

CHAPTER II

PERFORMANCE AUDIT

This chapter contains a long paragraph on Functioning of Zilla Praja Parishads (2.1) and Performance Audit on Functioning of Greater Hyderabad Municipal Corporation in four selected areas (2.2).

PANCHAYAT RAJ INSTITUTIONS

2.1 Functioning of two Zilla Praja Parishads

2.1.1 Introduction

The Zilla Praja Parishad (ZPP) is the apex body of PRIs and was constituted under Section 177 of Andhra Pradesh Panchayat Raj Act, 1994. The ZPP at the district level coordinates functions of Mandal Praja Parishads (MPPs) and Gram Panchayats (GPs).

The powers and functions of ZPPs *interalia* are to:

- Examine and approve the budgets of MPPs.
- Distribute the funds allotted to the district by the Central or State Government to the MPPs and GPs in the district.
- Prepare District plan for the entire district in coordination with the MPPs.
- Generally supervise the activities of the MPPs.
- Perform such of the powers and functions delegated by the Government.
- Publish statistical information on the activities of the local self Government.

2.1.2 Scope and methodology of audit

The performance of the two ZPPs (Khammam and Sri Potti Sree Ramulu Nellore (SPSR Nellore)) out of 22 districts was reviewed during the months of February – May 2009 for the five year period 2003-04 to 2007-08, besides the records of six¹ PR Divisions, four² RWS Divisions and ten³ out of 92 MPPs test checked.

Important points noticed during the course of review are summarized in the succeeding paragraphs.

¹ Khammam, Kothagudem, Bhadrachalam of Khammam district; SPSR Nellore, Gudur, Kavali of SPSR Nellore District.

² Kothagudem, Khammam of Khammam District and SPSR Nellore and Gudur of SPSR Nellore District.

³ Dummugudem, Thirumalayapalem, Burgumpadu, Tekulapalli, Khammam (Urban) of Khammam District; SPSR(Rural) Nellore, Gudur, Kaligiri, T.P.Gudur, Bogole of SPSR Nellore District.

2.1.3 Planning Process

As per article-243-ZD of the Constitution of India, the Government is required to constitute a District Planning Committee (DPC) to consolidate the plans prepared by the Panchayats and the Municipalities in the District by undertaking legislation. Accordingly, the Government of Andhra Pradesh enacted an Act on constitution of A.P District Planning Committee through a notification in November 2005 which is called A.P DPC Act, 2005. Subsequently, guidelines were issued⁴ in October 2007 with regard to (1) functions and meeting procedures (2) preparation of District Plan by DPC and (3) collection and maintenance of Database on Socio Economic and General Statistics and Development of Indicators. The particulars of formation/functioning of DPCs in ZPP Khammam and Nellore were as follows:

District	Constitution of DPC	Formation of Sub-committees/ District level Technical Advisory Committee	Approval of integrated Action plan / Perspective plan (2008-09)	Date of submission to Govt. for inclusion in the State plan
Khammam	November 2007	November 2007	September 2008	September 2008
SPSR Nellore	April 2007	Not constituted	Not prepared	Integrated action plan for 2008-09 was not prepared

In this connection, the following observations are made:

Inadequate preparation of Consolidated Development plans

Submission of Consolidated Development Plans	<ul style="list-style-type: none"> No specific dates were stipulated in the APDPC Act 2005 for submission and approval of Consolidated Development Plans for incorporation into State Plan. In Khammam, the Action Plan for 2008-09 was approved in September 2008 and submitted to the Government for inclusion in the State Plan. As a result, the proposed developmental works in the Action Plan for the financial year 2008-09 could not be implemented during the year. In SPSR Nellore, the formation of DPC was not completed.
Non-creation of village level data base	As per guidelines, the DPC should give high priority to create and maintain the data base of village wise educational status, land utilization, live stock & poultry, market outlets, employment status, details of assets such as factories, business establishments, bridges, forest area, orchards etc., before the Action Plan is finalised. However, the DPC, Khammam formulated the Integrated Action Plan for 2008-09 without compiling the village level data.
Capacity Building	As per guidelines, the DPC should co-ordinate with AMR-APARD in Capacity Building efforts of the elected representatives and also the officials of PRIs and ULBs in decentralized planning. The capacity building shall cover building awareness regarding human rights, rights of Women, Children, disabled, SCs, STs and Right to Information etc. However, in Khammam ZPP, no Capacity Building efforts were made in coordination with AMR-APARD.
Non-constitution of District Level committee for monitoring the utilization of earmarked funds	Government issued orders (November 1977) to constitute a committee at the District level with six members headed by the District Collector as Chairman and CEO as the convener with the objective of reviewing the utilization of earmarked funds in a district and to submit the review report to State Level Committee. The Committee should meet at least once in a month. However, no such committee was constituted in both ZPPs of Khammam and SPSR Nellore.

⁴ G O Ms No.448, 449 and 450 of PR& RD (Election Rules) Department in October 2007.

2.1.4 Financial Management

Sources of revenue for ZPPs are i) grants released by the State Government like per-capita grant, seignorage fee grant, salary grant for staff, TA and contingent grant etc. ii) assigned revenues like sand auction proceeds, surcharge on stamp duty etc. and iii) own revenues like rent receipts from shopping complexes, guest houses, staff quarters, ferry rentals, T&P charges, petty supervision charges, hire charges of department road rollers etc.

The details of the receipt and expenditure of the test checked ZPPs i.e., Khammam and SPSR Nellore during the years 2003-04 to 2007-08 were as under:

(Rupees in crore)

District	2003-04		2004-05		2005-06		2006-07		2007-08	
	Receipts	Expenditure								
Khammam	115.02	110.94	103.41	94.05	114.11	104.50	118.27	108.43	151.11	111.77
SPSR Nellore	106.20	103.28	97.24	107.73	102.74	81.51	110.69	99.34	154.43	114.74

2.1.4.1 Short release of Per capita grant to PRIs

Per capita grant was short released to PRIs

- In accordance with the orders⁵ of Government, a sum calculated at the rate of four rupees per person residing in the district as per the latest census figure was to be released by the Government to ZPPs. During the years 2003-04 to 2007-08, Government released an amount of Rs 3.36 crore and Rs 2.92 crore to ZPPs Khammam and SPSR Nellore as against Rs 4.25 crore and Rs 4.14 crore respectively resulting in short release of Rs 89 lakh and Rs 1.22 crore respectively.
- Similarly, a sum of Rupees eight per person is to be released in case of Mandals. Audit noticed huge shortfall in release of per capita grant to the nine test checked Mandals as detailed below:

(Rupees in lakh)

S.No	Name of the Mandal	Population	PC grant to be released during 03-04 to 07-08	PC grant released during 03-04 to 07-08	Shortfall
1	MPDO, Thirumalaya Palem	60568	24.23	19.51	4.72
2	MPDO, Burgumpadu	55102	22.04	14.09	7.95
3	MPDO, Tekulapally	43301	17.32	11.48	5.84
4	MPDO, Khammam Urban	98858	39.54	22.07	17.47
5	MPDO, SPSR Nellore(Rural)	103586	41.43	26.39	15.04
6	MPDO, Gudur	50838	20.34	13.75	6.59
7	MPDO, Kaligiri	40589	16.24	11.99	4.25
8	MPDO, T P Gudur	49511	19.80	15.62	4.18
9	MPDO, Bogolu	48935	19.57	16.35	3.22
Total			220.51	151.25	69.26

⁵ G.O.Ms.No.279, PR& RD (Mandals-I), dated 20.06.1998.

Non-
utilisation of
funds by PRIs
due to non-
transfer of
functionaries

2.1.4.2 Transfer of Funds, Functions and Functionaries to PRIs

The 73rd Constitutional amendment enlisted 29 functions to be devolved to PRIs in order to strengthen the Local Self Government. During the year 2007-08, GOAP transferred 10 core subjects to PRIs and accordingly, some funds were also released by the line departments to PRIs. However, due to non-transfer of functionaries, it was noticed in the test checked ZPPs that the funds amounting to Rs 13.14 lakh released (September/December 2008) by the Fisheries Department to ZPP, Khammam and Rs 1.92 lakh released (March 2008) by the Agriculture Department to SPSR, Nellore were returned back (January 2009 and March 2009 respectively) to the respective departments by the ZPPs. Consequently, the very purpose of devolution of powers to PRIs was defeated.

2.1.4.3 Release and utilization of Back Ward Region Grant Fund (BRGF)

Delay in
release of
BRGF
amounts to
PRIs resulted
in non-
achievement
of progress
during
2007-08

The Back Ward Region Grant Fund (BRGF) introduced by the GOI in 2006 is funded 100 *per cent* by Central Government. The Scheme has two funding windows i.e., a) Development Grant of 90 *per cent* as first instalment and b) Capacity building Fund of 10 *per cent* as second instalment. As per BRGF guidelines, funds against Annual Plan 2008-09 would be released only when the district achieves at least 75 *per cent* of physical and financial progress of the funds released against Annual Plan 2007-08. Funds under BRGF will be released annually by the GOI on submission of District Perspective Plan by District Planning Committee concerned.

Khammam is one of the thirteen districts covered under BRGF in Andhra Pradesh. Based on the Action Plan (2007-08) submitted by DPC in November 2007, an amount of Rs 24.08 crore was released (December 2007) by the GOI to the district under 90 *per cent* Development Grant as first instalment. The State Government released Budget in February 2008 and Budget Authorisation was issued by the Commissioner, PR&RD in March 2008. The CEO, ZPP released funds to Gram Panchayats (50 *per cent* Rs 12.04 crore) and to Mandal Praja Parishads (30 *per cent* Rs 7.22 crore) in May 2008. Scrutiny of records of ZPP, Khammam revealed the following

- There was non-achievement of 75 *per cent* of physical and financial progress of the funds released against Annual Plan 2007-08 as the funds did not reach MPPs and GPs concerned during the year 2007-08. As a result, the funds for the year 2008-09 were not (as of March 2009) released.
- Out of 1542 works sanctioned, 16 Anganwadi Building works with an estimated cost of Rs 40 lakh were included in the Annual Plan (2007-08) without identifying site. Similarly, six PHC buildings, already covered under other programmes by the Commissioner of Family Welfare were also included in the Annual Plan.

2.1.4.4 Diversion of SFC and TFC Grants

SFC and TFC grants amounting to Rs 9.36 crore were utilised for inadmissible purposes

GOAP and GOI release Finance Commission grants to PRIs for implementation of various programmes in rural areas. The guidelines of the respective Finance Commissions stipulate that the funds should be utilized for only those purposes for which they were meant for and not to be diverted for other purposes. However, a test check of the records revealed the following diversions of SFC and TFC grants.

Item / Subject	Audit findings
SFC grant	The Commissioner, PR&RE released (June 2003) a sum of Rs 1.19 crore to ZPP, Khammam under SFC towards the construction of 2125 ZPP school toilets with an estimated cost of Rs 1.70 crore. However, based on the orders (June 2004) of District Collector, ZPP Khammam released (February 2005) an amount of Rs 62.90 lakh to EE (Social Welfare) DSCS, Khammam for construction of toilets/bathrooms in 17 Social Welfare Hostels which should have been funded by State Government funds.
TFC grant	<ul style="list-style-type: none"> Government of India released an amount of Rupees four crore and Rupees two crore during 2006-07 and 2007-08 towards sanitation in Khammam district under TFC Grant. Based on State Government orders (April 2006), CEO, ZPP, Khammam released a sum of Rs 3.64 crore in 2006-07 and Rs 1.24 crore in 2007-08 (a total of Rs 4.88 crore) to the District Manager, Housing, Khammam as a matching share for construction of 95778 ISLs under INDIRAMMA houses which should have been financed by State Government. <p>Later it was observed that as per the instruction (November 2007) of District Collector a sum of Rs 4.71 crore, out of Rs 4.88 crore was refunded during 2007-08 by the agency to ZPP for making payment of ISLs through MPDOs concerned. Out of the total amount of Rs 6.71 crore (including Rupees two crore released during 2007-08 towards ISLs by the Government) available, ZPP utilized a sum of Rs 3.91 crore leaving a balance of Rs 2.80 crore to the end of March 2008.</p> <ul style="list-style-type: none"> In ZPP SPSR Nellore, a sum of Rs 3.85 crore (out of six crore released) was kept during 2006-07 with the District Manager, Andhra Pradesh State Housing Corporation for construction of ISLs in INDIRAMMA houses.

2.1.4.5 Locking up of funds

Scrutiny of records of test checked ZPPs revealed that the funds released under SFC and Education Grant by the Government were not utilized but locked up for over three to five years as detailed below:

SFC funds and Education Contingent grant amounting to Rs 1.10 crore were locked up due to non-utilisation in time

Item/Subject	Audit findings
SFC grant	The Commissioner, PR&RE released (June 2003) a sum of Rs 2.45 crore to ZPP, SPSR Nellore under SFC for construction of school toilets (ZPP Schools) to be released to Gram Panchyats for implementation of the scheme. Later, based on the orders (November 2003) of the District Collector, SPSR Nellore, the entire amount of Rs 2.45 crore was placed (December 2003) with Nellore District Water and Sanitation Committee (NDWSC) for construction of 3868 toilets with an estimated cost of Rs 3.06 crore. A sum of Rs 2.22 crore was spent on the scheme from out of available funds of Rs 2.52 crore (interest Rs 7.37 lakh accrued on Rs 2.45 crore) and a balance of Rs 30 lakh remained unspent as of

	March 2008. Thus, due to placing the funds with NDWSC instead of GPs in contravention of SFC guidelines, the ZPP could not monitor the scheme directly resulting in delayed completion of works.
Education Contingent Grant	Grants-in-aid for education contingency and maintenance grant are released by the Government every year to provide basic amenities like electricity, water, stationery, furniture repairs and for maintenance of school buildings. Government released an amount of Rupees one crore during 2003-04 to 2007-08 to the ZPP, Khammam and there was an amount of Rs 0.18 crore lying unutilised as of April 2003. Out of the total amount of Rs 1.18 crore, a sum of Rs 0.38 crore was utilized during the above period leaving an unutilised balance of Rs 0.80 crore to the end of March 2008.

