengthening rural governance through decentralization and processes of transparency and accountability.</p> <p>The funds received from GoI and GoTS are pooled in State Employment Guarantee Fund (SEGF). The fund flow is monitored through Central Fund Management System (CFMS). Share of both State and Central is kept with the nodal bank at Hyderabad. The respective designated drawing officers are required to raise the Fund Transfer Orders (FTOs) directly to the Director, EGS as and when wages/payments are due.</p> <p>During 2011-15 (upto 1 June 2014) ₹20,844.31 crore was released by GoI and composite state of Andhra Pradesh, of which ₹21,789.17 crore was incurred as expenditure. From 2 June 2014 to 31 March 2015, ₹1,299.44 crore was released by GoI and state of Telangana, of which ₹1,352.43 crore was incurred as expenditure.</p>

### 1.11.3 Application of funds

Summary of expenditure incurred by PRIs for the years 2010-14 pertain to composite state of Andhra Pradesh and 2014-15 pertain to state of Telangana is given below.

<sup>15</sup> includes interest credited

Table 1.5

(₹ in crore)

Sl. No.	Type of expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
1	Revenue expenditure	3,314.82	2,968.66	1,405.50	3,562.39	134.15#
2	Capital expenditure	1,545.82	1,464.15	1,033.47	1,756.98	32.22*
	<b>Total</b>	<b>4,860.64</b>	<b>4,432.81</b>	<b>2,438.97</b>	<b>5,319.37</b>	<b>166.37</b>

Source: Commissioner, Panchayat Raj

# data pertains to only 4 ZPPs and GPs of Adilabad district

\* data pertains to only 3 ZPPs and GPs of Adilabad district

### 1.12 Recommendations of State Finance Commission (SFC)

As per Article 243-I of the Constitution and Section 235 of APPR Act, 1994, constitution of SFC once in five years to recommend devolution of funds from the State Government to Local bodies is mandatory. Third SFC was constituted in January 2003 and submitted its report in 2008. However, State Government issued orders for implementation of the recommendations of SFC only in December 2013. Against ₹1,274.34 crore recommended by SFC for devolution of funds to PRIs of composite State of Andhra Pradesh every year, Government accepted to release only ₹113.64 crore per annum. While ₹664.59 crore per annum was treated as fulfilled on the grounds of allocating the funds under respective heads<sup>16</sup> in Budget, ₹496.11 crore per annum was not accepted<sup>17</sup> by the Government. As parallel State Finance Commission was not appointed by December 2013, the Committee of Ministers and Secretaries felt that recommendations of Third Finance Commission could be applied for the period from 2010 to 2015 also. During 2010-15, State Government released ₹135.63 crore to PRIs of Telangana state, of which ₹94.81 crore was spent as of October 2015.

Scrutiny (2014-15) of records of 13<sup>18</sup> GPs pertaining to SFC grants revealed that an amount of ₹3.72 lakh was lapsed to Government as funds were not utilised in time.

### 1.13 Recommendations of the Thirteenth Finance Commission

Based on the recommendations of Thirteenth Finance Commission, GoI released funds to ZPPs, MPPs and GPs. The grant is released under two components (basic component and performance based component). A portion of basic as well as performance grant is allocated to special areas<sup>19</sup>. Allocation and releases for the years 2010-14 pertain to composite state of Andhra Pradesh and information in respect of 2014-15 pertain to state of Telangana are given below:

<sup>16</sup> construction of GP buildings, provision for basic civic amenities and core amenities in GPs, construction and maintenance of rural roads, provision for drinking water facilities in schools, maintenance of cyclone shelters, maintenance of rural water supply schemes and hand pumps released to GPs etc.

<sup>17</sup> apportionment of excise income and income from market committees, reimbursement of education contingent grant to ZPPs, provision for rural water supply schemes and rural sanitation

<sup>18</sup> 8GPs of Mahabubnagar district and 5 GPs of Rangareddy district

<sup>19</sup> Schedule areas listed under Schedule-V of Constitution

Table 1.6

(₹ in crore)

13th CFC	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Allocation	486.64	834.77	1,179.62	1,357.06	652.89	4,510.98
Releases	486.64	307.65	0	1,585.57	895.16	3275.02

Source: Ministry of Rural Development, GoI

Commissioner PR stated that ₹1,722.91 crore was released during 2010-15 to Telangana districts and ₹976.11 crore was incurred as of October 2015.

### 1.14 Maintenance of Records

Records such as Cash book, Assets Register, Advance Register, Stock Registers etc., are to be maintained as per the provisions of APPR Act, 1994 in respect of ZPPs and MPPs and for GPs as per GP Accounts Manual of Panchayat Raj and Rural Development Department. Scrutiny of records of 38 PRIs revealed improper maintenance of cash book in five<sup>20</sup> PRIs, non-maintenance of stock registers in 19<sup>21</sup> PRIs and non-maintenance of asset register in seven<sup>22</sup> PRIs.

#### 1.14.1 Advances pending adjustment

As per Andhra Pradesh Financial Code, advances paid should be adjusted without any delay and the Drawing and Disbursing Officers (DDOs) concerned should watch their adjustment. Scrutiny of records of 38 PRIs during 2014-15 revealed that in respect of three<sup>23</sup> PRIs, funds amounting to ₹2.46 lakh advanced to staff for various purposes during 2010-14 remained unadjusted as of March 2015.

#### 1.14.2 Physical verification of stores and stock

Article 143 of Andhra Pradesh Financial Code stipulates that all stores and stock should be verified physically once a year and a certificate to this effect be recorded by the Head of the Office in the Register concerned. Scrutiny of records of 38 PRIs during 2014-15 revealed that in respect of 12<sup>24</sup> PRIs, annual physical verification of stores and stock was not being conducted.

#### 1.14.3 Non-reconciliation of departmental figures with treasury

As per paragraph 19.6 of Andhra Pradesh Budget Manual, DDOs are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent draws. Scrutiny of records of 38 PRIs during 2014-15 revealed that in respect of 22<sup>25</sup> PRIs, reconciliation was pending from 2010-11 onwards.

<sup>20</sup> 4 GPs of Mahbubnagar and 1 GP of Rangareddy district

<sup>21</sup> 12 GPs of Mahbubnagar and 7 GPs of Rangareddy districts

<sup>22</sup> 3 GPs of Mahbubnagar and 4 Rangareddy district

<sup>23</sup> 3 GPs of Rangareddy district

<sup>24</sup> 5 GPs of Mahbubnagar and 7 GPs of Rangareddy district

<sup>25</sup> 14 GPs of Mahbubnagar and 8 GPs of Rangareddy district

#### 1.14.4 Cases of misappropriation

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

Table 1.7

(₹ in lakh)

Unit	2013-14		2014-15	
	No. of cases	Amount	No. of cases	Amount
Zilla Praja Parishads	21	18.29	0	0
Mandal Praja Parishads	167	37.15	2	1.13
Gram Panchayats	934	325.74	15	3.48
<b>Total</b>	<b>1,122</b>	<b>381.18</b>	<b>17</b>	<b>4.61</b>

Source: Information furnished by Director, State Audit

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

#### 1.15 Maintenance of Accounts by PRIs

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

Government confirmed (September 2014) that online accounting was completed in all the PRIs. However, test check (2014-15) of accounts of 38 PRIs using PRIASoft revealed that in Ravalkole GP of Rangareddy district, uploaded the Receipts and Payments in PRIASoft, but Annual Accounts were not being generated. In respect of eight<sup>26</sup> PRIs, there were discrepancies between PRIASoft generated accounts and manually prepared accounts for the years from 2011-12 to 2013-14.

#### 1.16 Issues related to AC/DC Bills

As per Government orders<sup>27</sup>, an amount drawn on Abstract Contingent (AC) bills should be adjusted by submitting Detailed Contingent (DC) bills for the expenditure incurred, to the AG(A&E) with supporting vouchers within one month of drawal of such amounts.

<sup>26</sup> 4 GPs of Mahbubnagar and 4 GPs of Rangareddy district

<sup>27</sup> GO Ms No.285 Finance (TFR-II) Department dated 15 October 2005, Andhra Pradesh Treasury Code, Rule 16, sub rule 18 (d) and GO Ms Nos. 391 and 507 of April/May 2002 of Finance Department

Scrutiny (February 2015) of records of test-checked PRI (ZPP Medak) revealed that CEO, ZPP Medak drew (March/April 2014) AC bills amounting to ₹6.39 crore for conducting Zilla Parishad Territorial Constituency (ZPTC) and Mandal Parishad Territorial Constituency (MPTC) elections. Chief Executive Officer, ZPP Medak stated (February 2015) that ₹0.26 crore was yet to be remitted to the Government account. However, details of DC bills for ₹6.13 crore was not furnished.

### **1.17 Maintenance of database and the formats therein on the finances of PRIs**

State Government released (2002-10) Eleventh and Twelfth Finance Commission grants amounting to ₹67.37 crore<sup>28</sup> to Commissioner Panchayat Raj of composite State of Andhra Pradesh for creation of database on finances of PRIs. Of this ₹14.03 crore was allocated to Telangana State and transferred to Commissioner Panchayat Raj, Telangana.

### **1.18 Conclusion**

State Government is yet to devise a system for obtaining a consolidated picture about the finances of the PRIs. State Government devolved 10 out of 29 subjects listed in Eleventh Schedule to 73<sup>rd</sup> Constitutional Amendment Act, 1992. Of these, funds relating to only four departments (Agriculture, Animal Husbandry, Backward Classes Welfare and Fisheries) were released to PRIs. Forty two *per cent* of sanctioned posts were lying vacant under various categories. The statutory audit of two ZPPs, 22 MPPs and 4,410 GPs to be conducted by DSA were in arrears due to non-production of records.

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

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<sup>28</sup> including interest



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## **Chapter - II**

# **Compliance Audit Paragraphs**

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## Panchayat Raj and Rural Development Department

### 2.1 Misappropriation of receipts in Narayankhed Gram Panchayat

**Non-compliance with Government rules and lack of internal controls resulted in possible misappropriation of ₹15.18 lakh and temporary misappropriation of ₹1.74 lakh.**

Andhra Pradesh Treasury code<sup>1</sup> (Rule-7 of Part-I) stipulates that all moneys received by or tendered to Government servants in official capacity shall be paid in full into the treasury without undue delay and moneys received shall not be appropriated to meet departmental expenditure. As per Rules relating to Receipts and Expenditure of Gram Panchayats issued (June 1966) by State Government, all moneys received shall be brought into account as soon as they are received and no moneys received shall be utilised for its expenditure, without being brought into account and paid or remitted into the concerned treasury.

Scrutiny of records (July 2015) of Narayankhed GP, Medak district revealed that daily collections of various taxes and non-taxes amounting to ₹16.92 lakh<sup>2</sup> pertaining to 2012-15 were not remitted into treasury. It was noticed that

- i. An amount of ₹5.70 lakh was yet to be remitted into treasury as of August 2015.
- ii. An amount of ₹7.99 lakh was utilised towards GP expenditure without remitting into treasury.
- iii. An amount of ₹1.49 lakh out of ₹3.23 lakh was stated to have been remitted (July-August 2015) into treasury. However, there was no proof of remittance of this amount with the Gram Panchayat by way of supporting documents. There was delay in remittance of ₹1.74 lakh which indicated temporary misappropriation.

Gram Panchayat authorities accepted (August 2015) non-remittance of tax receipts into treasury and their utilisation.

Thus, non-compliance with Government rules and lack of internal controls to ensure compliance with rules resulted in possible misappropriation of ₹15.18 lakh<sup>3</sup> and temporary misappropriation of ₹1.74 lakh.

<sup>1</sup> Applicable in relation to the State of Telangana also as per Andhra Pradesh Reorganisation Act, 2014

<sup>2</sup> ₹0.44 lakh 2012-13, ₹12.12 lakh 2013-14, ₹4.36 lakh 2014-15

<sup>3</sup> ₹7.99 lakh, ₹5.70 lakh and ₹1.49 lakh (₹3.23 lakh - ₹1.74 lakh)

## 2.2 Delayed remittances resulted in avoidable expenditure

**Failure of authorities of Society for Elimination of Rural Poverty (SERP) in remitting Provident Fund Contributions on time resulted in avoidable expenditure of ₹1.11 crore, and committed liability of ₹0.23 crore on pending damage charges and interest.**

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

Scrutiny (December 2014) of records of Society for Elimination of Rural Poverty<sup>4</sup> (SERP), Telangana relating to recovery and remittance of PF contributions revealed that the Fund Commissioner issued (July 2012 to May 2014) notices amounting to ₹1.34 crore for delays in remittance of contributions as detailed in *Appendix 2.1*. As against the demand, an amount of ₹1.11 crore was paid (August 2012 to August 2015) to Fund Commissioner towards damage charges and interest.

