



**Report of the
Comptroller and Auditor General of India
on
Local Bodies
for the year ended 31 March 2016**



Government of Telangana
Report No. 8 of 2016

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Preface

This Report for the year ended March 2016 has been prepared for submission to the Governor of Telangana under the CAG's DPC Act, 1971.

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

The issues noticed in the course of test audit for the period 2015-16 as well as those issues which came to notice in earlier years, but could not be dealt within the previous Reports have also been included, wherever necessary.

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

Overview

1. About this Report

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

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

2. Significant Audit findings

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

2.1 Performance Audit on Water Supply in Urban Local Bodies

Water is a natural resource essential for human existence. Lack of safe drinking water affects the health and wellbeing of the public. The objective of water supply system is to ensure supply of safe and adequate quantity of water at reasonable cost to the user. The responsibility of supplying safe drinking water to urban population rests with the Urban Local bodies (ULBs). Out of 53¹ Urban Local Bodies in the State, seven² ULBs were selected for detailed scrutiny based on lowest lpcd (litres per capita per day) in each stratum³. Following significant observations were noticed in the Performance audit of Water Supply in Urban Local Bodies:

- *State Government had yet to frame policy/guidelines based on National Water Policy 2012 as per local requirement. Water Regulatory Authority was yet to be established for uniformity in operations and pricing for supply of water.*
(Paragraphs 4.5.1 and 4.5.2)
- *ULBs had not accorded much importance to construction of Rain water harvesting structures for conservation of ground water. No action was initiated by the ULBs for rejuvenation or recharging of sub-surface water.*
(Paragraph 4.6.3)

¹ 14 Nagar Panchayats formed on or after 2012 were not considered for sampling

² Bodhan (Nizamabad district), Gadwal (Mahabubnagar), Kodad (Nalgonda), Mandamarri (Adilabad), Manuguru (Khammam), Metpally (Karimnagar) and Vikarabad (Rangareddy)

³ Stratum I (<= 70 lpcd), Stratum II (>70 and <=135) and Stratum III (>135)

- *Water treatment plants were not available in four⁴ test-checked ULBs where sub-surface was the source. In Kodad ULB there was shortfall in storage capacity of service reservoirs and water supplied through open/bore wells for drinking purposes confirmed presence of excess fluoride.*
(Paragraphs 4.7.1 and 4.7.2)
- *Water supply distribution network was inadequate. In the four⁵ test-checked ULBs, there was shortfall in coverage of pipeline network ranging from 23 per cent to 67 per cent, when compared with internal road length.*
(Paragraph 4.7.3)
- *Flow meters were not installed at source/treatment plant/distribution zones in the test-checked ULBs.*
(Paragraph 4.7.4)
- *In Manuguru ULB, there was no household connectivity since water is supplied through public stand posts. Water Supply Improvement Scheme stipulated for completion by March 2016 was still under progress (60 per cent was executed with an expenditure of ₹11.72 crore) as of March 2016.*
(Paragraph 4.8.2.1)
- *In Vikarabad ULB, infrastructure created under the scheme sanctioned in 2007 at the cost of ₹23.81 crore remained unutilised since water was supplied through infrastructure created under another scheme sanctioned in 2011. In Gadwal ULB, the infrastructure created at the cost of ₹5.57 crore was lying idle, since contractor stopped (June 2012) the work midway.*
(Paragraphs 4.8.2.2 and 4.8.2.3)
- *In all the seven⁶ test-checked ULBs, there was a gap between demand and supply ranging from 19 per cent to 71 per cent. Duration of water supply ranged from one hour once in four days to one hour per day against target of supply of water for 24 hours.*
(Paragraphs 4.9.1 and 4.9.2)
- *The shortfall in House Service Connections in six⁷ test-checked ULBs ranged from 48 per cent to 78 per cent. Water meters were not installed in any of the test-checked ULBs, and ULBs continued to levy water charges at fixed rate, irrespective of actual consumption causing possible loss of revenue to ULBs.*
(Paragraphs 4.9.3 and 4.9.4)
- *ULBs did not install their own laboratories. As such, there was shortfall in coverage of tests of water samples to confirm the quality of water. ULBs did not furnish action taken on the unsatisfactory reports on water samples. The*

⁴ Kodad, Mandamarri, Manuguru and Metpally

⁵ Kodad (61 per cent), Gadwal (67 per cent), Manuguru (23 per cent) and Mandamarri (28 per cent)

⁶ Bodhan (19 per cent), Gadwal (41 per cent), Kodad (71 per cent), Mandamarri (44 per cent), Manuguru (56 per cent), Metpally (71 per cent) and Vikarabad (62 per cent)

⁷ Bodhan 51 per cent, Gadwal 53 per cent, Kodad 48 per cent, Mandamarri 78 per cent, Metpally 62 per cent and Vikarabad 58 per cent

Surveillance agencies required to identify and evaluate factors posing health risk related to drinking water supplied and pinpoint the risk areas and give advice for remedial action to ULBs, were not formed in any of the test checked ULBs.

(Paragraphs 4.10.1 to 4.10.3)

- *In none of the test-checked ULBs, preventive maintenance was being carried out and there was no action plan for maintenance schedule. In the test-checked ULBs (except Manuguru) the tools/spares for regular maintenance were not available. There was inadequacy in staffing pattern for operation and maintenance of water works.*

(Paragraphs 4.11.1 and 4.11.2)

- *In the test-checked ULBs, the expenditure on operation and maintenance on water supply arrangements was much higher than the revenue. In five⁸ test-checked ULBs, there was a shortfall in collection of tariff ranging from 67 per cent to 95 per cent. In Kodad and Bodhan ULBs, tariff was not revised for a long time. In Kodad ULB, water charges were being levied at ₹30 per month against ₹100 per month fixed (2004) by Government and audit assessed loss of revenue as ₹47.26 lakh⁹ per annum (2015-16).*

(Paragraph 4.12.1)

- *Water audit to assess the total quantity of water produced and distributed was not conducted in any of the test-checked ULBs. Facilitation services for grievance redressal were not established for customer assistance.*

(Paragraphs 4.14.3 and 4.14.4)

2.2 Compliance Audit Paragraphs

2.2.1 Information Technology Audit on implementation of e-Panchayat in Telangana

e-Panchayat is one of the Mission Mode Projects (MMP) under National e-Governance Plan (NeGP), being implemented with a vision to empower and transform rural India and make Government services accessible to the common man in his locality i.e., at Panchayat level. The e-Panchayat project aims to transform the Panchayat Raj Institutions (PRIs) into symbols of modernity, transparency and efficiency. Two districts with highest number of clusters and one district with lowest number of clusters were selected. A total of 15 clusters¹⁰ (five clusters per district) were selected as audit sample to represent 5,232 clusters (8,695 GPs) in the State.

The main objective of e-Panchayat project to automate the internal workflow processes of panchayats could not be achieved even after 3 years of implementation of the project. Due to non-implementation of Service Plus application, delivery of

⁸ Bodhan 81 per cent, Gadwal 69 per cent, Kodad 95 per cent, Metpally 80 per cent and Vikarabad 67 per cent

⁹ 5,626 House service connections multiplied by ₹ 70 (₹ 100-₹ 30)

¹⁰ Mahabubnagar, Nizamabad and Warangal

services to the citizens could not be provided at the GPs. The aim of improving the governance of local self-government institutions could not be achieved due to non-closure of annual accounts and non-updating the activities at the PRIs. Non-provision of systems with internet facilities at many PRIs resulted in poor implementation of the project. Overall, the objective of promoting transparency and peoples' participation in planning, implementation and decision making could not be achieved.

(Paragraph 2.1)

2.2.2 Sewerage and Underground Drainage in Urban Areas

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was one of the flagship programmes launched by the Government of India (GoI) to support various infrastructural development projects including sanitation and sewerage. Audit conducted detailed scrutiny of implementation of four¹¹ Sewerage and Under Ground Drainage (UGD) projects. Following significant observations were noticed:

- Arrangement for treatment of sewage was inadequate, as the DPRs of sewerage systems in the old city area on South of Musi Zone I and II provided for treatment of only 94.01 MLD out of projected outflow of 482.49 MLD.*

(Paragraph 5.1.4.3 ii)

- There was shortfall of ₹122.96 crore in the release of grants by both GoI and State Government in the test-checked projects.*

(Paragraph 5.1.5.1)

- Works were awarded without satisfying the key parameters in the technical bids such as overall responsiveness, execution of minimum quantities of work and critical equipment such as cranes for laying pipes, excavators etc.*

(Paragraph 5.1.6.1)

- Consent of State Pollution Control Board was not obtained for establishment of sewerage treatment plants.*

(Paragraph 5.1.6.2)

- Projects were not completed and were delayed beyond the stipulated period. The delay ranged from two to more than five years.*

(Paragraph 5.1.6)

- Environmental hazards and public health concerns were not fully addressed as there was no arrangement for recycling and reusing of treated water. Both the treated as well as untreated sewage relating to Musi Zone I and II projects were being let out into the Musi river.*

(Paragraph 5.1.7)

¹¹ (i) South of Musi Zone-I, Hyderabad (ii) South of Musi Zone-II, Hyderabad (iii) Underground Drainage project to Rajendranagar, Hyderabad and (iv) Underground Drainage project to Vikarabad

2.2.3 Follow up on Performance Audit of Implementation of Rural Water Supply Schemes

Follow-up audit (2016) of Implementation of Rural Water Supply Schemes was conducted to determine whether necessary corrective action has been taken on recommendations made in the Performance Audit Report of Implementation of Rural Water Supply Schemes featured in Comptroller and Auditor General's Audit Report (General & Social Sector)¹² for the year ended March 2012.

While some relevant aspects of the recommendations were seen to have been addressed, there were areas of shortfall in acting upon the recommendations made in audit. Of the five recommendations, four recommendations were partially implemented and one recommendation was not implemented as yet. State Government did not ensure participation of PRIs in preparation of Annual Action Plan and also did not follow two stage approach¹³ while according administrative sanctions. Gap in State matching share was not adequately addressed, as there was still a balance of ₹280.30 crore to be released by State Government as of March 2016. Adequate emphasis was not placed towards sustainability resulting in slipped back habitations. Testing of samples did not cover 23,723 water sources during 2015-16 in the State. Monitoring was not effective in implementation of schemes as the incomplete schemes commented in earlier report were still not commissioned even after incurring an expenditure of ₹169.79 crore as of August 2016.

(Paragraph 2.2)

2.2.4 Idle equipment

Swamy Ramananda Thirtha Rural Institute was established by State Government with the objective of playing a pro-active role in rural development/rural transformation through training, extension, consultancy, research and development. Equipment costing ₹1.11 crore procured (2004-07) by the Institute to establish bio-technology and soil testing laboratory had remained idle. Expenditure of ₹22.03 lakh on laboratory maintenance and consumables was unfruitful.

(Paragraph 2.3)

2.2.5 Irregular payment towards hiring of vehicles

State Government permitted (April 2014) the Drawing and Disbursing Officers (DDOs) to draw funds through Abstract Contingent bills for incurring expenditure during the fourth ordinary elections to Mandal Parishad Territory Constituencies (MPTC) / Zilla Parishad Territory Constituencies (ZPTC), 2014. Failure to comply with codal provisions and Government directions in ensuring the correctness of Detailed Contingent bills led to possible misappropriation of ₹86.80 lakh claimed in eight¹⁴ districts.

(Paragraph 2.4)

¹² Chapter 5 of the Report

¹³ 1st stage approval for preparatory work and 2nd stage approval after finalisation of designs etc.,

¹⁴ Adilabad, Khammam, Karimnagar, Mahabubnagar, Medak, Nalgonda, Nizamabad and Rangareddy

2.2.6 Fraudulent payments towards contingent expenditure

Failure to comply with codal provisions and weak internal controls resulted in fraudulent payments of ₹0.67 lakh and possible fraudulent claims of ₹8.44 lakh towards contingent expenditure in Mandal Praja Parishad, Saroornagar of Rangareddy district.

(Paragraph 2.5)

2.2.7 Delayed remittances of EPF contributions resulted in avoidable expenditure

Failure of Greater Warangal Municipal Corporation in timely remittance of provident fund contributions resulted in avoidable expenditure of ₹2.80 crore towards damage charges and interest.

(Paragraph 5.2)

2.2.8 Unfruitful expenditure on construction of office building

In Nizamabad Municipal Corporation, failure to ensure adequate funds for construction of office building resulted in unfruitful expenditure of ₹1.87 crore.

(Paragraph 5.3)

Part - A

Panchayat Raj Institutions

Chapter – I

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

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

1.1 Introduction

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

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

Accordingly, State Government had enacted Andhra Pradesh Panchayat Raj (APPR) Act¹ in 1994 repealing all the existing Acts, to establish a three-tier system viz., Gram Panchayat (GP), Mandal Praja Parishad (MPP) and Zilla Praja Parishad (ZPP) at Village, Mandal and District levels, respectively.

1.1.1 State profile

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

Table 1.1

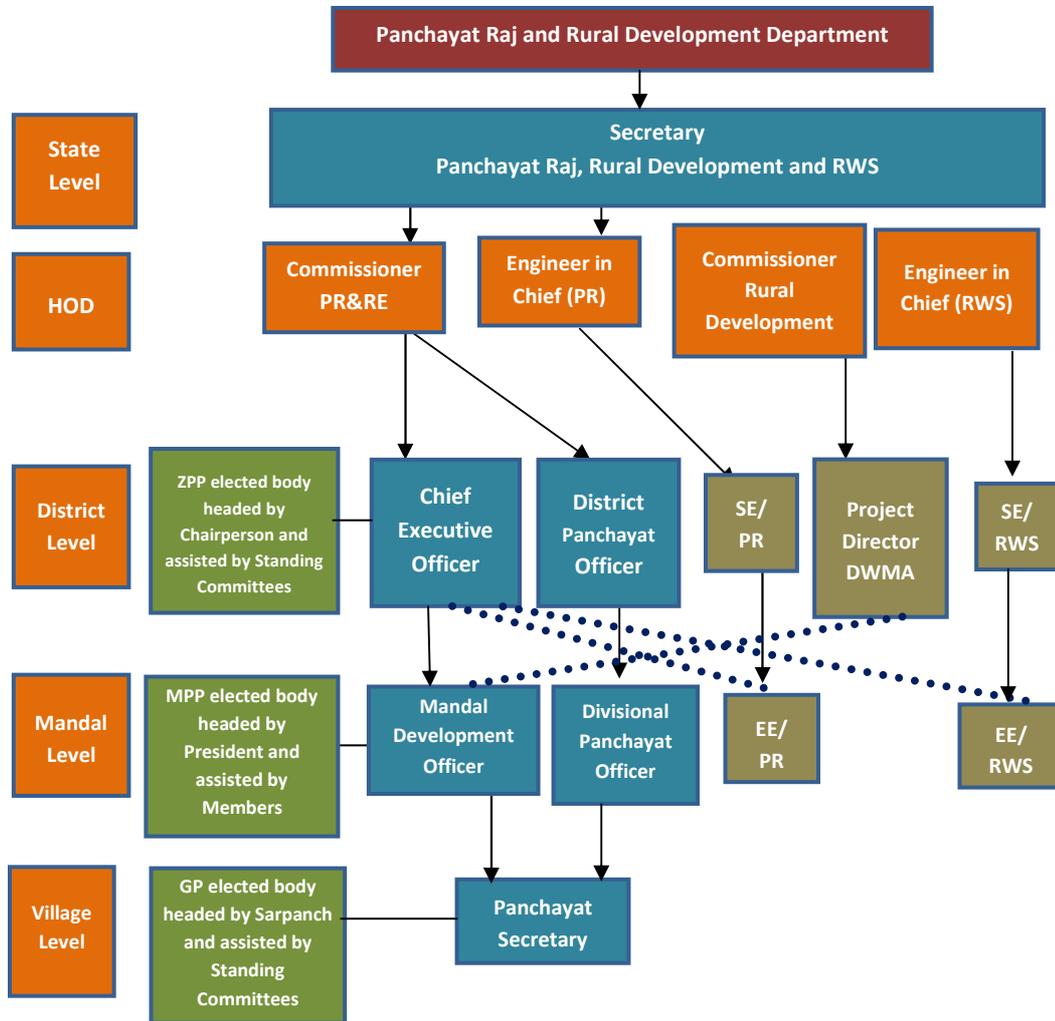
S.No.	Indicator	Unit	State
1.	Rural population	Crore	2.16
2.	Rural sex ratio	Females per1000 Males	999
3.	Rural literacy rate	Percentage	57.30
4.	Zilla Praja Parishads	Number	9
5.	Mandal Praja Parishads	Number	443
6.	Gram Panchayats	Number	8,778
Total number of PRIs (4+5+6)			9,230

Source: Information furnished by CPR&RD and Telangana State Portal (August 2016) by State Government

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

1.2 Organisational set-up of PRIs

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



Dotted lines represent partial supervision

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

1.3 Functioning of PRIs

Eleventh Schedule to 73rd Constitutional Amendment Act, 1992 lists 29 subjects for devolution to strengthen the PRIs. During 2007-08, State Government devolved 10² functions to PRIs and, thereafter, no functions were devolved. Funds relating to devolved functions are being released to PRIs through line departments concerned. As per the information furnished (October 2016) by Commissioner, Panchayat Raj and Rural Employment (CPR&RE), only three departments released funds amounting to ₹ 19.90 crore to PRIs in 8 out of 9 districts during 2015-16 (*Appendix-1.1*).

1.4 Formation of various committees

As per the provisions of APPR Act, 1994 various committees are constituted at ZPP, MPP and GP level along with District Planning Committee (DPC). At ZPP level, seven³ standing committees are to be constituted to monitor the progress of implementation of works and schemes related to subjects assigned to them. In every MPP and GP, there are to be functional committees for agriculture, public health, water supply, sanitation, family planning, education and communication to monitor the progress of implementation of works and schemes. During the year 2015-16, in respect of eight⁴ out of 16 test-checked GPs, functional committees were not constituted.

The State is empowered to constitute a District Planning Committee (DPC) at district level. DPC is to ensure that each Panchayat in the district prepares a development plan for the financial year which is to be consolidated into the District Development Plan and is to be submitted to the Government for incorporation into the State plan. On scrutiny of records of 16 GPs in Adilabad, Karimnagar, Nizamabad and Ranga Reddy districts, it was observed that the Action Plans were not prepared in 15⁵ GPs.

1.5 Audit arrangement

1.5.1 Primary Auditor

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

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

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

⁴ Three GPs of Adilabad district, four GPs of Nizamabad district and one GP of Rangareddy district

⁵ Four GPs of Adilabad district, five GPs of Karimnagar district, five GPs of Nizamabad district and one GP of Rangareddy district

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

As per the information furnished (November 2016) by DSA, audit of the accounts of 14 MPPs and 4,683 GPs were in arrears. DSA attributed delay in audit of accounts to non-production of records by MPPs and GPs. As of March 2016, 534 Surcharge Certificates for ₹ 1.60 crore were issued, out of which ₹ 21.86 lakh in respect of 43 cases were recovered.

DSA stated (November 2016) that Consolidated Audit and Accounts Report for 2011-12 was submitted to Finance Department and the Government had tabled the Report on 31 March 2016. Consolidation of Reports for the years 2012-13 and 2013-14 are under progress. Some of the major findings observed in 2011-12 report relate to excess utilisation/non-utilisation/diversion/mis-utilisation of grants, non-collection of taxes and fee, advances pending adjustment etc.

1.5.2 Audit by Comptroller and Auditor General of India

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

Based on test-check of PRIs, a consolidated report (TGS Note) is prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. TGS note for the year 2015-16 was issued in July 2016.

Planning and conduct of audit

The Audit process commences with assessment of risk of department/local body/scheme/programme etc., based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers and assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit is decided and an annual audit plan is formulated to conduct audit. During 2015-16, 23 PRIs (3 ZPPs, 4 MPPs and 16 GPs), falling under the department of Panchayat Raj and Rural Development, were subjected to compliance audit.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2015 was tabled in the State Legislature on 30 March 2016.

1.6 Response to Audit Observations

After completion of audit, Inspection Reports (IRs) containing audit findings are issued to the head of the unit concerned. Heads of offices and next higher authorities are required to respond to observations contained in IRs within one month and take appropriate corrective action. Audit observations communicated in IRs are also

discussed in meetings at district level by officers of the departments with officers of Principal Accountant General's office.

As of September 2016, 137 IRs containing 1,049 paragraphs pertaining to the period up to 2015-16 were pending settlement as given below. Of these, first replies have not been received in respect of 19 IRs and 220 paragraphs.

Table 1.2

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2014-15	131	919	13	114
2015-16	6	130	6	106
Total	137	1,049	19	220

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

Accountability Mechanism and Financial Reporting Issues
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Accountability Mechanism

1.7 Ombudsman

The Thirteenth Finance Commission had recommended establishment of an independent Local body ombudsman system. CPR&RE stated (October 2016) that ombudsman system was not adopted and Lokayukta Act has been amended to take up complaints against the functionaries and elected representatives of PRIs. Though an independent ombudsman system was not adopted in the state, the State Government complied with this condition by making amendments to the existing AP Lokayukta Act 1983 and, hence, grants were released by GoI.

1.8 Social Audit

Social audit involves verification of implementation of programme/scheme and delivery of its envisaged results by the community with active involvement of primary stakeholders. Social Audit is widely accepted as an important mechanism to address corruption and strengthen accountability in government service delivery. The State Government initiated social audits in 2006 through the Strategic Performance Innovation Unit (SPIU) to undertake social audit of implementation of Food for Work Programme in the State on a pilot basis. In May 2009, State Government created an independent autonomous body called the Society for Social Audit, Accountability and Transparency (SSAAT) to carry out social audits of Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and other anti-poverty/welfare programmes of the Department of Rural Development.

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

- i. As per Section 3(1) of Scheme Rules, State Government should facilitate conduct of Social Audit of the works taken up under the Act in every Gram Panchayat at least once in six months, *i.e.*, twice a year, and the Social Auditors are required to audit 100 *per cent* verification of muster rolls and work site. During the year 2015-16, SSAAT had facilitated Social Audits in respect of 8,771 GPs (out of 8,778 GPs) in the State. However, only 457 GPs (five *per cent*) were covered twice a year. SSAAT attributed (December 2016) the shortfall in coverage of audit to delay in furnishing records, postponement of public hearings, dearth of resource persons etc.
- ii. As per State Social Audit Rules, the District Vigilance Cell is responsible to take follow up action on the social audit observations immediately (within three days) on conclusion of the mandal social audit public hearing. During the year 2015-16, SSAAT found deviations amounting to ₹143.84 crore, of which ₹117.09 crore were accepted by the Presiding Officer⁶. Against this, only ₹three lakh was recovered as of March 2016.

1.9 Submission of Utilisation Certificates (UCs)

Scheme guidelines of Centrally Sponsored Schemes (CSS) and Central Finance Commissions (CFCs) stipulate that UCs should be obtained by departmental officers from the grantees and after verification should be forwarded to GoI. During 2015-16, out of total releases of ₹695.99 crore, UCs amounting to ₹582.38 crore were yet to be furnished by PRIs as of March 2016. On scrutiny of records of 23⁷ PRIs during 2015-16, it was seen that UCs in respect of 13th Finance commission and BRGF amounting to ₹155.71 crore for the period (2007-08 to 2014-2015) were yet to be furnished as of March 2016.

1.10 Internal Audit and Internal Control System of PRIs

As per the information furnished (October 2016) by CPR&RE no internal audit system was adopted. As per Section 44(2)(a)(b) of APPR Act, 1994 the Government should appoint District Panchayat Officer, Divisional Panchayat Officer and Extension Officers as Inspecting Officers for overseeing the operations of Gram Panchayat (GP). On scrutiny of records of 16 GPs during 2015-16, it was seen that in respect of 12⁸ GPs, inspections were not conducted (2011-15) by any of the above authorities.

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

⁷ 16 GPs(Adilabad-4, Karimnagar-5, Medak-1, Nizamabad-5 and Ranga Reddy-1), 4 MPPs (Nalgonda-1, Nizamabad-1, Ranga Reddy-2), 3 ZPPs (Adilabad, Karimnagar, Nizamabad)

⁸ 4 GPs of Adilabad, 5 GPs of Karimnagar, 2 GPs of Nizamabad and 1 GP of Rangareddy district

Financial Reporting Issues

1.11 Sources of funds

Resource base of PRIs consists of own revenue generated by collection of tax⁹ and non-tax¹⁰ revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts¹¹. The authorities responsible for reporting the use of funds in respect of Zilla Praja Parishads (ZPPs), Mandal Praja Parishads (MPPs) and Gram Panchayats (GPs) are the Chief Executive Officer (CEO), Mandal Parishad Development Officer (MPDO) and Panchayat Secretary, respectively.

Summary of receipts of PRIs for the years 2011-16 are given below. Receipts for the period 2011-14 pertain to the composite state whereas the receipts for the period 2014-16 pertain to the state of Telangana.

Table 1.3

(₹ in crore)

S.No.	Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
1	Own Revenue	1,009.24	976.50	736.50	16.96*	306.79
2	Assigned Revenue ¹²	344.02	154.36	457.24	10.97*	NA#
3	State Government Grants	1,185.85	343.97	350.59	19.60	56.14
4	GoI Grants	2,342.19	1,201.03	1,330.86	1,131.28	695.98
5	Other Receipts	331.68	84.18	NA	NA	107.61
	Total	5,212.98	2,760.04	2,875.19	1,178.81	1,166.52

Source: Commissioner, Panchayat Raj

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

Data not made available to audit

It could be seen from above that there was improvement in release of grants by State Government during 2015-16 compared to 2014-15. However, there was reduction by 38 per cent in GoI grants in 2015-16.

1.11.1 Financial assistance to PRIs

The quantum of financial assistance provided by State Government to PRIs by way of grants and loans for the years 2011-14 pertaining to the composite state of Andhra Pradesh and 2014-16 pertaining to state of Telangana is given below:

⁹ Property tax, advertisement fee etc.,

¹⁰ Water tax, rents from markets, shops and other properties, auction proceeds etc.,

¹¹ Donations, interest on deposits etc.,

¹² Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to Local Bodies in the form of assigned revenue

Table 1.4

(₹in crore)

Details	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Budget	302.75	329.27	328.89	203.18	819.04	1,983.13
Actual Release	151.31	158.10	164.57	30.30	752.12	1,256.40
Expenditure	96.87	98.20	114.85	30.30	622.29	962.51

Source: Commissioner, Panchayat Raj

1.11.2 Fund flow arrangement in flagship programmes

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

Scheme	Fund flow
Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	<p>The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) was enacted (September 2005) and implemented in a phased manner. The Act aims at enhancement of livelihood security of the households in rural areas of the country, by providing at least 100 days of guaranteed wage employment in every financial year to every rural household whose adult members volunteer to do unskilled manual work. Creation of durable assets is also an important objective of the Act, with other auxiliary objectives including protection of environment, empowering rural women, reducing rural urban migration, fostering social equity, and strengthening rural governance through decentralisation and processes of transparency and accountability.</p> <p>The funds received from GoI and State Government are pooled in State Employment Guarantee Fund (SEGF). The fund flow is monitored through Central Fund Management System (CFMS). Share of both State and Central are kept with the nodal bank at Hyderabad. The respective designated drawing officers are required to raise the Fund Transfer Orders (FTOs) directly to the Director, EGS as and when wages/payments are due. During 2015-16 ₹ 2,084.73 crore was released by GoI and State Government, of which ₹ 2,032.68 crore was incurred as expenditure. On scrutiny (July 2015) of records of Commissioner, Rural Development (CRD), it was observed that</p> <ol style="list-style-type: none"> As per MGNREGS operational guidelines, a maximum of six per cent can be utilised towards administrative expenses over and above the wage and material expenses during the financial year. Administrative expenditure during the period 2011-16 was ₹ 1,079.88 crore. These expenses exceeded the prescribed limit by ₹ 519.30 crore, as worked out during the years 2010-11 to 2015-16. CRD stated (January 2016) that GoI was addressed for enhancement of limit of administrative cost from six per cent to 10 per cent (October 2011); orders were awaited. The State continued to incur administrative expenses over and above six per cent without the approval of GoI during the period 2012-16. State Government is liable to pay interest at the rate of 12 per cent for delay in transfer of GoI funds along with 10 per cent matching state share to Programme Fund beyond three days. This was revised to seven days from 2015-16. State Government transferred GoI funds along with its matching share amounting to ₹ 3,057.01 crore to Programme fund with delays ranging from 22 days to 356 days during 2014-16. However, State Government had not transferred the interest portion worked out as ₹ 108.43 crore, to Fund account as of March 2016.