2.1.4.6 Loss of Revenue on ZPPs properties

ZPPs possess certain properties through which they generate revenue in the form of rents/lease etc. Scrutiny of records of test checked ZPPs revealed that the ZPPs sustained losses in generation of revenue due to poor monitoring. Details are as follows.

ZPPs sustained loss of revenue on their properties due to poor monitoring

Item/Subject	Audit findings
Vacant shop (No. I) at Babu Camp Area, Kothagudem for the past 26 years	There are eight shops pertaining to ZPP Khammam in Babu Camp area, Kothagudem. During 1983, all shops were allotted to successful bidders except shop No.1 (vacant since 1983) due to non-response to the open auction by the bidders indicating some basic deficiency with the shop. Consequently, there was a loss of rent to the extent of Rs 1.69 lakh by taking into consideration the lowest rent realized among eight shops.
Non-collection of arrears of rent for the past one decade from Post Office in ZPP premises	A building in the premises of ZPP, SPSR Nellore was let out fifty years ago (actual date of let out was not on record) to the Post Office for a monthly rent of Rs 53. The ZPP did not review enhancement of rent of post office building till November 2002. The rent was then enhanced to Rs 1350 per month with retrospective effect from August 1997 by the Executive Engineer, P.R. Division, SPSR Nellore. As of May 2009, the enhanced rent was not paid by the Postal authorities stating (March 2006) that the matter was to be taken by the Fair Rent Assessment Committee (FRAC) of the Postal Department. So far no effective action was taken by the ZPP to sort out the matter. The arrears accumulated to Rs 1.66 lakh for 128 months up to March 2008.
Non-conclusion of Lease Agreement with the State Bank of Hyderabad for the premises leased out	In the premises of ZPP, Khammam, certain area was leased out (November 2000) to State Bank of Hyderabad and that lease period expired in October 2005. The lease rent was enhanced to Rs 5651 p.m. for a period of five years from October 2005 to October 2010 without a formal written agreement. Despite the banker requesting (December 2006) the CEO, ZPP to renew the lease agreement, no action was taken by ZPP till August 2008. When the CEO, ZPP addressed (August 2008) the Branch Manager, SBH, there was no response from bank authorities. Lack of effective follow up action resulted in the lease agreement not being concluded even after a lapse of three and half years.

Unutilised balances of the EMF were not transferred to the respective Finance Corporations

2.1.4.7 Shortfalls in Sectoral allocation of ZPP funds and Utilisation

Government prescribed the fixed percentages for each sector for utilisation of ZPPs and MPPs General Funds allocated to them. Accordingly, 35 per cent of General Fund is to be utilised towards maintenance works, 15 per cent towards welfare of SC, 6 per cent towards ST and 15 per cent for Women and Child Welfare. The following shortfalls were noticed in utilization of funds by the ZPPs / MPPs of Khammam and Nellore.

Item/Subject	Audit findings
<p>35 per cent General funds to maintenance works</p>	<p>ZPPs</p> <p>a) As against the total amount of Rs 3.70 crore and Rs 5.27 crore in respect of ZPPs Khammam and Nellore to be earmarked for maintenance of works during 2003-04 to 2007-08, a sum of Rs 1.54 crore (41.62 per cent) and Rs 3.87 crore (73.43 per cent) was only utilised for the purpose leaving a balance of Rs 2.16 crore and Rs 1.40 crore in the respective ZPP General Funds. Thus, due to short utilization of funds, the pace of execution of developmental works was not in proportion to allocation of funds as the ZPP did not plan enough developmental works in proportion with the earmarked funds. When brought to notice, ZPPs replied that due to delay in approval by General Bodies, the works could not be proposed.</p> <p>b) In Khammam ZPP, funds were released to the PREDs (executing agencies) directly without adjusting the funds to PAO in contravention of Government instructions. As a result, the PAO could not exercise checks in passing the bills. When brought to notice, it was replied that action would be taken for release of funds through PAO as per the norms prescribed.</p> <p>MPPs</p> <p>In one of the test checked MPPs i.e., Burgumpadu of Khammam district, it was noticed that out of Rs 23.94 lakh earmarked during 2003-04 to 2007-08, a sum of Rs 12.47 lakh was only utilized for maintenance works and the balance of Rs 11.47 lakh remained with MPP General funds.</p>
<p>Funds earmarked for SC/ST/W&CW</p>	<p>ZPPs:</p> <p>(1) In terms of Government orders ZPPs are to earmark 15 per cent, 6 per cent and 15 per cent of General Funds to be spent on schemes beneficial to the SC, ST and Women and Child Welfare respectively. Two-thirds of the earmarked funds in respect of SC, ST were to be spent by the ZPP and the unspent balance at the end of year was to be transferred to SC/ST Finance Corporations. Funds earmarked for Women are to be spent by the ZPP and unspent balance at the end of the year transferred to A.P Women Finance Corporation. Government also issued certain guidelines for utilization of the above earmarked funds. During 2003-04 to 2007-08, ZPP Khammam earmarked a sum of Rs 1.59 crore, Rs 63.55 lakh and Rs 1.59 crore for SC, ST and Women and child respectively. Out of the earmarked amounts, a sum of Rs 86.76 lakh and Rs 28.92 lakh against the two-third portion was spent on schemes benefiting SC/ST respectively and Rs 52.89 lakh and Rs 21.16 lakh (one-third) were transferred to SC/ST Finance Corporations. The cumulative balance of Rs 40.47 lakh and Rs 19.48 lakh available at the end of March 2008 in General Funds was not transferred to respective</p>

	<p>Corporations.</p> <p>With regard to Women and Child allocation, as against the amount of Rs 1.59 crore earmarked for the period 2003-04 to 2007-08 alongwith an amount of Rs 0.56 crore lying unutilised as of April 2003, an amount of Rs 1.35 crore was only utilized on schemes beneficial to Women leaving a balance of Rs 0.80 crore remaining unspent to the end of March 2008.</p> <p>In SPSR Nellore, it was noticed that a sum of Rs 3.14 crore and a sum of Rs 1.29 crore were utilized including <i>one-third</i> amount to be transferred to SC/ST Corporations as against the earmarked amounts of Rs 2.67 crore and Rs 1.07 crore for SC, ST respectively. Thus, a sum of Rs 69 lakh was spent in excess of amount earmarked in both the cases.</p> <p>Further, out of Rs 2.67 crore earmarked for Women and Child welfare for the period 2003-04 to 2007-08, a sum of Rs 0.58 crore (22 <i>per cent</i>) was only spent for the benefit of Women and Children leaving a balance of Rs 2.09 crore not being transferred to the Corporation concerned.</p> <p>MPPs:</p> <p>In four, out of ten MPPs test checked, the funds to be earmarked towards Women and Child Welfare were short allocated during 2003-04 to 2007-08 and also remained unutilized to the extent of amount allocated. Details are as follows:</p> <p style="text-align: right;">(Rupees in lakh)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Name of the Mandal</th> <th style="text-align: center;">15 <i>per cent</i> allocation to be made</th> <th style="text-align: center;">Actual allocation</th> <th style="text-align: center;">Short-fall in allocation</th> <th style="text-align: center;">Funds utilised from allocated amount</th> <th style="text-align: center;">Funds transferred to Corporation</th> <th style="text-align: center;">Funds lapsed up to March 2008</th> </tr> </thead> <tbody> <tr> <td>Tirumalaya Palem</td> <td style="text-align: center;">16.79</td> <td style="text-align: center;">15.21</td> <td style="text-align: center;">1.58</td> <td style="text-align: center;">3.59</td> <td style="text-align: center;">--</td> <td style="text-align: center;">3.47</td> </tr> <tr> <td>SPSR Nellore (Rural)</td> <td style="text-align: center;">51.48</td> <td style="text-align: center;">31.06</td> <td style="text-align: center;">20.42</td> <td style="text-align: center;">7.08</td> <td style="text-align: center;">--</td> <td style="text-align: center;">--</td> </tr> <tr> <td>T P Gudur</td> <td style="text-align: center;">6.79</td> <td style="text-align: center;">2.30</td> <td style="text-align: center;">4.49</td> <td style="text-align: center;">2.27</td> <td style="text-align: center;">--</td> <td style="text-align: center;">--</td> </tr> <tr> <td>Kaligiri</td> <td style="text-align: center;">5.32</td> <td style="text-align: center;">4.30</td> <td style="text-align: center;">1.02</td> <td style="text-align: center;">1.05</td> <td style="text-align: center;">2.81</td> <td style="text-align: center;">0.44</td> </tr> <tr> <td style="text-align: center;">Total</td> <td style="text-align: center;">80.38</td> <td style="text-align: center;">52.87</td> <td style="text-align: center;">27.51</td> <td style="text-align: center;">13.99</td> <td style="text-align: center;">2.81</td> <td style="text-align: center;">3.91</td> </tr> </tbody> </table> <p>Thus there was 34 <i>per cent</i> short fall in allocation of earmarked funds. Further, only 26 <i>per cent</i> of funds out of allocated amounts were utilized towards schemes/programmes of Women. Further, due to failure of the MPPs, Thirumalayapalem and Kaligiri to either utilize the funds or to transfer to the Corporation concerned, a sum of Rs 3.91 lakh being the unspent amount allocated for the developmental activities of Women and Children lapsed on expiry of three years.</p>	Name of the Mandal	15 <i>per cent</i> allocation to be made	Actual allocation	Short-fall in allocation	Funds utilised from allocated amount	Funds transferred to Corporation	Funds lapsed up to March 2008	Tirumalaya Palem	16.79	15.21	1.58	3.59	--	3.47	SPSR Nellore (Rural)	51.48	31.06	20.42	7.08	--	--	T P Gudur	6.79	2.30	4.49	2.27	--	--	Kaligiri	5.32	4.30	1.02	1.05	2.81	0.44	Total	80.38	52.87	27.51	13.99	2.81	3.91
Name of the Mandal	15 <i>per cent</i> allocation to be made	Actual allocation	Short-fall in allocation	Funds utilised from allocated amount	Funds transferred to Corporation	Funds lapsed up to March 2008																																					
Tirumalaya Palem	16.79	15.21	1.58	3.59	--	3.47																																					
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T P Gudur	6.79	2.30	4.49	2.27	--	--																																					
Kaligiri	5.32	4.30	1.02	1.05	2.81	0.44																																					
Total	80.38	52.87	27.51	13.99	2.81	3.91																																					

2.1.4.8 Non-collection of pension contributions from non-provincialised employees

As per Government orders issued in September 2002, pension contribution @ 9.5 *per cent* of maximum time scale of pay of the post has to be deducted from the pay bills of the non-provincialised employees and the deducted amount transferred to the ZPP General Fund for payment of pensions.

It was observed that:

An amount of Rs 38.72 lakh remained uncollected towards pension contribution from non-provincialised employees

- As against the demand of Rs 46.30 lakh raised for the period 1985-86 to 2007-08 by ZPP, SPSR Nellore, a sum of Rs 7.58 lakh was only collected leaving a balance of Rs 38.72 lakh remaining uncollected.
- A sum of Rs 4.19 crore paid towards non-provincialised pension during 2003-04 to 2007-08 was met from ZPP General Fund.
- Similarly, in one of the test checked MPPs i.e., Bogolu of SPSR Nellore, a sum of Rs 10.98 lakh was met from MPP General fund towards pension payments during the period January 2003 to December 2008. The MPDO submitted claim to ZPP for reimbursement of the amount in March 2009.

Thus, due to non-observance of provisions, the above PRIs had to bear huge financial burden towards non-provincialised pension payments from their General Funds.

2.1.4.9 Irregularities in apportionment /utilization of Sand Auction Proceeds

Sand auction proceeds of MPP share amounting to Rs 3.22 crore was diverted towards purchase of furniture and other maintenance works

As per the provisions of A.P Panchayat Raj Rules, 2000 and A.P Mines Mineral Concession Rules, 1966 and other rules framed under the above provisions, the sand auction proceeds remitted to ZPP General Fund should be distributed among ZPP, MPPs and GPs in the ratio of 25:50:25 on quarterly basis.

It was seen from the records of ZPP, SPSR Nellore that during 2003-04 to 2007-08 a sum of Rs 10.89 crore was received towards sand auction proceeds. Out of which, Rs 5.45 crore and Rs 2.72 crore was to be apportioned between MPPs and GPs respectively. However, the ZPP distributed only a sum of Rs 2.23 crore to MPPs and the balance amount of Rs 3.22 crore was diverted towards purchase of furniture and other maintenance works. Thereby the MPPs concerned were deprived of their legitimate share of revenue to that extent.

2.1.4.10 Non collection of Sand auction bid amount from thirteen defaulted contractors

In ZPP, SPSR Nellore auction of sand quarry was conducted by the Asst. Director (AD) of Mines and Geology for 23 sand reaches in 22 Mandals during 2006-07 and 2007-08 and the bid amount of Rs 6.33 crore was to be collected for the two years. Out of this, Rs 5.39 crore was only paid by the bidders and the balance amount of Rs 94 lakh remained uncollected.

2.1.4.11 Non-Adjustment of Advances

Works advances amounting to Rs 32.56 lakh remained unadjusted

In ZPP, Khammam, a sum of Rs 19.07 lakh paid as advance during the period from 1969-70 to 2007-08 to the individuals (68 Nos.), five departments and sectoral officers towards purchase of stationery, sanitary arrangements, repairs to vehicles etc., was not adjusted as of February 2009. Some of the employees had already retired. When the reasons were called for, it was replied that the memos were served to the concerned to adjust the advance or to pay the amount.

In E.E, RWS Division, Khammam, an amount of Rs 0.50 lakh was paid as advance to Dy.EE, RWS, Kalluru towards making arrangements for inauguration of CPWS scheme at Khan khan pet in February 2004. This advance remained unadjusted as of April 2009.

Similarly, in ZPP, SPSR Nellore a sum of Rs 5.74 lakh and Rs 7.25 lakh in E.E. PR, SPSR Nellore paid as advance during the period 2001-02 to 2007-08 towards salary advance to staff, tour advance, purchase of furniture etc., also remained unadjusted.