Chief Executive Officer, SERP stated (August 2015) that damage charges were attracted due to decision (July 2009) of SERP Council to extend the Employees' Provident Fund (EPF) scheme to all the SERP employees at par with Fixed Tenure Employees (FTE) retrospectively from 01 January 2008 instead of 01 April 2008. Reply is not acceptable since SERP had defaulted in remitting recoveries for the period July 2002 to May 2014, which included period prior to 2008.

Thus, failure of authorities of SERP in remitting Provident Fund Contributions on time resulted in avoidable expenditure of ₹1.11 crore and committed liability of ₹0.23 crore on the pending damage charges and interest.

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<sup>4</sup> Established (2000) by the State Government as a sensitive support structure to facilitate poverty reduction through social mobilization and improvement of livelihoods of rural poor. District Project Monitoring Unit (DPMU) and Tribal Project Monitoring Unit (TPMU) implements the programmes of SERP in districts and tribal areas respectively

### 2.3 Unfruitful expenditure of ₹18.29 crore

**Failure to pursue with HMWS&SB and non-identification of alternate source of supply of safe drinking water to the Chevella CPWSS project resulted in unfruitful expenditure of ₹18.29 crore.**

State Government approved (July 2008) a Comprehensive Protected Water Supply Scheme (CPWSS) to 18 habitations of Chevella Mandal in Rangareddy district at an original estimated cost of ₹20 crore. Water (2114 KLD) for the scheme was proposed to be drawn from the Singapur Reservoir of Hyderabad Metropolitan Water Supply & Sewerage Board (HMWS&SB). The proposal for supply of the requisite quantity (2114 KLD) of water from Singapur Reservoir had been approved by HMWS&SB in 2005. The work was entrusted in June 2008 to a private agency viz., The Indian Hume Pipe Co. Ltd, Mumbai, through e-procurement tendering process. The target date of completion initially, fixed for June 2009, was extended from time to time and the work was eventually completed in all respects in August 2013 after incurring an expenditure of ₹18.29 crore.

Audit scrutiny (February 2015) of records of Rural Water Supply Division, Hyderabad revealed that the CPWSS was not operationalised even as of July 2015 due to the refusal of HMWS&SB to permit drawal of water from Singapur Reservoir. HMWS&SB expressed inability (July 2012) to provide the agreed quantum of water to this scheme in view of the increase in demand from Hyderabad city consequent to merger of municipal areas in the periphery of Hyderabad city with Greater Hyderabad Municipal Corporation.

Despite the lapse of six years from the original targeted date of completion (2009) of the scheme and two years after the completion of the work, the scheme remained a non-starter. The State Government neither pursued with HMWS&SB for drawal of water for these habitations nor did it identify an alternate source of water for the project/scheme. Consequently, not only had the expenditure of ₹18.29 crore proved to be infructuous, the inhabitants of the 18 habitations of Chevella Mandal continue to be deprived of safe drinking water facility.

Government replied (October 2015) that the scheme was under trial run and would be commissioned by the end of October 2015. Reply is not acceptable since HMWS&SB has reiterated (November 2015) that in the present circumstances they are unable to provide for water supply from the Singapur Reservoir for the Chevella Mandal.



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**Part - B**  
**Urban Local Bodies**

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**Chapter – III –**  
**An Overview of the Functioning,**  
**Accountability Mechanism and Financial**  
**Reporting issues of Urban Local Bodies**

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## Chapter III

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

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

#### 3.1 Introduction

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

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

Accordingly, State Government enacted Andhra Pradesh Municipal Corporations Act, 1994 to set up Municipal Corporations in the State. Provisions of Hyderabad Municipal Corporation (HMC) Act, 1955 including the provisions relating to levy and collection of taxes or fees were extended to all other Municipal Corporations in the State of Andhra Pradesh. Municipalities are, however, governed by the Andhra Pradesh Municipalities Act, 1965<sup>1</sup>.

#### 3.1.1. State profile

As per the 2011 census, the total population of the 10 districts of Telangana State was 3.52 crore, of which 1.36 crore (39 *per cent*) lived in urban areas. A profile of urban Telangana is given below:

Table 3.1

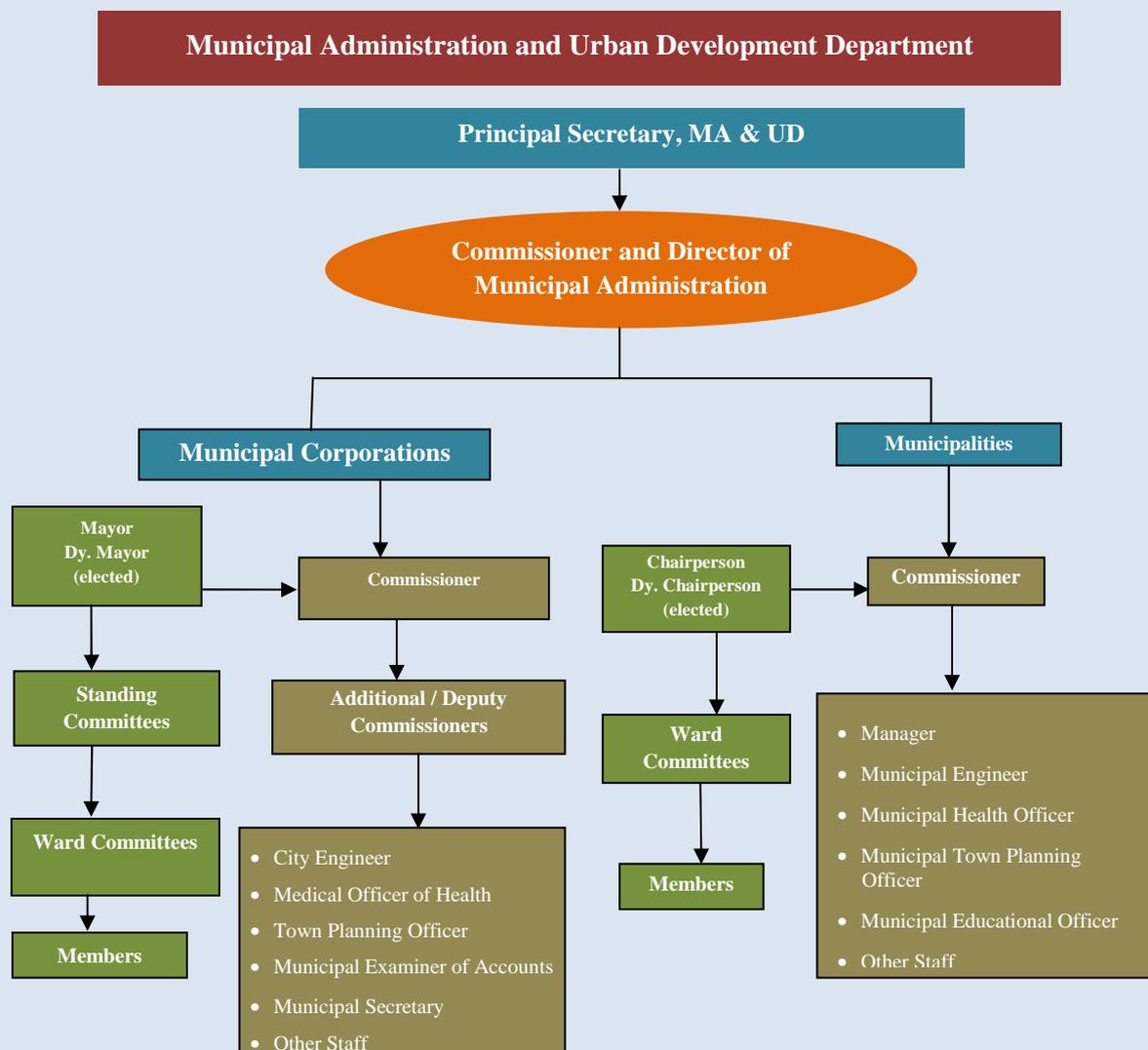
Sl. No.	Indicator	Unit	State
1.	Urban population	Crore	1.36
2.	Urban sex ratio	Females per 1000 Males	970
3.	Urban literacy rate	Percentage	81.09
4.	Municipal Corporations	Number	6
5.	Municipalities	Number	37
6.	Nagar Panchayats	Number	25
<b>Total number of ULBs (4+5+6)</b>			<b>68</b>

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

<sup>1</sup> Applicable in relation to the State of Telangana also as per Andhra Pradesh Reorganisation Act, 2014

### 3.2 Organisational set-up of ULBs

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



Except Greater Hyderabad Municipal Corporation, where the Commissioner is directly under the control of Principal Secretary, MA&UD

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

### 3.3 Functioning of ULBs

The 74<sup>th</sup> Constitutional Amendment Act, 1992 identified 18 functions for ULBs as incorporated in Twelfth Schedule to the Constitution. All the functions mentioned in this Schedule were devolved to ULBs in the State except 'Fire Services'.

### **3.4 Formation of various committees**

The Municipalities and Corporations transact their business as per the provisions of the Acts concerned. In respect of the Corporations, Standing Committees, comprising the Chairpersons of all the Ward Committees under them, meet at intervals prescribed by the Act. Similarly, in respect of the Municipalities, the Municipal Ward Committees meet at prescribed intervals to transact business, make regulations and scrutinize municipal accounts. The main functions of the Ward Committees (both Municipalities as well as Corporations) include provision and maintenance of sanitation, water supply and drainage, street lighting, roads, market places, playgrounds, school buildings, review of revenue collections, preparation of annual budget etc. Department stated (September 2015) that out of 68 ULBs, ward committees were constituted only in Bodhan ULB.

### **3.5 Audit arrangement**

#### **3.5.1. Primary Auditor**

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

As per the information furnished (May 2015) by DSA, audit of 100 accounts were in arrears. DSA attributed (May 2015) non-production of records by Municipal Corporations, Municipalities and Nagar Panchayats. As per the information furnished (May 2015) by DSA, no surcharge proceedings were issued.

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

#### **3.5.2. Audit by Comptroller and Auditor General of India**

CAG conducts audit of ULBs under Section 14 of CAG's (DPC) Act, 1971. Based on the recommendations of the Eleventh Finance Commission, State Government entrusted (August 2004) the responsibility for providing Technical Guidance and

Supervision (TGS) in connection with the accounts and audit of Local Bodies under Section 20(1) of CAG's (DPC) Act.

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

***Planning and conduct of audit***

Audit process commences with assessment of risk of department/local body/scheme/programme etc., based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers and assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit is decided and an annual audit plan is formulated to conduct audit. During 2014-15, 15 ULBs (three Municipal Corporations and 12 Municipalities) falling under the department of Municipal Administration and Urban Development were subjected to performance and compliance audit.

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

**3.6 Response to audit observations**

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

As of August 2015, 57 IRs containing 1,278 paragraphs pertaining to the period up to 2014-15 were pending settlement as given below. Of these, first replies have not been received in respect of 21 IRs and 663 paragraphs.

**Table 3.2**

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2010-11	35	580	3	79
2011-12	0	0	0	0
2012-13	10	301	8	256
2013-14	3	131	3	140
2014-15	9	266	7	188
<b>Total</b>	<b>57</b>	<b>1278</b>	<b>21</b>	<b>663</b>

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

## **Accountability Mechanism and Financial Reporting issues**

### **Accountability Mechanism**

#### **3.7 Ombudsman**

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

#### **3.8 Social Audit**

Social Audit setup is yet to be constituted for programmes/schemes implemented by Department of Municipal Administration and Urban Development (MA&UD).

#### **3.9 Property Tax Board**

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

State Government sanctioned (October 2013) 28 posts under 11 categories for effective functioning of the board. CDMA is in charge of the post of Chairman of Property Tax Board. As chairman Property Tax Board, Commissioner offered his views on the monthly rental values proposed by newly constituted Municipalities/Nagar Panchayats for publication of draft notification for levy of property tax.

#### **3.10 Service Level Benchmark**

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

#### **3.11 Fire hazard response**

Guidelines of the Thirteenth Finance Commission stipulates that all Municipal Corporations with a population of more than one million must put in place a fire hazard response and mitigation plan and to notify in the State Gazette for demonstrating compliance by end of March 2014. Accordingly, State Government

notified (September 2014) the fire hazard response and mitigation plans to be implemented during the year 2014-15 by Greater Hyderabad Municipal Corporation with a population of more than one million.