<p>Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA)</p>	<p>CRD replied (January 2016) that proposals would be submitted for release of interest.</p> <p>iii. MGNREGS Act¹³ stipulated payment of unemployment allowance to the wage seeker if he/she was not provided employment within fifteen days of the receipt of application. Accordingly State Government issued (November 2012) orders to Programme Officers (POs) for ensuring the list of households for payment of unemployment allowance on the last working day of each month and reiterated the orders in March 2014 for strict compliance to avoid delay in settling the payment. Test-check (July 2015) of the records of CRD pertaining to the payment of unemployment allowance to the wage seekers in the State showed that as of March 2016, ₹ 106.49 crore (2013-16) towards unemployment allowance pertaining to 2.13 lakh households remained unsettled due to pending decision of POs.</p> <p>iv. An amount of ₹ 74.63 crore was yet to be released (as of January 2016) by the State Government towards state liability.</p>
<p>Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA)</p>	<p>The Centrally Sponsored Scheme of Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) has been launched by GoI in the 12th Five Year Plan period with a view to strengthen the Panchayat Raj system across the States and to do away with the factors that constrain the same. The scheme of RGPSA, with absorption of, Rasthriya Gram Swaraj Yojana (RGSY), Panchayat Mahila Evam Yuva Shakti Abhiyan (PMEYSA), Panchayat Empowerment Accountability Incentivisation Scheme (PEAIS), e-Panchayat and Resource Support to States (RSS) came to be implemented in full swing with effect from the financial year 2013-14.</p> <p>The objectives of the scheme are to enhance capacities and effectiveness of Panchayats and the Gram Sabhas, enable democratic decision-making and accountability in Panchayats and promote people’s participation; strengthen the institutional structure for knowledge creation and capacity building of Panchayats; promote devolution of powers and responsibilities to Panchayats according to the spirit of the Constitution and PESA Act; strengthen Gram Sabhas to function effectively as the basic forum of people’s participation, transparency and accountability within the Panchayat system; create and strengthen democratic local self-government in areas where Panchayats do not exist; strengthen the constitutionally mandated framework on which Panchayats are founded.</p> <p>Funds for the State Plans under RGPSA are transferred to the Consolidated Fund of State Governments / body designated for such purpose by the State Government through the Central Plan Scheme Monitoring System (CPSMS). Funds under RGPSA are provided in two instalments. In the first instalment, 50 per cent of the funds approved in the annual plan are released. The remaining 50 per cent funds are provided after a Utilisation Certificate for 60 per cent of the first instalment has been received. Transfer of funds to implementing agency (training institution or Panchayats) by State Government should take place within 15 days of receipt of such funds. In case of delays a penal interest at the rate equal to the RBI bank rate shall be transferred to the training institution/Panchayat.</p> <p>During 2013-15 (as of October 2016) ₹ 75.06 crore was released by GoI of which ₹ 73.90 crore was incurred as expenditure. From the year 2015-16 funds from GoI were directly released to Telangana State Institute of Panchayat Raj and Rural Development (TSIPARD).</p>

¹³ Section –I (7&8)

1.11.3 Application of funds

Summary of expenditure incurred by PRIs for the years 2011-14 pertaining to the composite state of Andhra Pradesh and 2014-16 pertaining to the state of Telangana is given below.

Table 1.5

(₹ in crore)

S.No.	Type of expenditure	2011-12	2012-13	2013-14	2014-15	2015-16
1	Revenue expenditure	2,968.66	1,405.50	3,562.39	134.15#	NA
2	Capital expenditure	1,464.15	1,033.47	1,756.98	32.22*	NA
Total		4,432.81	2,438.97	5,319.37	166.37	

Source: Commissioner, Panchayat Raj

data pertains to only 4 ZPPs and GPs of Adilabad district

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

NA-details not made available to audit

1.12 Recommendations of State Finance Commission (SFC)

As per Article 243-I of the Constitution and Section 235 of APPR Act, 1994, constitution of SFC once in five years to recommend devolution of funds from the State Government to Local bodies is mandatory. State Government did not constitute SFC after Third SFC (2003). As no State Finance Commission was appointed by the Government in Telangana, the Committee of Ministers and Secretaries felt that recommendations of Third Finance Commission could be applied for the period from 2010 to 2015 also. As per the information furnished by the Government (September 2016), SFC was not constituted after the formation of Telangana State. During 2010-16, State Government released ₹ 179.26 crore to PRIs of Telangana state, of which ₹ 129.60 crore was spent as of October 2016.

On scrutiny (2015-16) of records of 16¹⁴ GPs pertaining to SFC grants, it was seen that in respect of Rekurthy GP, Karimnagar district an amount of ₹ 37,898 lapsed to Government as funds were not utilised in time.

1.13 Recommendations of Central Finance Commission

1.13.1 Thirteenth Finance Commission

Based on the recommendations of Thirteenth Finance Commission, GoI released funds to ZPPs, MPPs and GPs. The grant is released under two components (basic component and performance based component). A portion of basic as well as performance grant is allocated to special areas¹⁵. Allocation and releases for the years 2011-14 pertain to composite state of Andhra Pradesh and information in respect of the period 2014-16 pertain to state of Telangana as given below:

¹⁴ 16 GPs (Adilabad-4, Karimnagar-5, Medak-1, Nizamabad-5 and Ranga Reddy-1)

¹⁵ Schedule areas listed under Schedule-V of Constitution

Table 1.6

						(₹ in crore)
13th CFC	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Allocation	834.77	1,179.62	1,357.06	652.89	115.64	4,139.98
Releases	307.65	0	1,585.57	895.16	115.64	2,904.02

Source: Ministry of Rural Development, GoI

Commissioner PR stated (October 2016) that ₹1,838.55 crore was released during 2010-16 to Telangana districts, of which an amount of ₹1,091.75 crore was incurred as of October 2016. Out of ₹115.64 crore released during 2015-16, the entire amount was stated to have been incurred as of March 2016. However, on scrutiny of the records of 23 PRIs, it was noticed that an amount of ₹81.71 lakh remained unspent as of March 2016.

1.13.2 Fourteenth Finance Commission

The Fourteenth Finance Commission (FFC) has recommended assured transfers to the local bodies for planning and delivering basic services including water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street lighting, burial and cremation grounds and any other services smoothly and effectively within the functions assigned to them under relevant legislation. Grants are released under two components *i.e.*, Basic grant and Performance grant. The division of grants between Basic and Performance Grant is in the ratio of 90:10.

Commissioner PR stated (October 2016) that GoI released ₹580.34 crore during 2015-16 and ₹475.46 crore incurred as expenditure as of October 2016.

1.14 Maintenance of Records

Records such as Cash book, Assets Register, Advance Register, Stock Registers etc., are to be maintained as per the provisions of APPR Act, 1994 in respect of ZPPs and MPPs and for GPs as per GP Accounts Manual of Panchayat Raj and Rural Development Department. On scrutiny of records of 23 PRIs, it was seen that cash book was not properly maintained¹⁶ in four¹⁷ PRIs and in eight¹⁸ PRIs stock registers were not maintained.

1.14.1 Physical verification of stores and stock

Article 143 of Andhra Pradesh Financial Code stipulates that all stores and stock should be verified physically once a year and a certificate to this effect be recorded by the Head of the Office in the Register concerned. On scrutiny of records of 23 PRIs

¹⁶ Certificate of the number of pages of cash book was not recorded in the first page; overwriting without attestation by competent authority, monthly closing and reconciliation were not done by Drawing and Disbursing Officer etc.

¹⁷ MPDO Ghatkesar, Lingampet, Saroornagar and ZPP Adilabad

¹⁸ 2 GP of Adilabad , 4 GPs of Nizamabad, MPDOs of Lingampet, Saroornagar

during 2015-16, it was seen that in respect of 10¹⁹ PRIs, annual physical verification of stores and stock was not conducted.

1.14.2 Non-reconciliation of departmental figures with treasury

As per paragraph 19.6 of Andhra Pradesh Budget Manual, DDOs are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent drawals. On scrutiny of records of 23 PRIs during 2015-16, it was seen that in respect of four²⁰ PRIs reconciliation was pending from 2010-11.

1.14.3 Cases of misappropriation

Andhra Pradesh Financial Code stipulates responsibilities of Government servants in dealing with Government money, procedure for fixing responsibility for any loss sustained by Government and action to be initiated for recovery. State Government had ordered (February 2004) the Secretaries of all the departments to review the cases of misappropriation in their departments on a monthly basis and the Chief Secretary to Government to review these cases once in six months with all the Secretaries concerned. Misappropriation cases noticed by Director, State Audit, which were yet to be disposed of, as of March 2016 are detailed below.

Table 1.7

(₹ in lakh)

Unit	2014-15		2015-16	
	No. of cases	Amount	No. of cases	Amount
Zilla Praja Parishads	0	0	0	0
Mandal Praja Parishads	2	1.13	11	4.46
Gram Panchayats	15	3.48	54	21.36
Total	17	4.61	65	25.82

Source: Information furnished by Director, State Audit

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

1.15 Maintenance of Accounts by PRIs

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

Government confirmed (September 2014) that online accounting was completed in all the PRIs. However, test check (2015-16) of accounts of 23 PRIs using PRIASoft

¹⁹ 5 GPs of Karimnagar, 3 GPs of Nizamabad, MPDOs of Lingampet, Saroornagar

²⁰ MPDOs of Ghatkesar, Lingampet, Saroornagar, ZPP Adilabad

showed that in respect of GP Balakonda of Nizamabad district, accounts were not maintained in PRIASoft for the period 2013-15.

1.16 Issues related to AC / DC Bills

As per Government orders²¹, an amount drawn on Abstract Contingent (AC) bill should be adjusted by submitting Detailed Contingent (DC) bill for the expenditure incurred, to the AG(A&E) with supporting vouchers within one month of drawal of such amount.

As per the information available in the office of Accountant General (Accounts and Entitlements), an amount of ₹ 3.09 crore was drawn on AC bills by PRIs in the State during 2015-16. DC bills were pending for the entire amount as of November 2016.

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

State Government had released (2002-10) Eleventh and Twelfth Finance Commission grants amounting to ₹67.37 crore²² to Commissioner Panchayat Raj of the composite State of Andhra Pradesh for creation of database on finances of PRIs. Of this ₹ 14.35 crore was allocated to Telangana State and transferred to Commissioner, Panchayat Raj, Telangana. Details of utilisation of these funds during 2015-16 were not furnished by CPR&RE despite specific request.

1.18 Conclusion

State Government is yet to devise a system for obtaining a consolidated picture about the finances of the PRIs. State Government devolved only 10 out of 29 subjects listed in Eleventh Schedule to 73rd Constitutional Amendment Act, 1992. Of these, funds relating to only four departments (Agriculture, Animal Husbandry, Backward Classes Welfare and Fisheries) were released to PRIs. The statutory audit of 14 MPPs and 4,683 GPs to be conducted by DSA were in arrears due to non-production of records.

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

²¹ GO Ms. No.285 Finance (TFR-II) Department dated 15 October 2005, Andhra Pradesh Treasury Code, Rule 16, sub rule 18 (d) and GO Ms. Nos. 391 and 507 of April/May 2002 of Finance Department

²² including interest

Chapter - II

Compliance Audit Paragraphs

2.1 Information Technology Audit on implementation of e-Panchayat in Telangana

2.1.1 Introduction

e-Panchayat is one of the Mission Mode Projects (MMP) under National e-Governance Plan (NeGP), being implemented with a vision to empower and transform rural India and make Government services accessible to the common man in his locality *i.e.*, at Panchayat level. The e-Panchayat project aims to transform the Panchayat Raj Institutions (PRIs) into symbols of modernity, transparency and efficiency.

2.1.2 Objectives of e-Panchayat

The broad objectives of e-Panchayat project as set out by the Ministry of Panchayat Raj (MoPR), Government of India, are as follows:

- (i) Automation of internal workflow processes of Panchayats;
- (ii) Improving delivery of services to citizens;
- (iii) Capacity building of Panchayat Representatives and Officials;
- (iv) Social Audit;
- (v) Transparency, Accountability, Efficiency and RTI compliance of Panchayats and
- (vi) Improving governance of local self-government.

2.1.3 System Architecture

The e-Panchayat Application, which is used by all the States, is developed by National Informatics Centre (NIC), New Delhi. It is a browser based application with Oracle-PostgreSQL database, developed for Microsoft Windows Operating System. The centralized database and backups for disaster recovery is being maintained by NIC, New Delhi.

2.1.3.1 Salient features of the system

e-Panchayat is a one of its kind nationwide Information Technology initiative introduced by MoPR that endeavors to ensure people's participation in programme decision making, implementation and delivery. The project aims to automate functioning of the Panchayats in the country. The project addresses all aspects of Panchayats' functioning including Planning, Monitoring, Programme Implementation, Budgeting, Accounting, Social Audit and delivery of citizen services like issue of certificates, licenses etc.

e-Panchayat comprises 11 common core applications which constitute the **Panchayat Enterprise Suite** (PES). Brief details of the applications are given in **Appendix 2.1**.

Figure-1



2.1.4 Audit Approach

2.1.4.1 Audit Objectives

The objectives of carrying out IT audit of e-Panchayat are to assess whether:

- (i) automation of internal workflow processes of local self-government institutions was achieved;
- (ii) capacity building was adequate to ensure effective and efficient implementation of the system; delivery of services to citizens and governance of local self-government institutions were improved; and
- (iii) general and application controls, disaster recovery and business continuity plans were in place and functioning effectively.

2.1.4.2 Scope and Methodology of Audit

Audit scope involved examination of the processes related to implementation of e-Panchayat project and its operationalization in Telangana after its formation from composite Andhra Pradesh with effect from 2 June 2014. Audit scope included

evaluation of general controls of the system at sampled Gram Panchayat clusters¹. Application controls were evaluated through analysis of transaction data using Computer Assisted Audit Techniques (CAATs). Entry conference with the department was conducted on 28 April 2016.

2.1.4.3 Sample size

The records at the Office of the Commissioner, Panchayat Raj and Rural Employment, Government of Telangana were examined and data was collected for audit. Further, the extent of implementation of e-Panchayat was verified through a review of the functioning of the system in three districts² in the state of Telangana. Two districts with the highest number of clusters and one district with the lowest number of clusters were selected. A total of 15 clusters (five clusters per district) were selected as audit sample to represent 5,232 clusters (8,695 GPs) in the State.

2.1.4.4 Audit Criteria

Audit findings were benchmarked against the following sources of criteria:

- i) Government orders (both Union and State) related to project conceptualization, implementation and operationalization.
- ii) Functional requirements and technical specifications of the system as detailed in detailed project report.
- iii) Files/records maintained by the State Government for implementation of the project.
- iv) Constitution of different committees and their recommendations for implementation / monitoring of various applications of the system.
- v) Principles of Model Accounting System for Panchayats.
- vi) Guidelines of Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA).

2.1.5 Audit findings

2.1.5.1 Slow implementation and insufficient monitoring of the project

Government of India (GoI), Ministry of Panchayat Raj, for effective and timely rollout of e-Panchayat project, had sanctioned funds (March 2012)³ for setting up Programme Management Unit (PMU) at the State and District levels. APTS had recommended a L1 firm⁴ for supply of manpower for PMU and it was constituted at state level during September 2012. Manpower for PMUs at district level was selected by a committee headed by District Collectors which were constituted during August 2012. GoI had launched six new applications on the occasion of National Panchayat

¹ two or more GPs are grouped into clusters for implementation of e-Panchayat where data entry/ updating relating to the GPs are being made

² Mahabubnagar, Nizamabad and Warangal

³ ₹ 1.72 crores for combined State of AP

⁴ M/s. Object Technology Solutions India Pvt. Ltd.,

Day during April 2012 and instructed to facilitate the adoption of PES applications so as to help transform PRIs into symbols of modernity, transparency and efficiency.

The department initiated the process of procuring hardware infrastructure during July 2013 and an agreement was entered into with a firm during January 2014. The hardware was supplied and installed during May 2014 and the project was declared go-live with effect from 01 January 2015.

- Even though the project monitoring units at State and District level were constituted during 2012, there was delay in procurement of hardware and launching the project by more than two years.
- Trained manpower was deployed in the identified cluster GPs for over one year. However, the progress in use of PES applications (launched during April 2012 in composite Andhra Pradesh) was still not significant which was elaborated in the succeeding paragraphs.
- It was seen that one Panchayat Secretary was being made in-charge for more than two cluster GPs due to cadre vacancy (total: 5,080, vacant: 1,350), resulting in inadequate monitoring of the project implementation.
- The PES comprises about 11 applications dealing with different functions related to computerization of PRIs. It was seen that each application had to be logged in with separate credentials for updating/accessing the data/information. A common interface with a single sign-on facility is more helpful for the PRIs to update data and for management to monitor all the activities being performed at ground level.

2.1.5.2 Applications not implemented

e-Panchayat comprises 11 common core applications which constitute Panchayat Enterprise Suite (PES) as mentioned earlier in *Section 2.1.3.1*.

During the scrutiny of records, it was seen that only eight out of eleven core applications were implemented. Geographical Information System (GIS) application was under development, while the remaining applications, such as Social Audit & Meeting Management (SAMM) and Training Management, had not been implemented on the grounds mentioned below.

- Social Audit & Meeting Management (SAMM):*** State Government informed that social audit was not yet implemented manually at Gram Panchayats, hence the application was not being put to use. Due to non-undertaking of social audits on the works undertaken by the GPs, the information could not be updated on the portal and hence a fair assessment about the performance by the Central/State Government/line departments could not be obtained.
- Training Management Portal:*** It was informed that this application was not being implemented as trainings were being handled by Extension Training Centres (ETCs). Due to non-implementation of the application at the state level, there was

no platform for Government officials / elected representatives / citizens to project their needs of training in different panchayat activities.

2.1.5.3 Applications partially implemented

It was observed that four applications were not being utilized/updated periodically and therefore, a broad overview of the activities of the GP could not be obtained as discussed below.

- i. **Area Profiler:** It was seen that complete information of the family register, Government employees, committee members, local government elections, local government profile was not entered by the GPs as shown below, thereby defeating the intended purpose of the application.

Table 2.1

(all figures in number of GPs)

Year	Total GPs	Family register	Details of Local Government employees	Details of Committee members	Local Government elections	Local Government profile
2014-15	8,695	128 (1.47 per cent)	1,431 (16.46 per cent)	02 (0.02 per cent)	2,050 (23.58 per cent)	5,480 (63.02 per cent)
2015-16	8,695	265 (3.05 per cent)	656 (7.54 per cent)	42 (0.48 per cent)	1,858 (21.37 per cent)	1,769 (20.34 per cent)

Source: Data analysis

It could be seen from the above table that most of the GPs had not updated the tables on family register, details of local government employees, committee member and local government elections and local government profile.

- ii. **Plan Plus:** It was seen that the department was not utilizing the application to generate the perspective / annual draft plans every year. No GP plans were available for the year 2014-15 and 2015-16. However, during the year 2016-17, though plans pertaining to 6,748 GPs were made available in state specific application, Plan Plus application was not updated, defeating the very purpose of monitoring every GP plan at the central level.
- iii. **Action Soft:** This application was also not being put to use regularly as it was linked to Plan Plus application. Data pertaining to the years 2014-15 and 2015-16 were not updated in the portal, resulting in non-monitoring of the works (physical and financial) undertaken at the GP level.
- iv. **National Asset Directory (NAD):** Data pertaining to only 1,026 GPs in 2014-15 (12 per cent) and 1761 GPs in 2015-16 (20 per cent) were captured / updated through this application, defeating the purpose of monitoring all the assets available in the GPs by the department. It was also seen that in 607 GPs (2014-15) and 1,258 GPs (2015-16), only the details pertaining to less than 10 assets were recorded, which showed that the data was not being updated regularly in this application.

2.1.5.4 Citizen services at GP level in non-computerized form

Service Plus provides a single, unified, metadata-based portal to the citizen and Government alike where any service can be defined, accessed, delivered and monitored. Services like issue of birth / death certificate, trade license, permit for construction of building etc., can be provided through this application. However, these services were not being provided through this application by the State Government.

Government of India, Ministry of Panchayat Raj⁵ had instructed the State Governments to make use of the 11 core common PES applications and discouraged the development of new applications to avoid duplication, costs and incompatibility. However, State Government was providing citizen services through 'Palle Samagra Seva Kendrams (PSSK - a state's initiative) instead of through Service Plus.

During physical verification of centres, it was seen that birth / death certificates were being issued in manual form and the required certificates were not being issued electronically. Thus, the aim of the Government to register every birth / death online was defeated as the service was not been provided through the system and the information pertaining to the citizen services provided by Government was also not available in the panchayat portal.

2.1.5.5 Delay in closing of accounts through PRIASoft application

Panchayat Raj Institutions Accounting Software (PRIASoft) is a centralized accounting software intended for maintenance of accounts by all the three levels of Panchayats viz., District, Block and Village Panchayat on double-entry system on cash-basis system of accounting.

The status of use of the application and closure of year books were as follows:

Table 2.2

Year	Accounting Entity	Total number of entities	Number of entities where Year Book was closed	Percentage of achievement
2014-15	District Panchayat	9	6	67
	Block Panchayat	438	364	83
	Village Panchayat	8,705	8,386	96
2015-16	District Panchayat	9	2	22
	Block Panchayat	438	194	44
	Village Panchayat	8,701	5,318	61

Source: PRIASoft reports

As seen from above, the annual book closure for the year 2014-15 (67 to 96 per cent) was not completed in many accounting units (PRIs) of the State, resulting in non-generation of annual accounts for the year 2014-15. During the year 2015-16 also, the percentage of closure of accounts ranged between 22 and 61. As large transactions

⁵ Letter dated 06-06-2012.

(receipt and expenditure) were involved, non-capturing all the details in the computerized accounting system on time, and not closing of all PRIs accounts for over two financial years indicated lack of seriousness of the Government in this regard.

Further, the main aim of computerizing the accounting application to improve transparency and accountability of the PRIs in managing large volume of funds was defeated due to non-capturing of the transactions done in all the PRIs and as a result the flow and usage of funds for better planning could not be monitored by the higher authorities at State/ Central Government level.

2.1.5.6 Procurement of Desktop, Printer & UPS and DEO services at higher cost

An Agreement⁶ was entered into for supply and installation of eight Laptops, 7,631 Desktops, 6,336 UPS (0.6 KV), 1,295 UPS (1 KV), 7,547 Printers and 115 Scanners in 6,336 clusters and district offices in the composite State of Andhra Pradesh. Manpower supply of 3,439 Data Entry Operators (DEOs) was also agreed upon in the agreement. The details are as below:

Table 2.3

S No.	Particulars	Unit Price (₹)	Quantity (Nos.)	Total amount (₹)
1	Laptops	69,615.00	08	5,56,920
2	Desktops	47,402.25	7,631	36,17,26,570
3	UPS - 1 KVA	46,675.65	1,295	6,04,44,967
4	UPS - 600 VA	8,366.40	6,336	5,30,09,510
5	Inkjet Printer	11,445.00	7,547	8,63,75,415
6	Scanner	46,669.35	115	53,66,975
7	DEOs	11,869.71	3,439	48,98,39,192
	Salary for 12 months		12 x 3,439 x ₹ 11,869.71	
Total				1,05,73,19,549

Source: Agreement dated 10 January 2014.

The period of contract was for five years and the supplier was to be paid 60 per cent of the hardware items cost after supply of hardware and acceptance by the APTS and the remaining amount of 40 per cent has to be paid in 20 equal quarterly instalments from the date of Go-live (1 January 2015 for Telangana).

⁶ between Andhra Pradesh Technology Services Limited (APTS) on behalf of the department and M/s.Karvy Data Management Services Limited (KDMS) on 10 January 2014

It was observed that:

- i. Though the hardware was supplied by the firm during May 2014, the department declared the go-live as 1 January 2015 with a delay of seven months resulting in the systems remaining idle for that period.
- ii. As per Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) guidelines, the cost of desktop, printer & UPS was fixed as ₹ 40,000 per unit. However, the agreement was finalized at ₹ 47,402 for desktop, ₹ 8,366 for UPS and ₹ 11,445 for printer (total cost ₹ 67,213 per unit), thereby incurring an additional expenditure of ₹ 6,63,99,720 ₹ 27,213 per unit x 2,440 units), and exceeding the norms of RGPSA.
- iii. The department entered into agreement with the supplier for supply of DEO at a cost of ₹ 11,869 per month for 12 months which was later extended to three more months. The rate agreed upon was more than the limit of ₹ 8,000 fixed under RGPSA guidelines by ₹ 3,869 per DEO per month for 15 months, thereby resulting in excess expenditure from the fund.

2.1.5.7 Printers and internet facility was not provided in computerized clusters

After formation of Telangana, for e-enablement of the remaining 2,792⁷ GPs under RGPSA scheme, the department had requested the APTS (now TSTS) for procurement of 2,792 desktop computers, printers and UPSs and an open competitive bid (September 2014) was issued by the APTS. During the Techno-Financial committee meeting (February 2015), it was decided to defer the procurement of printers and based on financial bids, L1 bidder⁸ was awarded the contract. An agreement (23 April 2015) was entered with the firm by APTS (on behalf of the department) for supply, installation and commissioning of 2,792 desktop computers and UPS as detailed below:

Table 2.4

S No.	Particulars	Quantity	Unit cost (₹)	Total cost (₹)
1	Desktop computer	2,792	35,036	9,78,20,512
2	UPS 600 VA	2,792	5,557	1,55,15,144
Sub-Total				11,33,35,656
3	APTS service charges			56,66,783
4	Service tax			7,00,414
Grand Total				11,97,02,853

Source: Agreement dated 23 April 2015

⁷ Phase-I: 2440

⁸ M/s. Parity Systems Private Limited

It was noticed that:

- i. As per Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) guidelines, the cost of desktop, printer & UPS was fixed as ₹40,000 per unit. However, the agreement was finalized for ₹40,593 for desktop and UPS only and printer procurement was deferred.
- ii. An additional amount of ₹593 per unit (desktop and UPS) was incurred without inclusion of the cost of printer which is against the norms of RGPSA.
- iii. Provision for internet connection was not made while supplying the systems thereby the data on PES applications could not be updated and citizens were also deprived of the e-Panchayat services at the GP level.
- iv. As data entry work could not be done in the absence of internet connection and due to absence of regular data entry operator, the systems supplied had remained idle.

