

## CHAPTER III

### AUDIT OF TRANSACTIONS

#### 3.1 PANCHAYAT RAJ INSTITUTIONS

##### 3.1.1 Non-repayment of HBA loan to the Government

**Failure of Chief Executive Officers, Adilabad, Nalgonda and Ranga Reddy Zilla Praja Parishads in monitoring repayment of House Building loan resulted in non-repayment of loan amount of Rs 38.70 lakh and interest of Rs 1.20 crore for the period from 1990-91 to 2003-04 to the Government.**

With a view to give the benefit of payment of House Building Advances to the provincialised non-teaching staff of PRIs from the State Funds, Government issued (December 1989) orders according to which the amount will be released to the ZPPs as loan repayable in 10 equal annual installments with a moratorium of two years. The loan amount shall carry interest at 8 ½ *per cent* or at the rate fixed by the Government from time to time on the diminishing balances to be remitted to the Government along with principal every year.

Scrutiny of three Zilla Praja Parishads<sup>1</sup> records revealed default in repayment of loan amounts to the Government as tabulated below.

S.No	Name of the ZPP	Period of default in payment of principal	Default amount as of March 2007 Rs.	Period of default in interest payment	Default amount as of March 2007 Rs.
1.	Adilabad	1994-95 to 2003-04	32,40,000	1994-95 to 2003-04	22,75,331
2.	Nalgonda	1998-99 to 2001-02	6,30,000	1990-91 to 2003-04	48,07,734
3.	Ranga Reddy	-	-	1990-91 to 2003-04	49,19,802
<b>Total</b>			<b>38,70,000</b>		<b>1,20,02,867</b>

The above orders also permitted the ZPPs to invest the loan installments recovered from the employees in short-term fixed deposits in Nationalised Banks, in such a manner that the ZPP gets the maximum interest on the amount invested and the amounts are available to repay the loan installments to Government. But none of the above ZPPs invested the amounts in interest bearing accounts but kept in respective PD accounts.

On this being pointed out, the Chief Executive Officer of the Adilabad ZPP stated that due to non-recovery/adjustment of recovery particulars, the loan amount had not been repaid. However, the details of HBA recoveries due from the staff were not furnished to audit. The other CEOs did not give specific reasons for delay in repayment of loan but assured to take necessary action for early settlement of the loan amounts.

Thus, there was a failure to repay the loans taken from Government towards house building advances to the provincialised employees resulting in

<sup>1</sup> Adilabad, Ranga Reddy and Nalgonda.

accumulation of outstanding dues to the extent of Rs 38.70 lakh towards principal and Rs 1.20 crore towards interest.

The matter was reported to the Government (April 2009); reply had not been received (September 2009).

### 3.1.2 Unauthorised construction of District Panchayat Office building

**The construction of DPO (Kadapa) building was taken up without provision of funds by the Government and by inappropriate collection of funds amounting to Rs 32.85 lakh from 96 Gram Panchayats.**

Test check (June/July 2008) of records of two GPs<sup>2</sup> revealed that they contributed an amount of Rs 2.10 lakh out of their general funds, towards construction of District Panchayat Office (DPO) Building. In this connection further scrutiny (March 2009) of records of District Panchayat Officer, Kadapa was undertaken which revealed the following lapses in construction of the office building.

- According to the procedure<sup>3</sup> laid down in the Budget manual, construction of any Government office building has to be taken up only after making a provision in the budget under capital outlay of the concerned departmental head of account. The work has to be started only after release of the funds through LOC. But in the instant case, the construction of DPO building was taken up (February 2007) without any provision of funds and approval by the Government.
- The District Collector, Kadapa approved the proposal and accorded (March 2006) sanction for construction of DPO building at an estimated cost of Rs 34 lakh by raising funds from various sources<sup>4</sup>. Without the approval of Government, District Panchayat Officer mobilized the funds (February 2006 to October 2008) of Rs 32.85<sup>5</sup> lakh irregularly from 96 GPs in the district and constructed (April 2008) the building at a cost of Rs 32.49 lakh leaving a balance of Rs 0.36 lakh.

On this being pointed, District Panchayat Officer replied (March 2009) that the Government had not released any grant for construction of DPO building and as such the funds were raised from the above sources.

Thus the above unauthorized construction of DPO building resulted in depletion of general funds of GPs as well as their legitimate source of revenue to the extent of Rs 32.85 lakh.

The matter was reported to the Government (April 2009); reply had not been received (September 2009).

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<sup>2</sup> Chennur- Rs 0.30 lakh and Nagireddipalli - Rs 1.80 lakh.

<sup>3</sup> Paras 5.13.3(Chapter-V); 9.4(Chapter-IX);20.3.1(Chapter-XX) of the Budget manual.

<sup>4</sup> Contributions from GPs (Rs 27 lakh) and tapping funds of undisbursed Seignorage grant (Rs 7 lakh) with the permission of PR&RE/Government.