### 3.12 Submission of Utilisation Certificates (UCs)

Scheme guidelines of Centrally Sponsored Schemes (CSS) and Central Finance Commissions (CFCs) stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI. Scrutiny of records of nine ULBs during 2014-15 revealed that in respect of two<sup>2</sup> ULBs, UCs amounting to ₹1.15 crore were yet to be furnished as of March 2015.

## Financial Reporting Issues

### 3.13 Sources of funds

Resource base of ULBs consists of their own revenue generated by collection of tax<sup>3</sup> and non-tax<sup>4</sup> revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts<sup>5</sup>. The Commissioner concerned is responsible for reporting the utilisation of funds in respect of Corporations and Municipalities.

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

Table 3.3

(₹ in crore)

Sl. No.	Receipts	2010-11	2011-12	2012-13	2013-14	2014-15
1	Own Revenue	2,013.74	2,297.17	2,898.52	3,183.43	371.28
2	Assigned Revenue <sup>6</sup>	684.00	795.70	819.28	695.66	65.97
3	State Government Grants	430.00	608.00	921.00	1,358.60 <sup>7</sup>	NA**
4	<b>GoI Grants</b>					
	Scheme funds	734.27	704.24	378.36	-	NA**
	12 <sup>th</sup> and 13 <sup>th</sup> Finance Commission	177.78	111.85	Nil	-	
5	Other Receipts	Nil	Nil	Nil	275.60*	20.32
	<b>Total</b>	<b>4,039.79</b>	<b>4,516.96</b>	<b>5,017.16</b>	<b>5,513.29</b>	<b>457.57</b>

Source: Data furnished by Commissioner and Director of Municipal Administration

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

\*\* Data not made available

<sup>2</sup> Bhongir and Jagityal ULBs

<sup>3</sup> Property tax, advertisement fee etc.,

<sup>4</sup> Water tax, rents from markets, shops and other properties, auction proceeds etc.,

<sup>5</sup> Donations, interest on deposits etc.,

<sup>6</sup> Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to the Local Bodies in the form of assigned revenue

<sup>7</sup> This includes grants received from GoI

### 3.13.1. Financial Assistance to ULBs

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

Table 3.4

(₹ in crore)

Sl. No.	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Budget	180.80	177.45	177.45	483.45	287.49	1,306.64
Actual Release	123.95	91.42	90.57	441.37	249.86	997.17

Source: Information furnished by CDMA

### 3.13.2. Fund flow arrangement in flagship programmes

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

Scheme	Fund flow																																				
<b>Jawaharlal Nehru National Urban Renewal Mission (JNNURM)</b>	<p>This flagship programme was launched in December 2005 to encourage reforms and fast track planned development of identified cities, with focus on efficiency in urban infrastructure and service delivery mechanisms etc. Initially the mission period was for seven years (2005-12), which was extended upto March 2017. The four components under JNNURM are Urban Infrastructure and Governance (UIG), Basic Services to the Urban Poor (BSUP), Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) and Integrated Housing and Slum Development Programme (IHSDP). The details of funds released and expenditure incurred on JNNURM projects as of March 2015 are given below:</p> <p style="text-align: right;">(₹ in crore)</p> <table border="1"> <thead> <tr> <th>Component</th> <th>No. of projects</th> <th>Projects completed</th> <th>Approved cost</th> <th>Releases</th> <th>Expenditure</th> </tr> </thead> <tbody> <tr> <td>UIG</td> <td>23</td> <td>12</td> <td>2,661.86</td> <td>1,011.44</td> <td>2,245.65</td> </tr> <tr> <td>BSUP</td> <td>17</td> <td>5</td> <td>1,642.45</td> <td>848.80</td> <td>1,342.32</td> </tr> <tr> <td>UIDSSMT</td> <td>32</td> <td>27</td> <td>980.16</td> <td>989.61</td> <td>982.66</td> </tr> <tr> <td>IHSDP</td> <td>29</td> <td>15</td> <td>308.79</td> <td>223.78</td> <td>270.71</td> </tr> <tr> <td><b>Total</b></td> <td><b>101</b></td> <td><b>59</b></td> <td><b>5,593.26</b></td> <td><b>3,073.63</b></td> <td><b>4,841.34</b></td> </tr> </tbody> </table>	Component	No. of projects	Projects completed	Approved cost	Releases	Expenditure	UIG	23	12	2,661.86	1,011.44	2,245.65	BSUP	17	5	1,642.45	848.80	1,342.32	UIDSSMT	32	27	980.16	989.61	982.66	IHSDP	29	15	308.79	223.78	270.71	<b>Total</b>	<b>101</b>	<b>59</b>	<b>5,593.26</b>	<b>3,073.63</b>	<b>4,841.34</b>
Component	No. of projects	Projects completed	Approved cost	Releases	Expenditure																																
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<b>Andhra Pradesh Municipal Development Project (APMDP)</b>	<p>Andhra Pradesh Municipal Development Project (APMDP) is implemented (March 2010) with the assistance of World Bank for providing basic amenities to the urban population. The project comprises of four components viz., (i) State level policy and institutional development, (ii) Capacity enhancement, (iii) Urban infrastructure and (iv) Project management and technical assistance. Initially, State Government releases funds and actual expenditure reported in quarterly 'Interim unaudited financial reports' by Chartered Accountants would be reimbursed by World Bank.</p> <p>Against approved cost of ₹882.12 crore for Telangana State, State Government released ₹129.53 crore to the implementing agencies and of which ₹110.03 crore was incurred by them as of March 2015.</p>																																				

### 3.13.3. Application of funds

Details of expenditure incurred by ULBs for the years 2010-14 pertain to composite state of Andhra Pradesh and 2014-15 pertain to state of Telangana.

Table 3.5

(₹ in crore)

Sl. No.	Type of expenditure	2010-11	2011-12	2012-13	2013-14	2014-15
1	Revenue expenditure	2,621.40	2,941.85	3,153.33	3,418.10	253.82
2	Capital expenditure	1,399.83	1,253.08	1,166.59	1,573.30	148.51
	<b>Total</b>	<b>4,021.23</b>	<b>4,194.93</b>	<b>4,319.92</b>	<b>4,991.40</b>	<b>402.33</b>

Source: Data furnished by Commissioner and Director of Municipal Administration

### 3.14 Recommendations of the State Finance Commission (SFC)

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

However, State Government issued orders for implementation of the recommendations of SFC only in December 2013. Against ₹489.38 crore recommended by SFC for devolution of funds to ULBs every year, Government agreed to release only ₹123.12 crore per annum. While ₹319.52 crore per annum was not accepted by the Government, ₹46.74 crore per annum was treated as fulfilled on the grounds of budget & allocation during earlier years in respect of salaries paid by Government. As parallel State Finance Commission was not appointed by December 2013, the committee of Ministers and Secretaries felt that recommendations of Third Finance Commission could be applied for the period 2010-2015 also. Details of releases during 2010-15 were not furnished despite specific request.

### 3.15 Recommendations of the Thirteenth Finance Commission

Based on the recommendations of Thirteenth Finance Commission, GoI releases funds to State Government for distributing among the Municipal Corporations and Municipalities in the State. The grant is released under two components (basic component and performance based component). A portion of basic as well as performance grant is allocated to special areas<sup>8</sup>. GoI allocated (2010-15) ₹894.80 crore to ULBs of Telangana state. During 2010-15, ₹684.27 crore was released to ULBs of Telangana state, of which ₹447.43 crore (65 per cent) was expended.

<sup>8</sup> Schedule areas listed under Schedule-VI of Constitution

### 3.16 Maintenance of Records

#### 3.16.1. Unspent balances in bank accounts of closed schemes

Scheme guidelines stipulate surrender of unspent amount into Government account in respect of closed schemes. State level authorities of the schemes concerned and CDMA should watch the balances of closed schemes lying in the accounts of different ULBs. Scrutiny of records of nine ULBs during 2014-15 revealed that in respect of four<sup>9</sup> ULBs, an amount of ₹5.28 crore remained unspent in the accounts of closed schemes.

#### 3.16.2. Advances pending adjustment

As per Andhra Pradesh Financial Code, advances paid should be adjusted without any delay and the Drawing and Disbursing Officers (DDOs) concerned should watch their adjustment. Scrutiny of records of nine ULBs during 2014-15 revealed that in respect of six<sup>10</sup> ULBs, funds amounting to ₹2.91 crore advanced to staff for various purposes during 2006 to 2015 remained unadjusted as of March 2015.

#### 3.16.3. Non-reconciliation of departmental figures with treasury

As per Andhra Pradesh Budget Manual, DDOs are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent drawals. Scrutiny of records of nine ULBs during 2014-15 revealed that in respect of two<sup>11</sup> ULBs, reconciliation was pending from 2011 onwards.

#### 3.16.4. Cases of misappropriation

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

Misappropriation cases noticed by Director, State Audit during 2013-14 yet to be disposed off as of May 2015 are given below:

Table 3.6

(₹ in lakh)

Unit	2013-14	
	No. of cases	Amount
Municipal Corporations	83	53.65
Municipalities	14	6.72
Nagar Panchayats	0	0
<b>Total</b>	<b>97</b>	<b>60.37</b>

Source: Information furnished by Director, State Audit

<sup>9</sup> Bhongir, Jagityal, Ramagundam and Warangal ULBs

<sup>10</sup> Bhongir, Jagityal, Nizamabad, Ramagundam, Siddipet and Warangal ULBs

<sup>11</sup> Nizamabad and Warangal ULBs

DSA stated (May 2015) that no misappropriation cases were noticed in six<sup>12</sup> districts and audit of remaining districts was pending.

### **3.17 Maintenance of Accounts by ULBs**

GoI in consultation with the Comptroller and Auditor General of India, had formulated (December 2004) National Municipal Accounts Manual (NMAM) with double entry system for greater transparency and control over finances and requested (May 2005) the States to adopt it with appropriate modifications to meet their specific requirements. Accordingly, a Steering Committee was constituted (May 2005) by State Government and Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. State Government issued orders in August 2007 for adoption of APMAM in all the ULBs in the State. Similarly, other manuals viz., Andhra Pradesh Municipal Budget Manual and Andhra Pradesh Municipal Asset Manual, were also accepted by State for implementation (August 2007) by ULBs. Finalisation of 72 accounts by 31 ULBs was in arrears as of May 2015.

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

The ULBs have adopted the software developed by the Centre for Good Governance of Model Accounting System for maintenance of Accounts. Double Entry Accrual Based Accounting System (DEABAS) is being adopted in 40 out of 67 ULBs (excluding Greater Hyderabad Municipal Corporation (GHMC)). The Department stated (October 2015) that remaining 27 ULBs had been constituted recently and action was being initiated for implementing DEABAS.

### **3.19 Conclusion**

There were delays in compilation of accounts by ULBs, as 56 *per cent* posts were vacant with consequent delays in their audit by the Director, State Audit. Double Entry Accrual Based Accounting System (DEABAS) was yet to be adopted by 27 out of 67 ULBs. Maintenance of database formats was not implemented as planned due to the shortage of staff. Accountability framework and financial reporting in ULBs was inadequate as evidenced by non-furnishing of utilisation certificates, non-remittance of unspent balances of closed schemes and advances pending adjustment, non-reconciliation of departmental figures with treasury and non-disposal of misappropriation cases.

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<sup>12</sup> Karimnagar, Mahbubnagar, Nalgonda, Nizamabad, Rangareddy and Warangal ULBs

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## **Chapter - IV**

# **Performance Audit**

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## 4 Performance Audit on Infrastructural Development in slums identified under IHSDP

### 4.1 Introduction

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

#### *Objective of the Programme*

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

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

### 4.2 Responsibility centres

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

	Reports (DPRs) are scrutinised by the technical wings of the GoI Ministries/specialised technical agencies, before submitting them to the CSC for sanction.
<i>State</i>	The programme is co-ordinated by the State Level Steering Committee (SLSC), headed by the Chief Minister/Minister of Urban Development/Minister of Housing, which reviews and prioritises proposals for inclusion of projects for seeking assistance under JNNURM from the GoI. The SLSC is supported by the State Level Nodal Agency (SLNA) which is set up for appraising the projects submitted by ULB/parastatal agencies and obtaining sanction of SLSC; management of grants received from the Central and State Governments for release to ULBs/parastatal agencies, submission of quarterly progress report to GoI etc. Andhra Pradesh Urban Finance and Infrastructure Development Corporation (APUFIDC) has been designated (February 2006) by the Government as SLNA. Telangana Urban Finance and Infrastructure Development Corporation (TUFIDC) was constituted on 21 August 2014 consequent to bifurcation of the State.
<i>Implementing agencies</i>	Responsibilities at implementing agency level (Public Health Engineering Divisions/Urban Local Bodies) include submission of detailed project reports to the SLNA for appraisal, account of funds received from SLNA, tendering, award of contracts, ensuring adherence to the time schedule and quality of the works executed by the contractors, furnishing of periodical reports on physical and financial progress, submitting utilisation certificates, maintaining inventory of assets created and operate assets and facilities created etc.