2.1.5.8 Poor updating of database due to discontinuance of services of data entry operator

The work of DEO involves entering/updating data on PES applications and train the available staff to operate computers, operating various e-Panchayat applications and other services online. The department entered into an agreement (January 2014) with a firm for deployment of computer systems and manpower (1,333 DEOs) in 2,440 selected cluster GPs for implementation of e-Panchayat project in Telangana region of composite AP. As part of the agreement, the firm had to deploy the manpower for a period of one year after the go-live date. Extensive training to 200 DEOs selected by the firm was given during March 2014. The remaining DEOs were trained by the firm with the help of already trained 200 DEOs (master trainers). The DEOs were deployed from 01 January 2015 (Go-live date) after a gap of nearly nine months after their training. The department noticed that training was not sufficient and they needed refreshment training. Accordingly, refreshment training was conducted during January 2015. Further, the period of deployment was extended for three more months *i.e.*, up to 31 March 2016.

During scrutiny of records, it was observed that the department did not extend the services of DEOs after March 2016 and instructed the district offices to avail of the services of DEOs by local appointment / payment from local funds, thereby resulting in appointment of new DEOs with no working experience in PES applications and discontinuance of DEOs in some of the GPs. Further, it was seen that only 845 DEOs were deployed in 5,232 clusters.

It was seen during test-check of districts that DEOs, deployment was reduced⁹ after instructions from the department to make payment of salaries from GP funds. This has hampered the work of entering/ updating data which was now being carried out in Mandal office by availing the services of existing staff of Mandal office.

⁹ Mahabubnagar: 171 to 78, Nizamabad:150 to 100, Warangal:117 to 106.

Thus, absence of regular DEOs at the cluster GPs resulted in poor updating of database and non-provision of citizen services at the GP level.

2.1.5.9 Sufficient Broadband connections were not provided by BSNL

Department had identified 7,548 locations (in the composite State of Andhra Pradesh) to provide broadband connection through BSNL as part of computerization of PRIs. BSNL had agreed to provide the connections as per the list given by the department with a condition that modems had to be provided by the department as the stock was not available with BSNL. Out of these 2,930 connections were to be provided in the State of Telangana and the rest in the State of AP. The department (composite AP) agreed to the plans given by BSNL and an advance of ₹ 3.45 crore was paid to BSNL towards annual charges.

APTS had invited short tender notices (three notices) during May/ June 2014 for purchase of 7,548 ADSL2 type modems. However, due to lack of response to tender notices, department decided to cancel the proposal for purchase of modems and instructed all the district offices to purchase modems locally from the panchayat / Mandal / Zilla Parishad funds.

It was seen that out of the committed 2,930 broadband connections, BSNL could provide connections only in 1,323 (December 2014) locations, leaving a balance of 1,607 locations unconnected citing technical problems. It was seen during test-check of centers that data was being updated at the Mandal level instead of at cluster level due to non-availability of internet facility at clusters. The DEO traveled 5-10 km to reach Mandal headquarters for updating data.

Thus, failure to provide broadband connection at the identified PRIs defeated the purpose of computerization.

2.1.5.10 Excess broadband bill - Abnormal data consumption

BSNL had provided 1,323 connections at identified clusters GPs / Mandals as part of computerization of PRIs for implementation of e-Panchayat project in the state of Telangana. An amount of ₹ 3.45 crore (Telangana portion: ₹ 1.35 crore) was paid to BSNL as advance towards annual charges. Initially, the department had opted for two plans, BBG Rural Combo-250 for rural areas (949 connections) and BBG Rural Plan-999 for district offices (374 connections). The payment for the bills of broadband usage was centralized at the Commissionerate office.

BSNL raised a bill of ₹ 42.41 lakh during April 2015 (which included March 2015 bill of ₹ 6.32 lakh) along with arrears, and, to avoid huge billing, suggested conversion of the plans to unlimited plans as the present plans was of limited usage in nature. The department gave consent to change the plan from BBG rural combo-250 to BB home rural combo UL-650 (unlimited) and BBG rural plan-999 to BB home combo ULD-999 (unlimited). Further, the department issued instructions to all GPs to pay the BSNL bills from April 2016 onwards at GP level. Thus,

- i. Due to improper assessment of bandwidth requirement/monthly plans and lack of periodical monitoring of data usage, the department was compelled to pay the excess amount of bills and;
- ii. The department had to pay the amount of the monthly plans for the connections provided by the BSNL before the go-live date also, even when the project was not implemented.

2.1.5.11 Subsidy component of USOF not availed

Universal Service Obligation Fund (USOF) aims to provide widespread access to quality Information & Communications Technology (ICT) services at affordable prices to all people in rural and remote areas. It provides subsidy support to telecom service providers to increase the reach and delivery of Government and social services.

As per the agreement with the firm¹⁰ for supply of and installation of hardware, a specific clause (5.7.15) was included to avail Universal Service Obligation Fund (USOF) subsidy as “*The supplier should necessarily avail this subsidy and should pass on the benefit to the department*”. The USOF was providing a subsidy of ₹ 4,500 for computer and broadband connections in rural areas through BSNL. The firm was to make arrangements for availing the USOF subsidy immediately after signing the contract and was to pass the benefit to Government.

The firm supplied computers and broadband connections were provided by BSNL in 949 (out of 2930) locations. However, the subsidy component for an amount of ₹ 42.70 lakh (₹ 4,500 x 949 connections) was not passed on to the department due to failure of the firm to adhere to the mandatory clause of availing USOF subsidy.

The department (composite AP) withheld an amount of ₹ 2.85 crore¹¹ (Telangana share withheld ₹ 1.10 crore) which was due towards the subsidy component while making initial payment to the firm. The firm approached the USOF administrator for availing of the subsidy and USOF stated that the firm was not eligible for subsidy as it was not in the qualified service providers list of USOF. The firm communicated the same to the department and requested to release the withheld amount; the decision of the department was awaited.

2.1.5.12 Inconsistencies in database

An analysis of database showed the following:

i. Incorrect categorization of assets under National Asset Directory

It was seen during analysis of the database that incorrect categorization of assets is being made by the PRIs during data entry:

¹⁰ M/s. KDMS Limited

¹¹ ₹ 4,500 x 6336 GP connections = ₹ 2,85,12,000.

- 73 assets such as wells, pumps, borewell, water tanks etc., pertaining to Asset category-10 -Water sources and structures were incorrectly categorized under 04-Irrigation sources and 06-Pond and reservoir.
- 66 assets such as computers, CPU, keyboards, fans, lights etc., pertaining to Asset Category-48 - computers and peripherals under Asset type-1 - Movable and asset category -60-Electrification were incorrectly categorized under Asset Type-2 - Immovable and asset category -0- Others.
- 165 assets such as chairs pertaining to Asset category-351 - Furniture, fixtures and fittings were incorrectly categorized under asset category-41 - Office equipment, 301- Electrical installation and equipment and 409 - Computer software.

Due to incorrect categorization of the assets created under various schemes in the PRIs the actual creation and exact number of assets created under a particular asset category could not be ascertained at the district / state and central level by the administrator.

ii. Misclassification, data integrity issues and poor updating of PRIASoft

- In 503 PRIs during 2014-15 and 6,155 PRIs during 2015-16, no data was captured into PRIASoft application which showed that the accounting package was not being implemented in most of the PRIs, defeating the purpose of improving transparency and accountability of the PRIs.
- There was difference between the closing balance (CB) of the previous year with that of opening balance (OB) of current year, affecting integrity of the data.
 - CB of 2014-15 was not carried over as OB of 2015-16 in 31 cases.
 - CB of 2015-16 was not carried over as OB of 2016-17 in two cases.
- Analysis of receipt and payment vouchers showed that vouchers were not being classified under the relevant heads as per accounting heads approved for PRIs as detailed in *Appendix 2.2*.
- A voucher was generated for each transaction (receipt and payment) occurring in the PRI. Thereafter, the same was to be updated in the PRIASoft application on the same or at a later date. However, in 15 and 21 cases of payment vouchers respectively in 2014-15 and 2015-16, it was seen that date in DATE_OF_ENTRY_DATE column was recorded as prior to the voucher generation date in VOUCHERDATE_DATE column.
- Data entry of payment vouchers were not being updated at periodical intervals. Out of 2,71,641 payment vouchers (2014-15), it was seen that 1,93,240 vouchers were updated after a lapse of more than six months from the date of occurrence of the event. Similarly out of 64,868 payment vouchers (2015-16), it was noticed that 32,596 vouchers were updated after a lapse of more than six months from the date of occurrence of the event.

- Data entry of receipt vouchers were not being updated at periodical intervals. Out of 3,30,115 receipt vouchers (2014-15), it was seen that 2,13,382 vouchers were updated after a lapse of more than six months from the date of occurrence of the event. Similarly, out of 81,215 receipt vouchers (2015-16), it was seen that 33,034 vouchers were updated after a lapse of more than six months from the date of occurrence of the event.

Thus, the insufficient training to the DEOs and inadequate monitoring by higher officials resulted in errors in classification. Due to integrity issues in the database, the reports generated may not reflect a true and fair picture of the funds of GP, Mandal, District and State, affecting reliability of PRIASoft system in promoting transparency, implementation and decision making.

2.1.6 Conclusion

As brought out in the foregoing paragraphs, the main objective of e-Panchayat project to automate the internal workflow processes of panchayats could not be achieved even after three years of implementation of the project. Due to non-implementation of Service Plus application, delivery of services to the citizens could not be provided at the GPs. The aim of improving the governance of local self-government institutions could not be achieved due to non-closure of annual accounts and non-updating the activities at the PRIs. Non-provision of systems with internet facilities at many PRIs resulted in poor implementation of the project. Overall, the objective of promoting transparency and peoples' participation in planning, implementation and decision making could not be achieved.

2.1.7 Recommendations

- *Internet connectivity needs to be ensured in all GPs for timely updating of data and for providing citizen services at Gram Panchayat level.*
- *Sufficient training needs to be provided to the staff/Data Entry Operators for maintenance of accounts in computerized environment.*
- *Periodical monitoring is needed to ensure for timely updating and verification of records.*
- *Proper application controls are to be built-in to ensure data integrity.*

The matter was reported to Government in November 2016; reply has not been received (December 2016).

2.2 Follow up on Performance Audit of Implementation of Rural Water Supply Schemes

2.2.1 Introduction

The objective of this audit was to determine whether necessary corrective action has been taken to address the audit findings and implement the recommendations made in the Performance Audit of 'Implementation of Rural Water Supply Schemes' featured in the Report (Chapter-5 of Report No.4 of 2013) of the Comptroller and Auditor General (CAG) of India pertaining to the Government of Andhra Pradesh (composite state) for the year ended March 2012.

The earlier audit was undertaken to assess the efficiency of Government / implementing agencies in planning the rural water supply schemes, utilisation of funds, execution of water supply schemes, coverage of habitations with sustainable water sources, monitoring and evaluation of schemes. Five recommendations were made to the Government by the CAG to ensure that the deficiencies and irregularities flagged in the Report were addressed. Government had assured (January 2013) of corrective action on all the five recommendations.

2.2.2 Objective, Scope and Methodology of Audit

The follow up audit of the implementation of Rural Water Supply schemes covering the period 2012-13 to 2015-16 was conducted between July and August 2016 to see whether the Government had addressed the accepted recommendations.

Audit methodology involved issue of a specific structured questionnaire to the department concerned at Secretariat level and office of Engineer-in-Chief (ENC)/Rural Water Supply for eliciting responses with regard to the action taken by the Government to implement the recommendations, followed by scrutiny of records at the Secretariat Department, ENC, Rural Water Supply engineering divisions and Zilla Praja Parishads in two¹² selected districts, two¹³ Mandal Parishad Development Offices (MPDOs) and four¹⁴ Gram Panchayats (GPs) in each selected district.

Audit findings

The status of implementation of five audit recommendations accepted by the Government has been arranged in three categories such as (i) Not implemented, (ii) Partially implemented and (iii) Fully implemented. The action taken by the Government on the recommendations made in the report, further response of the Government and Audit comments are as under:

¹² Karimnagar and Nizamabad

¹³ Karimnagar and Sircilla in Karimnagar district and Banswada and Nizamabad in Nizamabad district

¹⁴ Durshed, Mustipaly, Nagunwor and Tangellapalli in Karimnagar district and Borgaon, Desaipet, Mubarak nagar and Someswar in Nizamabad district

2.2.3 Not implemented

Gist of observations made in earlier Audit Report	Recommendations made	Findings in follow up audit and current status	Replies / Comments of Department	Audit comments
<p>In Annual Action Plans (AAPs), proposals for water supply schemes were initiated, primarily based on the request of public representatives. There was no evidence from the records made available regarding the involvement of Panchayat Raj Institutions (PRIs¹⁵) in the planning process.</p> <p>Test check of CPWS¹⁶ schemes showed that administrative approval was granted by the Government without a two-stage¹⁷ approach. (Paragraphs 5.5.1 & 5.5.3)</p>	<p>Government should ensure preparation of AAPs with inputs from the local level and ensure strict compliance with all the pre-requisites before according administrative sanction for schemes so as to avoid cost and time overrun.</p>	<p>Annual Action Plans: On scrutiny of AAPs for the years 2015-16 and 2016-17, it was observed that targets for coverage of habitations and prioritisation of the ongoing works over new works were indicated. The AAPs were prepared by Assistant Executive Engineers (AEE) of RWS Sub-divisional offices in the districts. Test-checked PRIs of both the districts also confirmed that AAPs were prepared by AEE RWS.</p>	<p>ENC replied (May 2016) that AAPs were submitted by Superintending Engineers duly obtaining the proposals from field engineers at grass root level in consultation with PRIs. Two-stage approach was followed while according administrative sanction of 55 works in test-checked districts during the period 2012-16. Thus, State Government did not</p>	<p>It was observed in Audit that there was no involvement of PRIs in preparation of AAPs as seen from the records of test-checked GPs, MPPs and ZPPs. Two-stage approach was not followed while according administrative sanction of 55 works in test-checked districts during the period 2012-16. Thus, State Government did not</p>

¹⁵ Panchayat Raj Institutions consists of Zilla Praja Parishads, Mandal Praja Parishads, Gram panchayats

¹⁶ Comprehensive Protected Water Supply

¹⁷ 1st stage approval for preparatory work – detailed investigation, Environment Impact Assessment (EIA) and Environment Management Plan (EMP), forest and other clearances, rehabilitation and reconstruction plan, detailed designs and drawings, acquisition of minimum land required, etc., and 2nd stage approval after finalisation of designs, completion of detailed investigation and acquisition of land for taking up works without interruption for the first two years

Gist of observations made in earlier Audit Report	Recommendations made	Findings in follow up audit and current status	Replies / Comments of Department	Audit comments
		Two-stage approach for Administrative sanctions: During 2012-16, State Government accorded administrative sanction to 55 works ¹⁸ in the test-checked districts. However, the two-stage approach was not followed, as the approval for both the stages was given at a time.		the implementation by ensuring participation of PRIs in preparation of AAPs and by following two stage approach while according administrative sanctions.

2.2.4 Partially implemented

Gist of observations made in earlier Audit Report	Recommendations made	Findings in follow up audit and current status	Replies / Comments of Department	Audit comments
There was short release of ₹ 1,004.90 crore towards State matching share during the period 2009-10 to 2011-12.	State's share of matching funds should be released component-wise	As on the date of formation of Telangana State (02 June 2014), funds amounting to ₹ 624.02 crore were due from State Government towards their matching share,	ENC replied (May 2016) that against the State matching share	Although funds were released component-wise during 2014-16 and were in excess,

¹⁸ Karimnagar 45 works and Nizamabad 10 works

Gist of observations made in earlier Audit Report	Recommendations made	Findings in follow up audit and current status	Replies / Comments of Department	Audit comments
(Paragraph 5.6.1)	to facilitate proper implementation of the planned schemes and evaluation of the programme.	against which the State Government had released only ₹ 343.72 crore (55 per cent) as of March 2016. During 2014-16 State Government had released component-wise matching share of ₹ 610.20 crore ¹⁹ together with GoI funds.	of ₹ 174.66 crore and ₹ 91.82 crore for the years 2014-15 and 2015-16, Government had released ₹ 294.37 crore and ₹ 315.83 crore respectively. Thereby the matching share was released in excess to overcome the shortfalls in earlier years.	there was still a balance of ₹ 280.30 crore (₹ 624.02 crore minus ₹ 343.72 crore) to be released by State Government as of March 2016. This recommendation has been partially implemented. However, State Government has to adhere to with its commitment of releasing its share in a timely manner.

¹⁹ Arrears ₹ 343.72 crore and matching share for 2014-16 ₹ 266.48 crore

Gist of observations made in earlier Audit Report	Recommendations made	Findings in follow up audit and current status	Replies / Comments of Department	Audit comments																
<p>i. There were 15,988 slipped back habitations²⁰ in the composite State of Andhra Pradesh as of April 2012.</p> <p>ii. NRDWP earmarked 20 per cent of fund allocation towards 'sustainability component'. However, there was no specific allocation towards sustainability in the release orders.</p> <p>iii. In the test-checked divisions, 1,983 works were sanctioned under sustainability component, of which 1,422 works (72</p>	<p>Adequate emphasis should be placed on sustainability of water so as to minimise the possibility of more 'slipped back' habitations.</p>	<p>The status of habitations in the State is as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="background-color: #8B4513; color: white;">Category²¹</th> <th style="background-color: #8B4513; color: white;">Status of habitations as of April 2012</th> <th style="background-color: #8B4513; color: white;">Status of habitations as of March 2016</th> <th style="background-color: #8B4513; color: white;">Variation</th> </tr> </thead> <tbody> <tr> <td>Fully covered (FC)</td> <td>11,625</td> <td>8,384</td> <td>(-) 3,241</td> </tr> <tr> <td>Partially covered (PC)</td> <td>13,289</td> <td>14,710</td> <td>(+) 1,421</td> </tr> <tr> <td>No safe source (NSS)</td> <td>181</td> <td>1,488</td> <td>(+) 1,307</td> </tr> </tbody> </table> <p>There was increase in partially covered habitations. However, the status of fully covered habitations came down by 28 per cent and there was multifold increase (7 times) of NSS habitations.</p> <p>As per NRDWP guidelines (2013),</p>	Category ²¹	Status of habitations as of April 2012	Status of habitations as of March 2016	Variation	Fully covered (FC)	11,625	8,384	(-) 3,241	Partially covered (PC)	13,289	14,710	(+) 1,421	No safe source (NSS)	181	1,488	(+) 1,307	<p>ENC stated the slipped back habitations were due to depletion of ground water, lack of rainfall and severe drought conditions. It was further stated that the allocation of funds under the sustainability component was</p>	<p>Slipped back habitations under FC category and increase of NSS habitations indicated inadequate attention towards sustainability. This was substantiated by the fact that works under sustainability component during 2014-16 were not initiated and there was also poor utilisation of funds on the works sanctioned under earlier years. Thus, the Government</p>
Category ²¹	Status of habitations as of April 2012	Status of habitations as of March 2016	Variation																	
Fully covered (FC)	11,625	8,384	(-) 3,241																	
Partially covered (PC)	13,289	14,710	(+) 1,421																	
No safe source (NSS)	181	1,488	(+) 1,307																	

²⁰ habitations which had come 'down' from Fully covered to Partially covered status

²¹ According to GoI norms, rural habitations are categorised into Not Covered (NC)/No Safe Source (NSS) habitations, Partially Covered (PC) and Fully Covered (FC) habitations. The habitations, where a drinking water source / point is not available within 1.6 km of the habitations in the plains or 100 metre elevation in hilly areas, or where the habitations have a water source which is affected by quality problems are termed as NC/NSS habitations. Habitations which have a safe drinking water source and where the capacity of the system ranges between 10 litre per capita per day (lpcd) to 40 lpcd are termed as PC habitations. Remaining habitations are shown as FC habitations

Gist of observations made in earlier Audit Report	Recommendations made	Findings in follow up audit and current status	Replies / Comments of Department	Audit comments
<p><i>per cent</i>) were yet to commence as of November 2012. (Paragraphs 5.4.1 and 5.8)</p>		<p>10 <i>per cent</i> of funds were to be earmarked towards sustainability component. Audit observed that no works were sanctioned under this component during 2014-16. However, funds amounting to ₹ 27.05 crore were released by State Government during 2014-16 towards execution of on-going sustainability works, against which only ₹ 0.53 crore (2 <i>per cent</i>) was utilised by the implementing agencies.</p> <p>During 2012-14, 27²² Sustainability Works were sanctioned with an estimated cost of ₹ 10.48 crore in the test-checked districts. As of March 2016, three works were completed and 24 works²³ were not grounded due to non-feasibility of ground, occurrence of shallow basement, awaiting technical sanction etc.</p>	<p>reduced, as the major share of allocation was spent on preventing incidence of back coverages of habitations to tackle the drinking water problem. Recharge structures were taken up under watershed programme dovetailing funds from MGNREGS²⁴.</p>	<p>did little to implement the recommendation of audit, especially in preventing incidence of slipped back habitations.</p>
<p>Target for chemical and</p>	<p>Target chemical and</p>	<p>For each laboratory State Government set an uniform target to test 3,000 samples per year</p>	<p>ENC replied (May 2016) that</p>	<p>Uniform Drinking</p>

²² Karimnagar 17 works with estimated cost of ₹ 6.78 crore and Nizamabad 10 works with estimated cost of ₹ 3.70 crore

²³ Karimnagar 14 works and Nizamabad 10 works

²⁴ Mahatma Gandhi National Rural Employment Guarantee Scheme

Gist of observations made in earlier Audit Report	Recommendations made	Findings in follow up audit and current status	Replies / Comments of Department	Audit comments
<p>bacteriological tests in water was set uniformly at 100 and 200 per month respectively, irrespective of the number of sources to be tested. The actual number of tests performed during 2007-12 was lower than even the arbitrarily set targets in the test checked divisions.</p> <p>(Paragraph 5.9.2.2)</p>	<p>bacteriological testing for each water quality laboratory should be individually, set depending on the number of water sources falling within its jurisdiction. Further, Government should release adequate funds in a timely manner to ensure testing of all water sources at least once a year.</p>	<p>irrespective of the number of sources falling under the jurisdiction of the laboratory.</p> <p>In the State there were 2,18,274 water sources as of March 2016. State Government had fixed annual target to test 2,25,000 samples in 75 laboratories.</p> <p>During 2015-16, 2,56,168 tests were conducted in these laboratories. Although tests were conducted in excess of the annual target in some laboratories, it was observed that 23,723 water sources were not covered in eight²⁵ districts.</p>	<p>for each laboratory target was fixed to test 3,000 samples per year. Annually 2,25,000 samples were tested in 75 laboratories.</p>	<p>Water Quality Monitoring Protocol issued (February 2013) by Ministry of Drinking Water and Sanitation recommended a target of 3,000 samples per year per laboratory for testing all water sources and also stipulated that target should depend upon local conditions.</p> <p>However, State Government fixed uniform target for laboratories without considering the need to focus on all water sources available under their jurisdictions. As such there was deficiency in coverage of 23,723 water sources</p>

²⁵ Adilabad 621 water sources, Karimnagar 3,115, Khanmam 1,674, Mahabubnagar 7,102, Nalgonda 5,942, Nizamabad 3,304, Rangareddy 149 and Warangal 1,816

Gist of observations made in earlier Audit Report	Recommendations made	Findings in follow up audit and current status	Replies / Comments of Department	Audit comments
				<p>in the State. The recommendation has thus been implemented to a substantial extent with coverage extending to nearly 90 per cent of water sources. However, the target as recommended by Uniform Drinking Water Monitoring Protocol depending upon the local conditions should be reset to ensure testing of all water sources.</p>
<p>Of the 66 test-checked schemes, 39 schemes were commissioned, seven schemes were completed but not commissioned and 20 schemes were incomplete.</p>	<p>Monitoring mechanism stipulated in NRDWP guidelines should be strengthened to</p>	<p>Of the 20 incomplete schemes, 12 schemes pertained to Telangana. As of August 2016, three schemes were commissioned. Seven schemes remained incomplete and two schemes completed but not commissioned after incurring an expenditure of ₹ 169.79</p>	<p>ENC replied (May 2016) that the department had established exclusive video conference</p>	<p>Despite the fact that the progress of works was being monitored through video conference, reviews and meetings as reported by</p>

Gist of observations made in earlier Audit Report	Recommendations made	Findings in follow up audit and current status	Replies / Comments of Department	Audit comments
<p>Reasons for non-completion of schemes were due to lack of forest clearance for laying pipes, non-acquisition of land, delay in obtaining water drawal permission from Irrigation department.</p> <p>The effectiveness of the monitoring mechanism in implementation of the scheme could not be verified in audit due to non-submission of inspection / monitoring reports by the State/District level authorities.</p> <p><i>(Paragraphs 5.7 and 5.10.1)</i></p>	<p>ensure that schemes are executed on time within the budgeted cost and the benefit of potable water is provided to all the habitations as envisaged.</p>	<p>crore as detailed in Appendix 2.3.</p>	<p>facilities with field officers for review on drinking water supply programmes in the districts. Field officers were reviewed every Saturday and meetings were held once in month in the office of the ENC.</p>	<p>ENC, seven schemes remained incomplete and two schemes were completed but not commissioned as of August 2016.</p> <p>Thus, the recommendation of strengthening the monitoring mechanism to execute the works on time was not effectively implemented.</p>

2.2.5 Fully implemented

- Nil -

2.2.6 Other significant observations

2.2.6.1 Non-Utilisation of Natural Calamity Fund

Audit Report for 2011-12 (Para 5.6.4) pointed out non-utilisation of ₹ 58.20 crore released²⁶ towards restoration of rural drinking water supply schemes damaged during the floods in 2009 but remained unutilised as of June 2012. Of this unutilized amount, ₹ 34.16 crore pertained to the three works²⁷ sanctioned in Mahabubnagar district of Telangana. Government had replied (October 2012) that all the works were in progress and were to be completed by 2013.

It was, however, observed in follow up audit that out of the three works, only one²⁸ work was completed and commissioned. Of the remaining two works, one work²⁹ was under trial run and the other work³⁰ was yet to be completed. Even after six years of release of funds, there was still unutilised balance of ₹ 12.70 crore as of September 2016 and two works were yet to be commissioned.

2.2.6.2 Non-recovery of cost of burnt pipes from contractor

In Audit Report for 2011-12 (Para 5.7.2) it was pointed out that GRP³¹ pipes worth ₹ 19.85 lakh, procured for the CPWS scheme Nyalkal in Nizamabad district, were burnt in fire accident. Government had assured (October 2012) that the cost of the burnt pipes would be recovered from the contractor. However, during follow-up audit it was observed that the loss was not recovered as of July 2016.

2.2.7 Conclusion

While some relevant aspects of the recommendations were seen to have been addressed, there were areas of shortfalls in acting upon the recommendations made in audit. Adequate emphasis was not placed towards sustainability component resulting in slipped back habitations. Monitoring was not effective in implementation of schemes as the incomplete schemes commented in earlier report were yet to be commissioned. Participation of PRIs was not ensured in preparation of Annual Action Plans. Gap in State matching share was not adequately addressed. Testing of samples did not cover all the water sources.

The matter was reported to Government in September 2016; reply has not been received (December 2016).