<sup>5</sup> Contributions from GPs Rs 21.73 lakh, undisbursed seignorage grant Rs 7 lakh, Sand penalty Rs 4 lakh and interest Rs 12,108.

### 3.1.3 Loss of interest due to funds kept in current account instead of SB Account

**Due to failure of Chief Executive Officer, Zilla Praja Parishad, Khammam to open Savings Bank Account for depositing of Twelfth Finance Commission grants, there was loss of interest to the tune of Rs 43.02 lakh as the funds were lying in current account.**

In order to enable the rapid transfer of Twelfth Finance Commission grants (GOI Funds) to PRIs, the Commissioner, Panchayat Raj Department issued (December 2006) instructions for opening new bank account and intimate details in connection with establishment of an online account grid system and maintenance of up-to date database.

Instead of opening a Savings Bank (SB) Account which would have resulted in getting interest, the Chief Executive Officer (CEO), Khammam opened a current account with the State Bank of Hyderabad, Khammam in March 2006. An amount of Rs 7.91 crore was deposited in March 2006 and as of February 2009 there was a balance of Rs 1.18 crore in the account. Due to failure to open a Savings account, the ZPP, Khammam lost an interest of Rs 43.02 lakh on monthly available balances for the period from March 2006 to February 2009 as detailed in the *Appendix -7*.

On this being pointed out, CEO/ZPP, Khammam stated (August 2008) that the matter would be brought to the notice of the Government for opening SB account and compliance intimated to audit.

Thus due to failure of CEO to open an SB account for depositing of GOI funds, the ZPP lost revenue in the form of interest to the extent of Rs 43.02 lakh.

The matter was reported to the Government (April 2009); reply had not been received (September 2009).

### 3.1.4 Diversion of TFC Grants

**Chief Executive Officers of six Zilla Praja Parishads diverted TFC grants of Rs 22.78 crore to a State sponsored programme in violation of scheme guidelines.**

Test check of records of six<sup>6</sup> ZPPs revealed that the funds amounting to Rs 22.78 crore pertaining to Twelfth Finance Commission (GOI) grants were irregularly diverted to a State sponsored programme of 'INDIRAMMA'. The details are as follows

- As per TFC guidelines, the Local Bodies grants released by the GOI are to be mandatorily transferred by the States to PRIs for improving their service delivery in respect of water supply and sanitation. The PRIs were also to be encouraged to take over the assets of water supply and sanitation and utilize the grants for repairs/rejuvenation as Operation and Maintenance (O&M) costs. But in contravention of the above guidelines,

<sup>6</sup> ZPP Kakinada, Eluru, Prakasam, Nalgonda, Khammam and Chittoor.

the CEOs of six ZPPs, based on State Government Orders (August 2006) released (2006-07) their share of TFC grant to the tune of Rs 22.78 crore to the District Managers (Housing)/Member Secretary, District Water Sanitation Committee (DWSC) for construction of 491648 Individual Sanitary Latrines (ISLs) to newly constructed houses in rural areas under State sponsored INDIRAMMA programme. The appropriate course of action would have been to utilise the TFC grants for infrastructure relating to sanitation and water supply and the construction of ISLs should have been financed by State funds.

- It was further observed that the PRIs were deprived of the utilisation of funds as the funds were placed at the disposal of DMs / MSs, who utilised (as of August 2008) funds to the extent of Rs 2.76 crore (12.11 per cent) by constructing only 55195 ISLs leaving a huge balance of Rs 20.02 crore as detailed in *Appendix-8*, resulting in blockage of funds for over two years.

On this being pointed out, the Commissioner has not replied so far. Hence, due to diversion of TFC grants to the tune of Rs 22.78 crore to the State sponsored scheme, the PRIs were deprived of utilising the grant according to the overall need felt by rural people in the villages approved by respective councils. This diversion of funds was against the spirit of strengthening the grassroots democratic institutions.

The matter was reported to the Government (April 2009); reply had not been received (September 2009).

### 3.1.5 Deficiencies in procurement of bleaching powder

**The procurement of bleaching powder costing Rs 42.48 lakh by the District Panchayat Officer, Warangal suffered from a number of deficiencies.**

Scrutiny (December 2008) of records of Madikonda Gram Panchayat, Warangal District revealed that based on the instructions of District Collector (Panchayat wing), Warangal an amount of Rs 42.48 lakh (Rs 26.68 lakh in 2006-07 and Rs 15.80 lakh in 2007-08) was paid to M/s Rajamani Agencies towards supply of bleaching powder. In this connection further scrutiny (March 2009) of records of District Panchayat Officer (DPO), Warangal was undertaken which revealed the following lapses in purchase of bleaching powder.

- The purchase was made by utilizing the Professional Tax Compensation Grant (PTCG) which was meant to be distributed among all the GPs in the district. According to the provisions of Andhra Pradesh Panchayat Raj Act, 1994 PTCG is released by the Government to PRIs in the form of assigned revenue and the DPO of the concerned district is required to distribute the grant among all the GPs on pro-rata basis as per the population census of 2001. But in the instant case, the DPO, Warangal placed (2006-07 & 2007-08) purchase orders towards centralized procurement of bleaching powder out of PTCG payable to all GPs.