### **4.3 Funding pattern**

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

## **4.4 Audit framework**

### **4.4.1 Audit objectives**

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

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

### **4.4.2 Audit criteria**

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

- GoI guidelines and operational manuals
- Orders/circulars issued by GoI and State Government from time to time; and
- Public Works Code and Financial Code (composite State of Andhra Pradesh<sup>1</sup>).

### **4.4.3 Audit scope and methodology**

Performance audit of slum development programme covered implementation of infrastructure development related projects executed during the five year period 2010-15. Audit methodology involved scrutiny of relevant documents in Municipal Administration and Urban Development (MA&UD) department in Secretariat, Telangana Urban Finance and Infrastructure Development Corporation (TUFIDC) the State Level Nodal Agency, Office of Mission for Elimination of Poverty in Municipal Areas (MEPMA), Office of Engineer-in-Chief and implementation units<sup>2</sup> of selected projects. An engagement letter was addressed (December 2014) to Principal Secretary, MA&UD Department wherein audit sample and methodology were explained. The exit conference was held with the officials of MA&UD Department in December 2015 to discuss audit findings and response of the Government have been incorporated at appropriate places in the report. However, reply from the Government is awaited (December 2015).

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<sup>1</sup> Applicable in relation to the State of Telangana also as per Andhra Pradesh Reorganisation Act, 2014

<sup>2</sup> Eight projects were implemented by Public Health Engineering Divisions (Nalgonda Division: Suryapet, Miryalaguda and Narayanpet; Adilabad Division: Mancherial; Warangal Division: Palwancha and Jangaon, Hyderabad Division: Tandur; Nizamabad Division: Bodhan) and one project by municipality (Siddipet)

#### 4.4.4 Audit sample

Out of 16 projects<sup>3</sup> sanctioned (2007-09) in the State for infrastructure development under IHSDP at a cost of ₹181.17 crore, nine<sup>4</sup> projects costing ₹113.53 crore were selected for detailed scrutiny based on highest approved cost in each of the districts.

#### 4.5 Financial and Physical performance

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

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

Table 4.1

(₹ in crore)

Year of Sanction	No. of projects sanctioned	GoI approved project cost		Releases as of March 2015	Expenditure as of March 2015	No. of projects completed	No. of projects yet to be completed
		Original	Revised				
2007-08	12	154.55	145.40	132.05	138.13	10	2
2008-09	4	26.62	22.92	20.00	18.06	3	1
<b>Total</b>	<b>16</b>	<b>181.17</b>	<b>168.32</b>	<b>152.05</b>	<b>156.19</b>	<b>13</b>	<b>3</b>

Source: Records of SLNA

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

Table 4.2

(₹ in crore)

Year of Sanction	Name of the ULB	GoI approved cost		Releases as of March 2015	Expenditure as of March 2015	Status of the project
		Original	Revised			
2007-08	Jangaon	16.00	14.11	16.25	16.26	Completed
	Mancherial	16.89	15.49	13.95	14.30	Completed
	Miryalaguda	14.50	14.50	14.58	15.22	Completed
	Narayanpet	12.58	12.58	9.72	10.50	Completed
	Siddipet	3.97	3.86	2.78	2.73	Not Completed
	Suryapet	23.27	21.18	16.92	16.90	Completed
	Tandur	13.82	12.75	11.51	12.52	Completed
2008-09	Bodhan	6.25	5.74	5.84	5.70	Completed
	Palwancha	6.25	4.50	4.30	3.41	Completed
	<b>Total</b>	<b>113.53</b>	<b>104.71</b>	<b>95.85</b>	<b>97.54</b>	

Source: Records of SLNA

<sup>3</sup> Bhongir, Bodhan, Gadwal, Jangaon, Mahbubnagar, Mancherial, Miryalaguda, Nalgonda, Narayanpet, Nirmal, Palwancha, Siddipet, Tandur, Suryapet, Wanaparthy and Yellandu

<sup>4</sup> Bodhan, Jangaon, Mancherial, Miryalaguda, Narayanpet, Palwancha, Siddipet, Tandur and Suryapet (Pilot study)

Original DPRs were revised (upward and downward) in all the test-checked projects, due to change in scope of work and none of the test-checked projects was completed within the stipulated time. The delay in this regard ranged from one year to four years<sup>5</sup> due to non-availability of clear site for construction of Community Utility Centres (CUCs) and community toilets. In five<sup>6</sup> out of nine test-checked projects, expenditure exceeded releases by ₹2.79 crore (4 per cent). Audit findings on the test-checked projects are discussed in the subsequent paragraphs.

## Audit findings

### 4.6 Planning

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

#### 4.6.1 Identification of slums

As of July 2015, there were 3,844 slums in 68 ULBs spread over 10 districts<sup>7</sup> of the State. The programme was implemented in 341 slums in 16 ULBs of eight<sup>8</sup> districts. Criteria adopted for identification of slums in ULBs as well as reasons for non-identification of any slum in Karimnagar district was not forthcoming from the records. During the exit conference (December 2015), Government stated that the slums not covered under State Government scheme, Andhra Pradesh Urban Services for the Poor (APUSP) were identified under IHSDP programme. Since APUSP is not specific to slum development alone, identification of slums should have been considered while taking up works under IHSDP.

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

In the ULBs of the nine<sup>9</sup> test-checked projects, there were 251 slums as per the Detailed Project Reports (DPRs) (2007-2009), of which only 179 slums were identified by the ULBs<sup>10</sup> for implementation of the programme. DPRs of the test-checked projects did not indicate the criteria adopted for identification of slums. Further, documents relating to poverty and infrastructure deficiency matrix, list of prioritised slums and criteria adopted by ULBs for identification of slums were

<sup>5</sup> with a delay of 1-2 years (2 projects), 2-3 years (4 projects) and 3-4 years (2 projects)

<sup>6</sup> Jangaon (₹0.01 crore), Mancherial (₹0.35 crore), Miryalaguda (₹0.64 crore), Narayanpet (₹0.78 crore) and Tandur (₹1.01 crore)

<sup>7</sup> Adilabad, Hyderabad, Karimnagar, Khammam, Mahbubnagar, Medak, Nalgonda, Nizamabad, Rangareddy and Warangal

<sup>8</sup> Adilabad (2 ULBs), Khammam (2), Mahbubnagar (4), Medak (1), Nalgonda (4), Nizamabad (1), Rangareddy (1) and Warangal (1)

<sup>9</sup> Bodhan (35 slums), Jangaon (20), Mancherial (28), Miryalaguda (24), Narayanpet (18), Palwancha (42), Siddipet (20), Suryapet (50) and Tandur (14)

<sup>10</sup> Bodhan (35 slums), Jangaon (15), Mancherial (6), Miryalaguda (24), Narayanpet (17), Palwancha (17), Siddipet (9), Suryapet (42) and Tandur (14)

not forthcoming from records produced to audit. Hence, audit could not verify whether slums were prioritised as per Government orders.

- ii. **Non-notification of slums:** State Government issued (September 2004) orders to ULBs to identify and notify non-notified slums in an objective and transparent manner within a specified time frame of four months, as various Government programmes were implemented only in the notified slums and the poor in non-notified slums were being deprived of the benefits of developmental processes due to their non-notification. As of July 2015, there were 625 non-notified slums out of 2,714<sup>11</sup> slums (23 per cent) in the State and 96 slums out of 251 were non-notified (38 per cent) in the ULBs of seven<sup>12</sup> test-checked projects. Action initiated, if any, for notification of these slums was not forthcoming from the records produced to audit. During the exit conference (December 2015), Government stated that action would be initiated for notification of non-notified slums.

Contrary to Government orders, the programme was implemented in 32 non-notified slums of three<sup>13</sup> test-checked projects at an estimated cost of ₹23.90<sup>14</sup> crore. These slums were yet to be notified as of July 2015 even eight years after sanction of projects (2007-09). Mancherial and Bodhan ULBs replied (December 2014 and February 2015) that works were taken up (December 2008-June 2012) in non-notified slums due to lack of infrastructure facilities in the respective slums; reply from Miryalaguda ULB is awaited. Reply is not satisfactory as notification of slum was prerequisite for identification and implementation of the programme.

- iii. **Slums in hazardous/objectionable areas:** The slum areas located on hazardous<sup>15</sup> and objectionable lands are not to be redeveloped<sup>16</sup>. The beneficiaries of these slums should be rehabilitated in an area, to the extent possible, nearer to their original location to prevent potential loss of livelihood opportunities suited to their skill-set. As of July 2015, there were 123 hazardous slums out of 2,714<sup>17</sup> slums in the State and 16 hazardous slums in the ULBs of four<sup>18</sup> test-checked projects. Instead of relocating these slums, ULBs of two<sup>19</sup> test-checked projects identified eleven hazardous slums for implementation of programme and executed works at a cost of ₹3.64 crore.

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<sup>11</sup> data in respect of 1,130 slums was not furnished

<sup>12</sup> Bodhan (22 slums), Jangaon (10), Mancherial (8), Miryalaguda (18), Siddipet (27), Suryapet (2) and Tandur (9)

<sup>13</sup> Bodhan (22 slums), Mancherial (6) and Miryalaguda (6)

<sup>14</sup> Bodhan ₹3.31 crore, Mancherial ₹17.95 crore and Miryalaguda ₹2.64 crore

<sup>15</sup> The areas where human habitation entails undue risk to the safety or health or life of the residents themselves or where the habitation on such areas viz., canal bunds, tank beds, road margins, burial grounds, solid waste land fill sites etc., is considered contrary to public interest

<sup>16</sup> Action through which an area is developed for better living environment

<sup>17</sup> data in respect of 1,130 slums was not furnished

<sup>18</sup> Bodhan (8 slums), Mancherial (1), Palwancha (1) and Tandur (6)

<sup>19</sup> Bodhan (8 slums) and Tandur (3)

- iv. **Slums in private owned lands:** As per the provisions of Andhra Pradesh Slum Improvement (Acquisition of Land) Act, 1956, Government shall acquire any land in a slum area from the owners of the land for the purpose of clearing or improving the area. As of July 2015, there were 1,186 slums in private owned lands out of 2,714<sup>20</sup> slums (44 *per cent*) in the State and 206 slums in private owned lands out of 251 (82 *per cent*) slums in the ULBs of seven<sup>21</sup> test-checked projects. ULBs of six<sup>22</sup> test-checked projects have identified 66 slums in private owned lands for implementation of the programme at an estimated cost of ₹48.98 crore. It was reiterated (July 2011) during the State Principal Secretaries meeting to review all schemes of Ministry of Housing and Urban Poverty Alleviation to prevent misuse of the provision and encouragement of illegal settlements.

#### 4.6.2 Detailed Project Reports

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

- i. **Non-inclusion of slum-wise existing infrastructural facilities in DPRs:** DPRs are required to be prepared after taking into consideration the existing infrastructural facilities *viz.*, roads, drains, community toilets, water supply, drainage, street lights etc., and also availability of various facilities such as schools, anganwadi centres, primary health centres etc., in each slum. Health, education and social security infrastructure facilities should be taken up through convergence with respective departments. However, slum-wise details of existing facilities did not feature in the DPRs furnished to audit.
- ii. **Convergence with other sectors:** As per guidelines, DPRs should invariably be prepared by implementing agencies and include provision for components under health, education and social security through convergence of schemes and also by dovetailing funds through budgetary provisions under the programmes of respective sectors (Health, Human Resource Development, Social Justice and Empowerment etc.). DPRs of two<sup>23</sup> out of nine test-checked projects denoted convergence with health, education and social security sectors. Details of components proposed through convergence were not available in DPR. Hence, no works in convergence with other schemes appear to have been taken up. In DPRs of other seven<sup>24</sup> test-checked projects, works through convergence were not proposed. During the exit conference (December 2015), Government stated that

<sup>20</sup> data in respect of 1,130 slums was not furnished

<sup>21</sup> Bodhan (15 slums), Jangaon (21), Mancherial (29), Miryalaguda (31), Siddipet (45), Suryapet (38) and Tandur (27)

<sup>22</sup> Bodhan (15 slums), Jangaon (9), Mancherial (4), Miryalaguda (15), Siddipet (9) and Tandur (14)

<sup>23</sup> Bodhan and Suryapet

<sup>24</sup> Jangaon, Mancherial, Miryalaguda, Narayanpet, Palwanacha, Siddipet and Tandur

availability of land is one of the major constraints for taking up the projects through convergence.