There was no proper mechanism to monitor the subsequent adjustment of advances in Engineering Divisions.

2.1.4.12 Retention of unspent balances of schemes not in operation

Unspent balances amounting to Rs 40.09 lakh pertaining to closed schemes were retained

Item / Subject	Audit findings
Sampoorna Grameena Rozgar Yojana (SGRY)	The SGRY scheme was closed in March 2006. In ZPP Khammam, the unspent balance of the scheme including interest or two <i>per cent</i> provided for administrative charges was to be transferred to the Project Director, DWMA for implementation of NREGS scheme as per the direction of Government. However, the unutilized amount of Rs 4.04 lakh received from various sectoral officers was not transferred as of February 2009.
Non-transfer of unspent balances of EAS/SGRY/Tenth Finance Commission grant	It was observed from the records of E.E, RWS Division, Gudur that a sum of Rs 2.97 lakh being unutilized balances of EAS & SGRY scheme funds remained with division without being transferred to NREGS being implemented by Project Director, District Water Management Agency. Similarly, a sum of Rs 3.18 lakh related to Tenth Finance Commission grant was also lying unutilized in the Saving Bank account of the division without being surrendered to the Grantor.
Non-realisation of reimbursable advances paid from MPLAD Funds	In EE,PR Division, Bhadrachalam, it was noticed that based on the orders of District Collector, an amount of Rs 29.90 lakh was paid (2003) as advance to EE/PR, Bhadrachalam from the unutilized funds of MPLADs on reimbursement basis towards Pushkaram work. Even after a lapse of six years the amount was not recouped to MPLADs account as of May 2009.

PRIs funds met towards payment of GPF interest (Rs 11.62 crore), Honorarium (Rs 47.55 lakh) and Social Security Booster scheme (Rs 3.28 lakh) was not reimbursed by the Government

2.1.4.13 Non-reimbursement of funds

GPF Interest	In accordance with the Government orders (July 1984), claims for reimbursement of interest credited to individual PF accounts of employees of Panchayat Raj department were required to be preferred by ZPPs to the Government every year through State Audit Department after the interest is credited in the month of May every year. Although the claims were preferred by the ZPPs in time, interest dues of Rs 4.21 crore for 2005-06 in respect of Khammam and Rs 7.41 crore for 2007-08 in respect of SPSR, Nellore were not reimbursed by the Government till date.
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Honorarium paid to the elected members of ZPP	As per Government orders (May 1999), a sum of Rs 2750 per month is to be reimbursed by the Government, out of Rs 5000 per month payable to ZPP chairperson towards honorarium. The remaining amount of Rs 2250 per month is to be met from the General Fund of ZPP concerned. However, the test checked ZPPs did not claim any reimbursement from the Government for the amount of Rs 47.55 lakh (Rs 28.21 lakh Khammam and Rs 19.34 lakh SPSR Nellore) paid towards Honorarium/TA/DA of elected members out of their ZPP General Fund concerned.
Social Security cum Booster Scheme	The Government extended (January 2003) the benefit of Social Security cum Booster Scheme to the employees of Panchayat Raj institutions on reimbursement basis according to which an incentive at the rate of Rs 20000 is paid to the nominees of the deceased employees. In SPSR Nellore, an amount of Rs 3.28 lakh was paid (2003-04) by the ZPP from the deposit of the working employees under the above scheme but the same was not reimbursed so far even though the claim was preferred in July 2004.

2.1.4.14 Non-repayment of HBA loan amount and interest to Government

Non-repayment of HBA loan amounting to Rs 69.41 lakh to the Government by ZPPs

- ZPPs sanction House Building Advances (HBA) to the eligible provincialised non-teaching employees of ZPPs and MPPs in the district from the amounts released from time to time by the Government. For repayment of principal/interest of the loan to the Government by the ZPP every year as per the Government Order (December 1989), recoveries towards principal/interest of HBA paid to the employees have to be effected from them by the ZPP regularly. The following deficiencies were observed by audit.

Both the ZPPs did not repay HBA dues regularly to Government. HBA dues were pending from 4 to 17 years as detailed below.

(Rupees in lakh)

District	Period	HBA to be remitted			HBA actually remitted			HBA to be remitted		
		Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Khammam	1991-92 to 2007-08	87.81	48.52	136.33	80.03	28.97	109.00	7.78	19.55	27.33
SPSR Nellore	2004-05 to 2007-08	33.68	20.52	54.20	5.70	6.43	12.13	27.98	14.10	42.08

It was observed that inspite of specific instructions from Government, HBA recoveries were kept in PD account of treasury by both ZPPs. As a result, there was loss of interest on the recovered amount which could have been earned by depositing the same in scheduled banks.

- As per HBA rules, the employees who constructed their houses with the assistance of HBA have to insure the property till the loan amount is fully repaid together with interest. However, in both the ZPPs, insurance policies were not obtained from the HBA beneficiaries.

2.1.4.15 Unauthorised retention of Sale proceeds of scrap in fixed deposit

Sale proceeds of scrap amounting to Rs 60 lakh were parked in fixed deposits

As per Rule 7 (1) of APTC Vol.I, all monies received by or tendered to Government servant in his official capacity is paid in full into the treasury, without any undue delay. Money as aforesaid shall not be appropriated to meet departmental expenditure nor otherwise kept apart from Government Account. However, it was seen from the records of E.E., RWS&S Division, Khammam that the sale proceeds of old GI pipes and scrap were credited to a separate bank account opened in SBH, Khammam, ZPP branch instead of remitting to the Government Account. As of March 2005, an amount of Rs 60 lakh lying in the account was parked in fixed deposits at various banks⁶. This amount was spent during 2003-04 to 2007-08 towards purchase of GI pipes, payment of salaries, electricity charges, godown rents, court deposits and construction (2008-09) of first floor of the office building.

2.1.4.16 ZPP revenues not remitted by the PREDS

ZPP revenues were retained by the PREDS without remitting to the ZPPGF

A sum of Rs 1.71 lakh being ZPP revenues of SPSR Nellore recovered during 2001-02 to 2007-08 towards P S charges, T&P, fines etc. by EE., RWS&S Division, Gudur was not remitted to ZPP General Fund. Similarly an amount of Rs 5.56 lakh recovered towards above heads during 2003-04 to 2007-08 was not transferred by E.E., PR Division, SPSR Nellore to ZPP General Fund, Nellore.

2.1.4.17 Non-remittance of statutory recoveries

Statutory deductions were not remitted to the Government account

Scrutiny of records pertaining to test checked PREDS revealed that statutory recoveries (Seignorage charges, Income Tax, VAT etc.) amounting to Rs 27.87 lakh effected from the work bills were not remitted to Government Account and retained in respective PD accounts. As the same were not remitted to Government in time, the treasury lapsed the amounts after introduction (April 2001) of PAO system when the operation of PD account was dispensed with.

2.1.5 Works Management

Scrutiny of works sanctioned out of ZPP funds and executed by PREDS during the period covered by audit i.e., 2003-04 to 2007-08 revealed the following deficiencies.

2.1.5.1 Incomplete works

Audit noticed that many of the works taken up by the PREDS either remained incomplete or not commenced as detailed below:

⁶ ING Vysya Bank:Rs 25 lakh with a matured value of Rs 28.80 lakh; SBH: Rs 25 lakh with a matured value of Rs 26.72 lakh and Rs 10 lakh in Indian Overseas Bank which was encashed (September 2008) with a matured value of Rs 11.52 lakh and credited to Saving Bank account.

Works valued Rs 4.34 crore remained incomplete/ non-grounded due to various reasons

Item/Subject	Audit findings
<p>Unfruitful expenditure incurred on drinking water projects due to non-energisation</p>	<p>It was seen from the records of RWS&S Division of Kothagudem that 14 drinking water projects completed with an estimated cost of Rs 1.28 crore under RIDF grant were not commissioned due to lack of required funds for energisation. The APEPDCL, Bhadrachalam and Kothagudem raised a demand for an amount of Rs 20.56 lakh towards development charges, service charges and security deposit for energisation.</p> <p>Incidentally, it was also noticed that the APEPDCL, Bhadrachalam and Kothagudem raised a demand for Rs 1.04 crore towards energisation for other 86 projects executed under RIDF, MPWSS, RSVY, NTPS, TSP, GF and Shape grant for which details were not available.</p> <p>Similarly in RWS&S Division, Nellore, 33 schemes completed at a cost of Rs 2.90 crore were not commissioned due to lack of power supply.</p> <p>Thus, due to non-energisation of the drinking water project, the entire expenditure of Rs 4.18 crore incurred on the project became unfruitful and the rural population was denied potable drinking water.</p>
<p>Unfruitful expenditure incurred on incomplete ST Community Hall at Karakugudem</p>	<p>It was observed from the records of E.E.P R Division, Bhadrachalam that a sum of Rupees four lakh was sanctioned from six <i>per cent</i> ST earmarked fund towards construction of S.T. Community hall at Karakugudem in February 2006. The work was entrusted to the contractor in May 2007 with a stipulation to complete the work by November 2007. As of February 2009 total value of work done was only Rs 1.88 lakh i.e., 46.99 <i>per cent</i> of the work only was completed.</p>
<p>Non-grounding of works</p>	<p>Three works relating to construction of Mahila Mandal buildings were sanctioned in January 2006 under 15 <i>per cent</i> Women and Child Welfare earmarked funds at an estimated cost of Rs 9.00 lakh (Rs 3.00 lakh each) with break up of cash and rice components of Rs 6.30 lakh and Rs 2.70 lakh respectively. These works were not grounded due to site problem. Thus, due to lack of proper planning, the proposed works were not executed despite availability of funds.</p> <p>Similarly, it was observed from the records of E.E., PR Division, SPSR Nellore that four works were sanctioned under SFC grant in 2005-06 consisting of three maintenance works of school buildings at a cost of Rupees one lakh each and construction of compound wall to school building at a cost of Rs 1.50 lakh (total Rs 4.50 lakh). However, these works were not grounded as of May 2009.</p>

2.1.5.2 Inadmissible expenditure

The following inadmissible expenditure was noticed while scrutinising the records pertaining to utilization of ZPP General Funds.

An expenditure of Rs 76.62 lakh was incurred on inadmissible items

35 per cent General funds	35 per cent of ZPP General Funds should be utilized for upgradation, maintenance and restoration of existing assets including MI sources only. Contrary to the guidelines an amount of Rupees five lakh was incurred by the CEO, ZPP, Khammam for construction of additional accommodation to the P R division, Bhadrachalam. Further, an amount of Rs 5822 was short recovered towards VAT from the bills paid to the contractor. The department promised to recover the amount.
15 per cent W&CW earmarked funds	In spite of specific direction from the Director of Women and Child Welfare not to incur any expenditure from W&CW funds towards installation of Biogas plants and Smokeless Chullahs and list of activities specified by the Government towards utilization of 15 per cent earmarked funds of Women and Child Welfare, the ZPP, Khammam, during the years 2003-04 to 2007-08 spent an amount of Rs 51.62 lakh towards individual financial assistance (subsidy) extended to women beneficiaries.
15 per cent SC earmarked funds	Based on the orders (December 2003) of the Commissioner, Social Welfare and also on the decision of Standing Committee, ZPP Khammam released (January - March 2004) an amount of Rs 20 lakh to the Deputy Director, Social Welfare, Khammam towards construction of Government Social Welfare Hostels and Community Hall which should have been funded by State Government.

2.1.6 Asset Management

2.1.6.1 Non-maintenance of Asset Registers

A Register of Assets in the prescribed 15 columns as directed by the Government was not maintained in both the ZPPs in respect of the properties which included several residential quarters, shopping complexes besides the land donated by the donors at the time of up-gradation of upper primary schools.

The Commissioner/PR&RE issued directions to standardize the survey number adopted by local body offices across the State to avoid problem of the valuation of the property particulars of lands as well as issuing encumbrance certificates. Despite this, the ZPPs failed to survey the vacant land or lands under part utilization by the local bodies in rural areas, sub-divided and supported with sub-division record to be entered in revenue records as part of their Asset Management and to establish their right over the properties held by them and also to avoid possible litigations/ encroachments of land.

2.1.6.2 Extension of land lease period in violation of provisions

Government laid down certain Rules (Acquisition and transfer of Property by GP, MP and ZP Rules 2001) with regard to acquisition and transfer of property by GPs, MPPs and ZPPs according to which (a) lease of road side and street margins can be given for taking up free patta scheme in favour of those individuals or families below poverty line and 60 per cent of the area

should be earmarked for “SC”, “ST” [Rule 6.1(i)] (b) the lease can be granted if the structure constructed with temporary structure like palmirah or coconut leaves, bamboo, gunny bags which are of such nature as to be movable daily [Rule 6.1(iii)]. The period of lease shall not exceed 12 months (one year) and fee shall be calculated in advance for every lease [Rule 6.1(v)].

With regard to land of ZPP measuring 4000 Sq.Ft. in Survey No.1080/IB in Kavali town Bit-II leased out to M/s Prasanthi Fuels for a period of ten years from April 2006 to March 2016, there was a contravention of rules as follows:

Loss of revenue due to extension of lease period in violation of provisions

- The party was favoured by the Government by fixing a rate of Rs 3250 per Sq.yard as against Rs 9900 per Sq.yard computed by the Sub-Registrar, Kavali.
- The dealer constructed two under ground tanks, sale room cum office and also a godown.
- Despite the request of extension of lease period by the party being not acceded to (April 2005 and February 2006) by the ZPP general body due to low rent, the same was not considered (September 2006) by the Government and the lease period was allowed to extend unduly for further period of 10 years from April 2006 to March 2016.

Thus, the decision was taken by the Government overriding the right of ZPP general body to fix the rates. As a result, ZPP sustained loss of Rs 4.73 lakh during 2006-08 and for remaining period loss works out to Rs 18.91 lakh⁷.

2.1.7 Internal Control

2.1.7.1 Non-rectification of misclassified receipts and payments

Drawing and Disbursing Officers are responsible for reconciliation of departmental figures with treasury figures in order to detect any misappropriation/excess drawl of funds and to ensure proper classification of the expenditure.