²⁶ Out of ₹ 69.77 crore released (November 2009 and February 2010) by GoI under Natural Calamity Component

²⁷ Integration of water supply and sanitation project in flood affected temple village of Alampur (Estimated cost ₹ 10 crore and Expenditure Nil); Providing restoration works of damaged infrastructure due to floods in 2009 to habitations (Estimated cost ₹ 18 crore and Expenditure ₹ 2.61 crore); Providing restoration works of damage infrastructure due to floods in 2009 to 19 habitations of Pebbair Mandal (Estimated cost ₹ 8.77 crore and Expenditure Nil)

²⁸ Providing restoration works of damage infrastructure due to floods in 2009 to 19 habitations of Pebbair Mandal (expenditure ₹ 6.66 crore)

²⁹ Providing restoration works of damaged infrastructure due to floods in 2009 to habitations – on trial run (expenditure ₹ 12.16 crore)

³⁰ Integration of water supply and sanitation project in flood affected temple village of Alampur– in progress (expenditure ₹ 5.25 crore)

³¹ Glass Reinforced Plastic

2.3 Idle equipment

Equipment costing ₹ 1.11 crore procured by Swamy Ramananda Thirtha Rural Institute to establish bio-technology and soil testing laboratory had remained idle. Expenditure of ₹ 22.03 lakh on laboratory maintenance and consumables was also unfruitful

Swamy Ramananda Thirtha Rural Institute was established by the State Government under Panchayat Raj and Rural Development Department with the objective of playing a pro-active role in rural development and for rural transformation through training, extension, consultancy, research and development.

Scrutiny (April 2015) of the records of Institute showed that during 2004-07 the Institute had procured equipment³² costing ₹ 1.11 crore³³ from regular grants to establish a bio-technology and soil testing laboratory with DNA finger printing technology, besides another conventional seed testing laboratory. Before procurement, feasibility study and demand survey were not conducted for possible utilisation of the machinery in imparting training in specific trades or activities. No detailed project report was prepared. Further, sanction of the Governing Body was not obtained. Ever since the procurement, no trial run was conducted and the equipment remained idle as of May 2016. The Institute also incurred ₹ 22.03 lakh on laboratory maintenance and consumables during 2005-08.

On this being pointed by audit, the Institute replied (July 2015 / May 2016) that the equipment 'could not be put into use due to misconception and inefficient promotion and the bio-technology project was terminated'. It further stated that there was a proposal to hand over the machinery to Acharya N.G. Ranga Agricultural University (ANGRAU), Hyderabad. No further development had been intimated to audit.

Thus, the procurement of equipment costing ₹ 1.11 crore and without feasibility study and assessment of requirement, resulted in machinery remaining idle for more than nine years, besides rendering the expenditure of ₹ 22.03 lakh on laboratory maintenance and consumables unfruitful.

The matter was reported to Government in September 2016; reply has not been received (December 2016).

2.4 Irregular payment towards hiring of vehicles

Failure to comply with codal provisions and Government directions in ensuring the correctness of bills led to possible misappropriation of ₹ 86.80 lakh claimed for election purposes

Temporary advances are sanctioned to meet contingent expenditure of a specified kind or for specific occasion through Abstract Contingent (AC) bills. Provisions of

³² Seed precision divider, seed blower, seed counter, seed handset sieves, digital moisture meter, water batch shaking incubator, homogenizer, rotary shaker, seed germination cabinet, accelerated ageing chamber including physical facilities such as cold room facility, seed bank, audio visual aids, power generator etc., from various agencies

³³ 2004-05 ₹ 53.81 lakh, 2005-06 ₹ 53.77 lakh and 2006-07 ₹ 3.27 lakh

Financial Code and Government orders³⁴ stipulate that the advances drawn should be adjusted by submitting Detailed Contingent (DC) bills for the expenditure incurred along with supporting vouchers within one month of drawal of such amounts. Every Government servant, who draws bills for contingent expenditure is primarily responsible for ensuring the correctness of the amount for which each bill is drawn.

State Government permitted (April 2014) the Drawing and Disbursing Officers (DDOs) to draw funds through AC bills for incurring expenditure during the fourth ordinary elections to Mandal Parishad Territory Constituencies (MPTC) / Zilla Parishad Territory Constituencies (ZPTC), 2014. Test check of vouchers enclosed to DC bills submitted by Mandal Parishad Development Officers (MPDOs) for the expenditure incurred on hire / POL³⁵ charges in eight³⁶ districts showed the following:

- i. In respect of 79 vouchers relating to hire/POL charges for ₹ 10.60 lakh, the vehicle numbers were recorded; however, it was observed from a cross-check with the records of Road Transport Authority (RTA) that these vehicles were registered as two wheelers. As per Government Order (December 2007), only private vehicles which were registered as taxis were to be hired for Government duty.
- ii. As regards 215 vouchers amounting to ₹ 16.97 lakh pertaining to hire charges paid for the vehicles hired, it was observed that the vehicle numbers recorded in the vouchers did not feature in the data base of the vehicles maintained by the RTA.
- iii. In 405 vouchers amounting to ₹ 59.23 lakh of hire/POL charges scrutinised, it was observed that none of the vouchers had the registration number of vehicles. Hence, correctness of the payments could not be vouchsafed in audit.

Thus, failure to comply with codal provisions and Government orders while passing the bills resulted in possible misappropriation of ₹ 86.80 lakh³⁷ claimed for election purposes.

The matter was reported to Government in August 2016; reply has not been received (December 2016).

2.5 Fraudulent payments towards contingent expenditure

Failure to comply with codal provisions and weak internal controls resulted in fraudulent payments of ₹ 0.67 lakh and possible fraudulent claims of ₹ 8.44 lakh towards contingent expenditure in Mandal Praja Parishad, Saroornagar of Rangareddy district

As per the provisions of Financial Code, every Government servant who draws bills for contingent expenditure is primarily responsible for the correctness of the amount for each bill drawn. Accounts shall be checked as frequently as possible in order to

³⁴ G.O. Ms. No. 507 dated 10 April 2002 of Finance Department

³⁵ Petrol, Oil and Lubricant

³⁶ Adilabad, Khammam, Karimnagar, Mahabubnagar, Medak, Nalgonda, Nizamabad and Rangareddy

³⁷ ₹ 10.60 lakh, ₹ 16.97 lakh and ₹ 59.23 lakh

see that the subordinates do not commit fraud, misappropriation or any other irregularity. In respect of non-countersigned contingencies³⁸, no detailed bills are sent to controlling authority and each contingent bill presented for payment at the treasury should contain full details of the expenditure. Sub-voucher should be enclosed to the bills for any individual payment exceeding ₹ 1,000.

Test-check (January 2016) of contingent bills drawn by Mandal Parishad Development Officer (MPDO) Saroornagar, Rangareddy district during April 2012 – December 2015 showed following:

1. Fraudulent claims

₹ 0.67 lakh was fraudulently claimed on 19 vouchers by altering³⁹ the amounts on sub-vouchers, making double payments, etc.

2. Possible instances of fraudulent claims

- i. Bills drawn on 38 vouchers for ₹ 4.25 lakh were not supported by any sub-vouchers despite individual payments exceeding ₹ 1,000.
- ii. Bills drawn towards hire charges on eight vouchers were not in order. In respect of one voucher (five sub-vouchers) vehicles mentioned were not registered as taxis⁴⁰ (₹ 1 lakh), five vouchers (12 sub-vouchers) were without details of vehicle number (₹ 2.55 lakh) and on two vouchers the claims of ₹ 0.64 lakh were settled without supporting sub-vouchers. Sub-vouchers were either without serial number or without the signature of the travel agency and where serial numbers were available, they too were not in chronological order.

Due to non-availability of supporting vouchers and wanting details of vehicle numbers etc., correctness of the payments amounting to ₹ 8.44 lakh could not be vouchsafed in audit.

The Mandal Parishad Development Officer, Saroornagar accepted (January 2016 – June 2016) the audit observation and stated that the claims were settled without supporting sub-vouchers, without signature of travel agencies and sub-vouchers not being in chronological order. It was further stated that an amount of ₹ 0.67 lakh pointed out by audit was remitted by him (January 2016) to Government account. The department should verify all other vouchers and any such irregularity found may also be complied with.

Thus, failure to comply with codal provisions and weak internal controls resulted in fraudulent payments of ₹ 0.67 lakh and possible fraudulent claims of ₹ 8.44 lakh towards contingent expenditure.

The matter was reported to Government in August 2016; reply has not been received (December 2016).

³⁸ Not under the direct supervision of higher authority / controlling officer

³⁹ Increasing the value of the voucher by inserting figures in the amounts column, wrong totaling etc.,

⁴⁰ State Government instructed (December 2007) that private vehicles which are registered as a Taxi can only be hired for Government duty

Part - B
Urban Local Bodies

Chapter – III

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

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

3.1 Introduction

Government of India had (GoI) enacted (1992) 74th amendment to the Constitution to empower Urban Local Bodies (ULBs) as local self-governing institutions in the country to perform effectively. GoI further entrusted the ULBs with implementation of various socio-economic development schemes, including those enumerated in the Twelfth Schedule to the Constitution.

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

Accordingly, State Government had enacted Andhra Pradesh Municipal Corporations Act, 1994 to set up Municipal Corporations in the State. Provisions of Hyderabad Municipal Corporation (HMC) Act, 1955 including the provisions relating to levy and collection of taxes or fees were extended to all other Municipal Corporations in the State of Andhra Pradesh. Municipalities are, however, governed by the Andhra Pradesh Municipalities Act, 1965¹.

3.1.1 State profile

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

Table 3.1

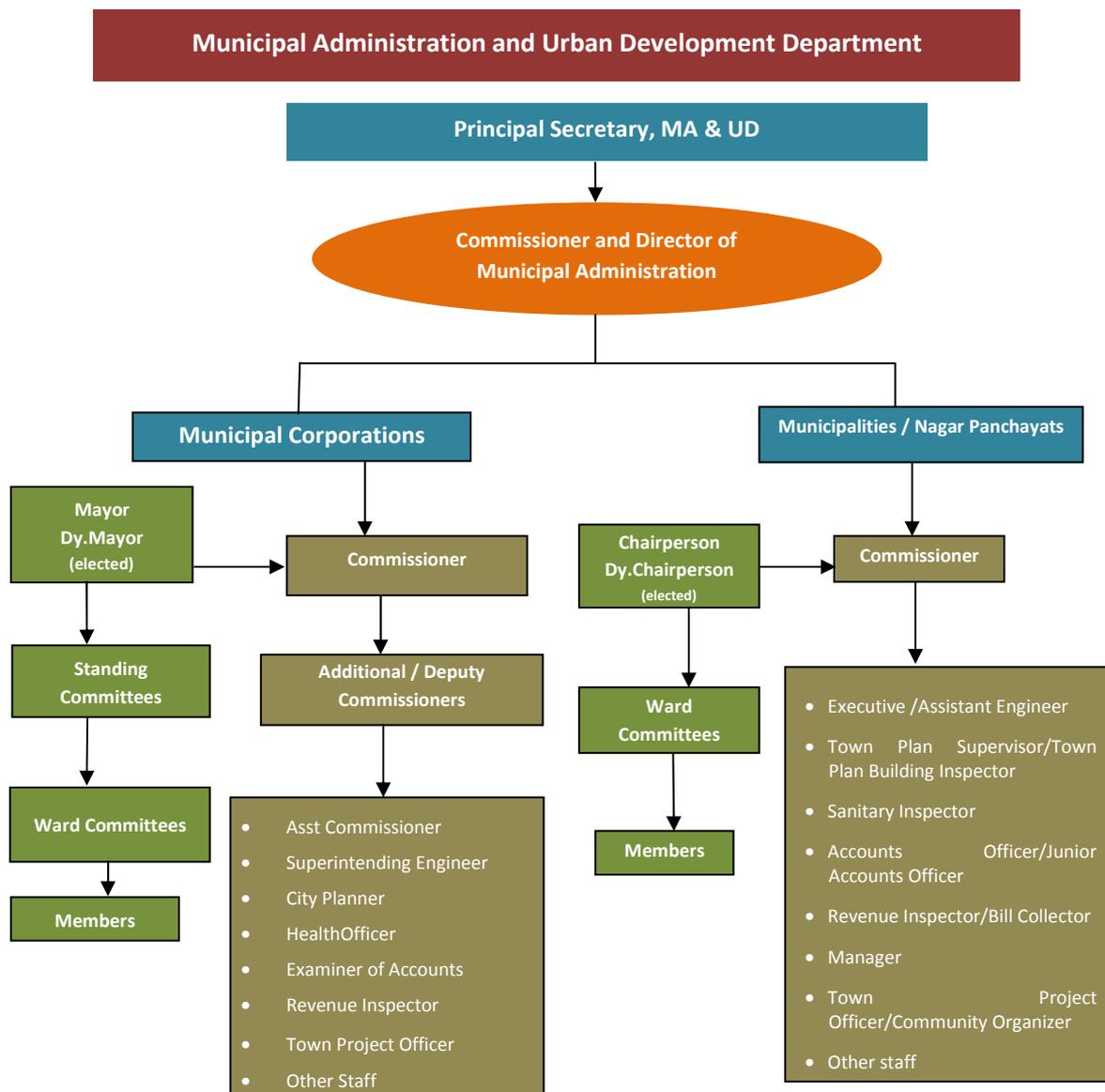
S.No.	Indicator	Unit	State
1	Urban population	Crore	1.36
2	Urban sex ratio	Females per 1000 Males	970
3	Urban literacy rate	Percentage	81.09
4	Municipal Corporations	Number	6
5	Municipalities	Number	39
6	Nagar Panchayats	Number	23
Total number of ULBs (4+5+6)			68

Source: Information furnished (November 2016) by Commissioner and Director Municipal Administration (CDMA) and 'Telangana at a glance' published (January 2016) by State Government

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

3.2 Organisational set-up of ULBs

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



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

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

3.3 Functioning of ULBs

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

3.4 Formation of various committees

The Municipalities and Corporations transact their business as per the provisions of the Acts concerned. In respect of the Corporations, Standing Committees, comprising the Chairpersons of all the Ward Committees under them, meet at intervals prescribed by the Act. Similarly, in respect of the Municipalities, the Municipal Ward Committees meet at prescribed intervals to transact business, make regulations and scrutinise municipal accounts. The main functions of the Ward Committees (both Municipalities as well as Corporations) include provision and maintenance of sanitation, water supply and drainage, street lighting, roads, market places, playgrounds, school buildings, review of revenue collections, preparation of annual budget etc. The Department stated (November 2016) that out of 68 ULBs, ward committees were constituted only in 20 ULBs.

3.5 Audit arrangement

3.5.1 Primary Auditor

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

As per the information furnished (November 2016) by DSA, audit of 41 ULBs' accounts were in arrears. DSA attributed (November 2016) this to non-production of records by Municipalities and Nagar Panchayats. As per the information furnished (November 2016) by DSA, no surcharge proceedings were issued during 2015-16.

DSA stated (November 2016) that Consolidated Audit and Accounts Report for 2011-12 was submitted to Finance Department and the Government tabled the Report in State Legislature, on 31 March 2016. Consolidation of Reports for the years 2012-13 and 2013-14 were under progress. Some of the major findings observed in 2011-12 report relate to excess utilisation/non-utilisation/diversion/mis-utilisation of grants, non-collection of taxes and fee, advances pending adjustment etc.

3.5.2 Audit by Comptroller and Auditor General of India

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

Based on test-check of ULBs a consolidated report (TGS Note) is prepared at the end of each financial year and forwarded to the DSA for improving the quality of their reports. TGS note for the year 2015-16 was issued in July 2016.

Planning and conduct of audit

The Audit process commences with assessment of risk of department/local body/scheme/programme etc., based on expenditure incurred, criticality/complexity of activities, priority accorded for the activity by Government, level of delegated financial powers and assessment of internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, frequency and extent of audit is decided and an annual audit plan is formulated to conduct audit. During 2015-16, 10 ULBs (Nizamabad Municipal Corporation, three Municipalities² and six Nagar Panchayats³) falling under the department of Municipal Administration and Urban Development were subjected to compliance audit.

Report of the Comptroller and Auditor General of India on Local Bodies for the year ended March 2015 was tabled in the State Legislature on 30 March 2016.

3.6 Response to audit observations

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

As of September 2016, 67 IRs containing 1,655 paragraphs pertaining to the period up to 2015-16 were pending settlement as given below. Of these, first replies have not been received in respect of 21 IRs and 813 paragraphs.

² Armoor, Mahabubnagar, Sangareddy

³ Badangpet, Gajwel, Huzurnagar, Ibrahimpatnam, Peddapally, Vemulavada

Table 3.2

Year	Number of IRs /Paragraphs		IRs/Paragraphs where even first replies have not been received	
	IRs	Paragraphs	IRs	Paragraphs
Up to 2011-12	35	571	0	0
2012-13	10	289	8	256
2013-14	3	131	3	131
2014-15	9	266	1	53
2015-16	10	398	9	373
Total	67	1,655	21	813

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

Accountability Mechanism and Financial Reporting issues

Accountability Mechanism

3.7 Ombudsman

The Thirteenth Finance Commission had recommended establishment of an independent Local body ombudsman system. Though an independent ombudsman system was not adopted in the state, the State Government complied with this condition by making amendments to the existing AP Lokayukta Act, 1983.

3.8 Social Audit

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

3.9 Property Tax Board

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

State Government had sanctioned (October 2013) 28 posts under 11 categories for effective functioning of the board. The CDMA stated (November 2016) that a proposal was submitted (April 2014) to Government for division of posts sanctioned for Property Tax Board between AP and Telangana as per AP Reorganisation

Act 2014. Orders are awaited. CDMA is authorised to discharge the functions of Chairman. After the board is completely divided / created separately for Telangana State, the Chairperson and other staff will be appointed on regular basis.

3.10 Service Level Benchmark

The Thirteenth Finance Commission had stipulated that State Government must notify or cause the Urban Local Bodies to notify the service standards of four core sectors *i.e.*, water supply, sewerage, storm water drainage and solid waste management to be achieved by them by the end of fiscal year. State Government issued (March 2014) gazette notification fixing targets to be met by ULBs during 2014-15 under these sectors. From 2015-16 onwards publication of SLBs under these sectors has to be prepared by the ULBs concerned.

3.11 Fire hazard response

Guidelines of the Thirteenth Finance Commission stipulates that all Municipal Corporations with a population of more than one million, must put in place a fire hazard response and mitigation plan and to notify in the State Gazette for demonstrating compliance by end of March 2014. Accordingly, State Government notified (September 2014) the fire hazard response and mitigation plans to be implemented during the year 2014-15 by Greater Hyderabad Municipal Corporation with a population of more than one million. CDMA did not furnish the status with respect to other Municipal Corporations during 2015-16.

Financial Reporting Issues

3.12 Sources of funds

Resource base of ULBs consists of their own revenue generated by collection of tax⁴ and non-tax⁵ revenues, devolution at the instance of State and Central Finance Commissions, Central and State Government grants for maintenance and development purposes and other receipts⁶. The Commissioner concerned is responsible for reporting the utilisation of funds in respect of Corporations and Municipalities.

Summary of receipts of ULBs for the years 2011-16 are given in the table below. Receipts for the period 2011-14 pertain to the composite state of Andhra Pradesh whereas the receipts for the period 2014-16 pertain to the state of Telangana.

⁴ Property tax, advertisement fee etc.,

⁵ Water tax, rents from markets, shops and other properties, auction proceeds etc.,

⁶ Donations, interest on deposits etc.,

Table 3.3

(₹ in crore)

S.No.	Receipts	2011-12	2012-13	2013-14	2014-15	2015-16
1	Own Revenue	2,297.17	2,898.52	3,183.43	371.28	1,616.50
2	Assigned Revenue ⁷	795.70	819.28	695.66	65.97	418.36
3	State Government Grants	608.00	921.00	1,358.60 ⁸	NA**	NA**
4	Government of India Grants					
	Scheme funds	704.24	378.36	-	NA**	NA**
	12 th and 13 th Finance Commission	111.85	Nil	-		25.66
5	Other Receipts	Nil	Nil	275.60*	20.32	203.37#
	Total	4,516.96	5,017.16	5,513.29	457.57	2263.89

Source: Data furnished by Commissioner and Director of Municipal Administration

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

** Data not made available

Data pertains to only GHMC

3.12.1 Financial Assistance to ULBs

Financial assistance is provided by State Government to ULBs by way of grants and loans. Details of the financial assistance provided by the Government to ULBs, for the years 2011-14, pertaining to the composite state of Andhra Pradesh and for the period 2014-16 pertaining to the state of Telangana, are given below:

Table 3.4

(₹ in crore)

Details	2011-12	2012-13	2013-14	2014-15	2015-16*	Total
Budget	177.45	177.45	483.45	287.49	547.18	1,673.02
Actual Release	91.42	90.57	441.37	249.86	12.06	885.28

Source: Data furnished by Commissioner and Director of Municipal Administration

*Information furnished by GHMC alone

3.12.2 Fund flow arrangement in flagship programmes

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

Scheme	Fund flow
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	<p>This flagship programme was launched in December 2005 to encourage reforms and fast track planned development of identified cities, with focus on efficiency in urban infrastructure and service delivery mechanisms etc. Initially the mission period was for seven years (2005-12), which was extended up to March 2017. The four components under JNNURM are Urban Infrastructure and Governance (UIG), Basic Services to the Urban Poor (BSUP), Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) and Integrated Housing and Slum Development Programme (IHSDP).</p> <p>The details of funds released and expenditure incurred on JNNURM projects as of March 2016 are given below.</p>

⁷ Seigniorage fee and surcharge on stamp duty collected by Departments of Mines and Geology and Stamps and Registration are apportioned to the Local Bodies in the form of assigned revenue

⁸ This includes grants received from GoI

(₹ in crore)					
Component	No. of projects	Projects completed	Approved cost	Releases*	Expenditure
UIG	23	12	2,661.86	1,011.44	2,284.98
BSUP	17	5	1,642.45#	848.80	1,387.45
UIDSSMT	32	27	980.16	999.41	987.49
IHSDP	29	15	308.79#	225.60	274.21
Total	101	59	5,593.26	3,085.25	4,934.13

TUFIDC stated that the cost of BSUP & IHSDP projects was revised to ₹ 1,631.81 crore and ₹ 302.50 crore respectively.

*Releases in respect of UIDSSMT & IHSDP also include ULB share.

<p>Andhra Pradesh Municipal Development Project now Telangana Municipal Development Project</p>	<p>Andhra Pradesh Municipal Development Project (APMDP) is implemented (March 2010) with the assistance of World Bank for providing basic amenities to the urban population. The project comprises four components viz., (i) State level policy and institutional development, (ii) Capacity enhancement, (iii) Urban infrastructure and (iv) Project management and technical assistance. Initially, State Government releases funds and actual expenditure reported in quarterly 'Interim unaudited financial reports' by Chartered Accountants would be reimbursed by World Bank.</p> <p>Against approved cost of ₹ 882.12 crore for Telangana State, State Government had released ₹ 254.53 crore to the implementing agencies. Details of expenditure incurred were not made available to Audit. However, it was stated that as of March 2016, an amount of ₹ 1.26 crore was available in Public Deposit Account / bank account.</p>
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3.12.3 Application of funds

Details of expenditure incurred by ULBs for the years 2011-14, pertaining to composite state of Andhra Pradesh and for the period 2014-16, pertaining to state of Telangana are given below:

Table 3.5

(₹ in crore)

S.No.	Type of expenditure	2011-12	2012-13	2013-14	2014-15	2015-16
1	Revenue expenditure	2,941.85	3,153.33	3,418.10	253.82	1,819.62
2	Capital expenditure	1,253.08	1,166.59	1,573.30	148.51	1,233.82
	Total	4,194.93	4,319.92	4,991.40	402.33	3,053.44

Source: Data furnished by Commissioner and Director of Municipal Administration

3.13 Recommendations of the State Finance Commission

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

However, State Government had issued orders for implementation of the recommendations of the SFC only in December 2013. Against ₹ 489.38 crore

recommended by the SFC for devolution of funds to ULBs every year, Government agreed to release only ₹123.12 crore per annum. While ₹319.52 crore was not accepted by the Government, ₹46.74 crore per annum recommended towards per capita grant, increase in half yearly Dearness Allowance, Pension grant, salaries of medical officers and staff and for medicines was not accepted on the grounds that the payment of salaries and pensions to municipal employees were being borne by Government from 1 April 2009.

As no State Finance Commission was appointed after December 2013, by the Government, the committee of Ministers and Secretaries had felt that recommendations of Third Finance Commission could be applied for the period 2011-2016 also. Details of releases during 2015-16 were not furnished despite specific request.

3.14 Recommendations of Central Finance Commissions

3.14.1 Thirteenth Finance Commission

Based on the recommendations of the Thirteenth Finance Commission, GoI releases funds to State Government for distributing among the Municipal Corporations and Municipalities in the State. The grant is released under two components (basic component and performance based component). During 2010-15, ₹684.27 crore was released to ULBs of Telangana state, of which ₹447.43 crore (65 per cent) was incurred. There were no releases during 2015-16.

3.14.2 Fourteenth Finance Commission

The Fourteenth Finance Commission (FFC) has recommended assured transfers to the local bodies for planning and delivering basic services including water supply, sanitation including septic management, sewage and solid waste management, storm water drainage, maintenance of community assets, maintenance of roads, footpaths, street lighting, burial and cremation grounds and any other services smoothly and effectively within the functions assigned to them under relevant legislation. Grants are released under two components *i.e.*, Basic grant and Performance grant. The division of grants between Basic and Performance Grant is in the ratio of 80:20.

An amount of ₹291.95 crore was released by GoI in the year 2015-16. The amount was expended for which UCs were furnished.

3.15 Maintenance of Records

3.15.1 Unspent balances in bank accounts of closed schemes

Scheme guidelines stipulate surrender of unspent amount into Government account in respect of closed schemes. State level authorities of the schemes concerned and CDMA should watch the balances of closed schemes lying in the accounts of different ULBs. On scrutiny of records of 10 ULBs during 2015-16, it was seen that in respect of Ibrahimpatnam Nagar Panchayat, an amount of ₹1.95 crore remained unspent in the accounts of closed schemes.

3.15.2 Advances pending adjustment

As per Andhra Pradesh Financial Code, advances paid should be adjusted without any delay and the Drawing and Disbursing Officers (DDOs) concerned should watch their adjustment. On scrutiny of records of 10 ULBs during 2015-16, it was seen that in respect of Gajwel Nagar Panchayat of Medak district funds amounting to ₹ 7.52 lakh advanced to staff for various purposes during 2013-14 to 2015-16 remained unadjusted as of March 2016.

3.15.3 Non-reconciliation of departmental figures with treasury

As per Andhra Pradesh Budget Manual (Para 19.6), DDOs are required to reconcile departmental receipts and expenditure with those booked in treasury every month to avoid any misclassification and fraudulent drawals. On scrutiny of records of 10 ULBs during 2015-16, it was seen that in respect of three⁹ ULBs, reconciliation was pending from 2012-13 onwards.

3.15.4 Cases of misappropriation

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

Misappropriation cases noticed by Director, State Audit up to 2015-16, yet to be disposed of as of October 2016, are detailed below:

Table 3.6

(₹ in crore)

Unit	As of 31 March 2016	
	No. of cases	Amount
Municipal Corporations	87	23.89
Municipalities	5,561	11.45
Nagar Panchayats	28	1.82
Total	5,676	37.16

Source: Information furnished by Director, State Audit

DSA stated (October 2016) that no misappropriation cases were noticed in 2015-16.

⁹ Sangareddy and Mahbubnagar, Armoor ULBs

3.16 Maintenance of Accounts by ULBs

GoI, in consultation with the Comptroller and Auditor General of India, had formulated (December 2004) National Municipal Accounts Manual (NMAM) with double entry system for greater transparency and control over finances and requested (May 2005) the States to adopt it with appropriate modifications to meet their specific requirements. Accordingly, a Steering Committee was constituted (May 2005) by State Government and Andhra Pradesh Municipal Accounts Manual (APMAM) was developed during 2006-07. State Government had issued orders in August 2007 for adoption of APMAM in all the ULBs in the State. Similarly, other manuals such as Andhra Pradesh Municipal Budget Manual and Andhra Pradesh Municipal Asset Manual, were also accepted by State for implementation (August 2007) by ULBs. It was seen that in respect of Badangpet NP, Ranga Reddy district, annual accounts for the year 2013-14 were not prepared completely¹⁰ and the accounts for 2014-15 were not prepared.