- The DPO does not have the authority to utilize these funds to make payments to the supplier. To overcome this constraint, the payment was arranged (July 2006 & October 2007) to the Supplier through the Madikonda GP.
- The DPO directed (December 2006) all the MPPs in the district to acknowledge the receipt of material and distribute among the non-notified GPs in respective Mandals duly obtaining acknowledgements from them. The acknowledgements were sent (June 2006 & September 2007) by MPDOs and the material was stated to have been received by GPs. However the stock entries were not made either by MPPs or the GPs concerned in their respective Stock Registers which is indicative of possibility of non-receipt of material by GPs and ineffective exercise of checks by the DPO. In the absence of these stock entries audit was not able to satisfy itself with regard to the veracity of procurement, supply and utilization of the material.
- Supply of bleaching powder was made only to non-notified GPs at the cost of the notified GPs (46) in the district and they were deprived of their legitimate share of assigned revenue in the form of PTCG to the tune of Rs 6.98 lakh.

On this being pointed out, the DPO Warangal replied (March 2009) that as most of GPs were not in a position to maintain sanitation material with their funds and in order to prevent the spreading of harmful diseases like Malaria, Japanese Encephalitis and Gastroenteritis, the bleaching powder was procured from the PTCG released to GPs.

The reply overlooks the fact that procurement by the DPO is against the spirit of strengthening the grass root democratic institutions. The appropriate course of action would have been to fund the procurement from the State Government funds and not by utilizing the funds of Rs 42.48 lakh meant to be utilised by GPs.

The matter was reported to the Government (May 2009); reply had not been received (September 2009).

### 3.1.6 Non-distribution of Seignorage grant to MPPs and GPs

**Lack of details in challans of Seignorage fee resulted in non-distribution of Seignorage grant among the MPPs and GPs of Mahabubnagar district to the extent of Rs 2.35 crore.**

The Seignorage fee deducted by the Drawing and Disbursing Officers (DDOs) from the contractors bills, remitted directly by the quarry owners or contractors shall be credited to the concerned departmental revenue head of account of the Consolidated Fund of the State. The amount so credited to the Consolidated Fund is to be released by the Government to the ZPP in the form of assigned revenue for onward apportionment to the Panchayat Raj Institutions viz., GPs, MPPs and ZPPs in the ratio of 25:50:25 respectively.

To facilitate the apportionment, the Director of Mines and Geology is required to intimate quarterly the Commissioner, Panchayat Raj and the PR bodies

concerned viz., DPOs and CEOs of ZPPs about the details of areas from where the Seignorage fee was collected. Based on the particulars furnished by Mines and Geology department, the DPO shall prepare a statement of claim showing the proportionate amount to be credited to each GP and MPP and submit the same to ZPP for transfer of amounts.

Scrutiny (April 2007) of records of ZPP, Mahabubnagar revealed that during the years 2003-04 to 2005-06, Government released Seignorage Grant of Rs 3.72 crore to ZPP. Out of this, the ZPP released an amount of Rs 36.93 lakh and Rs 6.70 lakh only to MPPs and GPs against their legitimate share of Rs 1.86 crore (50 per cent) and Rs 93 lakh (25 per cent) leaving a huge balance of Rs 1.49 crore and Rs 86.30 lakh respectively undisbursed. These funds were lying idle in the ZPP General fund.

When this was brought to notice, the CEO, ZPP replied (April 2007) that the units using the minor minerals were not furnishing the details of quarry at the time of remitting the seignorage fee. Hence, the Mines and Geology Department was not in a position to furnish the details and thereby, distribution of Seignorage grant was limited to the extent of details made available to ZPP which resulted in accumulation of funds with ZPP. Further, the details of amounts received for the years 2006-07 and 2007-08 were not furnished when the same were sought for.

It was observed that the present system of remittance is deficient as the form of challan through which seignorage fee remitted does not contain any provision for recording details of the location of the quarry from which minor mineral was quarried. Due to this, the Mines and Geology Department could not maintain the area wise database of revenue realized which led to huge accumulation of the undisbursed grant of MPPs and GPs in the accounts of ZPP. There is a need to remedy this deficiency.

The matter was reported to the Government (August 2009); reply had not been received (September 2009).

## 3.2 URBAN LOCAL BODIES

### 3.2.1 Payment of penalty due to statutory violation

**Due to violation of provisions with regard to remittance of TDS amount of Income Tax, the Nellore Municipal Corporation paid a penalty of Rs 14.06 lakh.**

The provisions of Income Tax Act and other Government orders issued from time to time specify that the recovery affected towards Income Tax from the work bills of contractors should immediately be credited to the concerned head of account.

Scrutiny (October 2008) of the records of Nellore Municipal Corporation (NMC) revealed that as of April 2008 there was a balance of Rs 40.56 lakh pending against the TDS recovery made towards Income Tax from the work bills (2004-05 to 2006-07) of various schemes/programmes viz APUSP, NSDP, IDSMT, APURMS etc., for remittance to IT Department.