It was observed that a misclassification of the amount to the extent of Rs 93.50 lakh under receipts and Rs 1.13 crore under payments occurred in ZPP SPSR, Nellore General Fund since March 2004 was not rectified even as of March 2009. Similarly, a withdrawal wrongly classified in GPF account for an amount of Rs 1.05 lakh in December 1994 was also not rectified to the end of March 2009. The CEO, ZPP, SPSR Nellore assured to pursue the matter with treasury for rectification of the above misclassified amounts.

2.1.7.2 Non-reconciliation of SGRY Scheme Cash book figures with Bank Pass book balance

Departmental figures were not reconciled

Audit noticed from the records of E.E., PR Division, SPSR Nellore that the cash books of SGRY scheme were not reconciled with the related pass books.

⁷ For the years 2006-07 and 2007-08: Rs 236444 x 2 = Rs 472888 and for the prospective period from 2008 to 2016 (i.e till the expiry of lease) is Rs 236444 X 8= Rs 1891552.

As a result the interest accrued Rs 5.21 lakh was not shown in the cash book as the amount was transferred to another account in June 2007.

2.1.7.3 Delay in submission of Annual Accounts

As per the provisions of section 266 of the A.P Panchayat Raj Act 1994, Annual Accounts are to be prepared by the ZPP and submitted to the State Audit Department before 15 May every year. The dates of submission of Annual Accounts by the two ZPPs were as under for the past five years.

Delay in preparation of Annual Accounts ranged from fifteen days to six months

S.No	Year of Annual Accounts	Dates of submission of annual accounts to Director of State Audit by the ZPP	
		ZPP, Khammam	ZPP, SPSR Nellore
1	2003-04	31.05.2004	15.12.2004
2	2004-05	08.07.2005	14.12.2005
3	2005-06	12.06.2006	01.11.2006
4	2006-07	05.07.2007	16.11.2007
5	2007-08	06.06.2008	14.10.2008

The delay in submission of Annual Accounts ranged from fifteen days to six months in respect of both the ZPPs.

2.1.7.4 Non-preparation/ non-submission of Administrative Reports

The Administrative Reports for the years 2003-04 to 2007-08 on the activities of ZPP, Khammam were not prepared and placed before Standing Committee / General body for submission to Government. Similarly, the consolidated Administrative Reports of the MPPs for the above period were also not prepared by the ZPP and submitted before Standing Committee/General Body for submission to the Commissioner. As a result, activities such as co-ordination of plan schemes, approvals of MPP budgets, resource profile, condition of buildings, new constructions taken up, resources from remunerative enterprises and report on secondary education results could not be assessed.

The Administrative Reports were not prepared

In respect of SPSR Nellore, the ZPP submitted consolidated Administrative Report of MPPs to the Commissioner up to 2006-07 only.

2.1.8 Monitoring Mechanism

2.1.8.1 Conducting of inspection by the Commissioner of PR& RE

Andhra Pradesh Panchayat Raj Officers Delegation of Powers Rules, 2000 stipulates that the Commissioner, PR&RE (CPR&RE) Andhra Pradesh, Hyderabad shall inspect all ZPPs once in a calendar year and submit copies of inspection notes for review by Government. However, inspection of the ZPP, Khammam was not conducted by the CPR&RE for the calendar years from 2003 to 2008.

Annual inspection of ZPPs was not conducted by the higher authorities

In both the ZPPs, inspection by the Secretary to Government, Panchayat Raj and Rural Development Department, Government of Andhra Pradesh required

under Chapter 68 of Panchayat Raj Zilla Parishads Functionary Manual was not conducted during the period covered by review.

2.1.8.2 Shortfall in inspection of MPPs by CEO/Dy CEO

As per chapter 68 of Panchayat Raj Functionary Manual, CEO, ZPP should draw a programme to visit all the MPPs in the District once in a year. In Khammam ZPP, there was shortfall in inspection of offices of MPPs by the CEO/Dy.CEO as detailed below.

Shortfall in inspection of MPPs by CEOs/ZPP

Year	Number of MPPs to be inspected	Number of MPPs inspected by		Shortfall	No of I.Rs issued	No of Rectification Reports received
		CEO	Dy CEO			
2003-04	46	26	20	--	46	0
2004-05	46	20	26	--	46	0
2005-06	46	29	17	--	46	0
2006-07	46	--	10	36	0	0
2007-08	46	0	0	46	0	0
Total	230	75	73	82	138	0

It is evident that the coverage of inspection was only 64 per cent during 2003-04 to 2007-08. Out of 138 Inspection Reports issued from 2003-04 to 2007-08, no rectification reports were insisted from MPPs. As a result, the very objective of bringing about improvement in the performance of MPPs was defeated.

In ZPP, SPSR Nellore, as against 46 Mandals to be visited annually by the CEO/Dy.CEO, 29 Mandals (12.6 per cent) were only covered during the entire five year period. And out of 29 Mandals covered, Inspection Reports of 10 Mandals were only issued.

2.1.8.3 Non-obtaining of Utilisation Certificates

The ZPPs did not obtain Utilisation Certificates along with expenditure statements from the executive agencies for the funds released under SFC/TFC/MPLADS as detailed below:

(Rupees in lakh)

Grants were released though UCs for earlier years were not obtained

Name of the ZPP	Name of the Grant	Period	Total amount released	Total value of UCs obtained	UCs yet to be received
Khammam	SFC	2003-04 to 2007-08	472.19	264.56	207.63
	TFC	2005-06 to 2007-08	2916.07	1356.84	1559.23
	MPLADS	2007-08	19.45	0	19.45
SPSR Nellore	SFC	2003-04 to 2007-08	245.17	242.00	3.17
	TFC(CPWS)	2005-06 to 2007-08	221.82	221.64	0.18
	TFC (Sanitation)	2006-07 to 2007-08	600.00	20.00	580.00
Grand Total			4474.70	2105.04	2369.66

The old vehicles were not condemned even though they were not road worthy

2.1.8.4 Non-condemnation of old vehicles

As per the orders of Government, vehicles aged above 15 years and 250000 KM run can be straight away put to auction by fixing 10 *per cent* of vehicle cost as upset price without seeking any valuation certificate from any department or authority. Nine vehicles which were more than 15 years old lying in three divisions⁸ were not disposed off even though they were not road worthy.

2.1.9 Other points of interest

2.1.9.1 Non-disposal of unserviceable articles

As per Article 142 of APFC Vol.I, condemned stores should as far as possible be sold under the orders of competent authority through public auction. It was observed that based on the directions of CE (RWS), S.E (RWS), Khammam prepared (March 2004) the list of surplus articles valuing Rs 15.32 lakh to utilise the same in any other needy offices. But none of the items were either transferred to any needy unit or disposed off as scrap.

Sand Auction allocation amount of Rs 6.58 lakh was not transferred to sports authority

2.1.9.2 Non-Allocation of 3 *per cent* Sand Auction amount to Sports Activity

As per Government orders, the District Panchayat Officer/ZPP shall allocate 3 *per cent* of revenue from quarrying of Sand for Sports activities and distribute the same among the village, Mandal and District level Sports authorities in the ratio of 37.5: 37.5: 25. During the year 2005-06 and 2006-07, an amount of Rs 2.19 crore was realized through sand auction. Of this, Rs 6.58 lakh (3 *per cent*) to be transferred to sports authority was not transferred even as of February 2009.

Despite availability of funds, wireless sets were not installed

2.1.9.3 Non-installation of Wireless Sets

With a view to monitor developmental schemes implemented by all 46 MPDOs, ZPP, Khammam proposed to install wireless sets in all MPDOs with 2 *per cent* SGRY Administrative grant available with all MPDOs. An amount of Rs 27.65 lakh was collected from all MPDOs up to February 2009. Despite availability of funds, the process of entrusting the work was not finalized and the amount was kept in fixed deposits by ZPP, Khammam. Meanwhile Government directed (March 2006) the CEO/ZPP to transfer the unutilized balance to the Project Director, DWMA for implementation of NREGS scheme but the same was not done.

As a result, the objective of monitoring of the developmental activities through wireless system was defeated.

Unnecessary expenditure on special pay during the idle period of vehicles

2.1.9.4 Idle Vehicles

On scrutiny of the records of P R Divisions of Khammam and SPSR Nellore districts, it was noticed that DRR vehicles were not put to use from 2004 onwards due to want of repairs or awaiting condemnation. An expenditure of

⁸ EE, PR Khammam; EE, RWS Divisions Kothagudem and Khammam.

Rs 53.73 lakh was incurred on pay and allowances of the staff (drivers and cleaners) during the above period. Special Pay should be paid to drivers only when the vehicle is under running condition and put to use. However, it was observed that Special Pay of Rs 0.81 lakh was paid even when the DRR vehicle was off the road or proposed for condemnation as detailed below.

(Rupees in lakh)

S.No	Name of the Division and D R R Registration Nos	Period of non-operation of DRRs	Unproductive expenditure on pay and allowances including Special Pay	Special Pay paid
1	E E (PR), Bhadrachalam D R R No.10808, D R R No.1800	2005-06 to 2007-08	14.96	0.18
2	EE (PR) Khammam 753(SES), 1796 AJ, 23124 (BR)	2004-05 to 2007-08	22.36	0.34
3	EE PR Kothagudem	2004-05 to 2007-08	5.02	0.12
4	E.E., P.R., Kavali, SPSR Nellore BRM 23145, BRM2114	2004-05 to 2007-08	4.51	0.06
5	E.E.(P.R), SPSR Nellore BRRM 21609, ATN 3746	2003-04 to 2007-08	6.88	0.11
Total			53.73	0.81

**Irregular utilisation of contractors' deposits on salaries
Rs 5.75 crore**

2.1.9.5 Irregular utilization of contractors deposits (EMD & FSD) towards payment of salaries and other expenditure

As per Government orders, the EEs of PREDs are directed to reconcile the balances outstanding in PD account of treasury books and transfer the amounts relating to works programmes/schemes/security deposits of contractors to PAO/APAO concerned.

However, in contravention of the above orders, it was noticed in the test checked divisions that out of the total amount of contractors deposits of Rs 6.93 crore, an amount of Rs 5.75 crore was utilized towards salaries and other contingent expenditure (1994-2002) and an amount of Rs 1.18 crore was lapsed by the treasury due to introduction of PAO system in April 2001.

Salaries amounting to Rs 1.84 crore were paid to the work charged employees without grant

2.1.9.6 Payment of work-charged employees salaries by the PAO without grant Rs 1.84 crore

The salaries of work charged employees including the NMR appointed prior to November 1993 were paid through PAO based on the LOC released by the Government. Scrutiny of records of RWS division, Khammam revealed that based on Government instructions, an amount of Rs 1.84 crore was paid by PAO for the period 2003-04 to 2007-08 in excess of LOC released for which details were not available in the division.

2.1.9.7 Irregular purchase of tender schedules and agreement booklets from the sale proceeds of tender schedules.

Tender schedules and agreement booklets worth Rs 3.83 lakh were purchased irregularly from the sale proceeds of tender schedules

As seen from the Stock Register of tender schedules, agreement booklets of Kothagudem PR Division, it was noticed that stock worth Rs 3.83 lakh purchased from sale proceeds of tender schedules during the period from January 2004 to July 2005 was lying in the Stock Register (March 2009). Without obtaining sanction of competent authority, purchase of tender schedules with the sale proceeds of tender schedules is irregular. The sale proceeds of the amount should have been either remitted to Government account or transferred to PAO.

2.1.9.8 Non achievement of Targets for examination of quality of drinking water

Non-achievement of targets for examination of quality of drinking water

The main objective of the quality control lab of the RWS division is to test the presence of H₂S and MPNS and fluoride position in the water sample. If the presence of the chemical is more than the permissible level, purification measures like chlorination are to be adopted.

During 2003-04 to 2007-08, targets with regard to checking of samples were not achieved and the shortfall ranged between 73 to 84 *per cent* as shown below.

Year	E.E. RWS&S, Kothagudem			
	Target	Achievement	Shortfall	Percentage of short fall
2003-04	3000	800	2200	73
2004-05	3000	726	2274	76
2005-06	3600	820	2780	77
2006-07	3600	890	2710	75
2007-08	4800	772	4028	84
Total	18000	4008	13992	

The general public was allowed to consume impure drinking water as in most of the tested samples in Kothagudem, the presence of H₂S and MPNS was more than 50 *per cent*.

2.1.10 Conclusions

Although DPCs were constituted in Khammam and SPSR Nellore, their functioning was deficient with regard to preparation of Action Plans. Properties were leased out without incorporating suitable clauses with regard to periodical revision of rent. Shortfalls in sectoral allocations as well as utilisation of ZPP General Funds were noticed. Proper monitoring and effective pursuance was not made in respect of collection of own revenues and also reimbursement of dues from the Government. Instances of diversion of scheme funds, unfruitful expenditure, and abandonment of works were noticed. There was delay in preparation of Annual Accounts. The monitoring

was not adequate as the inspections of MPPs and PREDs at the desired level were not conducted.

2.1.11 Recommendations

- Functioning of DPCs is to be streamlined on the lines of guidelines issued by the Government.
- Register of Assets has to be maintained by the ZPP in respect of the properties of ZPP.
- TFC grants should be utilized for construction of school toilets and not diverted elsewhere.
- ZPPs should ensure the utilization of funds released to executing agencies in the interest of accountability for funds.
- Steps should be taken to raise demands for own revenue in time and collection thereof, obtaining the ZPP revenues retained by PREDs and timely preparation and submission of claims for reimbursement of dues from the Government.
- Regular inspections and monitoring of ZPPs/MPPs should be conducted.

The above observations were reported to the State Government in July 2009; reply had not been received (September 2009).