3.17 Maintenance of database and the formats therein on the finances of ULBs

The ULBs have adopted the software developed by the Centre for Good Governance of Model Accounting System for maintenance of Accounts. CDMA stated that maintenance of database format of the finances of ULBs was adopted in all 68 ULBs. On scrutiny of records of ten ULBs audit noticed that three¹¹ ULBs were not maintaining accounts in Double Entry Accrual Based Accounting System (DEABAS).

3.18 Conclusion

There were delays in compilation of accounts by ULBs with consequent delays in their audit by the Director, State Audit. Double Entry Accrual Based Accounting System (DEABAS) was yet to be adopted by ULBs. Accountability framework and financial reporting in ULBs was inadequate, as evidenced by non-furnishing of utilisation certificates, non-remittance of unspent balances of closed schemes and advances pending adjustment, non-reconciliation of departmental figures with treasury and non-disposal of misappropriation cases.

¹⁰ Out of three sets (Receipts and Payments account, Income and Expenditure account and Balance sheet), only Receipts and Payments account was prepared

¹¹ NP Peddapally (Karimnagar), NP Badangpet, Ibrahimpatnam (Ranga Reddy)

Chapter – IV

Performance Audit

4 Performance Audit on Water supply in Urban Local Bodies

4.1 Introduction

Water is a natural resource essential for human existence. Lack of safe drinking water affects the health and wellbeing of the public. The provision of safe and adequate drinking water to the increasing urban population continues to be one of the major challenges. The objective of water supply system is to ensure supply of safe and adequate quantity of water at reasonable cost to the user. In order to encourage personal and household hygiene, proper planning is necessary in the formulation and implementation of water supply projects. Emphasis has to be laid on both the aspects of systems namely planning and management (technical and financial). The responsibility for supply of potable water to urban population rests with the Urban Local bodies (ULBs).

4.2 Funding pattern

Urban Local Bodies (ULBs) meet the expenditure towards provision of water supply through grants received from GoI and State Government, loans from World Bank and other financial institutions besides their own resources. Releases and expenditure during the period 2011-16 in the State towards water supply schemes were as under:

Table 4.1

(₹ in crore)

Year	UIDSSMT ¹			State Government (Plan grant)		World Bank		HUDCO ²	
	Releases by SLNA ³		Expenditure	Release	Expenditure	Release	Expenditure	Release	Expenditure
	GoI Share*	State/ULB Share							
2011-12	17.89	25.05	57.71	7.87	9.70	0	0	11.62	10.29
2012-13	13.82	6.07	16.50	9.56	7.69	0	0	9.80	11.66
2013-14	12.96	15.25	26.40	4.96	4.88	43.08	3.69	4.79	2.72
2014-15	6.96	13.24	24.94	1.49	1.49	52.65	71.78	1.11	1.12
2015-16	1.14	1.31	2.24	1.06	1.03	159.44	83.44	1.18	1.22
Total	52.77	60.92	127.79	24.94	24.79	255.17#	158.91	28.50#	27.01

Source: Information furnished by ENC, PH and TUFIDC

*Releases from GoI to SLNA were up to 2011-12

#Releases include ULB share of ₹ 14.50 crore (World Bank ₹ 14.05 crore, HUDCO ₹ 0.45 crore)

4.3 Organisational set-up

The ULBs function under the administrative control of the Principal Secretary, Municipal Administration and Urban Development (MA&UD). The Commissioner

¹ Urban Infrastructure Development Scheme for Small & Medium Towns, a component of Jawaharlal Nehru National Urban Renewal Mission (Jnnurm)

² Housing and Urban Development Corporation

³ State Level Nodal Agency

and Director of Municipal Administration is head of the Department and assisted by Regional Deputy Directors of Municipal Administration at regional level. The Chairperson is being nominated among the elected members of ULBs. Municipal Commissioners are the executive heads. The ULBs (Municipalities) transact their business as per the provisions of the Andhra Pradesh Municipalities Act, 1965. The Public Health Municipal Engineering Division is responsible for undertaking all capital works whereas, the maintenance works are being looked after by the Engineering wing of ULB.

4.4 Audit framework

4.4.1 Audit objectives

Performance Audit of Water Supply in seven⁴ Urban Local Bodies was carried out with the objective of assessing whether

- i. the planning process for provision of infrastructure and maintenance of water supply in ULBs was adequate and effective;
- ii. sound financial management principles were adhered to in respect of project execution, realisation of revenue and operation & maintenance; and
- iii. the optimum quantity and quality of water was supplied as envisaged.

4.4.2 Audit criteria

Audit findings were benchmarked against criteria sourced from the following:

- i. Bye-laws and council resolutions adopted in the respective ULBs for supply of water;
- ii. Manuals on (i) Water Supply and Treatment, (ii) Operations and Maintenance issued by Central Public Health and Environmental Engineering Organisation (CPHEEO) under Ministry of Urban Development, Government of India (GoI);
- iii. National Water Policy, 2012 issued by Ministry of Water Resources, GoI;
- iv. Financial Code, Public Works 'D' Code, Municipalities Act, 1965 of composite State of Andhra Pradesh⁵;
- v. Government Orders issued by State Government from time to time on water supply; and
- vi. Service Level Benchmarks (SLB) prescribed in Thirteenth Finance Commission guidelines

⁴ Bodhan, Gadwal, Kodad, Mandamarri, Manuguru, Metpally and Vikarabad

⁵ Applicable in relation to the State of Telangana also as per Andhra Pradesh Reorganisation Act, 2014

4.4.3 Audit sample

Audit sample included seven⁶ out of 53⁷ Urban Local bodies in Telangana. The sample was selected through stratified sampling method based on lowest lpcd (litres per capita per day) in each stratum⁸.

4.4.4 Audit scope and methodology

The Performance Audit on Water Supply in seven⁹ ULBs covering the period 2011-12 to 2015-16 was conducted between March and June 2016. Audit methodology involved scrutiny of relevant records/documents in the Office of Engineer-in-Chief (ENC), Public Health & Municipal Engineering Division, Commissioner and Director of Municipal Administration, Telangana Urban Finance Infrastructure Development Corporation (TUFIDC) and selected ULBs. Apart from scrutiny of records, physical verification of site, wherever required, was conducted with departmental officials. Beneficiary survey covering 50 consumers in each ULB was also done to assess the response of the consumers.

An Entry conference was held (March 2016) with the officials of the department wherein audit objectives, scope, criteria and methodology were explained. Exit Conference was held with the Government representatives in November 2016 to discuss audit findings. Replies (October 2016) of the Government have been suitably incorporated at appropriate places in the report.

4.4.5 Acknowledgements

Audit wishes to acknowledge the cooperation and assistance extended by the State Government and its officials during the conduct of this audit.

Audit findings

4.5 Planning

Water is a prime natural resource, a basic human need and a precious asset for the State. Planning and development of water resources need to be governed by the existing conditions and needs in the State.

4.5.1 State water policy

State Government had formulated water policy in 2008 based on National Water Policy of 2002. State Government had yet to frame policy/guidelines based on National Water Policy 2012 as per local requirement. Provisions of CPHEEO manuals were being followed by the State Government in respect of Water supply and treatment and Operations / maintenance.

⁶ Bodhan (Nizamabad district), Gadwal (Mahabubnagar), Kodad (Nalgonda), Mandamarri (Adilabad), Manuguru (Khammam), Metpally (Karimnagar) and Vikarabad (Rangareddy)

⁷ 14 Nagar Panchayats formed on or after 2012 were not considered for sampling

⁸ Stratum I (<= 70 lpcd), Stratum II (>70 and <=135) and Stratum III (>135)

⁹ Bodhan, Gadwal, Kodad, Mandamarri, Manuguru, Metpally and Vikarabad

4.5.2 Water Regulatory Authority

As per National Water Policy 2012, an independent Water Regulatory Authority was to be formed to ensure equitable access to water for all and its fair pricing for drinking and other uses. The Water Regulatory Authority was not yet established (June 2016) which meant that the objective of securing uniformity in operations of water supply and pricing for supply of water in ULBs was not achieved.

Government stated (October 2016) that with a view to providing piped water supply connection to every house hold, a Drinking Water Supply Grid was being implemented by them to supply bulk water to Gram panchayats, Municipalities, Municipal Corporations etc., under Mission Bhageeratha. It was also stated that establishment of Water Regulatory Authority would be considered at an appropriate time. Thus, the fact remained that the Water Regulatory Authority was not established as envisaged in National water policy 2012.

4.6 Water source

Sustainability of surface water or ground water is necessary for effective supply of qualitative and quantitative water to the public.

4.6.1 Identification of water source

As per National Water Policy, urban and rural domestic water supply should preferably be sourced from surface water¹⁰ in conjunction with ground water¹¹ and rain water. The exploitation of ground water resources should be so regulated that the recharging possibilities are not exceeded.

In the State, 27 out of 67¹² ULBs were completely dependent upon the sub-surface water, whereas 40 ULBs were wholly dependent upon surface sources. Of the seven test-checked ULBs, three¹³ ULBs were observed to be completely dependent upon sub-surface source, one ULB (Manuguru) on both the sources and the remaining three¹⁴ ULBs were dependent on surface source.

Kodad ULB was completely dependent upon sub-surface water¹⁵ as surface water source (Cheruvu¹⁶) was contaminated by the sewerage and industrial waste. The ULB had failed in discharging its responsibility to protect the surface water source (Cheruvu) and had utilised the sub-surface water.

Government accepted (October 2016) the contamination of surface water source at Kodad. However, specific measures taken to prevent the contamination were not intimated.

¹⁰ Rivers, lakes and reservoirs

¹¹ Dug up wells, bore wells, tube wells and infiltration galleries

¹² Excluding Greater Hyderabad Municipal Corporation

¹³ Kodad, Mandamarri and Metpally

¹⁴ Bodhan, Gadwal and Vikarabad

¹⁵ 10 Open wells and 21 Bore wells

¹⁶ Big lake

4.6.2 Sustainability of water source

The continuous supply of drinking water depends upon existing capacity of the available source. Sustainability of water source is essential to ensure adequate water supply throughout the year. Out of 67¹⁷ ULBs, seven ULBs have the sustainable water source as of March 2016. In the test-checked ULBs water supply was inadequate, as commented upon in Paragraph-4.9 on ‘Water demand/supply management’. The sustainability of water source was not ensured by ULBs for adequate water supply.

Government stated (October 2016) that utmost care was taken in selection of drinking water sources with regard to dependability and sustainability. In case of failure of source due to continuous dry spells over consecutive years, arrangements were made for supply of water through tankers.

4.6.3 Replenishment of ground water table

Ground water needs to be conserved¹⁸ by reuse of recycled water. Artificial recharge¹⁹ of ground water can be achieved by direct recharge²⁰ and surface flow harvesting.

With a view to conserve ground water, State Government made harvesting²¹ of rain water in all group housing and commercial mandatory²² in 1998. Later, in June 2000²³, it was made mandatory for buildings constructed on plots measuring 300 sq mts and above. Audit observed that

- i. During 2011-16, five²⁴ test-checked ULBs had accorded 3,166 building permissions. Of these, only 31²⁵ Rain Water Harvesting Structures (RWHS) were constructed. Penal action²⁶ taken if any, against non-adherence to Government rules against building owners (for not constructing RWHS) was not forthcoming from the records of ULBs. The ULBs had not accorded much importance to construction of RWHS nor initiated any penal action against the building owners.
- ii. In Manuguru and Mandamarri ULBs, building permissions were not accorded as these ULBs were in scheduled areas²⁷. For replenishment of ground water,

¹⁷ Excluding Greater Hyderabad Municipal Corporation

¹⁸ Para 3.8.2 of manual on O&M

¹⁹ Para 3.10 of manual on O&M

²⁰ Recharge of wells, injected wells and Rain Water Harvesting Structures

²¹ Tanks and ponds

²² G.O. Ms No. 422 MA dated 31 July 1998

²³ G.O. Ms No. 350 dated 09 June 2000

²⁴ Bodhan (811 permissions accorded), Gadwal (details of permissions accorded were not furnished), Kodad (697), Metpally (833) and Vikarabad (825)

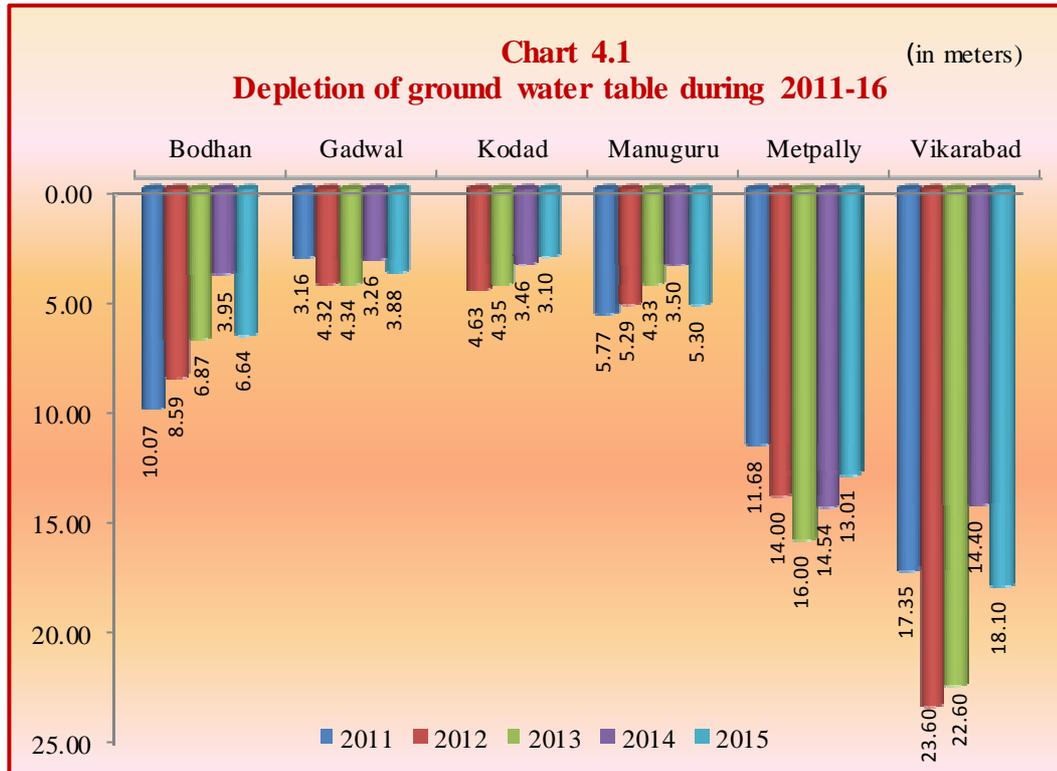
²⁵ Bodhan 11 RWHS and Vikarabad 20 RWHS

²⁶ As per Section 340 of Andhra Pradesh Municipalities Act, 1965, a fine which may extend to five hundred rupees subject to a minimum of fifty rupees and to a further fine which may extend to one hundred rupees subject to a minimum of ten rupees for each day during which offence is proved to have continued after the first day

²⁷ Areas as defined in the fifth schedule of Constitution of India, where as per Andhra Pradesh Schedule Areas Land Transfer Regulation Act, 1970 transfer of immovable property is made in favour of a person who is the member of a schedule tribe or a society registered or deemed to be registered under the Andhra Pradesh Co-Operative Societies Act, 1964 which is composed solely of members of the scheduled tribes

construction of RWHS could have been taken up in public places such as municipal land, parks etc. However, no efforts were made by the ULBs towards construction of RWHS and conservation/recharge of ground water had not been ensured.

- iii. The pre-monsoon (month of May) ground water levels of test-checked ULBs during the period 2011-16 is given in the Chart below. As piezometer²⁸ was not available in Mandamarri ULB, their data was not incorporated in the Chart.



Source: Information furnished by Ground water department

In three ULBs²⁹, there was depletion in ground water table during May 2015 as compared to May 2011. The depletion of ground water was acute in Metpally and Vikarabad ULBs. No action was initiated by ULBs for rejuvenation or recharging of sub-surface water.

4.7 Infrastructure for water supply

4.7.1 Water Treatment Plant

To ensure safe and potable drinking water, it is to be treated under various processes depending on the quality of raw water. Water Treatment Plants (WTP) should, therefore, be planned to supply water that is hygienically safe, aesthetically attractive and palatable. Audit observed that-

- i. Water treatment plants were available and functioning in all the three³⁰

²⁸ Instrument placed in boreholes to monitor the pressure or depth of groundwater

²⁹ Gadwal, Metpally and Vikarabad

³⁰ Bodhan, Gadwal and Vikarabad

- test-checked ULBs where surface water was the source.
- ii. Water treatment plants were not available in the other four³¹ test-checked ULBs where sub-surface water was the source. Due to non-existence of water treatment plants the raw water could not be treated in these ULBs. Thus the ULBs had not ensured the supply of safe and potable drinking water to the consumers.
 - iii. Based on the results of water sample tests in Kodad ULB where sub-surface was the source the presence of excessive fluoride was observed (August – December 2015). Thus absence of water treatment plant adversely affected quality of water supplied.



Some water sources in Kodad ULB

Government stated (October 2016) that water supplied to Mandamarri and Manuguru ULBs from the infiltration galleries in river Godavari required no treatment. It was further stated that water supply improvement schemes would be taken up under Mission Bhageeratha. The reply was not acceptable, as the water supply and treatment manual³² recommended treatments,³³ depending on the quality of ground water. Incidentally, medical centre of Manuguru ULB had reported 932 cases of water borne diseases during 2011-16.

With regard to Kodad ULB, Government stated (October 2016) that drinking water was supplied by RWS&S department and ground water was used for other purposes. However, the water was supplied through open/bore wells for drinking purposes which confirmed presence of excess fluoride.

4.7.2 Service reservoirs

The service reservoirs³⁴ provide a suitable reserve of treated water with minimum interruptions of supply due to failure of mains, pumps etc. The minimum storage capacity of service reservoirs depends on factors such as design population, per capita water supply, peak factor and continuous water supply. In Kodad ULB, it was observed that seven out of 30 wards were supplied water through tankers, as these wards were not covered through Service Reservoirs.

³¹ Kodad, Mandamarri, Manuguru and Metpally

³² Para 7.1 of manual of Water Supply and treatment

³³ Flocculation, sedimentation, rapid gravity or pressure filtration, disinfection by chlorination etc.

³⁴ Para 10.4.1 of manual on Water supply and treatment

Government accepted (October 2016) that there was shortfall in storage capacity of service reservoir in Kodad ULB and stated that adequate provision would be made under Mission Bhageeratha.

4.7.3 Inadequate distribution network

The objective of distribution system is to convey wholesome water to the consumers at adequate residual pressure in sufficient quantity at convenient points so as to achieve continuity and maximum coverage at affordable cost. In the four³⁵ test-checked ULBs, there was shortfall in coverage of pipeline network when compared with internal road length. The shortfall ranged from 23 per cent to 67 per cent. Water was supplied through water tankers in the uncovered areas which had resulted in inequitable distribution of water supply to the households.

Government accepted (October 2016) the audit observation and stated that shortfall in coverage of pipe line network would be taken care of under Mission Bhageeratha.

4.7.4 Non-installation of flow meters

The measurement of flow in water supply systems is an indispensable requirement for the purpose of assessment of source and its development, transmission, treatment, distribution, control of wastage etc. However, flow meters were not installed at source/treatment plant/distribution zones in the test-checked ULBs. The quantity of water supplied was assessed on the basis of the capacity of the reservoir and the duration of pumping to Elevated Level Service Reservoirs (ELSR). In the absence of flow meters, actual quantity of water supplied by the ULBs could not be ascertained.

Government accepted (October 2016) the audit observation and stated that flow meters were being provided in water supply schemes of Vikarabad and Manuguru ULBs. Installation of flow meters in the remaining ULBs would be considered under Mission Bhageeratha.

4.8 Execution of projects

4.8.1 Project proposals during transition phase

As per JNNURM guidelines³⁶, funds were to be provided to only those towns and cities where elected bodies were in position. State Government submitted (April 2013 – September 2013) project proposals in respect of six³⁷ ULBs for approval during the transition phase³⁸, which were not covered under JNNURM phase-I. However, GoI did not consider (December 2013) the proposals, since elected bodies were not functioning in the ULBs and transition period for sanctioning of projects under JNNURM was coming to a close. As a result, ULBs were deprived of protected water supply to their citizens.

³⁵ Kodad (61 per cent), Gadwal (67 per cent), Manuguru (23 per cent) and Mandamarri (28 per cent)

³⁶ Para 4.3 of UIDSSMT guidelines of JNNURM

³⁷ Husnabad, Huzurnagar, Kothagudem, Sadasivpet, Suryapet and Tandur

³⁸ Transition period of two years beginning from 2012-13 to complete the approved projects under Jnnurm-I and to implement the pending reforms at the State and ULB level

Government agreed (October 2016) that the projects were not considered by GoI as elected bodies were not functioning in the ULBs and stated that water supply schemes in these ULBs would be taken up under Mission Bhageeratha.

4.8.2 Status of projects

In the State, 36 projects³⁹ with administrative cost of ₹ 1,653.15 crore were executed during the period 2011-16. These projects were funded by GoI, State Government/ULB, World Bank and HUDCO. Of these 23 projects were completed and commissioned. Two⁴⁰ projects, though completed at a cost of ₹ 16.31 crore, were not commissioned as of May 2016 due to non-construction of summer storage (SS) tank. In eleven⁴¹ ULBs, projects were in progress. Three⁴² water supply projects were executed/under execution in test-checked ULBs. Audit observed the following:

4.8.2.1 Water Supply Improvement Scheme in Manuguru

In the test-checked Manuguru ULB, 0.18 MLD of untreated water was being supplied by ULB from its own source (sub-surface) and 0.96 MLD were being supplied from Singareni Collieries Company Limited (SCCL) through public stand posts. It was observed that there was no household connectivity in the ULB.

Water Supply Improvement Scheme (WSIS) was sanctioned (February 2013) by State Government at a cost of ₹ 25.56 crore, to supply 5 MLD of water. The work was entrusted (September 2014) to a contractor at a value of ₹ 21.89 crore with a stipulation for completion by March 2016. However, as of March 2016 the work was still under progress (60 per cent was executed with an expenditure of ₹ 11.72 crore). As a result, the ULB could not achieve the intended objective of providing household connectivity as envisaged under the scheme.

Government stated (October 2016) that the delay was on account of heavy floods and assured that the scheme would be completed in all aspects by December 2016 duly providing household connections.

4.8.2.2 Water Supply Improvement Scheme in Vikarabad

i. Unjustified selection of Project:

With the objective of reducing burden on an already overstrained Mega/Million plus cities, JNNURM guidelines provided for urban infrastructure development in Satellite Towns/Counter Magnets of Million plus cities under Urban Infrastructure Development in Satellite Towns scheme (UIDST). Satellite towns are to be developed in the future development area of the million plus urban agglomerations covered under JNNURM. The towns may be planned for a population of 5 lakh - 10 lakh in case of mega cities.

³⁹ GoI (13 projects), State Government (9), HUDCO (6) and World bank (8)

⁴⁰ Jagityal and Korutla

⁴¹ Bellampally, Satupally, Vikarabad, Malkajgiri, Armoor, Manuguru, Medak, Kollapur, Jammikunta, Huzurabad and Kothagudem

⁴² Water supply improvement schemes in Gadwal, Manuguru and Vikarabad ULBs

The population of Vikarabad town was 53,185 as per 2011 census and projected population would be two lakh up to the horizon year 2041. The town is situated at a distance of 68 km from the mega city (Hyderabad). Hence, proposal to take up the water supply project to Vikarabad town (sanctioned in 2011) under JNNURM as a satellite town was not justified, based on population and urban agglomeration.

Government stated (October 2016) that expecting future growth, Vikarabad town was selected after thorough examination of existing infrastructure and proximity to the Mega City, Hyderabad. The reply was not acceptable since the town did not meet the criterion of population size for selection under UIDST.

ii. Failure in utilisation of infrastructure created:

A Water Supply Improvement Scheme was sanctioned in March 2007 by State Government to supply 8.586 MLD from Singapur Reservoir of Hyderabad Metropolitan Water Supply & Sewerage Board (HMWS&SB) at a cost of ₹ 32.31 crore under Plan grant. The project was commissioned in May 2012 after incurring an expenditure of ₹ 23.81 crore. Due to non-payment of water bills amounting to ₹ 14.64 crore by ULB, HMWS&SB stopped supply of water from August 2012. The matter was subsequently resolved (January 2015) and supply was resumed from February 2015 onwards. HMWS&SB limited its supply to only 1.50 MLD of water as of May 2016.

However, in the meantime another Water Supply Improvement Scheme under UIDST scheme (JNNURM) was sanctioned (June 2011) for ₹ 104.13 crore for supply of additional quantity of 8.0 MLD of treated water from the same source namely Singapur reservoir of HMWS&SB to meet the requirement of growing population. As of March 2016, 99 *per cent* of the work was completed by incurring expenditure of ₹ 63.94 crore and work relating to additional lines was in progress. All the existing House Service Connections (HSCs) were transferred to the new pipelines under scheme sanctioned in 2011.

It was observed in audit that the supply of water was made through the infrastructure created under scheme sanctioned in 2011. The infrastructure created at the cost of ₹ 23.81 crore under the scheme sanctioned in 2007 was lying idle. There was no improvement in the quantity of water *i.e.*, 1.5 MLD supplied from HMWS&SB and duration of supplying water was only one hour once in three days in the ULB against round the clock supply contemplated in the scheme sanctioned in year 2011. Thus, this scheme was improperly planned and infrastructure created under the scheme sanctioned in 2007 at the cost of ₹ 23.81 crore remained unutilised.

Government accepted (October 2016) the audit observation and stated that infrastructure created under scheme sanctioned in 2011 was presently being utilised and the infrastructure created under previous scheme sanctioned in 2007 would be utilised as and when additional water is drawn.

4.8.2.3 Water Supply Improvement Scheme in Gadwal

State Government had sanctioned (January 2008) Water supply Improvement Scheme for Gadwal ULB at a cost of ₹ 34.40 crore. The work was entrusted (June 2009) to a contractor at a value of ₹ 32.59 crore with a stipulation for completion by December 2010.

After executing 15 per cent of the work for ₹ 5.57 crore, the contractor stopped (June 2012) the work. Since there was no response from the contractor, Engineer-in-Chief had requested (June 2013) the Government to accord permission for terminating the contract and have the balance work completed by calling fresh tenders. As of March 2016, permission from Government was awaited. As a result, infrastructure created *i.e.*, three⁴³ Elevated Level Service Reservoirs (ELSRs) and distribution network for 30.84 km for ₹ 5.57 crore were lying idle and the objective of improvement in water supply remained unachieved as of October 2016.



Unutilised ELSR

Government accepted (October 2016) the audit observation and stated that balance work would be taken up under Mission Bhageeratha duly integrating the infrastructure created.

4.9 Water demand/supply management

Water demand management involves measures which aim at reducing water demand by optimal utilisation of water supplies for all essential and desirable needs. Water supply management aims at improving the supply by minimizing losses and wastage and unaccounted for water in the transmission mains and distribution system.