The Assistant Commissioner, IT Department by invoking the provisions of Section 201(1)<sup>7</sup> and 226(3i)<sup>8</sup> of the IT Act issued (April 2008) notices to the Commissioner, NMC as well as their banker (State Bank of India) to remit the tax proceeds duly charging the interest in lieu of penalty of Rs 14.06 lakh for delayed remittance. On receipt of notices, the Commissioner, NMC made (April 2008) payment for the arrear amount of Rs 54.62 lakh including the interest of Rs 14.06 lakh.

On this being pointed out, the Commissioner did not furnish specific reasons for delay in remittance but promised non-recurrence of such lapse. Thus, due to violation of statutory provisions with regard to remittance of TDS amount of IT, NMC had to pay a penalty of Rs 14.06 lakh.

The matter was reported to the Government (April 2009); reply had not been received (September 2009).

### 3.2.2 Loss of revenue due to lapses in operation of Advertisement Tax collections contract

**Non obtaining of Bank Guarantee by the Nellore Municipal Corporation facilitated the contractor to default in payment of advertisement tax collections to the tune of Rs 39.15 lakh and there was loss of revenue of Rs 56.19 lakh due to award of contract way below the upset price.**

A scrutiny of Advertisement Tax collection records of Nellore Municipal Corporation (NMC) for the period from 2003-04 to 2005-06 revealed the following deficiencies.

<sup>7</sup> 201(1) - any person after deducting fails to pay the tax as required by or under the IT Act shall deemed to be an assessee in default.

<sup>8</sup> 226(3 i) A notice may be issued to any person who holds or may subsequently hold any money for or on account of the Assessee to pay the money becoming due or being held within the time specified in the notice.

- With the intention to outsource the collection rights of Advertisement Tax for two years of 2003-04 and 2004-05, NMC called tenders in March 2004. As against the estimated annual revenue of Rs 40.77 lakh<sup>9</sup>, the contract was given for a value of Rs 21.33 lakh which was way below the upset price and the difference worked out to Rs 38.88 lakh for two years.
- Without submission of Bank Guarantee (BG), the contractor (M/s Uni-Ads Pvt. Limited) was permitted (March 2004) to proceed with collections. The absence of safeguards facilitated the contractor to default in payment. Payments were not made as per the conditions<sup>10</sup> stipulated. Out of Rs 42.66 lakh of agreed value due for two years, Rs 15.75 lakh was in arrears to the end of March 2005.
- Despite the default in payment, the contractor was favoured by extension (April 2005) of contract for one year i.e. 2005-06 at the rate of Rs 23.46 lakh which was again below the upset value. Absence of BG provided a fertile ground for the contractor to default in payment. The Contractor made no payment for the revenue collected during 2005-06.

The default in payment for the three years worked out to Rs 39.15 lakh. The total revenue loss to the Corporation with reference to upset price was Rs 56.19 lakh<sup>11</sup>.

On this being pointed out the Commissioner accepted (October 2008) the lapse and promised that due care would be taken in future. No action was taken against the officials responsible for the above grave lapse. Thus non-obtaining of BG facilitated the contractor to default in payment of advertisement tax collections to the tune of Rs 39.15 lakh and loss of revenue of Rs 56.19 lakh due to award of contract way below the upset price.

The matter was reported to the Government (April 2009); reply had not been received (September 2009).

### **3.2.3 Locking up of funds due to non-construction of office buildings**

**Office buildings in six municipalities were not constructed despite availability of funds. This resulted in locking up of funds to the tune of Rs 2.03 crore placed at the disposal of respective municipalities for periods ranging from four to six years.**

Scrutiny of records of six Municipalities revealed that funds amounting to Rs 2.60 crore were received from State Government under non-plan grants during 2003 to 2005 for construction of respective office buildings. However, the funds were locked up in bank accounts of the ULBs concerned due to

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<sup>9</sup> Consultancy engaged by NMC assessed a demand of Rs 43.77 lakh per annum. However, the amount was modified to Rs 40.77 lakh as some of the name boards and direction boards displayed at owner's premises were included in the list.

<sup>10</sup> As per tender conditions, the contractor was to make payment in three installments. *One-third* being the first instalment was to be paid within 24 hours from the date of issue of work order along with a Bank Guarantee (BG) for *two-third* bid amount i.e. Rs 28.44 lakh for two years.

<sup>11</sup> Rs 40.77 lakh x 3 years minus Rs 21.33 lakh x 2 years + Rs 23.46 lakh for one year.

non-completion/non-taking up of the construction of office buildings. The details of each ULB are given below.