URBAN LOCAL BODIES

2.2 Functioning of Greater Hyderabad Municipal Corporation in four selected areas

Highlights

Greater Hyderabad Municipal Corporation (GHMC) provides civic services and infrastructure facilities to the citizens of Hyderabad and Secunderabad while discharging its functions as per the provisions of the Hyderabad Municipal Corporation (HMC) Act, 1955. For undertaking the above arduous tasks, the GHMC is statutorily empowered to levy and collect tax and non-tax revenues. But the implementation mechanism suffered from several deficiencies. Provisions of the Act and the Rules were not adhered to and statutory provisions were not enforced. Penalties were inadequate to have deterrent effect. Prescribed procedures with regard to building permits were deviated causing hardship to the applicants. No effective mechanism was in place to safeguard the municipal lands. Overall, the legislative intent has not been translated into effective compliance.

Property tax

- Property Tax on residential buildings has not been revised since 1999 and collection of the tax on vacant lands was altogether neglected.

[Paragraphs 2.2.6.2 & 2.2.6.3]

- Property tax was also not being levied on certain non-exempted categories of Educational Institutions etc. As against the total target of Rs 1,254.95 crore for the five-year period 2003-08, an amount of Rs 963.23 crore was collected. The achievement of collection of the tax on buildings was as low as 56 per cent in the year 2007-08.

[Paragraphs 2.2.6.3 & 2.2.6.5]

- Lack of fair and transparent procedure led to large number of court litigations (involving Rs 5.70 crore) etc. There were cheque bounce cases involving Rs 28.59 crore. Chronic defaulters of Property tax (Rs 79.31 crore) accounted for nearly one-fourth of total demand. This indicated lack of effective monitoring of tax collections at appropriate levels of authorities of GHMC.

[Paragraph 2.2.6.3]

- GHMC failed to enforce most of the important statutory provisions with adverse implications of continued evasion of Property Tax by the defaulters. GHMC has been severely handicapped by the absence of a control mechanism in critical areas vital for its effective functioning.

[Paragraphs 2.2.6.2 & 2.2.6.4]

Advertisement fee

- For Advertisement Fee, Integrated Database to facilitate collection has not been created and proper mechanism was not in place to collect revenue as per the standard parameters. In the absence of information on the number of assessable units, proper and timely demand was not raised. As against Rs 91.14 crore targeted during the five-year period 2003-08, the collection was only Rs 55.97 crore (61 per cent); the shortfall was as high as 66 per cent in the year 2007-08.

[Paragraphs 2.2.7.1, 2.2.7.2 & 2.2.7.3]

- The whole issue of outsourcing of collection of Advertisement Fee for the years 2005-06 to 2007-08 to the private agency was handled in an unprofessional manner right from the beginning by the officials of GHMC causing huge loss of revenue. The GHMC could realise a meagre Rs 4.39 crore as against the bid amount of Rs 17.50 crore. Despite this, the revenue collection was again outsourced to another private agency for the next three year period 2008-11 also.

[Paragraph 2.2.7.3]

- Little attention was paid to the scope of offences. Quantum of penalties was also inadequate. Follow-up on bounced cheques was also deficient. These have adverse implications on collection of revenue on account of Advertisement Fee.

[Paragraphs 2.2.7.3 & 2.2.7.4]

Building permissions

- Deviations to procedural requirements were noticed in grant of Building permits causing inconvenience and hardship to the public. No mechanism was in place to detect cases *suo moto* of constructions being made even without applying for Building permits and the deviations to the sanctioned plans. Statutory provisions in respect of illegal/unauthorized constructions were not enforced.

[Paragraphs 2.2.8.3 & 2.2.8.4]

Safeguarding municipal lands

- Adequate attention was not paid to safeguarding Municipal lands with adverse implications of loss of revenue of lease rentals besides misutilisation of these lands by the lessees.

[Paragraph 2.2.9.1]

- The requirement of periodical inspection and supervision by appropriate levels of authorities was not complied with. This is fraught with the risk of possible encroachments of the Municipal lands.

[Paragraph 2.2.9.2]

2.2.1 Introduction

The Municipal Corporation of Hyderabad (MCH) discharges obligatory and discretionary functions as per the provisions of the Hyderabad Municipal Corporation (HMC) Act, 1955 (which came into force in February 1956) and provides civic services and infrastructure facilities to the citizens of the twin cities of Hyderabad and Secunderabad. The jurisdiction of MCH has been extended to the 12 surrounding municipalities and as a result of which five territorial zones and 18 new Circles were created (April 2007) which formed part of GHMC. GHMC is governed by the HMC Act, 1955. The population of GHMC including the 12 surrounding municipalities, as per 2001 Census was 54.04 lakh while the current population stands at 65 lakh. The budget of the GHMC for the year 2007-08 was around Rs 1083.42 crore⁹

2.2.2 Organizational set up

The office of GHMC is headed by the Commissioner and Special Officer (C&SO). Besides, a Special Commissioner is also functioning in the Corporation. The administrative and executive powers and functions of GHMC are vested in the Commissioner under Section 119 of the HMC Act, 1955. Each functional wing of GHMC is headed by an Additional Commissioner (AC). The Zonal offices are headed by the Zonal Commissioners, assisted by Joint Commissioners while the Circles are headed by Deputy Commissioners (DCs). The Principal Secretary, Municipal Administration and Urban Development (MA&UD) Department is responsible at Government level, for overall supervision of the activities of GHMC including enforcement of the rules framed for administering the Act.

2.2.3 Audit objectives

The objectives of the Performance Audit Review were to assess and evaluate

- the arrangements for levy, collection and accountal of Property Tax;
- the arrangements for levy, collection and accountal of Advertisement Fee;
- the arrangements for according Building Permits;
- the arrangements for safeguarding the municipal lands and open spaces of GHMC and the arrangements for collection of lease rentals; and
- Manpower.

⁹ Revenue income including Property tax, Advertisement fee, Building permission fee etc., Rs 626.46 crore and Government grant Rs 334.68 crore; Revenue Expenditure Rs 431.62 crore, Capital Expenditure Rs 631.80 crore and transfer to Reserve Fund Rs 20 crore.

2.2.4 Audit criteria

The following criteria were adopted for the Performance Audit:

- Whether the arrangements for levy, collection and accountal of property tax has been effective and in accordance with the relevant provisions of the HMC Act, 1955, the rules made thereunder, instructions of Government and the targets set internally;
- Whether the arrangements for levy, collection and accountal of Advertisement fee were effective and as envisaged in the Act, the Rules, Resolutions of the Council, instructions of Government etc.;
- Whether the arrangements for according building permits were effective and in accordance with the rules and procedures laid down in the Act and the instructions of Government;
- Whether the arrangements for safeguarding the municipal lands and open spaces of GHMC and the arrangements for collection of lease rentals in place were effective and in accordance with the statutory provisions, relevant rules, instructions of Government, resolutions of the Council etc.;
- Whether the existing manpower was effectively utilized keeping in view the mandate of GHMC.

2.2.5 Scope and Methodology of Audit

The Performance Audit covered the period from 2003-04 to 2007-08. However, matters relating to the period subsequent to 2007-08 have also been included wherever necessary.

The records of the head office as well as two sample circles (Alwal and Charminar) relating to four selected areas, viz., Property Tax, Advertisement Fee, Building Permissions (Town Planning) and safeguarding of municipal lands and open spaces were test checked in audit.

An entry conference was conducted in February 2009 with the officers of all the concerned wings of GHMC including those of the sampled Circles along with the officers of the Government and the methodology being adopted for the Performance Audit was explained to them. An exit conference was also held (August 2009) with the C&SO, GHMC (who is also ex-officio Principal Secretary to Government) and all the officers of the GHMC concerned. The replies furnished by GHMC have been taken into account while arriving at the audit conclusions. The results of the Performance Audit are presented in the succeeding paragraphs.

Audit Findings

2.2.6 Property Tax

Property Tax is the main source of income¹⁰ of GHMC and is levied and collected on all the lands and buildings within the limits of GHMC as laid down under Sections 197 and 199 of the HMC Act, 1955. As per Section 264 of the Act, Property Tax shall be payable on half-yearly basis.

2.2.6.1 Comprehensive Database of all assessable units

Complete and accurate data on all assessable public and private properties such as residential and non-residential properties; Central and State Government properties; properties of autonomous and corporate bodies like APTRANSCO and APSRTC is a pre-requisite for raising a proper demand. This has the added benefit of detecting unauthorized structures. As ascertained from GHMC, data pertaining to surrounding municipalities merged with GHMC has been integrated by 14 July 2009.

Audit however, observed that GHMC had no comprehensive database of all assessable properties. A system of according prior permissions for construction of buildings is already in place in the Town Planning Wing. Such information could have served as an effective aid for creating centralized database for property tax. Only illegal constructions, i.e., constructions made without approved building permits, would not have found place in the database. Audit observed that the information available in Town Planning wing was not utilized by Property Tax wing and there was no coordination between the wings of 'Town Planning' and the 'Property Tax' in this regard.

Commissioner, GHMC stated (August 2009) that the information available in the Town Planning wing would be utilized by Property Tax wing.

Deficient GIS¹¹ Survey

Instead, GHMC entrusted (August 2006) the GIS survey relating to seven circles of MCH to six different agencies¹² for a total agreement value of Rs 1.84 crore. The remaining eleven circles of GHMC have not been covered under the present survey. The entire project was to be completed in all respects in four months, i.e., by 31 December 2006 but, it was extended from time to time upto 31 March 2008.

The scope of survey work included preparation of customized GIS for property tax in addition to preparation of GIS for several functional activities viz., trade licences, storm water drainage system, street lighting network, road network, solid waste disposal, slums, horticulture and urban forestry. The entire survey work was to be carried out through four stages, the details of which are given at *Appendix -3*. After Stage I, the Consultants were to submit System Design Document and MCH would supply the information/data

No
comprehensive
database of all
assessable
properties

GIS survey work,
scheduled to be
completed by
March 2008,
remains incomplete
and this has
adverse
implications on
timely creation of
comprehensive
database

¹⁰ 47 per cent of the revenues levied and collected by GHMC during the year 2007-08.

¹¹ Geographical Information System.

¹² PCS Technologies, Suchan Infotech, Speck Systems Ltd., Map World Technologies, Global Information Technologies and ORG-GIS.

available with them. Wherever it was required, the Consultants were to ascertain and collect the data by way of field visits. The survey on Property Tax was to cover the following:

- Plot and property identification; basic plot information; basic property tax information; property details; land use, tax zone; plinth area; status of assessments (reassessed or newly assessed or both); status of tax collection; status of arrears demand etc.
- The Consultants were to work in close coordination from the inception stage till completion to ensure integration of the maps, data and the final output, application testing, system installation and system acceptance test.
- The GIS Project Committee constituted for this purpose was to review the performance of the Consultants and also the quality of the work done.

Survey reports were submitted by the respective agencies with incomplete information. The system design document required to be submitted after stage-I, was not submitted by them.

Audit also observed the following deficiencies with regard to compliance with the agreement clauses:

- As per the survey reports received from the Consultants, information on various items was either absent or was inadequate and mismatching as observed by the Project Committee. Data was not submitted according to specifications (i.e., information regarding occupant details, ground floor partitions, photographs, utilities, roads poly, feature classification etc).
- As per Clause 12 of the agreement, the information collected from the field should be certified by the GHMC officer concerned. All the survey formats used in the field for filling the details of properties should be certified by both the surveyor and the staff of GHMC. However, the verification and certification of work has not been completed as of May 2009. The non-completion was attributed to inadequate manpower and field problems.
- There was no mechanism to ensure that the contractor does not default by omitting certain properties from the survey leading to property tax not being levied on some properties.
- As of May 2009 an expenditure of Rs 0.59 crore (as against the agreement value of Rs 1.84 crore) was incurred and the project remained incomplete. Non-creation of comprehensive database has adverse implications of ***not bringing all the properties assessable to tax under the tax net.***

The Commissioner, while attributing the non-completion of the survey work to non-cooperation from the residents, stated (August 2009) that necessary action would be taken for getting the GIS survey completed in all respects at the earliest. The Commissioner did not however, offer specific remarks on the above deficiencies pointed out by Audit.

2.2.6.2 Raising of Demand

Property tax on residential buildings was not revised since 1999. Vigilance Cell intended for detection of under-assessment of property tax, etc., though contemplated by the Government has not been created (May 2009)

(a) As per Rule 7 (5) of the Rules framed under the HMC Act, revision of property tax on residential buildings once in five years is mandatory. This was also reiterated by the State Cabinet in November 2001. Scrutiny, however, revealed that Property Tax on residential buildings was not revised since 1999. In respect of non-residential properties, tax structure was revised in the year 2007 adopting the 'area based unit rate system'. The Commissioner replied (August 2009) that Government issued (September 2006) orders to revise the Property Tax on residential buildings but, the same were kept in abeyance (January 2007). Further, the Commissioner promised to revise property tax on residential buildings after receipt of orders from the Government.

(b) Though the Cabinet decided (November 2001) to create a Vigilance Cell at the State level to cover all Municipal Corporations and municipalities for detection of unauthorized constructions and under-assessment of property tax, the Vigilance Cell has not been created as of May 2009. Thus, GHMC has been severely handicapped by the absence of a control mechanism in critical areas vital for its effective functioning.

The Commissioner replied (August 2009) that Government would be addressed for creation of Vigilance Cell at State level for effective functioning of the GHMC.

2.2.6.3 Collection and Accountal

The targets vis-à-vis the achievements in collection of property tax for the period, 2003-08 in respect of buildings as well as vacant lands were as follows:

Buildings

(Rupees in crore)

Year	Budget Estimate for collection (Target)	Actual collection (Achievement)	Percentage of Collection
2003-04	174.35	164.53	94
2004-05	204.97	158.00	77
2005-06	207.97	174.43	84
2006-07	218.72	217.06	99
2007-08	448.94	249.21*	56*
Total	1254.95	963.23	

*As stated (August 2009) by the Commissioner, though an amount of Rs 313.09 crore was collected during 2007-08 against the budget estimate of Rs 448.94 crore, amount collected during the year was incorrectly recorded as Rs 249.21 crore in the budget. However, amendment in the budget document is awaited from the GHMC.

Separate figures for residential and non-residential buildings were not maintained by GHMC.

The Commissioner attributed the shortfall in collection of property tax during the year 2007-08 to waiver of penal interest by Government, continued evasion of property tax by chronic defaulters, locking up of revenue due to non-finalisation of large number of court cases and non-receipt of final orders from the Government on collection of property tax on educational institutions.