- iii. **Revision of DPRs:** In all the test-checked projects, revised DPRs proposed by ULBs were approved (February 2012-March 2013) by GoI due to change in scope of work. The upward revision was on account of inclusion of works not proposed in the original DPR and downward as a result of deletion of community utility centres and community toilets due to non-availability of site, length of roads/drains due to site conditions. The projects were termed completed, though all the works sanctioned in revised DPR were not executed due to non-availability of site/site conditions. In two<sup>25</sup> test-checked projects, revised DPRs were approved (February 2012) after completion of projects, resulting in execution of works without approval of the deviations. Details of components proposed in original/revised DPRs and executed in respect of test-checked projects are detailed in *Appendix 4.1*. During the exit conference (December 2015), Government stated that DPRs were revised as certain components were deleted due to non-availability of site. This indicated improper survey and also not ensuring availability of site before submission of proposals.

#### 4.7 Execution

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

Out of 16 projects sanctioned (2007-09) in the State for infrastructural development under IHSDP, 13 projects<sup>26</sup> were completed and three<sup>27</sup> in progress. Eight<sup>28</sup> out of nine test-checked projects were completed and none of these was completed within the stipulated time. Siddipet project was stipulated for completion by July 2009, the project was not completed as of March 2015 due to non-availability of land for CUCs and unwillingness of the contractor to take up the other components (roads and drains) with old rates. State Government accorded (August 2014) permission to suspend the contract to the extent of work done and to take up left over components (roads and drains) by calling fresh tenders.

Out of eight<sup>29</sup> completed projects, all the works sanctioned (2008-09) were executed in Bodhan project. In Narayanpet project, the contractor expressed his unwillingness

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<sup>25</sup> Jangaon and Tandur

<sup>26</sup> Bhongir, Bodhan, Jangaon, Mahbubnagar, Mancherial, Miryalaguda, Nalgonda, Narayanpet, Nirmal, Palwancha, Tandur, Suryapet and Wanaparthy

<sup>27</sup> Gadwal, Siddipet and Yellandu

<sup>28</sup> Bodhan, Jangaon, Mancherial, Miryalaguda, Narayanpet, Palwancha, Suryapet and Tandur

<sup>29</sup> Bodhan, Jangaon, Mancherial, Miryalaguda, Narayanpet, Palwancha, Suryapet and Tandur

to execute length of 14 km of road at old rates (original DPR) and closed the work to the extent<sup>30</sup> done. In remaining six<sup>31</sup> test-checked projects, quantities as approved in the revised DPR were not executed on account of non-availability of site for construction of CUCs and due to site conditions in respect of roads/drains. However, the projects were termed completed, resulting in non-achievement of intended benefits to the slum dwellers. Project completion certificates were furnished in respect of all the completed projects.

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

#### 4.7.1 Physical amenities

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

##### 4.7.1.1 Cement Concrete (CC) Roads

Laying of roads is an important component in providing infrastructure in the slums. Works relating to laying of CC roads were sanctioned (2007-09) and executed in all the nine test-checked projects. In four<sup>32</sup> test-checked projects, CC roads were laid as sanctioned. In the remaining five<sup>33</sup> test-checked projects there was variation between quantities sanctioned and executed due to site conditions. Audit observations based on physical verification are given below:

- i. **Providing link road to highway:** The primary objective of the programme was to provide the basic infrastructure in the identified slums. During physical verification it was observed that a link road from Maniknagar slum to Kodangal highway passing through a private venture was laid in Tandur ULB with an estimate cost of ₹50 lakh to benefit the private developer rather than the slum. During the exit conference (December 2015), Government stated that road was laid to provide quick access to main road by avoiding railway crossing. Roads outside the slum area should not have been taken up with scheme funds.
- ii. **Laying of roads in Market area:** Physical verification of roads in Market area slum of Narayanpet ULB revealed that contrary to guidelines, roads (2,688.50 mts) and drains (360.20 mtrs) with an estimated cost of ₹52.89 lakh and ₹4.32 lakh respectively were laid in market area, instead of restricting the works in the prevailing slums. During the exit conference (December 2015), Government stated that small portion of road was laid in market area. Roads in the market area (not being part of dwelling area) should not have been taken up with scheme funds.

<sup>30</sup> Executed 23 km of road and 23.50 km of drain at a cost of ₹10.50 crore

<sup>31</sup> Jangaon, Mancherial, Miryalaguda, Palwanacha, Suryapet and Tandur

<sup>32</sup> Bodhan, Jangaon, Suryapet and Tandur

<sup>33</sup> Miryalaguda, Mancherial, Narayanpet, Palwanacha and Siddipet

iii. **Non-laying of road for the complete stretch:** Physical verification of the six<sup>34</sup> slums in Palwancha ULB revealed that CC roads were laid in patches, instead of complete stretch resulting in non-achievement of intended objective of providing motorable road to the residents in the slums. During the exit conference (December 2015), Government stated that remaining portion of the road was laid with ULB funds.

#### 4.7.1.2 CC Drains

CC drains were sanctioned (2007-09) and executed in eight<sup>35</sup> test-checked projects. In five<sup>36</sup> test-checked projects, CC drain works were executed as sanctioned and in remaining three<sup>37</sup> test-checked projects, there was variation between quantities sanctioned and executed due to site conditions. Audit observations are given below:

- i. **Delay in construction of nala box culverts:** In Suryapet ULB, construction of nala to an extent of 1.175 kms and seven nala-box culverts was entrusted (December 2008) at a contract value of ₹6.45 crore with a stipulation for completion within nine months from date of agreement. However, only 888 mtrs and two box culverts were constructed (August 2011) at a cost of ₹2.96 crore. The balance work was yet to be completed even after completion of more than five years from the stipulated period. The Department replied (November 2014) that notices were issued (May 2009 to June 2014) the contractor and the works would be terminated as per agreement conditions and balance work would be taken up after calling for fresh tenders. However, project was reported to have been completed (March 2013) as per Project Completion Certificate.
- ii. **Non-construction of side drains:** As per provisions stipulated in Indian Road Congress codes adopted by Ministry of Urban Development, side drains are required to be constructed to facilitate flow of water. Physical verification of six<sup>38</sup> slums in Palwancha ULB revealed that CC drains were constructed only on one side of the road and these drains were filled with dust and stones which is bound to lead to water logging in the monsoon.

#### 4.7.1.3 Community toilets

Community toilet is one of the basic facilities to be provided in urban slums to avoid open defecation for hygienic environment. As of July 2015, out of 8.15 lakh households, 0.83 lakh households (10 *per cent*) were resorting to open defecation in the slums of the State. In the ULBs of nine test-checked projects, 0.17 lakh households out of 0.78 lakh households (22 *per cent*) were resorting to open defecation. Provision for construction of toilets was proposed in one ULB

<sup>34</sup> Indira Nagar colony, Vikalangula colony, Srinivasa colony, Karakavagu, Bollarigudem and Nehru Nagar

<sup>35</sup> Bodhan, Jangaon, Mancherial, Narayanpet, Palwancha, Siddipet, Suryapet and Tandur

<sup>36</sup> Bodhan, Jangaon, Narayanpet, Suryapet and Tandur

<sup>37</sup> Mancherial, Palwancha and Siddipet

<sup>38</sup> Indira Nagar Colony, Vikalangula Colony, Srinivasa Colony, Karakavagu, Bollarigudem and Nehru Nagar

(Mancherial-12 Nos.) at an estimated cost of ₹63 lakh. However, only two community toilets were constructed (June 2011) at a cost of ₹11.99 lakh and construction of remaining 10 community toilets was not taken up due to non-availability of site. Further, toilets constructed were not handed over to the ULB resulting in unfruitful expenditure and depriving the slum dwellers the benefit of community toilet. During the exit conference (December 2015), Government stated that two toilets constructed were put to use and construction of remaining community toilets could not be taken up as planned due to non-availability of site. Identification and acquisition of land should have been completed prior to preparation of DPR. Failure to do so indicated defective planning.

Physical verification of 47 slums of nine<sup>39</sup> test-checked projects revealed that community toilets were not provided in the slums; as such the slum dwellers were resorting to open defecation.

#### 4.7.2 Social amenities

As per guidelines, provision of Social amenities included pre-school education, non-formal education, adult education, maternity, child health and primary health care including immunisation etc. DPRs should invariably be prepared for each of the projects and include provision for components under health, education and social security through convergence of schemes and also by dovetailing funds through budgetary provisions under the programmes of respective sectors (Health, Human Resource Development, Social Justice and Empowerment etc.). Review of DPRs of nine test-checked projects revealed that no works were proposed through convergence.

In this connection audit observed as under:

- i. **Primary Health Centres:** Primary Health Centre (PHC) is a basic health care facility that is to be made available with close proximity to the people to provide an integrated curative and preventive health care with emphasis on preventive and promotive aspects of health care. As of July 2015, PHCs services were not available to 778 slums out of 2,714<sup>40</sup> slums (29 per cent) in the State and 79 slums out of 209 slums (38 per cent) in the ULBs of six<sup>41</sup> test-checked projects. During physical verification, dwellers of 13 slums of five<sup>42</sup> test-checked projects expressed that PHCs were located far-away from their slums. However, provision for PHCs in convergence with Health department was not proposed. As a result, the slum dwellers continue to be deprived of basic health care facilities.

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<sup>39</sup> Bodhan (6 slums), Jangaon (7), Mancherial (6), Miryalaguda (5), Narayanpet (5), Palwancha (5), Siddipet (5), Suryapet (3) and Tandur (5)

<sup>40</sup> data in respect of 1,130 slums was not furnished

<sup>41</sup> Bodhan (33 slums), Jangaon (22), Narayanpet (17), Siddipet (2), Suryapet (1) and Tandur (4)

<sup>42</sup> Bodhan (2 slums), Mancherial (4), Miryalaguda (5), Narayanpet (1) and Palwancha (1)

### 4.7.3 Community infrastructure

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

- i. **Non-provision of CUCs:** As of July 2015, there were only 739 CUCs in 2714<sup>43</sup> slums of the State and 83 CUCs in 323 slums of ULBs of test-checked projects. GoI sanctioned (2007-09) 56 CUCs as proposed in original DPRs of nine<sup>44</sup> test-checked projects with an estimated cost of ₹16.05 crore. In the revised DPRs approved (February 2012 – March 2013) by GoI, the number of CUCs sanctioned was reduced to 35 in seven<sup>45</sup> test-checked projects and no CUCs were approved in two (Narayanpet and Siddipet) test-checked projects due to non-availability of site. During the exit conference (December 2015), Government stated that construction of CUCs could not be taken up as planned due to non-availability of site. Identification and acquisition of land should have been completed prior to preparation of DPR. This indicated defective planning.

Further, out of 35 CUCs sanctioned in revised DPRs, only 18 CUCs were constructed in six<sup>46</sup> test-checked projects at a cost of ₹5.42 crore and handed over to the ULBs concerned and construction of 14 CUCs in four<sup>47</sup> test-checked projects was not taken up due to non-availability of site. Three CUCs in Suryapet project were not completed as the contractor stopped the works mid-way.

- ii. **Non-completion of construction of CUCs:** In Suryapet ULB, construction of seven CUCs was entrusted (December 2008) with a stipulation for completion by September 2009. Out of seven CUCs entrusted, construction of three<sup>48</sup> CUCs was initiated in February 2009 and the work was suspended (February 2013) after incurring an expenditure of ₹82.81 lakh. There was no further progress in the work and left over works include fixing of doors and windows, electrical, water supply and sanitary etc. During physical verification it was observed that these CUCs were being used for anti-social activities. Department replied (November 2014) that action would be initiated to terminate the contract and complete the balance work by calling for fresh tenders. However, the project was reported to have been completed (March 2013) as per Project Completion Report. Non-completion of construction of CUCs in complete shape not only resulted in unfruitful expenditure but also provided scope for misuse. Remaining four CUCs sanctioned in original DPR were not included in revised DPR due to non-

<sup>43</sup> data in respect of 1,130 slums was not furnished

<sup>44</sup> Bodhan (3 CUCs), Jangaon (12), Mancherial (2), Miryalaguda (10), Narayanpet (9), Palwancha (1), Siddipet (4), Suryapet (7) and Tandur (8)

<sup>45</sup> Bodhan (3 CUCs), Jangaon (12), Mancherial (2), Miryalaguda (10), Palwancha (1), Suryapet (3) and Tandur (4)

<sup>46</sup> Bodhan (3 CUCs), Jangaon (6), Mancherial (1), Miryalaguda (5), Palwancha (1) and Tandur (2)

<sup>47</sup> Jangaon (6 CUCs), Mancherial (1), Miryalaguda (5) and Tandur (2)

<sup>48</sup> Chintal Cheruvu, Gopalapuram and Annadurai Nagar slums

availability of site.