(Rupees in lakh)

Sl.No	Name of ULB	Release of funds		Audit Remarks
		Month/year	Amount	
1.	Venkatagiri Municipality	April 2005 July 2005	30.00 20.00	Tenders for award of work estimated at Rs 49.97 lakh were called for in January 2007 with a delay of 20 months after release of funds. Though the work order was issued, the contractor did not résumé work. Tenders were called again twice (February 2008 and September 2008). Finally the work was awarded to a contractor in October 2008 for Rs 47.37 lakh with a stipulation to complete within nine months. The Commissioner stated (April 2009) that the work was in progress but no payments were made so far.
2.	Anakapalli Municipality	June 2005	30.00	Instead of Anakapalli Municipality taking up the construction of Municipal Office building, the funds were transferred (November 2007) to Visakhapatnam Urban Development Authority (VUDA) for undertaking the construction work as per the directions issued by the Minister of State Government (Commercial Taxes). So far no tenders were called for by VUDA.
3.	Bheemunipatnam Municipality	April 2005 July 2005	30.00 20.00	The work estimated at Rs 40 lakh was entrusted to contractor in November 2007 for Rs 34.64 lakh with a delay of 2½ years after release of funds stipulating completion within four months. As of February 2009, an expenditure of Rs 24.50 lakh was incurred by completing ground floor. The first floor is under progress. The Commissioner stated (February 2009) that due to hike in materials cost estimates were revised twice resulting in delay.
4.	Markapur Municipality	July 2003 July 2005	30.00 20.00	An amount of Rs 30 lakh received in July 2003 was misappropriated by the then Commissioner and the case is under investigation. As against the available balance of Rs 20 lakh, no expenditure has so far been incurred as tenders are yet to be called for award of work. The

				Commissioner has not stated any reasons for non-commencement of work.
5	Rayadurg Municipality	July 2003 February 2005	30.00 20.00	Tenders were called in March 2008, after a delay of five years after release of funds due to not firming up site location. There was lack of response and the estimate was substantially increased from Rs 70.50 lakh to Rs 88.45 lakh in November 2008. After completion of tender process (October 2008), the work was awarded for Rs 69.33 lakh in November 2008 with a stipulation to complete by nine months. However as on February 2009, work valued Rs 2.31 lakh was only completed.
6.	Khammam Municipal Council	July 2005	30.00	The construction work has not been taken up so far. Commissioner stated (April 2009) that the works were proposed to be taken up but did not give any reasons for delay in commencement of the work.

These municipalities did not furnish the details of rents paid towards occupation of private accommodations as well as the interest accrued on deposits though sought for.

Thus, the failure of municipalities to effectively utilize the funds for execution of construction of office buildings resulted in non-establishment of necessary infrastructure for periods ranging from four to six years and locking up of funds amounting to Rs 2.03 crore, besides pending finalization of the case of misappropriation involving an amount of Rs 30.00 lakh.

The matter was reported to the Government (May 2009); reply had not been received (September 2009).

### 3.2.4 Lapses in procurement of bitumen

**Lack of awareness of bitumen specifications resulted in bitumen valued Rs 7.65 lakh procured by Guntur Municipal Corporation remaining unutilized for more than two years.**

Scrutiny (September 2008) of records of Guntur Municipal Corporation (GMC) revealed that an expenditure of Rs 7.65 lakh was incurred (August 2006) towards procurement of 33.852 MTs bitumen from Indian Oil Corporation Limited (IOCL). The following are the audit observations:

- The Commissioner, GMC placed purchase order (March 2006) for procurement of bitumen. GMC did not furnish specific details of works for which the material was to be utilised but for stating “General Purpose”.

- A contractor was authorized (August 2006) to purchase and lift the material directly from IOCL premises for which an advance payment of Rs 7.65 lakh was paid to the IOCL. There were no records as to what specific works were entrusted to the contractor for which this material was to be utilised.
- The contractor acknowledged the material duly certifying that the material was received in good condition. No representative of the GMC was present at the time of handing over (August 2006) the material by IOCL to contractor to ensure accountability of the contractor with regard to quality and quantity. Only after the material was received at the municipal site at Stambhalagaruvu in Guntur, testing was undertaken (September 2006).
- The testing was not entrusted to any Government department/institute but to a private engineering college.
- The Corporation sent (April 2007) a lawyer notice complaining to IOCL alleging inferior quality of material. The correspondence showed GMC was ignorant of bitumen specifications as 30/40 grade is superior to 80/100.
- Despite IOCL informing (May 2007) that bitumen of grade 30/40 is superior to 80/100, GMC did not carry out a second test.
- It was further noticed that an FIR was also lodged (October 2006) against IOCL for alleged supply of inferior quality of bitumen.

Due to above lapses bitumen worth Rs 7.65 lakh remained unutilized for more than two years.

The matter was reported to the Government (May 2009); reply had not been received (September 2009).

### **3.2.5 Irregularities in collection of Vacant Land Tax**

**The collection of Vacant Land Tax by Guntur Municipal Corporation suffered from various lapses.**

The GOAP upgraded (August 1994) Guntur Municipality into large urban area (Corporation) by issuing a gazette notification (Act No 25 of 1994) under Andhra Pradesh Municipal Corporation Act, 1994. As per the provisions of the Act, Rules governed by Hyderabad Municipal Corporation Act, 1955 are to be followed for levy and collection of taxes.