4.9.1 Gap between demand and supply

Thirteenth Finance Commission had fixed Service Level Benchmark (SLB) as 135 lpcd for per capita supply of water. Where Underground Drainage was not there the bench mark was fixed as 70 lpcd⁴⁴. As of March 2016, in all the seven⁴⁵ test-checked ULBs (with the target of 135 lpcd) there was a gap between demand and supply ranging from 19 per cent to 71 per cent as detailed in *Appendix-4.1*.

In test-checked Manuguru and Gadwal ULBs, water supply improvement schemes were not completed as of March 2016. Gap in supply is expected to persist till

⁴³ at PJP camp, Raghavendra colony and BC colony

⁴⁴ Para 2.2.8.3 of manual on Water supply and treatment

⁴⁵ Bodhan (19 per cent), Gadwal (41 per cent), Kodad (71 per cent), Mandamarri (44 per cent), Manuguru (56 per cent), Metpally (71 per cent) and Vikarabad (62 per cent)

sustainability of water sources is ensured and all the water supply improvement schemes are to be completed to achieve the objectives as envisaged.

Government accepted (October 2016) the audit observation and stated that all ULBs would be provided with piped water supply at 135 lpcd on completion of '*Inti Intiki Nalla*' (State sponsored programme) under Mission Bhageeratha.

4.9.2 Duration of water supply

Service level benchmark (SLB) of 24 hours water supply was prescribed by the Thirteenth Finance Commission, which had not been achieved in any of the test-checked ULBs. Duration of water supply by the ULBs ranged from one hour once in four days to one hour per day. In Mandamarri ULB, water was supplied once in four days for only one hour.

Government stated (October 2016) that every scheme was designed to supply water for 24 hours and also stated that this would be achieved in a phased manner. However, not even a single ULB has achieved the target till date.

4.9.3 House service connections (HSCs)

Thirteenth Finance Commission had prescribed a Service Level Benchmark of 100 *per cent* coverage of water supply connections to the households in the ULBs. In the six⁴⁶ test-checked ULBs, there was shortfall in HSCs ranging from 48 *per cent* to 78 *per cent*. Water was supplied through public stand posts/water tankers in the uncovered areas. In Manuguru ULB, no HSCs were provided and water was being supplied through public stand posts only.

Thus, the objective of providing safe and clean drinking water to all the households in the test-checked ULBs remained unachieved. Further, household connections were not provided in Manuguru ULB due to non-completion of water supply improvement schemes.

Government accepted (October 2016) the audit observation and stated that water connections are proposed to each and every household on completion of '*Inti Intiki Nalla*' (State sponsored programme) under Mission Bhageeratha.

4.9.4 Metering of water connections

Water meter is a scientific instrument for accurate measurement of quantity of water distributed to the consumers and fulfills the need to know the quantity of water produced and distributed. As per O&M manual⁴⁷, metering of water supply is desirable to minimise the wastage and to maintain the economic pricing of water. The benchmark for metering water supply connections prescribed by the Thirteenth Finance Commission was 100 *per cent*; however, water meters were not installed in any of test-checked ULBs. In Vikarabad ULB, installation of water meters has been

⁴⁶ Bodhan 51 *per cent*, Gadwal 53 *per cent*, Kodad 48 *per cent*, Mandamarri 78 *per cent*, Metpally 62 *per cent* and Vikarabad 58 *per cent*

⁴⁷ Para 1.2.2 of Manual on O&M

taken up. Further Metering of water connections were not made mandatory by ULBs. As such, the objective of minimising wastage, ascertaining quantity and economic pricing of water could not be achieved. The ULBs continued to levy water charges at fixed rate, irrespective of actual consumption, due to non-installation of water meters causing possible loss of revenue to ULBs.

Government accepted (October 2016) the audit observation and stated that metering of individual house service connections would be taken up in a phased manner.

4.9.5 Unaccounted for water

Unaccounted for water (UFW) is leakage of water which mostly occurs in the distribution system and house service connections. A systemic approach towards wastage was required to save considerable quantity of water and prevent possible contamination. As per the manual on Water Supply and Treatment upto 15 per cent⁴⁸ of water wastage *i.e.*, UFW is allowed. In three⁴⁹ test-checked ULBs, UFW was within the limit. In two⁵⁰ test-checked ULBs the percentage of UFW was more than the benchmark. Kodad and Manuguru ULBs had not furnished the details of UFW. In the absence of flow meters and water meters, the correctness of UFW reported could not be ascertained.



Bodhan ULB
(Leakage from pipeline)



Manuguru ULB
(Non-fixing of taps to the stand posts)

Government accepted (October 2016) the audit observation and stated that UFW levels would be drastically brought down while implementing Mission Bhageeratha.

4.10 Water quality management

Safe water is essential for good health of the community⁵¹. Improvement in drinking water quality directly had its impact on improvement in the health of the consumers. Water supply agencies are responsible for supply of safe water to consumers and to monitor its quality.

⁴⁸ Para 2.2.8.3 of manual on Water supply and treatment

⁴⁹ Mandamarri, Metpally and Vikarabad

⁵⁰ Bodhan (18 per cent UFW) and Gadwal (30 per cent UFW)

⁵¹ Para 9.2 and 9.4 of manual on O&M

4.10.1 Water sample tests

Water supply and treatment laboratories with adequate facilities and manned by qualified personnel are essential for inspection and evaluation of the suitability of water supplied for public use. Water supply and treatment manual⁵² prescribes laboratory examination of physical, chemical, bacteriological and biological analysis of water samples to confirm the quality of water.

Audit observed that

- i. In the six⁵³ test checked ULBs, laboratory facilities were not put in place as part of the water supply system. Only chloroscopic tests were conducted in the ULBs. In the absence of laboratories, water samples for physical, chemical, bacteriological and biological analysis were tested in Institute of Preventive Medicine/Rural Water Supply Laboratories concerned.
- ii. In Bodhan ULB, all other tests except chloroscopic test were conducted in laboratories (Rural Water Supply Laboratories) other than their own due to lack of equipment, insufficient stock of chemicals for treatment and inadequate staff.

Thus, due to lack of laboratory facilities in ULBs, only chloroscopic tests were conducted; however, there was a shortfall in coverage of tests during audit period as detailed in *Appendix-4.2*.

Government accepted (October 2016) the audit observation and stated that instructions were being issued to all the ULBs to establish laboratory facilities in the Water treatment plants to ensure testing of water samples as per manual.

4.10.2 Action taken on Unsatisfactory Reports

In the three test-checked ULBs, during the period 2011-16 laboratories had reported 115⁵⁴ water samples as 'unsatisfactory,' as detailed below.

Table 4.2

Name of the ULB	No. of samples tested	No. of samples reported as unsatisfactory
Bodhan	10	5
Gadwal	276	21
Kodad	584	89
Total	870	115

Source: Information furnished by ULBs and laboratories

However, no action was taken on the unsatisfactory reports on water samples by the concerned ULBs. Thus, ensuring safe, clean and potable drinking water to the households by ULBs could not be assessed in Audit.

⁵² Chapter-15 of manual on Water supply and Treatment

⁵³ Gadwal, Kodad, Mandamarri, Manuguru, Metpally and Vikarabad

⁵⁴ Bodhan 5 samples, Gadwal 21 samples and Kodad 89 samples

The information relating to water borne diseases was obtained from the medical officers concerned in the test-checked ULBs. Medical centers⁵⁵ of four test-checked ULBs reported (2011-16) 31,206⁵⁶ cases of water borne diseases such as vomiting, acute diarrhea, jaundice, enteric fever etc. In two ULBs⁵⁷, cases of water borne diseases showed an increasing trend during 2011-15.

Government accepted (October 2016) the audit observation and stated that instructions were being issued to all the ULBs to take corrective action wherever unsatisfactory water samples were reported.

4.10.3 Survey and Surveillance

Water quality monitoring and surveillance is a continuous process, along with vigilant assessment and control of safe potable water supply, to be undertaken by the ULB. Surveillance is an investigative activity which was to be undertaken by an agency consisting of the members from State Public Health and Engineering Department, Local Health Authority, Chief Medical Officer / Health Officer and Pollution Control Board, to identify and evaluate factors posing health risk related to drinking water supplied. The surveillance agency had to communicate to the water supply agency and pinpoint the risk areas and give advice for remedial action.

However, no such surveillance agencies were formed in any of the test checked ULBs. Thus, in the absence of surveillance agencies, safe water supply to consumers could not be ensured.

Government accepted (October 2016) the audit observation and assured that necessary surveillance mechanism would be placed at the State level consisting of members from the stake holder departments.

4.10.4 State Pollution Control Board

The Telangana Pollution Control Board (TPCB) monitors the water pollution generated by the industries/urban local bodies by stipulating standards for discharge of effluents by the industries/urban local bodies. Gadwal ULB had been discharging untreated sewage and TPCB instructed (March 2016) to take control measures and ensure that no untreated sewage flow in water bodies. It was observed that construction of ‘Super Passage’ for discharge of stagnated water, proposed (April 2016) under Fourteenth Finance Commission grants, was not taken up as of October 2016.

During Exit Conference (November 2016), Government stated that approval for construction of ‘Super Passage’⁵⁸ was being pursued with Superintending Engineer (I&CAD⁵⁹).

⁵⁵ Area Hospital Gadwal, Public Health Center Manuguru, Urban Health Center Metpally, Community Medical Center Vikarabad

⁵⁶ Gadwal 15,375 cases, Manuguru 932 cases, Metpally 6,050 cases and Vikarabad 8,849 cases

⁵⁷ Gadwal and Vikarabad

⁵⁸ For discharge of stagnated sullage water

⁵⁹ Irrigation and Command Area Development Department

4.11 Operation and Maintenance

Operation⁶⁰ refers to hourly and daily operations of the components of a system such as plant, machinery and equipment. Maintenance involves keeping the plant, equipment, structures and other related facilities in optimum working condition for supply of quality water to the consumers.

4.11.1 Improper planning

- i. For planning future augmentation and improvement of water works in operation, certain key records⁶¹ relating to supply of water are required to be maintained. However, history sheets of pumps and motors, preparation of maps showing the entire network etc., were not being maintained by any of the test-checked ULBs.
- ii. Preventive maintenance⁶² had to be planned for maintenance of the pipelines, servicing of valves, expansion joints etc., to act against possible contamination and improve pressure in the distribution system. In none of the test-checked ULBs, preventive maintenance was being carried out.
- iii. Maintenance schedule is required to be prepared to improve the level of maintenance of water transmission system through improved coordination and planning of administrative and field work and through the use of adequate techniques, equipment and materials. An action plan was to be prepared for Operation and Maintenance. None of the test-checked ULBs had prepared any maintenance schedule for O&M activities.

Thus, due to failure in preparation of maintenance schedule and planning for preventive maintenance, repairs to water transmission system were attended as and when complaints were received. Non-maintenance of basic records resulted in operating problems not being brought on record.

During Exit Conference (November 2016) Government stated that instructions were issued to all the ULBs on preventive maintenance and to maintain necessary records properly.

4.11.2 Inadequate tools/spares and staff for O&M activities

- i. Different types⁶³ of O&M tools are required to be maintained⁶⁴ as a measure of preparedness to ensure effective maintenance of water network system. Similarly,

⁶⁰ Para 2.2 of manual on O&M

⁶¹ Para 2.3.11, 3.6.1.8, 4.3.8.1 of manual on O&M – List of tools and plants, history sheets of works/equipment, updated transmission system map, flow meter readings at upstream and downstream, man-hours spent on routine operations, age of pipes, quality of pipes etc.; and Para 13.3.6 of manual on Water supply and treatment – daily and cumulative supply over the years, number of connections of various sizes given and cumulative number of connections each month, water treated and the supply billed

⁶² Para 4.3.3.2 of manual on O&M

⁶³ Hooks, pipe wrench, double ended spanner, screw drivers, pilers etc.,

⁶⁴ Para 7.5.2, 8.7.2.4, 10.3.2.1, 11.6.3 and 15.11 of manual on O&M

spares⁶⁵ required for one-two year's maintenance are to be kept in stock to avoid downtime. In the test-checked ULBs (except Manuguru) it was stated that the tools/spares for regular maintenance were not available.

- ii. The water supply and treatment manual⁶⁶ prescribed staffing pattern for O&M of water works based on capacity/quantum of water supply. Every supervisory and operating staff engaged for water works should be subjected to appropriate training course⁶⁷ at least once in every three/five years during his service. There was shortfall in staffing pattern in the test-checked ULBs. Shortfall was acute in the Fitters/Helpers cadres. The sanctioned strength of Fitters/Helpers as of March 2016 was 15 against the requirement (as per manual⁶⁸) of 112. Against these sanctioned posts, three were vacant. Further, no training as envisaged in manual was imparted to any of the existing staff in the test-checked ULBs.

Due to non-stocking of tools and spares, ULBs had to procure the same from local market whenever need arose, which delayed a timely maintenance. In the test-checked ULBs, average response time in respect of a complaint ranged between one and two days. The delay and wastage of potable water would have been reduced, if, tools/spares were available in stock and adequate staff were deployed.

Government stated (October 2016) that instructions were being issued to all the ULBs on maintenance of required tools/stocks of spares as prescribed in the manual and to deploy required personnel.

4.12 Revenue on water supply

It is essential to establish a sound financial management system to make the water supply system financially viable. This can be achieved by controlling expenditure and increasing the income. Thirteenth Finance Commission had stipulated service level bench mark of 100 *per cent* cost recovery in water supply services. The tariff structure was to be evolved to recover the O&M cost and had a surplus for debt servicing and depreciation. Control of O&M expenditure could have been achieved by preparing an annual budget of income and expenditure based on realistic estimates.

4.12.1 Gap in cost recovery

The major source of revenue under water supply was from collection of water charges from households, Government and commercial establishments besides water connection charges. Expenditure comprises salaries and wages, consumables, electricity charges, repairs and replacement charges. Water charges⁶⁹ are to be fixed by the utility, taking into account the expenditure on various heads, such as, operating cost, establishment cost, depreciation, debt services, asset replacement fund etc.

⁶⁵ Set of wearing rings, shaft sleeves, bearings etc.,

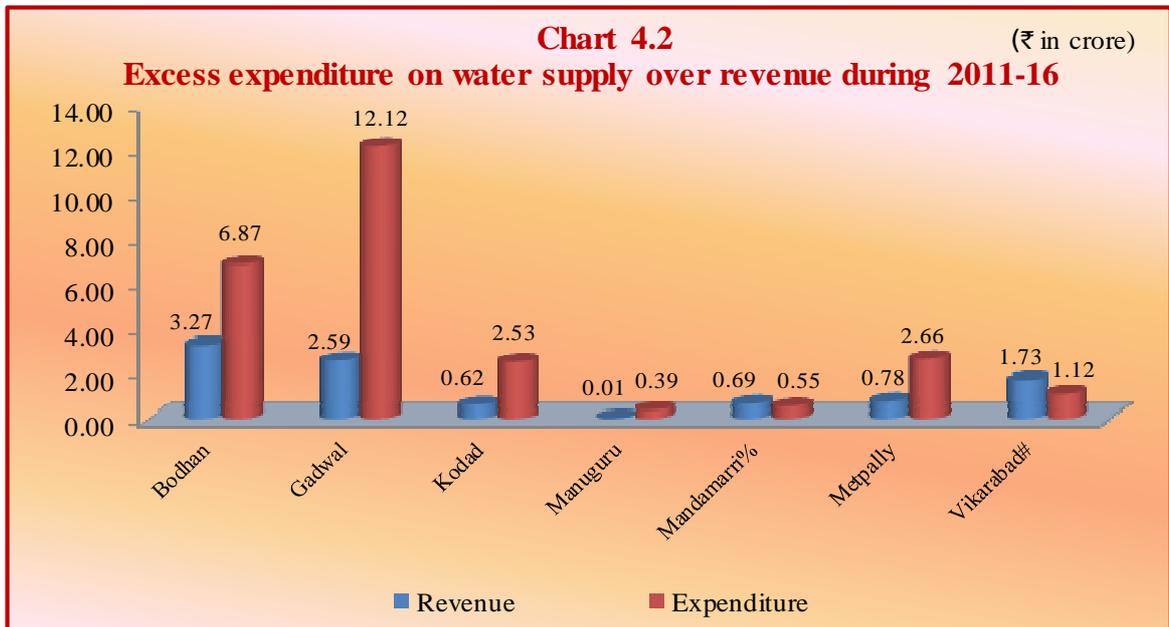
⁶⁶ Para 13.11 of manual on Water supply and treatment

⁶⁷ Para 14.6 of manual on Water supply and treatment and Para 17.12 of manual on O&M

⁶⁸ As per Para 13.11 of manual on Water supply and treatment, three fitters/helpers are required for every 10-15 km of distribution system

⁶⁹ Para 13.2 of manual on O&M

ULBs have to generate revenue and incur expenditure for O&M activities as no funding was provided by the State Government. Revenue and expenditure on water supply in respect of test-checked ULBs during 2011-16 are given in the chart below.



Source: Information furnished by ULBs

%Data for the year 2012-13 was not furnished

Data for the year 2015-16 was not furnished

It is evident from the chart that the expenditure was much higher than the revenue in the test-checked ULBs. Audit observed that

- i. In four⁷⁰ test-checked ULBs, expenditure exceeded revenue ranging from 210 per cent to 468 per cent. In Manuguru ULB expenditure was ₹ 39 lakh against the revenue of ₹ one lakh that too by water tankers. No other revenue was generated as water was being supplied through public stand posts only. Revenue exceeded the expenditure in Vikarabad ULB; however, current consumption charges and wages were not being included in the expenditure. Further, it was observed that there was a shortfall in collection of tariff ranging from 67 per cent to 95 per cent in five⁷¹ ULBs during 2015-16.
- ii. For any financially self-sustained water utility, the tariff should be reasonably fixed⁷². In three⁷³ ULBs, tariff was revised during the period 2012. However, in Kodad and Bodhan ULBs, tariff fixed during 1996 and 2005, respectively, had not been revised till audit. In Mandamarri ULB, revision of tariff proposed in 2009 has not been implemented so far.

⁷⁰ Bodhan 210 per cent, Gadwal 468 per cent, Kodad 408 per cent and Metpally 341 per cent

⁷¹ Bodhan 81 per cent, Gadwal 69 per cent, Kodad 95 per cent, Metpally 80 per cent and Vikarabad 67 per cent

⁷² In Manuguru ULB, revision of tariff did not arise as water was supplied through public stand posts

⁷³ Gadwal, Metpally and Vikarabad

- iii. Government had issued orders (2004) to fix water charges for domestic consumers at ₹100 per month. In five⁷⁴ test-checked ULBs, tariff was ₹100 during the review period. In Kodad ULB, water charges were being levied at ₹30 per month for both residential and non-residential connections. Audit assessed loss of revenue as ₹47.26 lakh⁷⁵ per annum (2015-16) due to non-implementation of Government orders regarding water charges.
- iv. In Demand, Collection and Balance (DCB) register of four ULBs, there were variations in carrying forward of closing balance of previous years during review period. This had resulted in understatement of water charges by ₹29.50 lakh in two ULBs⁷⁶ and overstatement of ₹5.47 lakh in two⁷⁷ ULBs.

Gap in cost recovery would persist until ULBs treat the water as an economic good and evolve a proper tariff structure with improved collection efficiency.

Government accepted (October 2016) the audit observation and stated that on completion of Mission Bhageeratha, ULBs would be advised to develop and put in place a proper cost recovery mechanism.

4.13 Other findings

4.13.1 Non-utilisation of SDRF funds

State Government had released (2011-16) funds amounting to ₹2.90 crore⁷⁸ under State Disaster Response Fund (SDRF) grant to four ULBs to mitigate adverse seasonal conditions during summer towards transportation of drinking water, repairs to bore wells and pipelines. However, as of March 2016, ₹1.46 crore⁷⁹ was expended and ₹1.44 crore⁸⁰ (50 per cent) was lying unspent in four ULBs. Thus, the objective of providing water supply during summer season was not achieved. During beneficiary survey, 50 per cent of the consumers stated that water was being supplied with a gap of more than two days in summer.

Government stated (October 2016) that all the ULBs were being instructed to submit the Utilisation Certificates for releases and remit the unspent balance, if any, to the Government, without furnishing the reasons for non-utilisation of funds.

4.13.2 Irregularities in payment of electricity charges

- i. In respect of High Tension (HT) connections, for the purpose of levy and collection of electricity charges, the billing is to be on the maximum demand recorded during the month or 80 per cent of Contract Demand, whichever is higher. In Bodhan ULB, actual consumption of electricity was less than 80 per cent of Contract Demand, resulting in avoidable expenditure of ₹6.02 lakh

⁷⁴ Bodhan, Gadwal, Mandamarri, Metpally and Vikarabad

⁷⁵ 5,626 House service connections multiplied by ₹70 (₹100-₹30)

⁷⁶ Kodad ₹10.60 lakh and Metpally ₹18.90 lakh

⁷⁷ Gadwal ₹0.11 lakh and Mandamarri ₹5.36 lakh

⁷⁸ Bodhan ₹0.44 crore, Gadwal ₹0.37 crore, Manuguru ₹0.68 crore and Vikarabad ₹1.41 crore

⁷⁹ Bodhan ₹0.15 crore, Gadwal ₹0.03 crore, Manuguru ₹0.65 crore and Vikarabad ₹0.63 crore

⁸⁰ Bodhan ₹0.29 crore, Gadwal ₹0.34 crore, Manuguru ₹0.03 crore and Vikarabad ₹0.78 crore

during 2011-16. No action was proposed/taken by the ULB to review the Contract Demand.

Government accepted (October 2016) the audit observation and stated that all the ULBs were being instructed to review the electricity consumption and revise Contract Demand wherever required.

- ii. In Vikarabad ULB, due to delay in payment of electricity bills amounting to ₹ 11.98 crore as of April 2013, power connection of Pumping station of 'Water Supply Scheme 2007' was disconnected (September 2013). Minimum charges of ₹ 5.20 lakh for the period May – September 2013 was paid on restoration in March 2015 without consuming electricity. This could have been avoided had ULB ensured timely payment of electricity bills.

4.13.3 Improper maintenance of cash book

In Manuguru ULB, seven cheques amounting to ₹ 14.16 lakh were debited in the cash book, but were not issued to the concerned parties for payment. This had resulted in understatement of cash balance of the ULB.

4.14 Monitoring

4.14.1 Conduct of inspections

Public Health & Municipal Engineering (PH&ME) department, a State Level Principal Agency, had to conduct periodical inspections of water supply schemes maintained by ULBs. Details of inspections carried out during 2011-16 were not furnished. In absence of the reports, the inspections carried out cannot be ensured in the Audit.

Government stated (October 2016) that instructions were being issued to all the Superintending Engineers (PH) to conduct periodical inspections and submit inspection reports.

4.14.2 Public awareness programmes

As per O&M manual⁸¹, public awareness programmes are to be conducted regularly for the consumers to sensitise them about potable water not being a free commodity and that it is a value-added commodity with cost implications with the objective of achieving better customer relations, greater water conservation, and enhanced organisational credibility. Audit observed that

- i. In two⁸² test-checked ULBs, public awareness programmes were not conducted.
- ii. Vigilance Committees and Consumer Service Committees to improve the public awareness were not formed.
- iii. Consumer survey was not conducted to obtain feedback from the consumers about the services at regular intervals for refining the service standards.

⁸¹ Chapter 18 of manual on O&M

⁸² Kodad and Manuguru

- iv. The authorities were to list out various aspects of public awareness programmes and work out cost implications for implementing the awareness programmes. Five⁸³ out of seven test-checked ULBs had not made budget provision for implementing awareness programmes.

Government accepted (October 2016) the audit observation and stated that all the ULBs were being instructed to conduct public awareness programmes regularly with the consumers and all other stake holders for effective management of water supply system.

4.14.3 Water and Energy audit

- i. As per O&M manual⁸⁴, water audit of the water supply schemes was to be conducted to assess the capacity of total water produced by the water supply authority and the actual quantity of water distributed throughout the area of service and also to assess losses both physical⁸⁵ and non-physical⁸⁶ which needed immediate attention and control. However, water audit was not conducted in any of the test-checked ULBs. Thus the benefits of water audit, such as, containing loss of water by control of leakages and increase in revenues from under-billed consumers etc., had not been achieved.
- ii. As per O&M manual⁸⁷, energy audit of a water supply scheme should be conducted to regulate the energy consumption and to identify the possible steps needed to conserve energy and to reduce the energy cost, so that water tariff is kept as low as possible. Further, large installations are to have energy audit every year, medium installations once in two years and small installations once in three years. Energy audit was not conducted in any of the test-checked ULBs.

Government accepted (October 2016) the audit observation and stated that guidelines and action plan were communicated to all the ULBs for implementation of water and energy audit of water supply systems.

4.14.4 Grievance redressal mechanism

As per O&M manual⁸⁸, information and facilitation services may be offered under public relations to address grievances of the public. However, in none of the test checked ULBs (except Bodhan) facilitation services / counters were established for customer assistance. In Bodhan ULB, a telephone-based redressal system namely 'Puravani' was established. Though two⁸⁹ out of the seven test-checked ULBs

⁸³ Bodhan, Gadwal, Kodad, Manuguru and Vikarabad

⁸⁴ Chapter 15 of manual on O&M

⁸⁵ leakage of water in the network from pipes, joints and fittings, reservoirs, overflows of reservoirs and sumps

⁸⁶ Theft of water through illegal connections, under-billing through defective meters, water wasted by consumer through open taps, public stand posts etc.

⁸⁷ Chapter 16 of manual on O&M

⁸⁸ Para 18.5 of manual on O&M

⁸⁹ Gadwal and Vikarabad

maintained complaint register, however, disposal of complaints, action taken etc., were not recorded.

During Exit Conference (November 2016) Government stated that an application for the purpose was proposed to be designed.

4.14.5 Supervisory Control and Data Acquisition (SCADA) and telemetry

As per O&M manual⁹⁰, the inspection, monitoring and control of O&M of water utility can be automated partially through telemetry⁹¹. Telemetry when extended to include actions based on the data for remote control of pumps and other equipment can be Supervisory Control and Data Acquisition (SCADA⁹²). This would facilitate, minute real time information from remote terminal unit located at the water treatment plant, reservoir, flow meter, pumping stations etc., and transmitted to a central control station where the information is updated, displayed and stored manually or automatically. However, in none of the test-checked ULBs, SCADA or telemetry system was implemented. Due to the lack of these systems, the ULBs did not have the real time information on water networks to curb leakages, pilferages and unauthorised connections.

Government accepted (October 2016) the audit observation and stated that ULBs would adapt telemetry as it was compatible to lower technology and which was immediately accessible. After completion of water supply schemes under Mission Bhageeratha, major ULBs were to be provided with SCADA in a phased manner.

4.14.6 GIS mapping

Geographic Information System (GIS) is a computer program that combines mapping with detailed information on physical structures with geographic areas. The GIS creates a database within a mapped area, such as, streets, valve chambers/manholes, pipe networks and pumping stations. As per O&M manual⁹³, these maps can be used to inform the maintenance crew to locate the place of work. However, none of the test-checked ULBs have developed GIS mapping.

Government accepted (October 2016) the audit observation and stated that efforts were on to get the GIS developed for use of O&M of water supply systems in ULBs under e-governance project to be funded by World Bank.

⁹⁰ Para 12.5 of manual on O&M

⁹¹ Telemetry enables regular monitoring of the data (hours of pumping, pressure and flow of water in distribution system etc.) on real time basis and the data is reviewed to take decision

⁹² SCADA a computer aided system which collects, stores and analyses the data on all aspects of O&M

⁹³ Para 8.4.2.3 of manual on O&M

4.14.7 Improper monitoring of Water Supply Improvement Scheme (WSIS) in Bodhan

In Bodhan ULB, a Water Supply Improvement Scheme was completed/commissioned (August 2011) after incurring expenditure of ₹17.32 crore. Quality control wing had made (November 2010) certain observations⁹⁴ on execution of the project. Engineer-in-Chief approved the completion report and the project was handed over (August 2011) to ULB.