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

- iii. **Non-utilisation of CUCs for intended purpose:** In the test-checked project of Bodhan, three CUCs were sanctioned and constructed (March 2012) at a cost of ₹89.79 lakh and handed over to ULB to be utilized for the purpose of recreational activities, education, crèche, library/study centre etc. During physical verification, it was noticed that Government offices were functioning in these CUCs. Thus, slum dwellers remain deprived of the intended benefits of CUC. During the exit conference (December 2015), Government stated that instructions were issued for shifting of Government offices.

Further, it was also observed that despite lump sum provision of ₹3.00 lakh in estimate for greenery and play equipment's, they were not carried out.

- iv. **Non utilisation of facilities created:** As per guidelines it is the responsibility of ULBs to maintain and operate the assets and facilities created. However, physical verification of 15 CUCs constructed in five<sup>49</sup> test-checked projects revealed that none of the CUCs were utilised for the intended purpose and the condition of the buildings was in bad shape due to poor maintenance. As such, the intended benefits could not be derived by the beneficiaries. During the exit conference (December 2015), Government stated that CUCs were put to use. However, it did not provide documentary evidence to this effect.

## 4.8 Financial management

### 4.8.1 Sharing arrangement

Even though guidelines stipulate sharing by Central and State Government/ULB in the ratio of 80:20, in 5 out of 16 projects release of State/ULB's share ranged from 21 to 39 *per cent*. Further, in respect of State share in 16 infrastructure projects, it was agreed to share between State Government and ULBs equally. However, in five projects, release of ULB's share exceeded that of State Government by ₹4.05 crore<sup>50</sup>, affecting the resources of ULBs.

State Government accorded (May 2008) revised administrative sanction for 12 projects due to increase in cost attributed to revision of steel, cement and Standard Schedule of Rates (SSR) and also due to non-inclusion of statutory provisions such as VAT, labour cess etc. The increased cost amounting to ₹27.49 crore was not covered by GoI sanction. As a result, this was borne by ULBs concerned.

<sup>49</sup> Jangaon (6 CUCs), Mancherial (1), Miryalaguda (5), Palwancha (1) and Tandur (2)

<sup>50</sup> Bodhan ₹0.09 crore, Gadwal ₹0.11 crore, Jangaon ₹3.46 crore, Miryalaguda ₹0.09 crore and Nirmal ₹0.30 crore

#### 4.8.2 Substantial amounts retained by SLNA

As per guidelines, SLNA is responsible for management of funds received from Central and State governments and for disbursement of funds to implementing agencies as per the funding arrangement. Scrutiny of records revealed that as of March 2015, ₹197 crore was available with SLNA, of which ₹152.05 crore was released to implementing agencies and an amount ₹44.95 crore (Central share ₹13.77 crore, State share ₹1.55 crore and ULB share ₹29.63 crore) was retained by SLNA. Funds should be either released to implementing agencies wherever necessary or should be refunded with interest to the GoI/State Government. However, 23 per cent of the funds remained with SLNA. During the exit conference (December 2015), Government stated that as per orders of GoI, funds retained would be utilised for other components of JNNURM.

#### 4.8.3 Non refund of excess Central share by implementing agencies

As per the provisions of General Financial Rules (GFRs), funds released by Central Government may be utilised for the purpose for which they were released and the unspent balance, if any, shall be refunded along with interest. Scrutiny of SLNA records revealed that in respect of 12 projects, reduction in the approved cost in the revised DPR resulted in excess release of Central share of ₹10.03 crore<sup>51</sup>. Of these twelve projects, seven<sup>52</sup> were test-checked. However, the amount was yet to be refunded to GoI.

#### 4.8.4 Expenditure in excess of releases

As per guidelines, SLNA is responsible for disbursement of funds to implementing agencies as per the financing pattern. Scrutiny of SLNA records revealed that in respect of 10 out of 16 projects sanctioned in the State, expenditure incurred exceeded releases to the extent of ₹6.15 crore<sup>53</sup> as of March 2015. Of these ten projects, five projects were test-checked.

#### 4.8.5 Non-reimbursement of expenditure incurred on DPRs

As per toolkit developed by GoI (MoHUPA) detailing the procedure for reimbursement of expenses, SLNA shall forward proposals from implementing agencies for reimbursement of expenses<sup>54</sup> to Mission Directorate for recommendation to CSC for the release of funds. GoI prescribed (May 2014) a simplified procedure for reimbursement of DPR expenses. In spite of the simplified procedure, SLNA had not

<sup>51</sup> Bhongir ₹0.25 crore, Bodhan ₹0.40 crore, Jangaon ₹1.51 crore, Mahbubnagar ₹1.05 crore, Mancherial ₹0.70 crore, Nalgonda ₹1.05 crore, Nirmal ₹0.70 crore, Palwancha ₹1.40 crore, Siddipet ₹0.09 crore, Suryapet ₹1.67 crore, Tandur ₹0.86 crore and Yellandu ₹0.35 crore

<sup>52</sup> Bodhan ₹0.40 crore, Jangaon ₹1.51 crore, Mancherial ₹0.70 crore, Palwancha ₹1.40 crore, Siddipet ₹0.09 crore, Suryapet ₹1.67 crore and Tandur ₹0.86 crore

<sup>53</sup> Bhongir (₹0.60 crore), Gadwal (₹0.23 crore), Jangaon (₹0.01 crore), Mahbubnagar (₹0.85 crore), Mancherial (₹0.35 crore), Miryalaguda (₹0.64 crore), Nalgonda (₹0.53 crore), Narayanpet (₹0.78 crore), Tandur (₹1.01 crore) and Wanaparthy (₹1.15 crore)

<sup>54</sup> at one per cent of the project cost or actual cost incurred for preparation of DPRs whichever is lower

forwarded the proposals as of March 2015 towards reimbursement of expenditure of ₹1.81 crore. During the exit conference (December 2015), Government stated that matter with regard to reimbursement of expenditure on preparation of DPRs would be pursued.

#### 4.8.6 Funds not earmarked by ULBs for utilisation in slum area

State Government orders (July 2009) stipulate that ULBs shall earmark 40 per cent of net funds for undertaking developmental activities in slum areas by making a suitable provision in the budget estimate every year by opening separate account for Urban Poverty Alleviation fund in the existing Personal Deposit (PD) account. Funds were not ear-marked by any of the test-checked ULBs. However, ULBs stated that funds were utilised towards developmental activities in slum areas depending upon availability.

#### 4.8.7 Pending Utilisation Certificates

Status of Utilisation certificates (UCs) furnished by implementing agencies to SLNA is given below. Despite specific request (May 2015), SLNA has not furnished the details of UCs furnished to GoI.

Table 4.3

(₹in crore)

Project	Releases	Expenditure	UCs furnished	Pending UCs
Mancherial	13.95	14.30	7.35	6.95
Narayanpet	9.72	10.50	4.29	6.21
Suryapet	16.92	16.90	8.92	7.98
Tandur	11.51	12.52	4.95	7.57

Source: Records of SLNA and ULBs

#### 4.8.8 Expenditure on inadmissible components

As per the guidelines, construction of school buildings and incurring expenditure on solid waste management are inadmissible. However, in Mancherial ULB ₹58.91 lakh was incurred towards construction of school building and solid waste management. Although these components were approved in original DPR, Central Sanctioning Committee (CSC) treated these components as inadmissible in revised DPR approved in February 2012. The Department replied (December 2014) that expenditure incurred on inadmissible components would be met from ULB.

### 4.9 Tendering and contract management

#### 4.9.1 Delay in conclusion of agreements

Engineer-in-Chief issued instructions to conclude the agreements for the works taken up under the project with the contractors within 21 days from the date of issue of

Letter of Acceptance (LOA). In five<sup>55</sup> test-checked projects, five agreements were concluded with a delay ranging from 60 to 114 days from the date of issue of LOA. This adversely effected the execution of project as per schedule.

#### **4.9.2 Non-revalidation of Bank Guarantee**

As per agreement conditions the bank guarantees should be obtained from the contractors till the date of completion of the work and further 24 months of defect liability period. In four<sup>56</sup> test-checked projects, validity of Bank Guarantee (BG) amounting to ₹1.48 crore expired in advance of completion of work and defect liability period. Revalidation of BG was not done by implementing agencies. During the exit conference (December 2015), Government stated that instructions were issued to ULBs for revalidation of Bank Guarantees.

#### **4.10 Quality control**

##### **4.10.1 Delay in appointing TPIMA**

As per toolkit Third Party Inspection and Monitoring Agencies (TPIMA) for projects were to undertake monitoring of works pertaining to pre-construction, construction, commissioning, trial run and testing and post construction stages. TPIMA is to monitor the projects till one year from the filing of project completion report and submit final report on the overall performance of the project. However, agreement with TPIMA was concluded (August 2009) after entrustment of works to the contractors in all the test-checked projects. As a result, pre-construction stage<sup>57</sup> inspections could not be carried out by TPIMA. During the exit conference (December 2015), Government stated that agreements with TPIMA were concluded after entrustment of works to contractors. It further stated that pre-construction stage inspections were conducted by quality control wing of the department.

#### **4.11 Monitoring system**

##### **4.11.1 Meetings**

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

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<sup>55</sup> Bodhan (60 days), Miryalaguda (114), Narayanpet (69), Suryapet (76) and Tandur (62)

<sup>56</sup> Miryalaguda ₹42.06 lakh, Narayanpet ₹38.47 lakh, Siddipet ₹6.14 lakh and Suryapet ₹60.99 lakh

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

#### **4.11.2 Training and Capacity building**

Programme guidelines envisage that State Government should make continuous efforts for training and upgradation of the skills of the personnel responsible for the project and the elected representatives. In addition, it should also organise suitable training and capacity building programmes through reputed institutions in the field. During 2014-15, against the target of 20 training and capacity building programmes, only three were conducted. This was to affect the skill/capacity of the personnel involved with the projects. During the exit conference (December 2015), Government agreed that adequate training programmes were not conducted.

#### **4.11.3 Non-conducting of Social Audit**

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

#### **4.11.4 Integrated Poverty Monitoring System**

Online web enabled project performance tracking system as part of Integrated Poverty Monitoring System (IPOMS) was developed<sup>58</sup> to monitor the physical and financial progress of sanctioned projects. While the implementing agency is to carry out data entry for this, data was updated only up to April 2012. Due to technical problems data uploaded was invisible. During the exit conference (December 2015), Government agreed that there were problems in uploading data in IPOMS. The purpose of creating the monitoring system was therefore not achieved.

#### **4.11.5 De-notification of slums**

As and when the slum areas are redeveloped or rehabilitated, the Competent Authority<sup>59</sup> should submit proposals to the State Slum Redevelopment Authority for de-notification of the slum areas and after satisfying that the slum areas are redeveloped or rehabilitated, the slums are to be de-notified. State Government intended (September 2009) to achieve the objective of slum free by the year 2014. Despite implementation of various programmes/schemes for providing basic infrastructure facilities and improving conditions in the slums from time to time, de-notification process was not taken up by the ULBs of test-checked projects. Contrary

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<sup>58</sup> by Centre for Good Governance, Hyderabad for MoHUPA

<sup>59</sup> District Slum Redevelopment Authority

to Government orders, there was an increase of 72 slums in ULBs of eight<sup>60</sup> test-checked projects, since sanction of the projects (2007-09) till July 2015. In Siddipet and Tandur ULBs the increase in number of slums was 100 *per cent* or more. During the exit conference (December 2015), Government assured that necessary steps would be initiated for de-notification of slums.

#### **4.12 Conclusion**

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

#### **4.13 Recommendations**

Audit recommends the following measures for consideration of the Government:

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

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

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<sup>60</sup> Bodhan (1 slum), Jangaon (4), Mancheril (3), Miryalaguda (13), Narayanpet (8), Palwancha (4), Siddipet (25) and Tandur (14)

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**Chapter - V**

**Compliance Audit Paragraphs**

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## Municipal Administration and Urban Development Department

### 5.1 Municipal Solid Waste Management

#### 5.1.1 Introduction

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

#### 5.1.2 Audit Approach

Audit of implementation of Solid Waste Management (SWM) Rules 2000 by Urban Local Bodies (ULBs) in Telangana was conducted during April- June 2015, covering the period 2010-11 to 2014-15. Audit methodology involved a test check of records of two Municipal Corporations (Nizamabad & Warangal) and two Municipalities (Mahbubnagar & Nalgonda) in the State. Audit findings were benchmarked against criteria sourced from Municipal Solid Waste (Management & Handling) Rules 2000, Guidelines for Municipal Solid Waste Management issued by The Commissioner & Director of Municipal Administration (CDMA), Hyderabad in June 2005, Bio Medical Waste (Management & Handling) Rules 1998, E-Waste (Management & Handling) Rules 2011 and orders and circulars issued by Government of Andhra Pradesh from time to time.