According to the provisions of Andhra Pradesh Municipal Corporation Act, all taxes, fees, and duties which immediately before commencement of this Act, were being levied by the said council, shall be deemed to have been levied by the Corporation, and these provisions shall continue to be in force accordingly until such taxes, fees, and duties are revised, cancelled or superseded by anything done or any action under this Act. The rate of Vacant Land Tax (VLT) was revised from one *per cent* to 0.5 *per cent* of estimated capital value of the land as per Hyderabad Municipal Corporation amendment Act No 24 of

2002 and hence the same was to be adopted by the GMC from 2002-03 onwards.

Scrutiny (September 2008) of records of GMC revealed the following lacunae:

- (a) Contrary to Act provisions, the Municipal Council passed (October 2002) a resolution to collect the VLT at the rate of one *per cent* per annum from the land owners. Accordingly, a demand of Rs 6.69 crore was raised to the end of September 2008 against which the GMC collected a total amount of Rs 3.12 crore, of which, Rs 2.37 crore was collected at one *per cent*. This resulted in an excess collection of Rs 1.18 crore (being 50 *per cent* of Rs 2.37 crore) from the land owners.
- (b) The defaulting parties were favoured by giving (May 2008) 60 *per cent* exemption resulting in a loss to the tune of Rs 18.62 lakh<sup>12</sup>.

On this being pointed out, the GMC replied that the VLT at one *per cent* was collected as per council's resolution and hence no excess collection. It further stated that the non-response from the vacant sites owners to pay VLT and delayed assessment of VLT due to non-availability of registered documents made the Corporation allow 60 *per cent* exemption. The reply overlooks the fact that any Municipal Council is not authorized to deviate from the Act provisions in collection of taxes and the action of GMC in allowing discounts in payments to defaulting parties is objectionable as penalties should have been levied to ensure compliance with rule of law.

The matter was reported to the Government (August 2009); reply had not been received (September 2009).

### **3.2.6 Avoidable expenditure on payment of compensation towards land acquisition.**

**Due to non-finalization of land acquisition process within the stipulated time frame by the revenue authorities, the Khammam Municipality incurred an avoidable expenditure to the extent of Rs 1.87 crore towards payment of compensation towards the land acquired for laying of road.**

According to the provisions of Land Acquisition (LA) Act, the process of land acquisition starts with the issue of Draft Notification (DN) and after which the Draft Declaration (DD) should be issued before one year from the date of issue of DN. The award is to be passed within a period of two years from the date of issue of DD. If these time limits are exceeded, the proceedings would lapse. Consequently the compensation to land owners would not be at original market rates but revised rates with adverse implications for Government by way of additional financial outgo.

Scrutiny of records of Khammam Municipality revealed that the municipality took advance possession (October 1986) of seven acres 22 guntas of land lying at Khanapuram Haveli of Khammam (Urban) Mandal towards formation of

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<sup>12</sup> The amount collected after allowing 60 *per cent* discount is Rs 74.50 lakh. The corresponding 100 *per cent* amount works out to Rs 186.24 lakh. The amount, if 0.5 *per cent* rate is applied is Rs 93.12 lakh. The shortfall in collection is Rs 18.62 lakh (Rs 93.12 lakh - Rs 74.50 lakh).

100 feet road stretch starting from the office of Food Corporation of India (FCI) to Yellandu road. After taking over the possession of land, proposals for land acquisition were sent (August 1987) to the revenue authorities.

Audit noticed (July 2008) that even though the proposals were initiated in 1987-88, the revenue authorities passed the award only in 2007. In the mean time the proceedings were revised (December 1997 and October 2006) due to non-adherence to the time limits prescribed. Consequently, the municipality incurred an avoidable expenditure of Rs 1.87 crore<sup>13</sup> on land acquisition.

On this being pointed out, the Commissioner, Khammam Municipality and revenue authorities replied (July 2008/April 2009) that due to hindrances in identification of genuine land owners, the delay occurred. The reply is not acceptable as the award in 2007 was passed pending enquiries to be taken up under Section 5<sup>14</sup> of LA Act against the litigation cases. The Revenue authorities must have followed the same procedure in 1997.

Failure to formulate and codify a clear procedure for payment in the event of dispute with regard to ownership of land so that the time limits stipulated can be adhered to, led an avoidable expenditure to the Khammam Municipality to an extent of Rs 1.87 crore towards payment of compensation.

The matter was reported to the Government (August 2009); reply had not been received (September 2009).