Audit observed the following shortcomings with regard to collection and accountal of property tax:

Absence of a fair and transparent mechanism for collection of property tax led to large number of court cases involving Rs 5.70 crore. GHMC was also saddled with the problem of cheque bouncing cases (Rs 28.59 crore). Also, there were chronic defaulters involving Rs 79.31 crore

- Fair and transparent methodology for assessment and levy of property tax is a vital pre-requisite. A methodology for computation of tax can be considered as effective if three persons x, y or z apply the methodology and arrive at the same value of tax. If more than one value can be computed such a system is conducive to litigation. In respect of GHMC it was observed that there were 135 cases pending in various courts as of March 2008 involving Rs 5.70 crore towards payment of property tax relating to the period, 1994-2008. The cases related to alleged excessive demand being made by GHMC and claims for exemption from payment of property tax (i.e., service charges etc.,).
- GHMC has been plagued with the problem of cheque bouncing. About 30,000 cheques (4600 to 7800 in each year) were dishonoured during the five-year period, 2003-08 involving Rs 28.59 crore. The collection of money from parties which present cheques and which bounce later is beset with the problem of protracted, vexatious legal proceedings. A simple and effective way to overcome this problem was to introduce the system of payment by Demand Drafts right at the initial stage of cheque bouncing. But no such changes were made.
- Besides the above, there were as many as 117 chronic defaulters of property tax amounting to Rs 79.31 crore.

The Commissioner assured (August 2009) to take remedial measures in respect of court cases, cheque bouncing cases and chronic defaulters.

Vacant Lands

Collection of property tax on vacant lands was altogether neglected

Audit also observed that in respect of vacant lands, as against the estimated revenue of Rs 7.47 crore for the period 2003-04 to 2006-07 the collection of property tax was '*nil*'. For the year 2007-08, only Rs 1.93 crore was collected as against the estimated collection of Rs 3.20 crore indicating ineffective action by GHMC to collect the tax on vacant lands. If there was no inclination to collect tax on vacant lands the best course of action would have been to remove it from the statute. The Commissioner assured (August 2009) that necessary action would be taken for improving the collection of vacant land tax.

2.2.6.4 Enforcement of statutory provisions

The best remedy against defaulters is to take deterrent penal action. Following are the penal provisions laid down by the legislature:

GHMC also failed to enforce most of the important statutory provisions with adverse implications of continued evasion of property tax by the defaulters

Relevant Section of the Act	Relevant provision/Penalty laid down in the Section	Audit observation
269 (2)	For non-payment of property tax on or before due date: (i) penalty of 2 per cent interest per month to be imposed; or (ii) disconnect the essential services; or (iii) confiscate the movable articles of the defaulter	During the year 2008-09, Government, while issuing orders in February 2009, stated that the waiver would be one time measure. Defaults in payments can be categorized as: 1. Defaults arising due to adverse circumstances like crop fail in case of crop loans and adverse business climate in case of industrial loans and 2. Wilful defaults One time settlement is normally extended in case of category one defaults. Cases of defaults in respect of property tax do not fall under the first category. Hence, the application of principle 'one time settlement' by GHMC was an inappropriate measure. Such an action was basically a disincentive to other tax payers who were prompt. This measure should be basically considered as giving an incentive to defaulting parties. This measure was also conducive to defaults in future. Incidentally it was observed that there were several such 'one time measures' taken by the GHMC in the past (October 2004 and March 2008). Thus it is seen that the 'one time measure' in October 2004 led to further defaults necessitating further 'one time measures' in March 2008 and February 2009.
455	Every person should deliver a notice to the Commissioner, in writing, within one month after completion of the building and obtain permission to occupy the building	In the test checked cases, these requirements were not complied with by the building owners. Town Planning Wing also failed to obtain the completion reports. Automatic creation of the integrated database and raising of demand were not facilitated due to non-compliance.
238	Collection of arrears of Property tax under the provisions of the Revenue Recovery Act (RR Act)	These provisions are not being enforced at all. Non-application of deterrent penalties would result in continuous evasion of payment of property tax by the defaulters.
278	Suing the defaulters in court of law	

Though GHMC has been armed with provisions to levy penalties against defaulters, it failed to invoke the provisions. Non-invoking of deterrent penal provisions by GHMC has created a fertile environment for defaults in future. Thus, the legislative intent has not been translated into effective compliance.

The Commissioner while accepting the audit observations assured (August 2009) that distress warrants would be issued for confiscation of movable articles of defaulters of property tax enforcing the penal provisions laid down in the Act. The Commissioner also stated that Government would be addressed with regard to the audit observation on waiver of penal interest for non/delayed payment of property tax and for issuing instructions to the departments concerned for disconnection of essential services in the properties owned by defaulters of property tax as laid down in section 269(2) of the HMC Act.

Given the large number of defaulters it may be helpful to proceed against defaulters selected in the following manner periodically (may be every six months).

- a) Ten topmost defaulters and
- b) Ten defaulters selected on a scientifically generated random number basis;

Such a strategy has the merit that limited number of defaulters have to be proceeded against making it operationally feasible. Step (b) is recommended to give a signal that any defaulter can be proceeded against. Once vigorous action is taken against twenty defaulters, it would have a demonstrative effect against the remaining defaulters.

2.2.6.5 Exemption from payment of Property Tax

Section 202 (1) (bb) of the HMC Act specifically provides for *exemption* from payment of property tax on lands and buildings in respect of educational institutions having classes *upto 10th Class* and are depending upon grants-in-aid by the Government for their maintenance. In spite of having the specific statutory provision, a scientific system/criteria of collection of property tax on buildings occupied by educational institutions assessable to tax has not been evolved (May 2009). Scrutiny also revealed that, though stipulated in the Act, property tax on buildings occupied by higher educational institutions running classes beyond 10th class was not being levied and collected. A large number of educational institutions have sprung up in the twin cities of Hyderabad and Secunderabad, set up by private organizations. But GHMC did not get benefit from higher revenues from the buildings occupied by the above institutions.

The Commissioner while admitting the lapse stated (August 2009) that necessary action would be taken to collect the property tax from the non-exempted categories after conducting a survey to bring all such institutions also into tax net.

2.2.6.6 Short receipt of property tax from Government

The Government of Andhra Pradesh decided (November 1997) that it would pay property tax on State Government buildings situated in twin cities in lumpsum every year instead of paying through individual departments. For the period 2004-08 alone, Government was yet to release Property tax on State Government buildings amounting to Rs 50.73 crore to GHMC (May 2009).

Compensation is released by the Government to GHMC every year (since 1977-78) to offset the loss sustained by the GHMC on account of exemption from payment of property tax granted on properties whose Annual Rental

Property tax on organisations of non-exempted category was not being collected

Government was yet to release Rs 51.73 crore to GHMC being the Property tax on Government owned buildings etc.

Value (ARV) was Rs 600 and less. The compensation amounting to Rupees One crore pertaining to the five year period 2003-08 alone was yet to be released by the Government to GHMC.

The Commissioner assured (August 2009) that the matter would be taken up with the Government for obtaining the revenue due.

2.2.7 Advertisement Fee

2.2.7.1 Database of all Assessable Advertisement Units

Absence of Integrated Database

All functions relating to advertisements within the jurisdiction of GHMC were centralized in the Advertisement Section of the head office of GHMC. Various items listed in *Appendix-4* attract payment of advertisement fee which included ground rent. Realization of revenue depends upon the size and the duration of the contract/permission. Prior permission is accorded by Advertisement Section for erection of hoardings, uni-poles and other advertisement units for the purpose of displaying advertisements. Comprehensive database is required for certain distinct purposes, viz., for raising proper demand, and to detect unauthorized hoardings. This would also help in detecting under-declaration of the sizes of the advertisement boards/hoardings etc. Database is useful, also for monitoring renewals, cancellations, collection of penal charges etc., beyond the expiry period.

Audit scrutiny revealed that integrated database has not been created (May 2009) by GHMC. Proper mechanism to collect revenue as per the above parameters was absent in the Advertisement Section. In this connection, Audit also observed the following:

- Verifiable records for inspecting the sizes (i.e., measurement of the advertisement units) were not in place. Such records are vital for monitoring field visits of higher authorities in cross checking the actual sizes of the advertisement units.
- A certain percentage check of the initial measurements by way of surprise checks by appropriate authorities was essential but this was not ensured.
- Neither the Act nor the Rules provide for stiff penalties against incorrect declaration of sizes of the advertisement units.

The Commissioner replied (August 2009) that steps would be taken for integrating the database available in respect of the erstwhile MCH and 12 surrounding municipalities.

Physical survey of hoardings/unipoles

The records available in the Advertisement section would serve useful purpose of preparation of database of structures assessable for advertisement revenue and also detection of unauthorized hoardings. Despite this, GHMC engaged (October 2006) a private agency for conducting a survey of hoardings in the limits of MCH with a stipulation to complete the survey work within 60 days.

Integrated Database to facilitate collection of Advertisement Fee has not been created. Proper mechanism was not in place to collect revenue as per the standard parameters

Neither the Act nor the Rules provided for stiff penalties for incorrect declaration of sizes

The agency was paid Rs 1.40 lakh (as against the estimated cost of Rs 7.18 lakh) to the end of May 2009. The survey work has not yet been completed as of May 2009.

If the agency omitted mentioning any unauthorized hoardings, the parties putting up the hoardings will have the benefit of non-payment of advertisement fee. There was no clause in the agreement as to what action would be taken against the agency in case of failure to include in the database, unauthorized hoardings. Moreover, when private parties are engaged for performing regulatory functions, deterrent effect of the function was lost.

The Commissioner replied (August 2009) that necessary action would be taken for getting the survey completed at the earliest as well as to detect unauthorized hoardings.

2.2.7.2 Raising of Demand

GHMC collects advertisement fee from the traders/agencies, which consists of fee for erection of hoardings, ground rent on space for hoardings, lease of advertisement rights and fee for display of advertisements of all categories.

Raising of demand depends upon correct database; correct size of the advertisement boards at initial as well as at renewal phases. But, as pointed out in para 2.2.7.1, these requirements were not complied with. The basis adopted by GHMC for raising a Demand was as follows:

Type of Advertisement Unit	Basis for raising Demand as per tariff
Hoardings, Uni-Poles, Neon/Glow Sign Boards	Self-declaration-cum-return
New Hoardings and Uni-Poles	Open bid cum auction (for initial period of not more than three years)
Other units at Sl. No.3 to 5 of Appendix-4	Public Private Partnership (PPP) mode on Build, Operate and Transfer (BOT) basis through open Bid-cum-Auction for a period of three years
Other items listed at Sl. No.6 to 20 of Appendix-4	No definite system of regulation was in place.

Audit observed the following deficiencies with regard to raising of demand in respect of 'Advertisement Fee'.

- The system of generating statements, showing expiry dates of the advertisement units was not being followed. Such statements would be useful in conducting surprise checks by higher authorities to detect continued existence of advertisements beyond the expiry period.
- The allotment order contains details of advertisement fee to be paid. There was no systematic monitoring of realization of advertisement fee.
- Since comprehensive database of the number of assessable units, their sizes etc., was not maintained by GHMC, proper and timely demand was not being raised and thereby the correct position of year-wise collection and the pending dues was also not known.

In the absence of information on the number of assessable units, proper and timely demand was not raised. Surprise checks were absent and penalties were inadequate

- Surprise checks to verify the sizes of hoardings and unauthorized hoardings were absent. Penalties were also not prescribed for under-declaration of sizes and unauthorized hoardings.

Thus, the system of raising demand in respect of 'Advertisement Fee' suffered from many deficiencies with adverse implications on revenue generation.

The Commissioner while accepting the audit observations assured (August 2009) to rectify the deficiencies pointed out by audit. The Commissioner also assured that Government would be addressed for amendment of the Act for providing stiff penalties against under-declaration of sizes of advertisement units and unauthorized hoardings.

2.2.7.3 Collection and Accountal

During the five year period 2003-08, GHMC collected Rs 55.97 crore (61 *per cent*) towards Advertisement fee as against the target of Rs 91.14 crore as given in the table below:

(Rupees in lakh)

Year	Budget Estimates (Target)	Collection (Achievement)	Shortfall in collection (Percentage)
2003-04	1365.00	803.59	561.41 (41)
2004-05	1389.00	996.34	392.66 (28)
2005-06	1470.00	1286.23	183.77 (13)
2006-07	1890.00	1480.25	409.75 (22)
2007-08	3000.00	1030.29	1969.71 (66)
Total	9114.00	5596.70	--

As against Rs 91.14 crore targeted during 2003-08, the collection of revenue on account of Advertisement Fee was only Rs 55.97 crore (61 *per cent*)

In the year 2007-08, the shortfall in collection of 'Advertisement Fee' was as high as 66 *per cent*

The shortfall in collection of advertisement fee was as high as 66 *per cent* in the year 2007-08. This indicated that GHMC had not geared up its machinery to maximize advertisement revenue.

The Commissioner did not state any reasons for the shortfall in achievement of targets. The Commissioner however, promised (August 2009) to take suitable steps for achievement of targets in collection of advertisement fee in future.

Outsourcing of collection of Advertisement Fee

Despite default in payment, instead of streamlining the procedure, GHMC again outsourced collection of advertisement fee to a private agency for the next three year period 2008-11.

Commercial establishments intending to put up neon/glow-sign boards are required to take prior approval of GHMC. These establishments are required to pay advertisement fee to GHMC. Audit noticed that GHMC failed to maintain a centralized database of such establishments to ensure payment of advertisement fee. The procedure, also did not stipulate automatic remittance of advertisement fee by the establishments without the need for a demand being raised. The Act also has not prescribed penalties in case of default in payment of advertisement fee. The automatic remittance of advertisement fee by the commercial establishments would have obviated the need for huge staff for raising the demand. A limited staff just adequate to detect defaulting establishments would have served the purpose.