### Audit findings

#### 5.1.3 Fund Utilisation

The State Government did not earmark any specific allocation for implementation of the activities under MSW management rules. However, GoI released grants through 12th Finance Commission for implementation of MSW management during the period from 2005-06 to 2010-11. The details of releases and expenditure incurred under 12th FC grants, in the four test-checked ULBs are given below:

**Table 5.1**

(₹in crore)

Sl. No.	Name of the ULB	Grant received	Utilised
1	Mahbubnagar	3.45	3.37
2	Nalgonda	2.91	2.90
3	Nizamabad	7.62	7.61
4	Warangal	13.98	13.98

Source: Utilisation Certificates

Expenditure shown to have been utilised out of the 12th Finance Commission grants, was not entirely incurred for the purpose for which it was granted. Specific instances

in this regard noticed during a test check of the records of the sampled Municipalities/Corporations are detailed below:

- i. In Nizamabad Municipal Corporation, an amount of ₹1.0 crore was released to the Revenue authorities for acquisition of garbage dumping yard (March 2010). The amount was deposited in the bank. Since the land allotted belonged to Government, the Revenue authorities returned ₹97.10 lakh in March 2014. Balance of ₹2.90 lakh along with interest of ₹32 lakh was not returned to the Corporation. The Commissioner, instead of remitting ₹97.10 lakh into grant account, incorrectly deposited the amount into the General Fund.  
  
Government replied (October 2015) that the ULB was instructed to pursue the matter with District collector to get refund of ₹2.90 lakh along with interest. However, the misclassification of deposit was not clarified.
- ii. In Warangal, an amount of ₹1.45 crore was released to the Revenue authorities (February 2012) for acquisition of land for dumping yard. However, the land was yet to be identified by the Revenue authorities. Government, in its reply (October 2015) assured action in getting back the amount with interest.
- iii. Funds were kept in fixed deposit in banks by Nizamabad Municipal Corporation (₹69.07 lakh)<sup>1</sup> and Mahbubnagar<sup>2</sup> (₹90 lakh) and Nalgonda Municipalities (₹30 lakh). Government replied (October 2015) that the deposits were withdrawn and credited to the Fund account along with interest.
- iv. Greater Warangal Municipal Corporation initially deposited fund released under 12<sup>th</sup> Finance Commission grant in fixed deposits. This was later withdrawn and irregularly diverted (May 2014) ₹1.23 crore to Rajiv Awas Yojana (RAY) Scheme in contravention of the guidelines. Government assured that the amount of ₹1.43 crore deposited for RAY scheme would be returned.
- v. In two test checked ULBs<sup>3</sup> an amount of ₹8.47 crore was incurred beyond the stipulated period of 2005-06 to 2010-11 contrary to the guidelines of 12<sup>th</sup> Finance Commission grants. Government accepted (October 2015) the observation and stated that the expenditure beyond the stipulated period was due to administrative reasons.
- vi. In Nizamabad, expenditure amounting to ₹53.54 lakh was incurred on inadmissible items like formation of roads, wage payment to sanitary workers etc. Government replied (October 2015) that entire amount was reimbursed to the 12<sup>th</sup> FC grant. However, no evidence in support of the reimbursement was produced by Government.

<sup>1</sup> ₹60.00 lakh in February 2007 and ₹9,06,975 in March 2007 (State Bank of Hyderabad)

<sup>2</sup> Mahbubnagar – ₹30.00 lakh in August 2007 (Vijaya Bank) and ₹60.00 lakh in December 2007 (Indian Overseas Bank & Andhra Bank).

<sup>3</sup> Mahbubnagar – ₹1.18 crore and Warangal – ₹7.29 crore

- vii. Nizamabad Municipal Corporation transferred an amount of ₹22.36 lakh to Provident Fund Commissioner from the grants of Twelfth Finance Commission in contravention to the guidelines. Also no action was taken to recoup the amount.

#### 5.1.4 Implementation of MSW

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

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

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

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

##### 5.1.4.1 Collection and Segregation of waste

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

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

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

Audit scrutiny revealed that no such plan was prepared in test checked Corporations and Municipalities<sup>5</sup>. Government replied (October 2015) that Mahbubnagar Municipality had prepared action plan for the current financial year (2015-16). However, specific reply was not furnished for other ULBs.

**(ii) Segregation and storage at source**

Segregation and storage of solid waste is the most critical component in the whole process of MSW management, since this step guides the subsequent steps to be taken in handling solid waste. Government replied (October 2015) that the services of MEPMA and Nagara Deepika members were being utilized in all the ULBs to sensitize the masses on the benefits of segregation of waste. As a result, many ULBs started selling of the dry resource to recyclers.

**(iii) Awareness among citizens**

Generating awareness among the public with regard to the procedures and creation of an enabling environment is the key to success of proper segregation and storage at source. In order to encourage the citizens, municipal authorities should organize awareness programmes<sup>6</sup> for segregation of wastes and promote recycling or reuse of segregated materials. However, in one ULB<sup>7</sup>, public awareness programme was conducted and in three<sup>8</sup> test checked ULBs records to prove conducting such programmes were not available.

Government replied (October 2015) that the door to door awareness campaigns were held through MEPMA & Nagara Deepika members on segregation and storage of waste in two bins (dry & wet waste). Several meetings with community organizers were also conducted to propagate the message of segregation at source.

**(iv) Non-segregation at source**

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

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

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

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<sup>5</sup> Nizamabad & Warangal Corporations and Mahbubnagar & Nalgonda Municipalities

<sup>6</sup> Sl. No.2 of Annexure 9 of State Guidelines on MSW issued in July 2005

<sup>7</sup> Warangal

<sup>8</sup> Mahbubnagar, Nizamabad and Nalgonda

In two test checked ULBs<sup>9</sup>, 37 hospitals/Diagnostics/Clinics did not have a tie up with agencies for segregation and disposal of bio-medical waste. This would result in mixing of bio-medical waste with municipal solid waste. However, segregation of garbage at source was not practiced. Inclusion of suitable clause for segregation and disposal of bio-medical waste by such units at the time of issue of licenses would ensure compliance as contemplated.

**(v) Arrangements for primary collection points**

Collection of MSW has to be done from dispersed sources of its generation/storage, taking into account the quantum of garbage generated in the municipal area. Quantum of garbage generated in the test checked ULBs ranged from 56 MTs to 234 MTs per day. In these ULBs (except in Nalgonda) garbage was collected door-to-door in tricycles through outsourced agencies. Since segregation was not done at the source point, door-to-door collection in two separate compartments for bio-degradable and recyclable was not done. Further, rag pickers were not organized for improving MSW collection.

However, 100 *per cent* door-to-door collection of garbage was not achieved in full in any of the test checked ULBs. Government accepted (October 2015) that the segregation of waste at source was not satisfactory. It was, however, stated that about 30 *per cent* segregation was being done by Public Health workers during collection, and rag pickers at secondary storage points and at dump yards.

**(vi) Non-levy of garbage collection fee**

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

However, it was observed that the test checked ULBs were not levying fee from bulk garbage generators. Audit assessed loss of revenue of ₹1.22 crore in two ULBs<sup>10</sup>. The other two ULBs<sup>11</sup> did not furnish details of bulk garbage produce.

In one ULB<sup>12</sup>, though a Council Resolution was passed for collection of user charges at ₹one per day per house, the percentage of collection was 6 *per cent* and 11 *per cent* in 2013-14 and 2014-15 respectively. There was short collection of ₹1.27 crore during the period.

<sup>9</sup> Nizamabad (26) and Mahbubnagar (11)

<sup>10</sup> Nalgonda (₹120 lakh) and Warangal (₹1.94 lakh)

<sup>11</sup> Mahbubnagar and Nizamabad

<sup>12</sup> Warangal Municipal Corporation

Government replied (October 2015) that ULBs were collecting user charges from bulk waste generators and stated further that Nizamabad Municipal Corporation was collecting user charges at ₹3.20 lakh per month from the commercial establishments.

### **5.1.5 Transportation of solid waste**

Local bodies are to identify locations where solid waste intermediate storage facilities should be created. Primary transportation of solid waste involves movement from source of generation to the intermediate storage facility. Secondary transportation involves carriage of solid waste from intermediate storage facility to the waste treatment plants/land fill sites. Depending on the quantity of solid waste generated and nature of facilities at the final treatment/processing/landfill sites, a mix of transport devices should be put into place.

Audit observations in this regard are as follows:

- i. Based on the norms for collection/transportation of garbage at 35,165 households etc., in Nalgonda, audit observed that such operation required 16 tractors/tippers and three autos. As such, procurement of five tractors and four autos was found to be excess, resulting in avoidable excess expenditure of ₹0.47 crore<sup>13</sup>. Government replied (October 2015) that many of the vehicles owned by ULB were under repair, for which spare parts were not available in the market. The ULB failed to take appropriate measures to dispose of the unserviceable vehicles.
- ii. In Warangal, 58 vehicles were deployed<sup>14</sup> for clearance of 240 MTs of garbage per day. However, audit assessed the capacity of garbage clearance of 58 vehicles as 633 MTs. It revealed that vehicles procured were more than twice the requirement. Government replied (October 2015) that the waste generated in the city was 360 MTs against 275 MTs projected with the capacity of vehicles procured under 12<sup>th</sup> FC grants. As such, 15 more tractors were engaged by ULB to collect and transport the waste. However, the details regarding 360 MTs of waste generated in the city were not enclosed.
- iii. In Mahbubnagar Municipality, one bio-pulverizer was procured in April 2008 at a cost of ₹6.88 lakh. However, it was not put to use till March 2015 due to non-availability of Power and water supply at dumping yard. As a result, segregation of MSW was not done and the amount of ₹26.73<sup>15</sup> lakh remained unfruitful. Government promised (October 2015) that the bio-pulverizer would be put to use by providing required infrastructural facilities.
- iv. Nizamabad Municipal Corporation, entered into agreements for transportation of municipal solid waste to the dumping yards. It was noticed in audit that the details of vehicles were not entered in inward register at the dumping yard.

<sup>13</sup> 3 Autos @ ₹4.58 lakh per vehicle and 5 tractors/ trailers @ ₹6.65 lakh per vehicle.

<sup>14</sup> Dumper Placers (19), Tippers (3), Compactor (6) and Tractor (30).

<sup>15</sup> (₹9,88,708 + ₹9,93,349 + ₹6,88,878)

However, payment of ₹78.07 lakh<sup>16</sup> was made to the contractors from March 2013 to February 2015. Statutory deduction of Income Tax @2.26 per cent amounting to ₹1.76 lakh was not made from these contractual payments. Government also not furnished reply (November 2015).

### 5.1.6 Processing of MSW

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

- i. As per MSWM guidelines, Municipal authorities should adopt suitable technology or combination of such technologies to make use of wastes so as to minimize burden on landfill. In the test checked ULBs, no technology was adopted for processing of waste to minimize burden on landfill. Government in its reply (October 2015) stated that of two<sup>17</sup> agencies permitted to process and dispose the waste generated in 30 ULBs, one agency had stopped functioning since January 2014, while the other unit would commence operation from December 2015. Thus, the objective of processing the waste could not be met.
- ii. The e-waste (Management and Handling) Rules 2011 define e-waste as “Waste Electrical and Electronic equipment including all components sub-assemblies and their fractions”. E-waste is considered dangerous to human health and environment as it contains certain materials like lead, cadmium and mercury that are hazardous depending on their conditions and density. The ULBs should ensure that, e-waste/orphaned products, if found to be mixed with MSW, is properly segregated, collected and is channelized to either authorized collection centre or dismantler or recycler.
- iii. Further, the Municipal authorities are responsible for ensuring safe collection, storage, segregation, transportation, processing and disposal of plastic waste, setting up of plastic waste collection centres, take measures to encourage the use of plastic waste by adopting suitable technology such as in road construction etc.