### **3.2.7 Delay in execution of Andhra Pradesh Urban Reforms and Municipal Services project works**

**Entrustment of works to contractors under Andhra Pradesh Urban Reforms and Municipal Services Project by Nellore Municipal Corporation without ensuring adequate funds upfront resulted in non-completion of works even after lapse of four years as against the stipulated completion period of eight to ten months besides cost over run of the project to the extent of Rs 1.22 crore.**

With the intention to develop the infrastructural facilities and environmental improvements in slum areas of Urban Local Bodies, the Commissioner and Director of Municipal Administration, Urban Development Department sanctioned (March 2005) 22 works in nine packages under Andhra Pradesh Urban Reforms and Municipal Services Project (APURMSP) to Nellore Municipal Corporation (NMC) at an estimate cost of Rs 10 crore. As per the technical sanction (Rs 9.74 crore), the project was to be funded by loan (Rs 7.06 crore) from APUFIDC<sup>15</sup>, State Government Grant (Rs 1.71 crore) and Corporation share (Rs 0.97 crore).

<sup>13</sup> The value of award passed in January 2007 for Rs 2.04 crore minus Rs 17.28 lakh assessed by the Revenue authorities at the time of submitting revised proposal in 1997. The preliminary valuation was not done in 1987-88.

<sup>14</sup> The land acquisition officer has to give hearing to every objector who has given his objection in writing and submit his findings in the Report in a prescribed form to the Divisional Commissioner.

<sup>15</sup> Andhra Pradesh Urban Finance and Infrastructure Development Corporation.

Given that the works were to be completed with a short span of eight to ten months, it was essential to have full funds available upfront for making timely payments to contractors to facilitate construction as per time schedule. However, it was observed that NMC entrusted (September 2005) the works under seven packages<sup>16</sup> (estimated cost of Rs 7.82 crore) although it neither received funds from APUFIDC nor State Government Grants.

Despite the tight time schedule, it received funds belatedly in a piecemeal manner. First instalment (Rs 1.50 crore) was received in May 2006 by which time most of the contract periods were over. The second instalment (Rs 2.50 crore) was released in March 2007 long after the expiry of contract periods.

Due to award of works without ensuring availability of adequate funds to make timely payments to contractors, the contractors were reluctant to resume the works and requested to close the agreement due to high increase in price. There was no progress in work (December 2006) after completion to the extent of 32 to 72 *per cent* which in total worked out to Rs 3.41 crore, which was less than 50 *per cent* of the estimated value of these works, as detailed in *Appendix-9*. The cost of left over works in six packages<sup>17</sup> escalated to an extent of Rs 1.22 crore<sup>18</sup> (March 2009).

On this being pointed out, the Commissioner did not give specific reply for the above. Thus, entrustment of works to contractors under APURMS by NMC without ensuring adequate funds upfront resulted in non-completion of works even after lapse of four years as against the stipulated completion period of eight to ten months besides cost over run of the project to the extent of Rs 1.22 crore.

The matter was reported to the Government (August 2009); reply had not been received (September 2009).

### **3.2.8 Inappropriate mode of finance for construction of toilets**

**The financing of Integrated Low Cost Sanitation Scheme was ill-designed as the financial assistance of Rs 3.89 crore was given in the form of loan for construction of toilets instead of subsidy where the beneficiaries belong to lower economic strata of society.**

With a view to stop proliferation of dry toilets, open defecation and to remove the dehumanizing practice of manual scavenging, Government of India introduced an Integrated Low Cost Sanitation (ILCS) Scheme in 1980-81. The objective of the scheme is to convert / construct low cost sanitation units through sanitary two pits pour flush latrines with superstructures and construct new latrines where households have no latrines in urban areas.

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<sup>16</sup> Tenders for eighth and ninth packages (estimated cost Rs 1.92 crore) were not yet finalized.

<sup>17</sup> Corporation felt revision for left over works in respect of seventh package (Rs 0.26 crore) was not necessary.

<sup>18</sup> Revised estimated cost of balance works under six packages Rs 5.37 crore + the actual balance work of seventh package valued for Rs 0.26 crore minus the value of left over work as per original estimates Rs 4.41 crore.

Funding pattern adopted for construction of each individual ILCS unit<sup>19</sup> was GOI subsidy (32 per cent), HUDCO loan (63 per cent) and beneficiary contribution (five per cent). Loan is to be repaid by the beneficiaries in 20 quarterly installments within a period of five years. The loan amount carries interest at 10.5 per cent or at the rate fixed by the Government from time to time.

Audit examined the methodology adopted for financing the construction. Audit has no comments with regard to Government subsidy and five per cent contribution by the beneficiaries. The following two conditions are essential for recovery of loan.