Instead of setting up such a modified system in place, GHMC entrusted the collection of advertisement fee to a private agency (M/s. Nest Enterprises Private Limited, Hyderabad) for a three year period 2005-06 to 2007-08 for a total bid amount of Rs 17.50 crore. Out of this amount the agency paid (May 2009) only Rs 4.39 crore and GHMC is saddled with the task of realizing the defaulting amount through legal proceedings. GHMC filed (December 2008) a suit in the court and the orders of the court were awaited (May 2009).

Audit scrutiny also revealed the following:

- As part of safeguards against default in payment by the private agencies, the agency was required to arrange a Bank Guarantee of Rs 3.00 crore. The agency was however, authorized to collect advertisement fee even without collection of the Bank Guarantee amount in advance. This provided a fertile ground for the agency to default in payment of the obligatory amounts.
- Thirteen cheques¹³ aggregating Rs 7.01 crore, issued by the agency, were dishonoured. Though cheques repeatedly bounced, no effective action was taken by GHMC for recovery of the amounts of dishonoured cheques under Revenue Recovery Act (RR Act) and for invoking the relevant provisions laid down in the Negotiable Instruments Act. The contract should have stipulated payment through demand drafts.

Thus, the whole issue of outsourcing of collection of 'Advertisement Fee' was handled in an unprofessional manner by the officials of GHMC right from the beginning thereby causing substantial loss of revenue to GHMC. Non-compliance with safeguard clauses by GHMC and default in payments by the private agency indicates collusion which needs to be probed.

Instead of streamlining the procedure as discussed above and despite the bad experience with the private agency, GHMC continued outsourcing of collection of advertisement fee for a further period of three years i.e. 2008-09 to 2010-11, to another private agency¹⁴ in December 2008.

The Commissioner while accepting the audit observation assured (August 2009) that an enquiry would be conducted and action initiated against the officers responsible for non-compliance to the safeguard clauses which have led to default in payment by the agency concerned. The Commissioner also promised to take steps to ensure automatic remittance of advertisement fee by the agencies in future. As regards the outsourcing of collection of advertisement fee to a private agency for the next three-year period 2008-11, the Commissioner while attributing this to inadequate staff sought to justify the action of GHMC by stating that the entrustment of collection of advertisement fee to private agencies was felt more effective than departmental collections. The contention of the Commissioner is not acceptable. The need for outsourcing has arisen due to present procedure

¹³ Cheques dated 30 April 2006, 30 July 2006, 23 March 2007, 23 March 2007, 31 March 2007, 31 March 2007, 31 March 2007, 31 March 2007, 30 April 2007.

¹⁴ USM Business Systems Pvt. Ltd.

which stipulates raising of demand necessitating substantial staff. The procedure as suggested in the beginning of paragraph would not require much staff. Hence, by following the suggested procedure GHMC can dispense with outsourcing.

Non-insistence of payments through Demand Drafts/cash resulted in GHMC being saddled with the problem of bouncing of cheques. Follow-up on bounced cheques was deficient with adverse implications on collection of revenue.

Adverse effects of non-insistence of payments through Demand Drafts/cash

Collection of amounts through cheques is beset with the problem of their bouncing and protracted litigation for realization of amounts. Ignoring this reality GHMC failed to prescribe that the remittance should be made by Bank drafts/cash.

Audit scrutiny revealed that considerable time had elapsed between receipt of cheques in the Advertisement Section and return of dishonoured cheques from the municipal treasury back to the Advertisement Section as illustrated in the following table. Though Section 138 of Negotiable Instruments Act empowers GHMC to take action for attachment of the property, scope for such action was eliminated on account of issuing invalid notices¹⁵.

(Rupees in lakh)

No. of cheques received	Total value of the cheques	Date of receipt	Date of return of dishonoured cheques to Advertisement Section (Time gap in months)
1	100.00	July 2006	Jan 2007 (6)
6	250.00	March 2007	Aug 2007 (5)
5	251.30	April 2007	Aug 2007 (4)
4	73.20	May 2008	Sept 2008 (4)

Non-insistence of payments through Demand Drafts/cash resulted in GHMC being saddled with the problem of bouncing of cheques and consequent delays in realization of moneys. The Commissioner assured (August 2009) to initiate necessary remedial measures.

2.2.7.4 Penal Provisions

The following table shows the details of offences determined and the penalties prescribed.

Little attention was paid to scope of offences which should be more comprehensive. Quantum of penalties was also inadequate to have deterrent effect

Relevant Section of the Act	Nature of offence	Penalty prescribed	Audit observations
596	Erection of Sky-Signs without permission	Ranging between Rs 50 to Rs 1000	<ul style="list-style-type: none"> The scope of offences is restrictive. Provision against incorrect declaration with regard to size of advertisements is missing. The area of offences committed by

¹⁵ Instead of stipulating fifteen days time limit in the notices, GHMC stipulated only three days time whereby, the notices became invalid.

596	Exhibition of advertisements on certain sites without permission	Ranging between Rs 50 to Rs 1000	the assessee is far and wide. No penalty has also been prescribed for default in payment of advertisement fee.
596	Failure on the part of the licensee to produce the licence on demand	Ranging between Rs 50 to Rs 1000	<ul style="list-style-type: none"> A pre-requisite for a penalty as a deterrent against defaulters is that the quantum of penalty should be much more than the benefit that the defaulter would derive. The amounts were fixed long back and are not consistent with the principle enunciated above.
597	Continued offences	Rs 10	<ul style="list-style-type: none"> Mere prescription of a penalty does not have a deterrent effect unless the defaulting parties are penalized. No penalties were being levied.

Thus, adequate attention was not paid to the scope of offences which should be made more comprehensive. The quantum of penalties was also not adequate and hence should be revised so as to have deterrent effect.

The Commissioner while stating (August 2009) that the penal provisions of the HMC Act 1955 would be amended suitably and assured to bestow attention on enforcement of penalties.

2.2.7.5 Lapses/deficiencies in procedures and collection of Advertisement Fee

Nature of Event/ Requirement	Audit observations
Pending clearance of arrears of advertisement fee for the previous years, renewal of permission for display of advertisements should not be made.	Renewal was being accorded despite non-payment of arrears. For instance, in the case of Aditya Arts, though Rs 11.02 lakh was outstanding to end of 2007-08 permission was given for renewal for the year 2008-09.
<p>Municipal sites were allotted through auction for a period of three years from 1 April 2005 to 31 March 2008 in favour of Selvell Agency; Signa Outdoor Advertising; and Izra Advertising and Marketing.</p> <p>The following Tender conditions are to be complied with by the successful bidders in respect of allotment of municipal sites for erecting advertisement hoardings:</p> <p>(i) One year amount offered/quoted in tenders for the right to use the space allotted on municipal buildings and sites for erection of hoardings and the security deposit, advertisement fee and EMD are to be paid as per the schedule of fee within 7 days from the date of allotment order (Tender condition No. 14).</p>	<ul style="list-style-type: none"> Tender conditions were not complied with. Allotment conditions were not complied with as required under tender condition no. 14 and 33. GHMC issued invalid notices to the respective agencies, thus, pre-empting the move for taking action under Revenue Recovery Act for recovery of the dues. The contracts were neither renewed beyond 31 March 2008 nor fresh tenders called for. Arrears of Rs 61.40 lakh were outstanding as of April 2009.

<p>(ii) Structural Stability Certificates are to be furnished.</p> <p>(iii) Agreements are to be signed by the awardees.</p> <p>(iv) If any doubt arises as to the interpretation of any of the general or special conditions mentioned in the tender notification, schedules of agreement, the decision of the Commissioner, MCH shall be final and binding on the allottee (Tender condition No.33).</p>	
<p>Contracts for construction of certain arches listed in <i>Appendix-5</i> were awarded (April 2006) to Prakash Arts on Build, Operate and Transfer (BOT) basis for a period of three years.</p>	<p>Ownership of the structures has not been transferred (May 2009) to GHMC and the agency continued to derive the benefits even after the lapse of the agreement period on the pretext that specific and comprehensive terms and conditions for such transfer were not stipulated in the conditions of allotment. This plea is not tenable as BOT itself implies transfer of ownership at the end of the contract period. Hence no separate clause is required.</p>
<p>Fourth Fund Your City Programme (FYC):</p> <p>Contract was awarded (December 2006) in favour of 14 agencies for construction of Foot Over Bridges (FOBs) for a period ranging between eight to fifteen years at a total estimated cost of Rs 5.53 crore. But the work has not been commenced even as of August 2009.</p>	<p>Only 2 per cent bid amount of Rs 11.06 lakh was realized and the entire balance of 98 per cent of the bid amount of Rs 5.42 crore remained unrealized and the work has not been commenced even as of April 2009. Non-commencement of construction of FOBs was attributed to non-receipt of traffic clearance from the police authorities.</p> <p>This indicates poor planning on the part of the officials of GHMC in conceiving the project without getting clearance from the traffic police in advance.</p>
<p>One of the conditions attached to permissions for erection of hoardings is to furnish Structural Stability Certificate (SSC) to be issued by authorized Structural Engineers, empanelled by GHMC after inspection of the site and structure.</p> <p>Besides, third party insurance, payment of security deposit, bank guarantee, payment of full amount of first year advertisement fee in advance etc., were also to be complied with.</p>	<ul style="list-style-type: none"> • In all the test checked cases, the conditions were not fulfilled by the leaseholders. In spite of this, permissions were accorded. • There was no evidence on record to suggest that the Committee constituted by the C&SO had inspected the hoardings every month. • As a result of technically unsound and weak structures, the hoardings at Banjara Hills (11 April 2007), Chaderghat bridge (15 April 2007), Buddha Bhawan (7 August 2007) etc., collapsed/verge of collapse exposing the public to dangers.

The lapses/deficiencies with regard to Advertisement fee discussed above clearly suggest that rules, systems and procedures were not properly formulated while their enforcement failed to serve the intended purpose.

The Commissioner while accepting the audit observations assured to take suitable steps for realization of the arrears of the advertisement fee from the

agencies concerned and for getting the ownership of the structures transferred to GHMC by the agency concerned.

2.2.8 Building Regulations (Town Planning)

2.2.8.1 Building permissions

GHMC is empowered to grant building permissions under Sections 428 & 433 of HMC Act, 1955 after duly collecting building permit fee and other charges as per the schedule of rates notified. Viewed from the citizens' point of view, getting approvals for building plans in a hassle free manner is an important requirement. The focus of audit was therefore to assess whether the existing procedures met this requirement or could be modified. The status of Building permit applications received, permissions accorded, and the fee received during the review period from 2003-08 is as follows:

(Rupees in lakh)

Year	No. of Building applications received	No. of Permissions accorded [§]	Fee received
2003-04	3861	2972	4056.44
2004-05	3841	3137	5035.86
2005-06	3564	2538	4471.81
2006-07	2722	2247	4308.25
2007-08	3285 [@]	2836	16015.03*

[§]The remaining applications were rejected for various reasons.

[@]The information pertained to the Town Planning wing of main office of GHMC only. Information in respect of 18 circles of GHMC was not furnished by the Chief City Planner though asked for.

*The jurisdiction of MCH has been extended to the 12 surrounding municipalities during April 2007 and hence there was increase in fee received.

2.2.8.2 Disposal of applications for building permissions

A useful method of assessing a system in vogue is to compare it with best practices followed by another organization. As is well-known the Passport Office has a fairly effective system of dealing with applications for issue of Passports, where the applications are dealt with strictly in a serial fashion (except those under *Tatkal* Scheme). The applicant is relieved of the hassle of making repeated visits to the office to ascertain the status of his application as this information is available on the website. It also has the merit of not having to go to the Passport Office to collect the Passport as the same is sent by post. Such a system is conspicuous by its absence in GHMC in so far as according of building permissions is concerned.

- During the test check of the records pertaining to building permissions accorded by GHMC during the months of July 2006 and September 2007 it was observed that permissions were not accorded on priority basis as

per receipt of applications as illustrated in *Appendix-6*. Reasons for such omissions were not on record.

- The register of building permissions was not being maintained properly and several columns of the register were left blank. Periodic closings in the register for watching the pendency of the applications were not made whereby the position with regard to pendency of the applications and the reasons therefor are not known.

Thus, there is no assurance that the applications are disposed off strictly on first come first served basis.

The Commissioner while stating (August 2009) that measures would be taken to create awareness among the applicants seeking building permissions promised to adopt the system of issue of Passports for the process of according of building permissions as suggested by audit.

2.2.8.3 Deviations from procedural requirements in granting of building permits

The procedural requirements in granting of building permits and the compliance were as follows:

Deviations from procedural requirements were noticed in grant of building permits inconveniencing the public

Statutory requirement	Compliance/Audit findings
As per Section 428 of the HMC Act, the applicant seeking building permission should give a notice to the Commissioner in a prescribed form.	Complied with.
Section 435(2) stipulates that, on the reverse of the prescribed form for the above notice, a copy of Sections 428 to 434, 436 to 438, Section 440 and Section 444 to 449 and of all bye-laws made under sub-sections (9), (12) and (13) of Section 586 should be printed and supplied for the benefit of the applicants.	Not being complied with by GHMC. Thus, the relevant sections and the requirements thereunder were not made known to the applicants.
As prescribed in Section 429, the following documents are required to be furnished by the applicants seeking Building permits: (a) Correct plans and sections of every floor of the proposed building; (b) A copy of the title deed of the land duly attested by a Gazetted Officer of Government; (c) Urban Land Ceiling Clearance Certificate (ULCCC) OR an affidavit referred to under Section 388; (d) A specification of each description of work proposed to be executed; (e) A block plan of the proposed building; and (f) A plan showing the intended line	The applicants were asked to submit the following documents along with the applications in addition to the documents listed under Section 429 of the Act. (i) Structural Stability Certificates from licensed structural engineers in respect of buildings with height of above 15 mts; (ii) Soil Investigation Report; (iii) Agreement between the owner and the builder; (iv) Undertaking from the owner and the builder to employ technical personnel; (v) Insurance Policy from the contractor; (vi) Land use certificate; (vii) Feasibility certificate from Chief General Manager, Hyderabad Metro Water Supply&Sewerage Board (HMWS&SB);

of drainage of the proposed building along with the associated details thereof.	<p>(viii) Certificate of clearance from the Fire Services Department in respect of high-rise buildings; and</p> <p>(ix) National Savings Certificate of the value of Rs 2000.</p> <p>Even though, specific documents to be produced for according building permission are precisely stated under Section 429, insistence on production of the above list of documents can be considered as a burden on the applicants greatly contributing to the hassle factor. It also increases the burden on GHMC staff for scrutiny of all these documents. Given the large number of applications, the task of thorough scrutiny of the documents becomes practically impossible. It would have sufficed, if the applicants were asked to take care of the various requirements without insisting on the submission of the related documents.</p>
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The Commissioner while admitting (August 2009) the shortcomings pointed out by audit stated that steps would be taken for compliance of the provisions of Section 435(2) of the HMC Act. Further, the Commissioner while stating that the documents though not listed under Section 429 of HMC Act were being insisted from the applicants as per the orders of Government and further assured that the matter would be addressed by approaching the Government.