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

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<sup>16</sup> 4 vehicles: ₹19.87 lakh; 1 vehicle: ₹22.31 lakh; 2 vehicles: ₹17.91 lakh and 1 vehicle: ₹17.98 lakh

<sup>17</sup> M/s Shalivahana (MSW) Green Energy Ltd & M/s Hema Sri Power Projects

### 5.1.7 Disposal of MSW

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

- i. In all the test checked ULBs, MSW was disposed off in dumping yards affecting the environment. None of the above mentioned disposal practices were followed in any of these ULBs.
- ii. In violation of MSW Rules, no system was adopted for generation of power from garbage in the test checked ULBs.
- iii. In Nizamabad Municipal Corporation, an agreement was entered into with M/s. Shalivahana MSW Green Energy Limited in December 2011 for establishing waste processing facility at the municipal dumping yard at Nagaram. The contract period expired in November 2014 and the contractor had not set up the processing plant on the grounds that municipal garbage was not processed and could not be used for their power project. Thus, ULB failed to ensure segregation of solid waste before entering into the contract.

Government accepted (October 2015) that the disposal of MSW was not started by the agency. However, specific reasons for not turning up to the contract by agency and the action initiated for processing the waste were not clarified by the Government.

- iv. In Mahbubnagar Municipality, compost yard was constructed at Koilkonda 'X' Road at a cost of ₹9.88 lakh in December 2010. In addition, segregation shed at dumping yard was constructed at a cost of ₹9.93 lakh in August 2011. However, this was not put to use till October 2015.
- v. Government promised (October 2015) compliance to make use of the compost yard by providing electricity.

### 5.1.8 Monitoring mechanism

MSW Rules stipulate that Annual Reports in prescribed form should be furnished by the Municipal Authority to the Secretary in charge of the department of urban development indicating, *inter-alia*, the quantity and composition of solid waste, storage facilities, transportation, details of slums etc., with a copy to the State Board or the Committee on or before 30<sup>th</sup> day of June every year. The State Board, in turn, prepares the annual report with regard to implementation of MSW Rules, 2000 and forwards it to Central Pollution Control Board.

Scrutiny of the test-checked ULBs revealed that there was no evidence of compliance with the procedure of forwarding the annual report to the State Pollution Control Board. The Board also confirmed that, barring the reports for the year 2012-13 by

Nizamabad and for the years 2010-14 by Warangal, other two test-checked ULBs (Nalgonda and Mahbubnagar) had not forwarded the annual reports.

As per the annual report of the State Board for the year 2014-15, none of the ULB's in the State adopted 'two bin'<sup>18</sup> system and manual handling of waste was being carried out in most of the ULBs. Only eight *per cent* of households in State were covered under source segregation. Further, only 11 out of 68 ULBs in the State set up vermin compost plants and one ULB (Karimnagar) has established power plants as part of processing of waste and disposal facilities. Most ULBs were dumping the waste in existing dump sites.

The test checked ULBs have not constituted Monitoring Committee headed by the Commissioner for monitoring and review of the progress of implementation of the scheme in compliance with the Rules.

As per Manual of Role & Responsibilities of various functionaries in ULBs the Medical Officer of Health have to periodically inspect markets and other places where articles of food are sold for compliance to Public Health regulations and sanitary requirements. Records relating to periodical inspections conducted were not maintained in the test checked ULBs.

### 5.1.9 Conclusion

The ULBs were not compliant with the MSWM Rules in several regards. Segregation of MSW was not done at source point and door-to-door collection was not achieved 100 *per cent*. Requisite fee was not levied on generators of bulk garbage. Absence of arrangements for segregation of MSW at source or at the transfer stations/disposal site burdened the dumping yard, leading to health hazards and inconvenience to citizens. Vehicles were procured in excess of requirement. Appropriate technology was not adopted for processing of waste to minimize burden on landfill. There was no system for generation of power from garbage. The monitoring mechanism was not adequate

## 5.2 Avoidable payment of interest and damages - ₹1.08 crore

### Delayed remittance of ESI contributions by Warangal Municipal Corporation resulted in avoidable payment of ₹1.08 crore towards interest and damages

As per the provisions of the Employees' State Insurance (ESI) Act 1948<sup>19</sup>, the employer is liable to pay the ESI contributions to the ESI Corporation within 21 days from the last day of the calendar month in which the contributions fall due. In case of failure to pay the contributions within the specified period, the employer is liable to pay interest at the rate of 12 *per cent* per annum for each day of default/delay<sup>20</sup>. In addition, damages are also payable<sup>21</sup>.

<sup>18</sup> Bio-degradable, Recyclable and other waste

<sup>19</sup> Sections 39 and 40 read with regulation 31 of the ESI (General) Regulations, 1950

<sup>20</sup> Regulation 29 read with regulation 31 of ESI (General) Regulations, 1950.

<sup>21</sup> Regulation 31 and 26 of ESI (General) Regulations, 1950.

Warangal Municipal Corporation<sup>22</sup> (WMC) introduced ESI scheme to the outsourced contract public health workers with effect from August 2010. Contributions for the period from August 2010 to February 2011<sup>23</sup> and January 2012 to December 2012<sup>24</sup> amounting to ₹1.53 crore were remitted by WMC, the principal employer, belatedly in August 2013<sup>25</sup>. The ESI Corporation served notices on WMC for interest and damages (during August 2013 and July 2015) for ₹1.17 crore. Out of this, WMC paid charges amounting to ₹1.08 crore as of July 2015 (*Appendix 5.1*).

Government attributed the delay in remittances to pending adjustments through online system. The reply of the Government (November 2015) is not acceptable as arrangements should have been made for prompt payment of ESI contributions.

Thus, failure of WMC in ensuring prompt remittances of ESI contributions resulted in avoidable payment of ₹1.08 crore and committed liability of ₹0.09 crore levied towards interest and damages.

**Hyderabad  
The**

**(L.TOCHHAWNG)  
Principal Accountant General (G&SSA)  
Andhra Pradesh and Telangana**

**Countersigned**

**New Delhi  
The**

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

<sup>22</sup> Greater Warangal Municipal Corporation (GWMC) from January 2015

<sup>23</sup> Contributions for the period August 2010 to February 2011 - ₹56,19,362

<sup>24</sup> Contributions for the period January 2012 to December 2012 - ₹96,33,197

<sup>25</sup> Contributions were paid for the period March 2011 to December 2011 in time.

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# **Appendices**

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## Appendix 1.1

(Reference to paragraph 1.3 page 3)

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

(₹ in lakh)

Sl. No	Name of the District	Agriculture Department	Animal Husbandry Department	Backward Classes Welfare Department	Fisheries Department	Total
1	Adilabad	0	46.25	0	357.26	403.51
2	Karimnagar	0	24.80	0	442.67	467.47
3	Khammam	0	26.09	0.20	344.16	370.45
4	Mahbubnagar	0	0	0	0	0
5	Medak	0	0	0	7.50	7.50
6	Nalgonda	19.38	0	0	83.48	102.86
7	Nizamabad	0	0	0	22.78	22.78
8	Rangareddy	0	0	0	20.82	20.82
9	Warangal	0	0	0	18.35	18.35
	<b>Total</b>	<b>19.38</b>	<b>97.14</b>	<b>0.20</b>	<b>1,297.02</b>	<b>1,413.74</b>

## Appendix 2.1

(Reference to paragraph 2.2 page 16)

## Statement showing the details of notices issued by Fund Commissioner

Sl. No.	Details of notices issued by Fund Commissioner				Details of Payment	
	Name of the SPMU/DPMU/TPMU	Noticed issued (Month and year)	Amount (Damage charges and interest)	Period of recovery of EPF	Payment made (Month and year)	Amount
1	Bhadrachalam	March 2014	10,00,273	March 2008 to March 2014	May 2014	10,00,273
2	Hyderabad	May 2014	66,377	August 2006 to February 2014	July 2014	66,377
3	Khammam	March 2014	23,25,486	August 2002 to March 2014		0
4	Medak	March 2014	24,17,654	July 2002 to December 2013	October 2014	24,17,654
5	Nalgonda	May 2014	61,99,721	December 2007 to May 2014	August 2015	61,99,721
6	Nizamabad	July 2012	11,90,265	January 2003 to August 2008	August 2012	11,90,265
7	Warangal	December 2013	2,15,646	May 2009 to September 2013	December 2014	2,15,646
	<b>Total</b>		<b>1,34,15,422</b>			<b>1,10,89,936</b>

Source: Information furnished by SERP

**Appendix-4.1**

(Reference to paragraph 4.6.2 page 36)

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

Sl. No.	Name of the ULB and Status of the project	No. of slums identified for implementation of programme	Components	Quantities sanctioned in original DPR	Quantities sanctioned in revised DPR	Quantities executed	Quantities not executed
1	Bodhan (Completed)	35	Roads	17.27 km	16.19 km	16.19 km	0
			Drains	14.87 km	10.47 km	10.47 km	0
			CUCs	3 Nos.	3 Nos.	3 Nos.	0
			Street lights	185	145	145	0
2	Jangaon (Completed)	15	Roads	27.24 km	23.70 km	23.70 km	0
			Drains	75.35 km	37.50 km	37.50 km	0
			CUCs	12 Nos.	12 Nos.	6 Nos.	6 Nos.
3	Miryalaguda (Completed)	24	Roads	34.50 km	41.88 km	36.21 km	5.67 km
			CUCs	10 Nos.	10 Nos.	5 Nos.	5 Nos.
4	Mancherial (Completed)	6	Roads	14.19 km	18.33 km	15.49 km	2.84 km
			Drains	44.86 km	48.14 km	43.20 km	4.94 km
			CUCs	2 Nos.	2 No.	1 No.	1 No.
			Street lights	328	311	311	0
			Community toilets	12	2	2	0
			Development of parks	6	1	1	0
Water supply works executed as sanctioned in original DPR							
5	Narayanpet (Completed)	17	Roads	19.20 km	37.01 km	23.00 km	14.01 km
			Drains	35.26 km	23.50 km	23.50 km	0
			CUCs	9 Nos.	0	0	0
6	Palwancha (Completed)	17	Roads	8.14 km	11.49 km	9.85 km	1.64 km
			Drains	22.23 km	21.32 km	20.20 km	1.12 km
			CUCs	1 No.	1 No.	1 No.	0
			Livelihood centre (1), Informal market (1)	2 Nos.	0	0	0
7	Siddipet (Not completed)	9	Roads	5.13 km	8.57 km	5.88 km	2.69 km
			Drains	11.30 km	5.32 km	4.71 km	0.61 km
			CUCs	4 Nos.	0	0	0
8	Suryapet (Completed)	42	Roads	16.14 km	14.48 km	14.48 km	0
			Drains	81.17 km	54.39 km	54.39 km	0
			CUCs	7 Nos.	3 Nos.	0	3 Nos.
9	Tandur (Completed)	14	Roads	21.79 km	25.20 km	25.20 km	0
			Drains	50.04 km	35.39 km	35.39 km	0
			CUCs	8 Nos.	4 Nos.	2 Nos.	2 Nos.
<b>Total</b>		<b>179</b>					

Source: Records of implementing agencies

**Appendix 5.1**  
**(Reference to paragraph 5.2 page 56)**

**Statement showing notices issued and payments made towards interest etc.,**

Sl. No.	Reference to ESI notice no. and date	Interest	Damages	Cost	Total
1	52000340390001098/CP/84317 Dt. 08/08/2013	30,08,206	0	10,000	30,18,206
2	AP/MEC/52000340390001099/2102014310 Dt. 10/02/2014	0	62,30,794	0	62,30,794
3	52000340390001099 Dt. 20.05.2014	0	12,83,330	0	12,83,330
4	MEC/52000340390001099/112820141016 Dt. 28.11.2014	1,04,840	0	0	1,04,840
5	52000340390001099 Dt. 17.12.2014	0	1,67,792	0	1,67,792
6	MEC/52000340390001099/112820141020 Dt. 28.11.2014	14,248	0	0	14,248
	<b>Total</b>	<b>31,27,294</b>	<b>76,81,916</b>	<b>10,000</b>	<b>1,08,19,210</b>

**Statement showing notices issued and payments to be made towards interest etc.,**

Sl. No.	Reference to ESI notice no. and date	Interest	Damages	Cost	Total
1	52000340390001099/CP/114494 Dt. 21.4.2014	85,450	0	0	85,450
2	52000348390001099/CP/114484 Dt. 21.4.2014	0	72,037	0	72,037
3	52000340390001099/CP/118540 Dt. 05.06.2014	6,63,999		3,000	6,66,999
4	52520340390011099/112820141027 Dt. 28.11.2014	0	22268	0	22268
	<b>Total</b>	<b>7,49,449</b>	<b>94,305</b>	<b>3,000</b>	<b>8,46,754</b>



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# **Glossary of Abbreviations**

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

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

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

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



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