- Financial capability of the borrower to service the loan
- Effective recovery mechanism

The stipulation of loan component of 63 per cent would have been appropriate only if the above two conditions are fulfilled. These were not taken into account. Consequently, it was observed from the records of five municipalities that a meagre amount of Rs 0.72 lakh was recovered as against Rs 3.90 crore released (1994-2002) towards loan as detailed below:

(Rupees in lakh)

S. No.	Name of the Municipality	Year of release	Loan amount released to beneficiaries	Loan amount recovered	Outstanding loan amount	Percentage of recovery
1	Kovvur	1994-95	5.39	0.52	4.87	9.65
2.	Ongole	1999	171.83	--	171.83	Nil
3.	Bhimavaram	1998-02	58.40	--	58.40	Nil
4.	Tenali	1994-02	69.76	0.20	69.56	0.29
5.	Karimnagar	1999-02	84.41	--	84.41	Nil
<b>Total</b>			<b>389.79</b>	<b>0.72</b>	<b>389.07</b>	

The loan component should not have been built into the scheme but substituted by subsidy. This is based primarily on three grounds. Firstly, there was public interest in construction of toilets with immense benefits for improvement in health and sanitation. Secondly, stipulating a loan component when the beneficiaries are from the lower economic strata society and in the absence of effective recovery mechanism was conducive to loan default culture with ripple effect on any other loans given by Government agencies. Thirdly, having a loan component despite these limitations resulted in cumbersome task of maintaining accounts for so many beneficiaries in addition to unnecessary hassles for the poor borrowers. The deficiency in the design with regard to funding of the scheme needs to be modified.

<sup>19</sup> Stage-II (1993-94) Rs 2752 to Rs 3752 ( subsidy Rs 881/1201; loan Rs1734/2364; contribution Rs 137/188) State-II A (1998-99) Rs 4374 (subsidy Rs 1400; loan Rs 2756 and contribution Rs 218.

\* The loan amount for each beneficiary was a petty amount of Rs 1734/2364/2756 to be recovered even in more insignificant installment of Rs 88/118/138 per quarter over a long period of five years each.

The matter was reported to the Government (August 2009); reply had not been received (September 2009).

### 3.2.9 Inordinate delay in construction of shopping complex

**Inordinate delay in completion of shopping complex at Red Tank area by the Guntur Municipal Corporation resulted in substantial amount of Rs 2.26 crore being locked up in an incomplete asset depriving the Corporation of augmentation of revenue.**



The project, 'Construction of shopping complex at Red Tank area' in Guntur was sanctioned (1995-96) at an approved cost of Rs 3.32 crore under Integrated Development of Small and Medium Town (IDSMT) Scheme to improve the financial position of the Guntur Municipal Corporation (GMC) apart from infrastructural development. Sufficient funds<sup>20</sup> were also released from time to time to the ULB. Scrutiny of records revealed (September 2008) that the construction of shopping complex was not completed (as of June 2009) and expenditure to the tune of Rs 2.26 crore was incurred. Following are the observations:

- The construction was initially entrusted (December 1996) to National Building Construction Corporation (NBCC) by the Government along with other projects under IDSMT sanctioned to different ULBs in the State. However, after execution of work valued Rs 1.25 crore, NBCC stopped (1998) the work for no specific reasons on record.
- The Government did not take effective action for completion of balance work. At a belated stage, in October 2002, the Government decided to complete the balance work. The original estimate was prepared on the basis of SSRs of 1995-96. In 2002 the estimates should have been recast based on latest SSRs to take into account the inflation factor. Such an exercise was not undertaken. Without recasting the estimates as per latest SSRs and to follow the open tender system, Government took a decision to entrust the left over works to sub-contractors of NBCC at original rates (1995-96). Further after a delay of more than two years GMC entrusted (May 2005) the leftover work valued Rs 2.49 crore<sup>21</sup> to the sub-contractor (BDR Projects Pvt. Ltd). The contractor abandoned (January 2007) the work due to hike in material costs after execution of work valued Rs 1.01 crore.

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<sup>20</sup> As of January 2006, funds to the tune of Rs 4.19 crore were released to the Corporation under IDSMT. Of this, Rs 81.19 lakh was utilised for completion of the other two components taken up under IDSMT and Rs 2.26 crore was incurred on the current project. Still Rs 1.12 crore was available in the accounts.

<sup>21</sup> Based on SSRs 1995-96, the estimates were revised to Rs 3.74 crore in 2005 due to some additional items. Then the balance work to be entrusted was Rs 2.49 crore.

- Although the contractor expressed willingness with regard to execution of work at old rates (1995-96), no protective clause viz., rate of progress of the work, levy of liquidated damages, forfeiture of deposits and withheld amounts etc., was provided in the agreement concluded (May 2005) by GMC with the second contractor. This was not only against the codal provisions (APDSS) but also resulted in the GMC not being able to sue the contractor for incomplete works.

On this being pointed out, GMC, while giving no reasons for abandoning the work by the contractor, replied (June 2009) that it was proposed to complete the balance work on BOT basis in PPP mode. However, no concrete proposals / action plan was prepared by the GMC for completion of balance work.

Thus the inordinate delay in completion of shopping complex at Red Tank area by the GMC resulted in substantial amount of Rs 2.26 crore being locked up in an incomplete asset depriving the Corporation of augmentation of revenue.

The matter was reported to the Government (August 2009); reply had not been received (September 2009).

**Hyderabad**  
**The**

**(G.N SUNDER RAJA)**  
**Principal Accountant General (Civil Audit)**  
**Andhra Pradesh**

**Countersigned**

**New Delhi**  
**The**

**(VINOD RAI)**  
**Comptroller and Auditor General of India**