During joint physical verification (May 2016) of the project it was observed that the lapses⁹⁵ noticed by the Quality control wing were unattended. Further, an amount of ₹1.84 lakh was borne (August 2012) by the ULB towards repairs to motors and rectification of leakages during the defect liability period,⁹⁶ without involving the contractor.



Non-provision of railings to stair case of 1st and 2nd flights of ELSR

4.15 Findings of beneficiary survey

Beneficiary survey covering 50 beneficiaries in each test-checked ULB (350 beneficiaries from seven test-checked ULBs) was conducted to assess the response of the consumers with regard to quantity and quality of water supplied. The results of survey are summarised below:

- i. Water meters were not provided to 96 *per cent* of beneficiaries.
- ii. Majority of the beneficiaries (60 *per cent*) stated that they were not receiving water supply daily. 76 *per cent* of the beneficiaries stated that water supply was not adequate.
- iii. Regarding duration of water supply, 85 *per cent* of the beneficiaries stated that usually water was supplied for one hour or less. Water was generally supplied (80 *per cent*) at fixed time.
- iv. Majority (51 *per cent*) of the beneficiaries were using bore well/well in addition to municipal water supply.
- v. 70 *per cent* of the beneficiaries were not using water supplied by the ULBs for drinking or cooking purposes.

⁹⁴ Non-raising of parapet wall fully, dampness in aerator, non-provision of covers to valve chambers, non-finishing of RCC ladder for clear water sump, non-painting of pipes, non-erection of shed to chlorination plant, non-provision of railings to stair case (1st and 2nd flights) to ELSR

⁹⁵ Non-raising of parapet wall fully, dampness in aerator, non-finishing of RCC ladder for clear water sump, non-erection of shed to chlorination plant, non-provision of railings to stair case (1st and 2nd flights) to ELSR

⁹⁶ Two years from the date of completion of project

- vi. 45 per cent of beneficiaries felt that water charges levied by the ULBs were not reasonable.
- vii. Majority of beneficiaries (89 per cent) stated that public awareness camps were not conducted.

4.16 Conclusion

Water Regulatory Authority was yet to be established for uniformity in operations and pricing for supply of water. Orders for conservation/recharge of ground water were not complied with by the ULBs. Water treatment plants were not available where sub-surface was the source. Water supply was inequitable since distribution network was inadequate. Flow meters were not installed at source/treatment plant/distribution zones. Delay in completion of projects affected intended provision of potable drinking water. There was no action plan for maintenance. There was inadequacy in staffing pattern for operation and maintenance of water works. Gap between demand and supply of water persisted. No water meters were installed for water connections. ULBs did not install their own laboratories and frequency of tests prescribed was not adhered to. Revenue did not match expenditure on water supply arrangements. Monitoring was inadequate. Facilitation services for grievance redressal were not established for customer assistance.

4.17 Recommendations

Audit recommends the following measures for consideration of the Government:

- *Measures for replenishment of ground water should be strengthened to ensure sustainability of water sources.*
- *Adequate steps should be taken to conduct all types of prescribed tests to ensure adherence to the standards for supply of safe drinking water.*
- *The system of Operation and Maintenance should be strengthened to avoid wastage of drinking water and to provide better services.*
- *Water should be treated as an economic good and steps should be taken to reduce gap in cost recovery.*

Government accepted the recommendations of audit.

Chapter – V

Compliance Audit Paragraphs

5.1 Sewerage and Underground Drainage in Urban Areas

5.1.1 Introduction

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was one of the flagship programmes launched¹ by the Government of India (GoI) to support various infrastructural development projects including sanitation and sewerage in selected cities/towns². GoI had sanctioned nine³ underground drainage projects for State, during the period 2005-06 to 2010-11. These projects were sanctioned under the components of Urban Infrastructure and Governance (UIG), Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) and Urban Infrastructure Development in Satellite Towns (UIDST). JNNURM guidelines stipulate that funds under UIG component were to be shared in the ratio of 35:15:50, while under UIDSSMT/UIDST, the sharing pattern was 80:10:10 by GoI, State Governments and ULBs/other implementing agencies, respectively.

5.1.2 Responsibility centres

5.1.2.1 State Level

Andhra Pradesh Urban Finance Infrastructure Development Corporation (APUFIDC) was designated (February 2006) by the State Government as State Level Nodal Agency (SLNA). It was responsible for appraising proposals submitted by implementing agencies to GoI and also for the implementation of Under Ground Drainage (UGD) projects sanctioned under UIG and UIDSSMT components of JNNURM.

5.1.2.2 Implementing agencies

Public Health Engineering Divisions/Urban Local Bodies were the implementing agencies of JNNURM/State sponsored projects in the State. These units were responsible for submission of detailed project reports to SLNA for appraisal, accounting of funds received from SLNA, tendering, award of contracts, ensuring adherence to the time schedule as well as quality of works executed by the contractors, furnishing of periodical reports on physical and financial progress, submission of utilisation certificates, maintaining inventory of assets created, operate assets and facilities created etc.

¹ December 2005 with a mission period of seven years 2005-12 extended up to 2014

² 65 cities/Urban Agglomerations (UAs) across the country were termed as ‘mission cities’ and other cities as ‘non-mission cities’

³ Four UIG projects to Hyderabad at a cost of ₹914.70 crore; one project each of UIDSSMT to Nizamabad, Nalgonda, Miryalaguda, Karimnagar ULBs at ₹225.24 crore and one UIDST project to Vikarabad at ₹64.74 crore

5.1.3 Audit Approach

Out of the nine projects sanctioned under JNNURM, audit of implementation of four⁴ Under Ground Drainage (UGD) projects (three projects under UIG component and one project under UIDST), completed/in-progress during the period 2011-16, was conducted between January 2016 and May 2016 to assess whether planning was robust enough to establish UGD projects; fund management was effective; implementation of projects was effectively carried out as per the guidelines of JNNURM, and monitoring mechanism including quality controls was adequate and effective.

Audit methodology involved examination of records of Telangana Urban Finance Infrastructure Development Corporation (TUFIDC), the State Level Nodal Agency and the implementing units of selected projects including Hyderabad Metro Water Supply and Sewerage Board and Vikarabad Municipality. Audit findings were benchmarked against criteria sourced from Government of India (GoI) guidelines on JNNURM; Central Public Health and Environmental Engineering Organisation (CPHEEO) Manual; guidelines/ orders/circulars issued by GoI/State Government/Nodal Agency; Detailed Project Reports of the selected projects, Andhra Pradesh Financial Code etc.

Audit findings

5.1.4 Planning

5.1.4.1 Unjustified selection of project

With the objective of reducing burden on already overstrained Mega/Million plus cities, JNNURM guidelines provided for urban infrastructure in Satellite Towns/Counter Magnets of Million plus cities under UIDST. Satellite towns had to be developed in the future development areas of the million plus urban agglomerations covered under JNNURM. The towns were to be planned for a population of 3 lakh - 5 lakh in case of million plus cities and 5 lakh - 10 lakh in case of mega cities.

The population of Vikarabad town was 53,185 as per 2011 census and the projected population was two lakh up to the horizon year 2041. The town was situated at a distance of 68 km from the Mega city, Hyderabad. Hence, based on the criteria of population and urban agglomeration the proposal to take up the water supply and sanitation project in Vikarabad town under JNNURM was not justified.

Government stated (September 2016) that in anticipation of future growth, Vikarabad town was selected after thorough examination of existing infrastructure and proximity

⁴ **UIG-** (i) Rehabilitation and Strengthening of Sewerage System in Old City Area- South of Musi Zone-I, Hyderabad (ii) Rehabilitation and Strengthening of Sewerage System in Old City Area-South of Musi Zone-II, Hyderabad (iii) Underground Drainage project to Rajendranagar, Hyderabad (*part of combined project of Water Supply and Sanitation*) and **UIDST** - (iv) Underground Drainage project to Vikarabad (*part of combined project of Water Supply and Sanitation*)

to the Mega City, Hyderabad. However, the town had not met the criteria for selection under UIDST.

5.1.4.2 Improper planning in prioritisation of projects

Hyderabad Metro Water Supply and Sewerage Board (HMWSSB) had prepared Detailed Project Report (DPR) for comprehensive water supply scheme for Rajendranagar in February 2008 and for Sewerage system in June 2008. GoI sanctioned the sewerage project in January 2009. Later, based on the request of public representatives to prioritise water supply in the well developed areas of Rajendranagar, a combined DPR on Water Supply and Sewerage components, in lieu of the original individual projects, was prepared (November 2009) and submitted to GoI. The combined project of ₹ 314.26 crore was sanctioned by GoI in January 2010.

Audit observed that in the combined DPR, State Government had reduced the scope for coverage of both water supply and sewerage facilities indicated in their respective original DPRs (February 2008/June 2008). Against three sewerage zones proposed to be covered in original DPR of sewerage system, only one zone was included in the combined project. As a result, cost of the combined project at ₹314.26 crore was far less than the sum of the costs (₹ 640.74 crore) of individual projects of water supply (₹ 305.67 crore) and sanitation (₹ 335.07 crore). As of May 2016, no proposals were initiated under any GoI/State Government programmes/schemes for coverage of water supply and sanitation in the left out areas.

Government stated (September 2016) that proposals for left out areas were submitted to different financial institutions, such as, Green Climate Fund, JICA⁵ etc., which were under process. However, the fact remained that the areas were left unserved by UGD facilities.

5.1.4.3 Detailed Project Reports

As per the guidelines of JNNURM, implementing agencies were required to submit Detailed Project Reports (DPRs) to SLNA for appraisal and to forward the same to GoI for consideration of assistance under the Programme. DPRs of UGD projects were to be prepared as per the guidelines given in the Central Public Health and Environmental Engineering Organisation (CPHEEO) Manual of Sewerage and Sewage Treatment. DPRs of all the test-checked projects submitted by State Government during January 2007 and September 2010⁶ were approved by GoI. On scrutiny of DPRs of test-checked projects, the following shortcomings were observed in audit.

- i. Unrealistic projection of population:** As per CPHEEO manual, the design population was to be estimated by paying attention to all factors - industrial,

⁵ Japan International Cooperation Agency

⁶ (i) Rehabilitation and Strengthening of Sewerage System in Old City Area- South of Musi Zone-I, Hyderabad - January 2007 (ii) Rehabilitation and Strengthening of Sewerage System in Old City Area- South of Musi Zone-II, Hyderabad – July 2007 (iii) Underground Drainage project to Rajendranagar, Hyderabad (part of combined project of Water Supply and Sanitation) – November 2009 and (iv) Underground Drainage project to Vikarabad (part of combined project of Water Supply and Sanitation) – September 2010

commercial, educational, social and administration - governing the future growth and development of the project area. Special factors causing sudden immigration or influx of population, floating population including persons visiting as tourists, pilgrims or for work were also to be factored in as far as possible.

It was observed from the DPRs of sewerage systems in the old city area in the South of Musi Zones I and II that the projected populations of the areas, proposed to be covered under the projects up to the horizon years 2036 and 2041 respectively, were taken as 40,40,700⁷ based on the data obtained from Hyderabad Urban Development Authority. Audit, however, observed that the projected population lacked details such as ward-wise break-up, or the calculations showing growth in population etc. Further this did not match the details of population (20,60,419⁸) maintained by the then Municipal Corporation of Hyderabad (now Greater Hyderabad Municipal Corporation). The floating population was also not factored in DPRs.

Since the works to be executed were based on DPR, non-inclusion of floating population data had led to inaccurate assessment for works to be taken up for creation of infrastructural facilities.

Government stated (September 2016) that the zonal jurisdiction was different in respect of HMDA and GHMC. HMDA population projections were reported to be for planning zones.

Notwithstanding reply of the Government that the projected population based on HMDA was for planning zones, the fact remained that the DPR had not depicted the method adopted for growth in population and floating population as well.

- ii. *Proposals without Sewerage Treatment Plants (STPs):*** The DPRs of sewerage systems in the old city area on South of Musi Zone I and II, sewage of 482.49 MLD⁹ was projected without proposing the STPs, as required by the guidelines, while only 94.01 MLD¹⁰ of sewage was proposed to be diverted to the existing STP at Nagole. Thus, there were inadequate arrangements for treatment of sewage and due to improper planning and defective DPR, untreated sewage was flowing into river Musi, causing environmental hazards. The issue has also been discussed subsequently (Para 5.1.7.i.)

Government stated (September 2016) that in order to curtail the sewage pollution to the river Musi, proposals for construction of STPs were under submission to the various funding agencies.

- iii. *Inadequate design of STPs:*** As per CPHEEO Manual, the design period for long term plan should be 30 years and five years for short term plan. In the UGD

⁷ Zone I- 12,15,700, Zone II-28,25,000

⁸ Zone I- 5,03,498, Zone II- 15,56,921

⁹ Zone I- 143.49 MLD, Zone II- 339 MLD

¹⁰ Zone I- 46.93 MLD, Zone II- 47.08 MLD

project of Rajendranagar, 46.42 MLD of sewage was projected up to the horizon year 2041. However, STPs were designed (November 2009) to handle only 28 MLD of sewage up to the year 2011 (two years), which was less than the short term plan stipulated in CPHEEO Manual.

Government stated (September 2016) that presently sewage proposals with STPs were taken up only for one zone, and hence, 28 MLD STPs were taken up. However, the projection of 46.42 MLD indicated in DPR also pertained to only one zone for the design period.

5.1.5 Fund management

Under the JNNURM, GoI and the State Government had released funds to State Level Nodal Agency (SLNA) for onward disbursement to the ULBs/other implementing agencies. First installment of 25 per cent of GoI grant was to be released on signing the Memorandum of Understanding (MoU) by the State Government/ULB/other implementing agencies for implementation of the JNNURM projects. The balance assistance was to be released in installments on submission of Utilisation Certificates (UC) and fulfilment of other conditions, as agreed upon in the MoU.

Funds released / expenditure incurred towards implementation of test-checked projects as of March 2016 are given in **Appendix-5.1**

5.1.5.1 Shortfall in releases

Audit observed shortfall of ₹122.96 crore in the release of grants by both GoI and State Government in all the test-checked projects, as shown in the **Appendix-5.1**. Short release of funds by GoI was attributed to non-submission of utilisation certificates and delay in completion of the projects.

Specific reasons for not releasing funds by State Government were not on record. As a result, ULB/implementing agencies had to spend in excess of their share, despite their poor financial position. In three test-checked UGD projects, they had to incur expenditure 19 per cent in excess of their own share.

Government accepted the observation and stated (September 2016) that timely submission of UCs would be ensured in future.

5.1.5.2 Creation of Revolving fund

JNNURM guidelines stipulated that 25 per cent of GoI and State Government releases should be recovered from the implementing agencies and ploughed into a revolving fund for financing further investments in infrastructure projects. At the end of the mission period, the revolving fund had to be graduated to a State Urban Infrastructure Fund. Audit observed that the State Government had not created any such revolving fund. The revolving fund was not created despite completion of extended JNNURM Mission period in 2014.

Government accepted the observation and stated (September 2016) that on receipt of fund, it would be utilised through Telangana State Urban Infrastructure Financial Services Limited (TSUIFSL).

5.1.5.3 Imprudent disbursement of releases as loan

As per the guidelines of JNNURM, the Nodal Agency was to disburse central assistance to implementing agencies as soft loan/grant-cum-loan/grant. State Government issued (July 2006) instructions to SLNA for disbursement of Central and State assistance as grant-cum-loan. Accordingly, SLNA concluded loan agreements (January 2011 – November 2013) with Hyderabad Metro Water Supply and Sewerage Board (HMWSSB), an implementing agency responsible for execution of three test-checked UGD projects for an amount of ₹ 81.13 crore¹¹ with recovery of principal and interest (₹ 54.98 crore¹² at the rate of 7.5 per cent per annum) amortised over a period of 15 years.

Audit observed from the financial statements that HMWSSB had poor financial position¹³; as such a grant should have been sanctioned instead of a loan. As of March 2016, ₹ 33.06 crore (Principal ₹ 10.83 crore and Interest ₹ 22.23 crore) was due to be paid to SLNA, but the Board was not able to repay the loan installments due to their poor financial position.

Government accepted (September 2016) the poor financial position of HMWSSB and stated that funds were released as loan-cum-grant with the intention of creating a revolving fund. The reply did not address the concern raised by Audit.

5.1.5.4 Non-accountal of Interest earned by implementing agencies

GoI had issued (March 2013) directions to the States to credit the interest earnings on the grants received for ongoing projects to the relevant accounting head meant for interest receipt of GoI. Funds released towards implementation of UIG projects were deposited in Syndicate Bank, Khairatabad by HMWSSB. However, the details of interest accruals on deposits and their treatment in accounts were not indicated in any of the UCs submitted to SLNA.

Government accepted (September 2016) the audit observation and also stated that an amount of ₹ 63.49 lakh was earned towards interest to end of June 2016. However, the amount was not credited to Government account.

¹¹ Musi-I (Principal: ₹ 28.57 crore), Musi-II (Principal: ₹ 25.13 crore), Rajendranagar (Principal: ₹ 27.43 crore)

¹² Musi-I (Interest: ₹ 19.30 crore), Musi-II (Interest: ₹ 16.98 crore), Rajendranagar (Interest: ₹ 18.70 crore)

¹³ Excess income over expenditure: 2007-08 ₹ (-) 14.52 crore; 2008-09 ₹ (-) 58.06 crore; 2009-10 ₹ (-) 84.10 crore; 2010-11 ₹ (-) 111.34 crore; 2011-12 ₹ (-) 61.80 crore; 2012-13 ₹ (-) 62.83 crore; 2013-14 ₹ (-) 101.70 crore; 2014-15 ₹ (-) 136.48 crore; information for the year 2015-16 is awaited

5.1.6 Execution of projects

Audit reviewed execution of four projects. The objectives and backgrounds of the projects are given in *Appendix-5.2*. Status of execution of the projects as of May 2016 is summarised below:

Details	Sewerage System in Old City area on South of Musi (Zone – I)	Sewerage System in Old City area on South of Musi (Zone –II)	UGD in Rajendrangar ¹⁴	UGD in Vikarabad
Date of sanction of project by GoI and the project cost	March 2007; ₹ 148.81 crore	August 2007, ₹ 251.25 crore	January 2010; ₹ 314.26 crore	September 2010; ₹ 64.74 crore
Date of according administrative sanction by State Government	May 2007; ₹ 148.81 crore	December 2007; ₹ 251.25 crore	March 2010; ₹ 314.26 crore	June 2011; ₹ 87.13 crore ¹⁵
Date of technical sanction	July 2008; ₹ 162 crore	February 2008; ₹ 247.85 crore	May 2010; ₹ 314.26 crore	June 2011; ₹ 72.47 crore ¹⁶
Contract value	₹ 150.97 crore	₹ 238.46 crore	₹ 176.16 crore	₹ 78.61 crore
Date of entrustment	December 2008 – February 2010 in 3 packages	November-December 2008 in 3 packages	August 2010 in single package	January 2012 in single package
Stipulated date for Completion	24 months	24 months	24 months	24 months
Expenditure as of May 2016	₹ 161.92 crore	₹ 179.90 crore	₹ 223.66 crore	₹ 46.95 crore
Status	Stated to have been completed. Work completion/Taking over reports not on record.	Two packages completed, third package nearing completion	97 per cent of project work is completed.	Stated to have been completed. Work completion/Taking over reports not on record.
Delay completion in	More than five years	More than five years	More than four years	More than two years

It could be seen from above that all the test-checked projects were delayed for periods ranging from two to more than five years. Of the four test-checked projects, Rajendranagar project was nearing completion and the percentage of physical progress was 97 per cent. Although Musi I and Vikarabad projects were stated to have

¹⁴ Details are combined figures of water supply and sanitation

¹⁵ With the increased rates as per new SSR

¹⁶ excluding the cost of O&M for ₹ 14.66 crore included in administrative sanction

been completed, completion reports followed by handing/taking over reports were not on record. As regards Musi II project, execution of works relating to two out of three packages was completed and the third package was nearing completion (May 2016).

Implementing agencies attributed (April-May 2016) the delay in execution to change in alignment of pipelines, additional coverage of areas, delay in shifting of utilities and delay in land acquisition/permission from other agencies. In respect of Musi Zone I project, expenditure had exceeded the project cost by ₹ 13.11 crore as of May 2016. Delay had resulted in letting untreated water into Musi river in respect of Musi Zone I and II projects. As regards the projects of Rajendranagar, the underground drainage lines and safe disposal system had not been provided to the intended areas.

Government accepted (September 2016) the observation with regard to excess expenditure incurred in respect of Zone I.

5.1.6.1 Award of works

As per Government orders (July 2003), the tender accepting authority was to verify the correctness of certificates submitted to meet the eligible criteria. For experience, the authenticated agreements of previous works executed by the lowest tenderer were to be verified. However, these instructions in respect of the following test-checked projects were not followed.

The conditions of tenders invited (August 2007 - June 2011) by HMWSSB for execution of Sewerage system in South of Musi Zone-I & II and by Public Health department for UGD Vikarabad had provided for uploading of essential documents on the e-procurement platform by tenderers, based on which technical bids were to be evaluated. However, all these works were awarded to the contractors despite gaps in certain key parameters in the technical bids such as overall responsiveness, execution of minimum quantities of work and critical equipment such as cranes for laying pipes, excavators etc.

Government stated (September 2016) that the evaluation was carried out by the competent authority on the credentials uploaded by the bidders and the bidders were found responsive and that the genuineness of the credentials uploaded by the successful bidder was verified at the time of concluding agreement.

The reply did not address the specific concerns raised by Audit and no evidence or record could be shown to Audit to the contrary.

5.1.6.2 Consent from Pollution Control Board

As per the provisions of Air and Water Prevention and Control Acts, 1931 and 1988, respectively, the consent of State Pollution Control Board was required to be obtained before establishment of sewerage treatment and disposal system. Of the four test-checked projects, STPs were proposed in Rajendranagar and Vikarabad projects. In respect of STP for Vikarabad project, the implementing agency had applied for permission (December 2014) after commencement of the construction work (January 2012) and the same was awaited as of August 2016. Permission for STPs of

Rajendranagar project had not been sought as of May 2016. Thus, the construction of STPs¹⁷ was taken up without obtaining the permission from the State Pollution Control Board.

Government accepted the observation and stated (September 2016) that the audit findings would be noted for future guidance.

5.1.6.3 Avoidable payments to contractors

On scrutiny of records of the test-checked projects, the following avoidable payments to the contractors were observed.

- i. **Labour cess:** As per Government orders (2008), a provision was to be made in the estimates towards labour cess at one *per cent* of the cost of work for subsequent deductions from the contractors' bills and remittance to labour department. Accordingly, a provision for ₹ 66.41 lakh was made in the estimates of UGD project of Vikarabad. Instead of recovering the same directly from the bills, the department irregularly added ₹ 46.25 lakh in the bills and recovered the same amount towards labour cess. This had led to undue benefit of ₹ 46.25 lakh to the contractor.
- ii. **Value added tax:** Value Added Tax (VAT) at four *per cent* was included in the estimates prepared for manufacture, supply and delivery of RCC S/S NP3 class pipes of various diameters of UGD Project of Vikarabad. In the 15th running account bill VAT was added and finally recovered from the contractor. Inclusion of VAT in the estimates as well as agreements resulted in undue benefit of ₹ 7.58 lakh to the contractor. The Department replied (May 2016) that VAT component at raw material stage was different from the stage of finished product. The reply was irrelevant since VAT was separately added in the running account bill despite having already been provided for in the estimates.
- iii. **Arithmetical inaccuracy:** The unit rate for jointing with rubber ring and testing of RCC NP3 pipes 1000 mm dia as per contract was ₹ 181.96 per RMT¹⁸ with a provision for excise duty of ₹ 14.99 (at 8.24 *per cent*) per RMT in UGD project of Rajendranagar. Against this, the excise duty of ₹ 151.64 per RMT was incorrectly applied. This resulted in excess payment of ₹ 7.53 lakh to the contractor.
Government accepted the observation and stated (September 2016) that excess payment made, if any, to the agency would be recovered, duly examining the calculations.
- iv. **Dewatering pipeline trenches and fencing / watching / lighting charges:** The agreement conditions of UGD Rajendranagar and the list of items as per Bill of Quantities enclosed to agreement differed in respect of dewatering of trenches, fencing, watching and lighting. As per the agreement conditions, the contractor should provide and work for dewatering of trenches, fencing, watching and lighting at his own cost, whereas in bill of quantities, these items of work were to be paid to contractor. This was a case of defective agreement. An amount of

¹⁷ STPs in UGD (i) Vikarabad -13 MLD (ii) Rajendranagar - 23 MLD at Attapur and 5 MLD STP at Miralam

¹⁸ Running meters

₹76.63 lakh was paid (June 2015) to the contractor for such works during execution of the project.

Government stated (September 2016) that no provision was made in the agreement that the contractor should provide and work at his own cost for dewatering of trenches. In respect of other items, it was stated that, the contractor had to bear the costs.

The reply was not acceptable as dewatering of trenches was included in the agreement under the clause 'other aspects of work covered under excavation'.

5.1.7 Recycle and reuse of treated water

As per the provisions of CPHEEO manual, adequate plans should be made for safe disposal and treatment of sewage water. Audit observed that,

- i. Of the four test-checked projects¹⁹, sewage water was treated (as of June 2016) only in respect of two projects (Sewerage system in South of Musi - Zone I and II). Sewage generated from these two projects was treated in STP, Nagole. However, only 94.01 MLD²⁰ out of 187.45 MLD²¹ sewage water generated from Musi Zone I and II projects was planned to be treated at STP Nagole. Thus, there was inadequacy against 100 *per cent* benchmark prescribed by GoI. The State Pollution Control Board issued notice in July 2016 stating that a lot of flow was received from upstream and that STP, Nagole was taking only 170 MLD of waste water and the remaining sewage water was passing into the river Musi.

Government stated (September 2016) that the sewage generation projection was for ultimate horizon year (30 years), whereas the STPs taken up were for intermediate horizon years (15 years) as per the standard norms/guidelines. However, the capacity of existing STP at Nagole had already reached its peak capacity and the remaining sewage was being diverted to river Musi.

- ii. Household connectivity was made in Rajendranagar project and the STP at Attapur was under trial run and at Miralam it was under construction. Construction of STP in Vikarabad project was not completed. Execution of projects was delayed for two to five years resulting in non-completion of STPs in time.

Government accepted (September 2016) that the STPs were not commissioned except at Vikarabad.

- iii. As of March 2016, there was no arrangement for recycling and reusing of treated water, even though GoI prescribed benchmark of 20 *per cent* in this regard. Both the treated as well as untreated sewage water relating to Musi Zone I and Zone II projects were being let out into the Musi river. The Department stated (May 2016) that considerable capital investment would be required to make

¹⁹ (i) Rehabilitation and Strengthening of Sewerage System in Old City Area- South of Musi Zone-I, Hyderabad (ii) Rehabilitation and Strengthening of Sewerage System in Old City Area- South of Musi Zone-II, Hyderabad (iii) Underground Drainage project to Rajendranagar, Hyderabad (iv) Underground Drainage project to Vikarabad

²⁰ Zone I - 46.93 MLD , Zone II - 47.08 MLD

²¹ Zone I - 73.33 MLD , Zone II - 114.12 MLD

arrangements for utilising treated sewage water. In such cases cost benefit analysis would require to be made.