2.2.8.4 Cumbersome procedure for building permits

The following stages were involved in according building permits:

- Site inspection by Town Planning Inspectors
- Technical scrutiny and Report
- Building Committee's (BC) approval
- Approval of the Commissioner
- Raising of Demand by GHMC in respect of the prescribed fee and payment by the applicant
- Final scrutiny and grant of permit

Scrutiny revealed that except according permissions in respect of the applications received, no mechanism was in place with the GHMC to inspect and detect the cases where the constructions are undertaken even without applying for building permits. There was also no mechanism to inspect the buildings during the stages of construction to facilitate detection of deviations to the sanctioned plans.

Given the large number of constructions taking place in the GHMC limits, the question arises as to the relevance and the utility of the existing mechanism of according Building permits. If the above steps are to be carried out diligently, it would require a large complement of staff as the present staff would not be able to carry out the work effectively. The alternative mechanism would have been to lay down the detailed requirements to be met for undertaking

No mechanism was in place to detect constructions being made even without applying for building permits and deviations to the sanctioned plans

constructions, publishing them in priced book-lets for the benefit of parties intending to undertake constructions and thus obviating the need for prior detailed scrutiny by GHMC. Short term training courses could have been arranged for professionals to guide the parties. Relieved of this huge burden, the existing staff could have been better utilized for carrying out surprise inspections for detection of deviations from conditions laid down. The existing system has turned out to be a big hassle for law-abiding citizens and on the other hand facilitating law breakers in undertaking unauthorized constructions without any hesitation. Absence of an effective regulatory mechanism and the present cumbersome system of having to seek permits prior to construction has resulted in large number of unauthorized constructions taking place in GHMC limits.

Building Penalisation Scheme (BPS) was introduced in December 2007 for regulation and penalisation of unauthorisedly constructed buildings and buildings constructed in deviation to the sanctioned plans. For regularizing such illegal constructions, a penalty equivalent to 33 *per cent* of the various categories of fee and charges payable by the applicants for obtaining building permission in addition to the regular fee and other charges as prescribed under sub-clause C of section 455-A of the Act. About 2.01 lakh applications were received (October 2008) for regularization of illegal and unauthorized constructions under the scheme. Implementation of the scheme has commenced in June 2009.

Audit observed that BPS basically suffers from the following two lacunae:

- (i) It does not make distinction between those structures which have been built in accordance with the norms laid down but without obtaining prior permission from GHMC and those structures which have been built in violation of norms laid down and without obtaining prior permission. There is no condonation for applicants who obtained prior permission and deviated from the sanctioned plans but within permissible norms, as deviations in such case cannot be considered as objectionable.
- (ii) In cases where the constructions were beyond the permissible norms, those structures are regularized by imposing penalty instead of demolishing as they endanger public safety. Mere imposition of penalty does not serve the purpose, as the sanctity of norms is violated. It was further noticed that the penalties stipulated by Government in those cases under BPS were not in accordance with the general principle that a penalty should not be less than the benefit derived from such deviation. In the absence of such an arrangement, the amounts prescribed cannot be considered as a penalty but a concession to the defaulting party. Further, the amount fixed cannot be considered as a penalty as it has not been fixed in accordance with the principle that it should be more than the benefit derived by the defaulting party.

The Commissioner while attributing the inaction on the unauthorized constructions to the shortage of staff assured (August 2009) that a system would be evolved for better utilization of the existing staff for carrying out surprise inspections for detection of deviations. As regards the levy of penalty more than the benefit derived in respect of defaulters and with regard to

lacunae in BPS, the Commissioner assured that the matter would be taken up with the Government.

2.2.8.5 Non-utilization of the amounts collected towards Rain Water Harvesting Pits (RWHP)

Amounts collected towards Rain Water Harvesting Pits from the applicants seeking building permissions were not utilised. There was also no pursuance by GHMC for construction of the said pits

A sum of Rs 36.70 lakh was collected from the applicants seeking building permissions by the Commissioner of the test checked municipality (Alwal municipality since merged in GHMC¹⁶) during the period from 2003-08. The amount was to be refunded to the applicant concerned provided the pits were constructed in the respective premises within three months from the date of according building permissions. There were no applications seeking refund of these amounts indicating that the pits may not have been constructed. This indicated a failure on the part of GHMC to carry out an inspection and force the owners to undertake construction where no pits had come up. Instead, GHMC received all the deposit amounts which were transferred by the municipalities for credit to GHMC General Fund account on their merger. The Commissioner replied (August 2009) that necessary action would be taken for utilization of the amount for the intended purpose.

2.2.8.6 Absence of follow-up on utilization of publication charges collected from the applicants

There was no follow-up action on utilization of publication charges being collected from the applicants seeking building permits

Government ordered (November 1997) collection of a fee of Rs 100 and Rs 1,000 from individuals and builders of apartments respectively seeking permission for construction of buildings. The fee was intended for meeting the expenditure towards publication in the newspapers of information regarding the building permissions being accorded from time to time. This would enable the public to make complaints, if any, to the GHMC on unauthorized/illegal constructions so that follow-up action could be initiated by GHMC. While the GHMC collected (and remitted to General Fund Account), a sum of Rs 1.09 crore¹⁷ from the applicants during the period 1998-99 to 2007-08, GHMC failed to publish the particulars of building permissions being accorded in the newspapers. Thus, the citizens were deprived of playing a useful role in reporting unauthorized constructions.

The Commissioner while accepting the audit observation assured (August 2009) to take remedial action.

2.2.9 Safeguarding Municipal lands

2.2.9.1 Leases of lands and their rationalization

GHMC leased out 272 lands¹⁸ to various institutions (lands ranged upto 3.5 acres) situated in eight circles. These included (a) Organisations set up as Charitable Institutions (26), (b) Health & Educational institutions (16),

¹⁶ The details of such amounts collected and transferred to GHMC by the remaining 11 municipalities which have been merged (April 2007) in GHMC were not made available to audit by GHMC.

¹⁷ Rs 38.23 lakh during 1998-99 to 2002-03 and Rs 71.16 lakh during 2003-04 to 2007-08.

¹⁸ Four lands for 99 years, seven lands for 25 to 30 years, four lands for 20 to 24 years and the rest (257 lands) for a period upto 15 years.

(c) Residential purposes (100) and (d) Commercial purposes (130). The lease period ranged between 11 months to 99 years. The lease amount fixed per annum ranged between Rs 1 to Rs 5,700 per square yard.

The following deficiencies were noticed with regard to leasing out of the lands:

Little attention was paid towards safeguarding municipal lands, resulting in adverse implications on loss of revenue of lease rentals besides misutilisation of these lands by the lessees

- In 209 out of 272 cases of leased lands, Estates Wing of GHMC failed to maintain a proper record. In the absence of the relevant data, information on utilization of the leased lands for purposes other than the authorised purposes is not ascertainable. The possibility of encroachments in these lands cannot also be ruled out.
- In 52 out of 63 (272 – 209) cases, lease period expired between 1955 and 2005. The leases which expired have neither been revised / extended nor the lands resumed by the GHMC.
- Although, every year, the revision of lease rentals by increasing 10 *per cent* of existing rates was contemplated by GHMC, leases awarded several decades ago remain unrevised resulting in undue benefits to the parties and adverse implications on much needed finances for GHMC.

Open Spaces

A total of 2,666 open spaces were reported to be owned by GHMC aggregating 7,101 acres. Audit scrutiny revealed that, in several cases, full details such as Survey Numbers, Land Plan particulars and the extent of land were not available. GHMC failed to have a proactive role in making frequent inspections of the lands to safeguard against encroachments.

2.2.9.2 Collection and Accountal

On account of failure to address the problems discussed in para 2.2.9.1, the details of arrears, current demand as well as the collection and balance of the lease amounts in respect of the leased lands were not available with the Estates Wing/ Finance Wing of the GHMC. No evidence was available on record indicating that the requirement of periodic inspection and supervision by appropriate levels of authorities is complied with. With the steep hike in land prices in the twin cities and the surrounding areas in the recent past, the possibility of encroachments of some of the lands and open spaces is not ruled out.

In order to safeguard the municipal lands / open spaces, GHMC needs to conduct a fresh survey of all the municipal lands and open spaces including those of the 12 surrounding municipalities which were merged in the limits of GHMC and to integrate the full data with the master database of GHMC.

The Commissioner promised (August 2009) to take all necessary steps to maintain a proper record in respect of the leased lands and to renew the leases so as to enhance the lease rentals and to safeguard the municipal lands and open spaces.

**Centralised Asset
Account was not
maintained by
GHMC**

2.2.10 Maintenance of Centralised Accounts

The Andhra Pradesh State Municipal Accounting Manual (vide G.O. Ms. No. 619 MA and MA&UD (UBS) Department dated 21 August 2007) stipulates that Double Entry System of Book Keeping has to be adopted and as per Andhra Pradesh Municipal Asset Management Manual, GHMC is required to maintain Centralised Asset Account of the Local Body including those of the surrounding 12 municipalities which were merged within the limits of the GHMC. All assets, including the vehicles must pass through the centralized asset account register which is to contain all particulars¹⁹. The asset classification and compilation has to be undertaken as per the charts given under Para 2.11 and 2.12 of Andhra Pradesh Municipal Asset Management Manual.

Audit however, observed that no such account was being maintained in the Estates Wing of GHMC. Instead, the asset account is decentralized among Estate wing, Horticulture wing, Health & Sanitation wing, Transport wing etc.

The current practice suffers from lack of coordination and effective control in so far as assets are concerned and absence of the total net value of the assets after depreciation. Further, consequent upon formation (April 2007) of GHMC, all the assets relating to water supply systems including the storage tanks, pumping systems, filtration plants, pipelines etc., were to be transferred to the Hyderabad Metro Water & Sewerage Board (HMW&SB) on the basis of specific arrangement to be made between the two organizations, but this was not done as of May 2009.

The Commissioner replied (August 2009) that necessary action would be taken for maintaining centralized asset account.

2.2.11 Manpower

The repeated plea taken by GHMC with regard to deficiencies in functioning of various wings was shortage of manpower. Simplified procedures have been suggested by audit paras 2.2.7.2 (Raising of demand), 2.2.7.3 (Outsourcing of collection of advertisement fee) and 2.2.8.4 (Cumbersome procedure for building permits). Replacement of existing cumbersome procedures of according building permissions (para 2.2.8.4) by wide dissemination of information relating to regulatory requirements for undertaking construction would not only have freed the law abiding citizens of the hassles of getting building permissions but also freed GHMC of staff presently engaged in this task which could have been better utilized for inspection and detection of illegal structures. Comprehensive database of all units assessable to various taxes/fees (para 2.2.6.1 and 2.2.7.1) is essential with prescription of remittance of taxes by the assessee units without the requirement of serving of formal demand. This observation assumes importance as staff constraints have been used as plea of outsourcing critical functions with adverse implications as already mentioned in the preceding paragraphs.

¹⁹ nature of the asset, area and the survey number in which it is located, type of construction/ date of purchase, extent of construction, year of construction/acquisition/purchase, book value, face value, depreciation, current value of the asset, user agency/ authority etc.

The Commissioner while accepting the audit observation assured (August 2009) that systems would be evolved for implementation thereof.

2.2.12 Conclusions

The collection of property tax suffered for want of a comprehensive database and not undertaking periodic revisions. Non-collection of penalty from defaulting parties resulted in defaulters being granted a favour with grave consequences of further defaults in future. Failure to invoke penal provisions against defaulting parties has resulted in the legislative intent not being translated into compliance by executive. The collection of advertisement fee also suffered from lack of comprehensive database. The entrustment of collection of advertisement fee to a private agency bypassing vital safeguards facilitated the party to default in payment. The prevailing system of according building permissions is a big hassle for law abiding citizens and not a deterrent for parties undertaking unauthorized constructions. Municipal lands are a valuable asset in view of the high prevailing prices but GHMC failed to effectively safeguard these assets. The leasing of lands suffered from a number of deficiencies which could have otherwise augmented the finances of GHMC.

2.2.13 Recommendations

- Comprehensive database of all assesses/lessees should be created to facilitate proper collection and detection of unauthorized constructions/misutilization of premises/lands.
- GHMC should dispense with the practice of outsourcing of revenue collections and this should be performed by GHMC itself through its officials.
- The cumbersome procedure followed for according Building permits need to be thoroughly streamlined by suitably amending the Act, if necessary. Government should consider constituting a 'Building Ombudsman' for dealing with all complaints relating to building regulations so as to ensure fairness and transparency.
- Adequate safeguards should be provided for protecting the municipal lands from possible encroachments and for preventing loss of lease rentals.
- In all the four revenue generating areas reviewed by Audit, proper mechanism should be put in place for conducting surprise checks so as to facilitate detection of defaulters. Care should be taken to ensure that adequate penalties are implemented against defaulters so as to have deterrent effect.

The above audit observations were discussed in the exit conference held (August 2009) in GHMC with the C&SO, GHMC (who is also ex-officio Principal Secretary to Government) and other officers concerned. While accepting the above recommendations made by Audit, the Commissioner assured that all the recommendations would be implemented in a phased manner. Reply is awaited (September 2009) from Government.