Government stated (September 2016) that HMWSSB was planning to introduce additional modules for tertiary treatment on pilot basis for recycling and reuse of treated sewage water.

Letting out untreated water into the river was bound to be environmentally hazardous to aquatic life and public health in general.

5.1.8 Monitoring

Audit observed that the monitoring mechanism to ensure timely completion of the projects and quality checks was not adequate as seen from the following.

- i. HMWSSB was engaging third party quality control agencies for conducting quality control checks on works. Even though HMWSSB had eight project divisions and 20 operation and maintenance divisions, it had not established its own laboratory. Government stated (September 2016) that the matter of strengthening quality control and vigilance divisions/circles and also establishment of laboratories with suitable equipment for testing various materials were under consideration.
- ii. In respect of UGD project of Vikarabad, agreement with third party quality control agency had expired in March 2015. However, it had not been extended even though the work was still in progress. Government stated (September 2016) that the agreements with agencies were closed due to their inability to continue their services. As such quality tests were conducted by departmental quality control wing. However, no departmental test reports were furnished to audit.
- iii. Quality Control wing had pointed (March – June 2010) out various omissions such as non-provision of grooves on the frames, IS certification on pre-cast manhole covers and variation in thickness of covers etc., on the execution of Musi I and II projects, as detailed in *Appendix-5.3*. Audit observed that there was no action taken reports on the deficiencies reported by quality control wing and ATRs were not furnished by the executive agency. In the absence of ATRs, the quality of the works executed could not be ascertained in audit. Government stated (September 2016) that detailed circular would be issued for compliance with regard to corrective action to be taken on deficiency reports.

5.1.9 Conclusion

Audit observed various shortcomings in the planning and implementation of the project. Arrangement for treatment of sewage was inadequate. There was shortfall in release of funds by GoI and State Government. GoI grant was sanctioned as loan to implementing agencies. Works were awarded, even though important qualifying parameters were not satisfied by the contractors. Consent of State Pollution Control Board was not obtained for installation of sewerage treatment plants. Projects were not completed within the stipulated period. Deficiencies were noticed in monitoring mechanism. Environmental hazards and public health concerns were not fully addressed.

5.2 Delayed remittances of EPF contributions resulted in avoidable expenditure

Failure of Greater Warangal Municipal Corporation (GWMC) in timely remittance of provident fund contributions resulted in avoidable expenditure of ₹ 2.80 crore towards damage charges and interest

As per the provisions of Employees' Provident Funds (EPF) and Miscellaneous Provisions Act 1952, the employer shall remit the recoveries effected from the wages of employees on account of Provident Fund (PF) to the Fund Commissioner within 15 days after the end of the month. Failure to remit such recoveries within the prescribed time attracts damage charges²² not exceeding the amount of arrears along with interest at the rate of 12 per cent per annum.

During the audit (January 2015) of records of Commissioner, Greater Warangal Municipal Corporation (GWMC), it was observed that the Corporation had recovered ₹ 10.01 crore towards PF contributions from employees for the period from January 2011 to November 2013, which was to be remitted to the Regional Provident Fund Commissioner. However, delay was noticed in remitting the recoveries, ranging from one month to thirty three months. The Regional Provident Fund Commissioner had issued (March 2014) the notice for damage charges and interest amounting to ₹ 2.80 crore²³ for delayed remittances of contribution by the Corporation. GWMC had paid ₹ 2.55 crore in March 2015 and ₹ 0.25 crore in October 2015 from the Municipal General Fund as damage charges and interest, which was a loss to Corporation; the fund meant for other developmental works was also utilised as interest and damages.

State Government accepted (June 2016) the audit observation and stated that the delay in remittances was due to the lack of sufficient staff and expertise in payment through online system²⁴ introduced by EPF authorities (effective from April 2012 *i.e.*, March paid in April).

5.3 Unfruitful expenditure on construction of office building

Failure to ensure adequate funds for construction of office building for Nizamabad Municipal Corporation resulted in unfruitful expenditure of ₹ 1.87 crore

The State Government had accorded (March 2008) sanction for the construction of a new office building for Nizamabad Municipal Corporation from the funds available under a State sponsored scheme, '*Rajiv Nagar Bata*²⁵', at an estimated cost of ₹ 3.28 crore. Items of works as per estimates included civil works, internal electrification, water supply and sanitary arrangements, etc. Government initially

²² Five per cent (for delays less than two months), 10 per cent (for delays above two months and less than four months), 15 per cent (for delays above four months and less than six months) and 25 per cent (for delays six months and above)

²³ Damage charges ₹ 1.86 crore and interest ₹ 0.94 crore

²⁴ Payment of contributions through Electronic Challan cum Return (ECR)

²⁵ Introduced by State Government in 2005 for infrastructure development in urban areas

released (July 2008) ₹ 1.50 crore to the Nizamabad Municipal Corporation (NMC) for taking up the construction work. As per the availability of funds, NMC had invited (February 2009) tenders for construction of office building (civil works only) and entrusted (February 2010) the work to the contractor at a contract value of ₹ 1.87 crore. The work was completed in August 2011 after incurring an expenditure of ₹ 1.87 crore. The expenditure in excess of Government released was made by NMC from its own funds²⁶.

On scrutiny (April 2015) of the records of NMC audit observed that the building was not occupied by Corporation, as certain civil works such as flooring, painting and other essential works relating to electrification, water supply, sanitary items, furniture etc., were not initiated. State Government had not released the balance amount of ₹ 1.78 crore (₹ 3.28 crore minus ₹ 1.50 crore) to NMC for taking up the other essential works quoting (February 2016) other committed expenditure. Corporation had also not initiated any action to complete the other essential works with their own resources, despite having funds available with them, leaving the works unattended as of July 2016.

The building remained incomplete since August 2011 rendering the expenditure of ₹ 1.87 crore incurred completely infructuous.

The matter was reported to Government in September 2016; reply has not been received (December 2016).

Hyderabad
The

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

Countersigned

New Delhi
The

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

²⁶ Building Penalisation Scheme/Land Regularisation Scheme funds

Appendices

Appendix-1.1

(Reference to paragraph 1.3 page 3)

Statement showing district-wise and department-wise devolution of funds to PRIs during 2015-16
(₹ in lakh)

S.No	Name of the District	Animal Husbandry Department	Backward Classes Welfare Department	Fisheries Department	Total
1	Adilabad	24.08	0	451.27	475.35
2	Karimnagar	0	0	762.93	762.93
3	Khammam	0	0	132.46	132.46
4	Medak	0	0	0.75	0.75
5	Nalgonda	57.77	0	187.00	244.77
6	Nizamabad	0	5.75	3.75	9.50
7	Rangareddy	0	5.75	17.06	22.81
8	Warangal	0	0	341.37	341.37
	Total	81.85	11.50	1,896.59	1,989.94

Source: Information furnished by Commissioner, Panchayat Raj and Rural Employment

Appendix-2.1

(Reference to paragraph 2.1.3.1 page 15)

Brief of Panchayat Enterprise Suite applications

S.No	Name of the Application	Brief Description
1	Local Government Directory (LGD)	This application is used to generate unique code for each State/UT, District, Sub-District, village and any other local government body which will be used among all the other applications of the PES.
2	Plan Plus	It captures different types of activities (Public Works, Beneficiary Oriented Programme, etc.) planned in a local body (Gram Panchayat - GP). It facilitates convergence of funds from Central and State sponsored schemes and other resources to address the needs of the people and also facilitates tracking of fund flow to GP.
3	Panchayat Raj Institutions Accounting Software (PRIASoft)	PRIASoft manages complex accounting procedures by capturing the 3-tier classification of Panchayat Raj Institutions (PRIs) and generates all the reports in the formats prescribed by the sub-committee on Budget and Accounting Standards for PRIs.
4	Action Soft	Action Soft aims at monitoring and keeping record of the progress of the works being undertaken as part of the approved plans (Action Plan) of various Urban Local Bodies (ULB), Rural Local Bodies (RLB) and Line departments as available in Plan Plus. It also facilitates proper recording of the Financial and Physical progress of the works.

5	National Asset Directory (NAD)	NAD acts as a repository of various assets created/ controlled/ maintained by RLBs/ULBs/Line Departments and assign a code to each asset for its unique identification leading to effective utilization of the assets.
6	Area Profiler	Area Profiler envisages facilitating the Local Government Bodies to manage their socio-economic information, demographical information, public infrastructure and amenities. It has details of the elected representatives and other officials working in Local Governments and also acts as a centralized database where the information will be available to other e-PRI applications for effective use.
7	National Panchayat Portal (NPP)	NPP aims to provide a unique website to each PRI in the country and generates dynamic portals for each district panchayat, intermediate panchayat, village panchayat, State PR department and MoPR website. It also facilitates content management.
8	Service Plus	Government of India, State Governments and Local Governments provide various services to the citizens. Service Plus is a web enabled generic application to enable electronic delivery for all the services provided by the Government to the citizen. It enables the administrator to define and customize the services according to local needs.
9	Social Audit & Meeting Management (SAMM)	Social Audit process involves auditing of various schemes by Social Auditor and Social Audit facilitator and submission of the audit report. SAMM aims to understand, measure and verify the works undertaken under different schemes by the Panchayat and improves performance of respective Panchayats.
10	Training Management	This software helps institutions in capturing the Training demands or needs of the elected representatives, officials and citizens (potential trainees). It also helps in preparation of training calendar and resource estimation.
11	Geographical Information System (GIS)	It is a spatial layer to view all data generated by all Applications on a GIS map. This application is under development.

Source: e-Panchayat portal

Appendix-2.2
(Reference to paragraph 2.1.5.12 page 26)
Misclassification of vouchers in PRIASoft

Receipt vouchers

Year	Particulars	Classified as per data available	To be classified as per accounting rules	
		Major Head (Description)	Major Head	Description
2014-15	919 vouchers pertaining to Interest receipts on bank amount/ deposit	0028 (Taxes on Profession, trades etc.) 0030 (Stamps & Registration fee) 0035 (Taxes on property other than agriculture land) 0515 (Panchayat raj programmes) 1601 (Grants-in-aid) 7610 (Loans to panchayat employees) 8550 (Civil advances) 8782 (Cash remittances and adjustments between panchayats)	0049	Interest receipts
	3,441 vouchers pertaining to house tax and water tax	0515 (Panchayat raj programmes)	0035 0215	Taxes on property other than agriculture land Water supply & sanitation
	101 vouchers towards profession tax	0515 (Panchayat raj programmes)	0028	Taxes on Profession, trades etc.
	141 vouchers towards Stamp duty/ adjustments	0515 (Panchayat raj programmes)	0030	Stamps & Registration fee
	913 vouchers towards house tax	0028 (Taxes on Profession, trades etc.)	0035	Taxes on property other than agriculture land
	116 vouchers towards Stamp duty/ adjustments	0028 (Taxes on Profession, trades etc.)	0030	Stamps & Registration fee
	2512 vouchers towards adjustment by treasury under profession tax etc.	0028-101 (Profession tax) 0028-102 (Trade tax) 0028-103 (Trade licence fees)	0028-901	Share of net proceeds assigned to panchayats

2015-16	128 vouchers pertaining to Interest receipts on bank amount/ deposit	0028 (Taxes on Profession, trades etc.) 0515 (Panchayat raj programmes) 1601 (Grants-in-aid)	0049	Interest receipts
	143 vouchers towards Stamp duty/ adjustments	0515 (Panchayat raj programmes)	0030	Stamps & Registration fee
	1227 vouchers pertaining to house tax and water tax and other taxes	0515 (Panchayat raj programmes)	0035 0215	Taxes on property other than agriculture land Water supply & sanitation
	1151 vouchers towards water tax/ tap fee	0028 (Taxes on Profession, trades etc.) 0030 (Stamps & Registration fee) 0035 (Taxes on property other than agriculture land) 0045 (Taxes on duties and commodities) 0059 (Maintenance of Community Assets) 0216 (Rural Housing) 0515 (Panchayat raj programmes) 1601 (Grants-in-aid) 4000 (Capital Receipts) 8443 (Civil deposits) 8782 (Cash Remittances and Adjustments between Panchayats)	0215	Water supply & sanitation
	367 vouchers towards house tax	0028 (Taxes on Profession, trades etc.)	0035	Taxes on property other than agriculture land
	09 vouchers towards Stamp duty/ adjustments	0028 (Taxes on Profession, trades etc.)	0030	Stamps & Registration fee
	1866 vouchers towards adjustment by treasury under profession tax etc.	0028-101 (Profession tax) 0028-102 (Trade tax) 0028-103 (Trade licence fees)	0028-901	Share of net proceeds assigned to panchayats

Payment vouchers

Year	Particulars	Classified as per data available	To be classified as per accounting rules	
		Major Head (Description)	Major Head	Description
2014-15	734 vouchers towards maintenance and laying of CC roads	2049 (Interest payments)	3054-101-40	Transportation - Roads - Maintenance & repairs
		2059 (Maintenance of community assets)		
		2205 (Art, culture and libraries)	5054-101	Capital outlay on transportation - Construction of village/ district roads
2211 (Women & child welfare)				
2215 (Water supply & sanitation)				
2216 (Rural housing)				
2225 (Welfare of SCs/STs & other weaker sections)				
2408 (Public distribution system)				
2501 (Poverty alleviation programme)				
2515 (Panchayat raj programmes)				
4215 (Capital outlay on water supply & sanitation)				
4515 (Capital outlay on Panchayat raj programme)				
2014-15	33 vouchers towards GPF payments	2215 (Water supply & sanitation)	8009	Provident fund
		2515 (Panchayat raj programmes)		
		4515 (Capital outlay on Panchayat raj programme)		
2014-15	882 vouchers towards construction of drainage and pipeline, bank charges, maintenance charges etc.	2049 (Interest payments)	To be classified under relevant heads viz., MH-4215 (Capital outlay on water supply & sanitation) for construction of drainage & pipeline, 2059 (Maintenance of community assets) for maintenance charges etc.	
2015-16	332 vouchers towards maintenance and laying of CC roads	2049 (Interest payments)	3054-101-40	Transportation - Roads - Maintenance & repairs
		2059 (Maintenance of community assets)		
		2215 (Water supply & sanitation)	5054-101	Capital outlay on transportation - Construction of village/ district roads
		2225 (Welfare of SCs/STs & other weaker sections)		
		2515 (Panchayat raj programmes)		
		2801 (Rural electrification)		

	4215 (Capital outlay on water supply & sanitation)		
	4515 (Capital outlay on Panchayat raj programme)		
18 vouchers towards GPF payments	2215 (Water supply & sanitation) 2515 (Panchayat raj programmes) 8443 (Civil deposits)	8009	Provident fund
205 vouchers towards bank charges, purchase of water supply materials, CC road etc.	2049 (Interest payments)		To be classified under relevant heads viz., MH-2215 (Water supply & sanitation) for purchase of water supply materials, 2515 (Panchayat raj programmes) for bank charges which is part of administrative expenditure of PRIs.

Appendix-2.3

(Reference to paragraph 2.2.4 page 36)

Status of incomplete/not commissioned projects as of August 2016

(₹ in crore)

No.	Name of Scheme	District	Estimated Project cost	Status	Expenditure incurred up to 31.08.16
1	Providing CPWS Scheme to uncovered habitations in Chegunta and Doualthabad Mandals	Medak	15.00	Not completed	11.09
2	Providing CPWS scheme to uncovered habitations in Narsapur, Kowdipally, Kucharam and Hathnoora Mandals	Medak	18.00	Not completed	7.00
3	Providing CPWS scheme to uncovered habitations in Gajwel, Mulugu, Toopran and Wargal Mandals	Medak	9.00	Not completed	5.54
4	Integration of Drinking Water Supply System with Godavari Lift Irrigation Project (Devadula) Phase-I	Warangal	125.00	Not completed	85.12
5	CPWSS to Venkatapur and 8 other habitations of sangam Mandal	Warangal	5.00	Not completed	4.49
6	CPWSS to Nyalkal and other habitations Phase- I & II	Nizamabad	18.00	Not completed	16.28
7	CPWS scheme to Chandur and other habitations of Varni Mandal	Nizamabad	10.00	Not completed	2.23
8	Husnabad and Chigurumamidi NSS	Karimnagar	15.00	Completed but not commissioned	13.82
9	Ramadugu, Ambaripet, Kodimial, Lingapur and Boinpalli NSS	Karimnagar	32.60	Completed but not commissioned	24.22
Total					169.79

Source: Information furnished by ENC Hyderabad

Appendix-4.1**(Reference to paragraph 4.9.1 page 63)****Statement showing the details of gap between demand and supply of water in the ULBs**

Name of the ULB	Demand (in MLD)	Supply (in MLD)	Gap between demand and supply (in MLD)	Shortfall in percentage
Kodad	8.67	2.50	6.17	71%
Manuguru	2.60	1.14	1.46	56%
Bodhan	10.48	8.54	1.94	19%
Vikarabad	7.60	2.90	4.70	62%
Gadwal	8.00	4.70	3.30	41%
Metpally	8.56	2.48	6.08	71%
Mandamarri	9.00	5.00	4.00	44%

*Source: Information furnished by ULBs concerned***Appendix-4.2****(Reference to paragraph 4.10.1 page 66)****Statement showing the details of tests conducted in the laboratories during 2011-16**

Name of the ULB	Tests conducted in the laboratories				
	2011-12	2012-13	2013-14	2014-15	2015-16
Bodhan	Nil	✓	Nil	Nil	Nil
Gadwal	✓	✓	✓	✓	✓
Kodad	✓	✓	✓	✓	✓
Vikarabad	Nil	Nil	Nil	Nil	Nil
Manuguru	✓	✓	✓	Nil	Nil
Mandamarri	Nil	Nil	Nil	Nil	Nil
Metpally	Nil	Nil	Nil	Nil	Nil

Source: Information furnished by ULBs and laboratories concerned

Appendix-5.1
(Reference to paragraph 5.1.5 page 81)
Statement showing details of receipts and expenditure of test-checked projects

(₹ in crore)

Name of the project	Estimated cost	Releases								Expenditure	Shortfall in release of funds by GoI and State Government (column 5 + 8)
		GoI				State Government					
		Share		Shortfall		Share		Shortfall			
		(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)		
	(2)										(11)
Sewerage System in Old City area on South of Musi (Zone -I)	148.81	52.08	33.85	18.23	22.32	14.51	7.81	113.56	161.92	26.04	
Sewerage System in Old City area on South of Musi (Zone -II)	251.25	87.93	57.16	30.77	37.69	28.26	9.43	94.48	179.90	40.20	
UGD in Rajendranagar *	314.26	90.00	58.50	31.50	47.14	35.35	11.79	129.81	223.66	43.29	
UGD in Vikarabad	64.74	51.79	39.85	11.94	6.47	4.98	1.49	2.11	46.95	13.43	
Total	779.06	281.80	189.36	92.44	113.62	83.10	30.52	339.96	612.43	122.96	

Source: Records of test-checked units

*Details are combined figures of water supply and sanitation

Appendix-5.2**(Reference to paragraph 5.1.6 page 83)****Statement showing the background and objectives of the projects test-checked in audit**

Details	Sewerage System in Old City area on South of Musi (Zone –I)	Sewerage System in Old City area on South of Musi (Zone –II)	UGD in Rajendranagar	UGD in Vikarabad
Background	Existing sewer lines overloaded due to abnormal increase in population and causing overflows into nearby storm water drains and finally into Musi river creating tremendous health hazards	Existing sewer lines overloaded due to abnormal increase in population and causing overflows into nearby storm water drains and finally into Musi river creating tremendous health hazards	Existing sewerage system in Rajendranagar is partial and connected to septic tanks. No regular underground sewerage system	Insufficient underground drainage facilities and without proper disposals and treatment facilities.
Objective of the project	To rehabilitate the existing sewer lines and also to provide additional connections to the households in S1, S2, S3, S4, S5, S6, S12 & S14 catchments of South of Musi	To rehabilitate the existing sewer lines and also to provide additional connections to the households in S7, S8, S9, S10, S11, S13 & S15 catchments of South of Musi	To cover sewerage system in Zone-I areas of Rajendranagar	To cover sewerage system in all the three zones of Vikarabad Municipality

Source: Records of test-checked units

Appendix-5.3

(Reference to paragraph 5.1.8 page 87)

Statement showing quality control remarks of third party agencies

S.No	Date of Inspection	Location of Inspection	Items Inspected	No. of Items cleared	QC Remarks
1	29.6.2010	M/s Kittu Cement Products	Precast manhole covers and frames	300	Frames are fabricated without the provision of groove for fixing safety grill
2	28.6.2010	M/s Vaishnavi Enterprises	HD 20 FRC covers and frames	300	As there was no provision in the agreement, the frames are manufactured without grooves for safety grills
3	19.5.2010	Package –I Works	E-Main/Sub Mains	-	T-Main : Laying of 400 mm dia RCC line cannot take the existing load/no progress in Tadman main work (ii) Bricks are of inferior quality/advised to remove the stock/advised to test the bricks before unloading
4	22.3.2010	M/s Ganesh Industries located at Karmanghat	Precast manhole covers/ frames :	1200	Thickness of covers of all types of manholes checked and found 20mm less as against 0 mm negative tolerance/load test conducted and all failed to withstand 20 tonnes and even less/unit could not produce the BIS Certificate. Instructions issued not to accept precast manholes cover/frames from the Unit as the firm did not possess IS certification. Instructions were issued to immediately replace the covers/frames and to furnish ATR on the above issue

Source: Records of test-checked units

Glossary of Abbreviations

AAPs	Annual Action Plans
AC bill	Abstract Contingent bill
ADMDP	Andhra Pradesh Municipal Development Project
AEE	Assistant Executive Engineer
ANGRAU	Acharya N.G Ranga Agricultural University
AP	Andhra Pradesh
APMAM	Andhra Pradesh Municipal Accounts Manual
APPR	Andhra Pradesh Panchayat Raj
APUFIDC	Andhra Pradesh Urban Finance Infrastructure Development Corporation
ATR	Action Taken Report
BIS	Bureau of Indian Standard
BSNL	Bharat Sanchar Nigam Limited
BSUP	Basic Services to the Urban Poor
CAATs	Computer Assisted Audit Techniques
CAG	Comptroller and Auditor General
CC	Cement Concrete
CDMA	Commissioner Director of Municipal Administration
CEO	Chief Executive Officer
CFC	Central Finance Commission
CFMS	Central Fund Management System
CPHEEO	Central Public Health and Environmental Engineering Organisation
CPR&RD	Commissioner Panchayat Raj and Rural Development
CPR&RE	Commissioner Panchayat Raj and Rural Employment
CPSMS	Central Plan Scheme Monitoring System
CPU	Central Processing Unit
CPWS	Comprehensive Protected Water Supply
CPWSS	Comprehensive Protected Water Supply Scheme
CRD	Commissioner Rural Development
CSS	Centrally Sponsored Schemes
DC bill	Detailed Contingent bill
DCB	Demand Collection and Balance
DDO	Drawing and Disbursing Officers
DEABAS	Double Entry Accrual Based Accounting System
DEOs	Data Entry Operators
DNA	Deoxyribo Nucleic Acid
DPC	District Planning Committee
DPR	Detailed Project Report
DSA	Director State Audit

ECR	Electric Challan cum Return
EE	Executive Engineer
EGS	Employment Guarantee Scheme
EIA	Environment Impact Assessment
ELSR	Elevated Level Service Reservoirs
EMP	Environment Management plan
ENC	Engineer in Chief
EPF	Employees' Provident Fund
FC	Fully Covered
FFC	Fourteenth Finance Commission
FTO	Fund Transfer Order
GHMC	Greater Hyderabad Municipal Corporation
GIS	Geographic Information System
GoI	Government of India
GPs	Gram Panchayats
GRP	Glass Reinforced Plastic
GWMC	Greater Warangal Municipal Corporation
HMC	Hyderabad Municipal Corporation
HMDA	Hyderabad Metropolitan Development Authority
HMWSSB	Hyderabad Metropolitan Water Supply and Sewerage Board
HSC	House Service Connections
HT	High Tension
HUDCO	Housing and Urban Development Corporation
I&CAD	Irrigation and Command Area Development
ICT	Information & Communications Technology
IHSDP	Integrated Housing and Slum Development Programme
IR	Inspection Report
JICA	Japan International Cooperation Agency
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
KDMS	Karvy Data Management Services
LGD	Local Government Directory
LPCD	Litres Per Capita per Day
MA & UD	Municipal Administration and Urban Development
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MLD	Million Litres per Day
MMP	Mission Mode Projects
MoPR	Ministry of Panchayat Raj
MoU	Memorandum of Understanding

MPDO	Mandal Parishad Development Officer
MPP	Mandal Praja Parishad
MPTC	Mandal Parishad Territory Constituencies
NAD	National Assist Directory
NeGP	National e-Governance Plan
NIC	National informatics Centre
NMAM	National Municipal Accounts Manual
NMC	Nizamabad Municipal Corporation
NP	Nagar Panchayat
NPP	National Panchayat Portal
NRDWP	National Rural Drinking Water Programme
NSS	No Safe Source
O & M	Operation and Maintenance
PC	Partially Covered
PEAIS	Panchayat Empowerment Accountability Incentivisation Scheme
PES	Panchayat Enterprise Suite
PF	Provident Fund
PH	Public Health
PH&ME	Public Health and Municipal Engineering
PMEYSA	Panchayat Mahila Evam Yuva Shakti Abhiyan
PMU	Programme Management Unit
PO	Programme Officers
POL	Petrol, Oil and Lubricant
PRIASoft	Panchayat Raj Institution Accounting software
PSSK	Palle Samagra Seva Kendrams
QC	Quality Control
RBI	Reserve Bank of India
RCC	Reinforced Cement Concrete
RGPSA	Rajiv Gandhi Panchayat Sashaktikaran Abhiyan
RGSY	Rashtrya Gram Swaraj Yojana
RLBs	Rural Local Bodies
RMT	Running Meters
RR Act	Revenue Recovery Act
RSS	Resource Support to States
RTA	Road Transport Authority
RTI	Right to Information
RWHS	Rain Water Harvesting Structures
RWS	Rural Water Supply

RWS&S	Rural Water Supply and Sanitation
SAMM	Social Audit and Meeting Management
SCADA	Supervisory Control and Data Acquisition
SCCL	Singareni Collieries Company Limited
SDRF	State Disaster Response Fund
SE	Superintending Engineer
SEGF	State Employment Guarantee Fund
SFC	State Finance Commission
SLB	Service Level Benchmark
SLNA	State Level Nodal Agency
SPIU	State Project Implementing Unit
SQL	Structured Query Language
SS tank	Summer Storage tank
SSAAT	Society for Social Audit, Accountability and Transparency
SSR	Standard Schedule of Rates
STP	Sewerage Treatment Plant
TGS	Technical Guidance and Supervision
TPCB	Telangana Pollution Control Board
TSIPARD	Telangana State Institute of Panchayat Raj and Rural Development
TSUIFSL	Telangana State Urban Infrastructure Financial Services Limited
TUFIDC	Telangana Urban Finance Infrastructure Development Corporation
UAs	Urban Agglomerations
UC	Utilisation Certificate
UFW	Unaccounted for Water
UGD	Under Ground Drainage
UIDSSMT	Urban Infrastructure Development Scheme for Small and Medium Towns
UIDST	Urban Infrastructure Development in Satellite Towns
UPS	Uninterrupted Power Supply
USOF	Universal Service Obligation Fund
UT	Union Territory
VAT	Value Added Tax
WSIS	Water Supply Improvement Scheme
WTP	Water Treatment Plants
ZPP	Zilla Praja Parishad
ZPTC	Zilla Parishad Territorial Constituencies

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