

## CHAPTER IV AUDIT OF TRANSACTIONS

### 4.1 Loss of revenue towards levy of licence fee for manufacture and sale of food articles

**Delay in complying with the directions of the High Court of Kerala to levy licence fee for manufacture and sale of food articles resulted in the loss of revenue of ₹ 2.58 crore.**

Government in the Health and Family Welfare Department (H&FWD) promulgated (February 2007) the Kerala Prevention of Food Adulteration Rule, 2007 (KPFA Rules) under Section 24 of the Prevention of Food Adulteration Act, 1954. This Rule was passed in supersession of the existing KPFA Rules, 1957. The new Rules came into effect from 01 February 2007. In the KPFA Rules, 2007 Government, *inter alia*, enhanced the licence fee (ranging from ₹ 200 to ₹ 10000) to be levied for manufacture and sale of food articles of different items as the originally fixed rates (ranging from ₹ two to ₹ 20) based on KPFA Rules, 1957 were never revised till the year 2007.

Based on the writ petition filed by the aggrieved against Government order enhancing licence fee, the High Court of Kerala in its interim order directed (April 2007) the Government to renew the licence on payment of 25 times of the pre-existing licence fee on condition that the applicants file an undertaking to the effect that if ultimately the writ petitions were dismissed, the balance amount should be paid. Instead of complying with the directions of the High Court, Government suspended (June 2007) the implementation of the KPFA Rules, 2007 until further orders. On 9 January 2009, Government reintroduced KPFA Rules, 2007 with the conditions prescribed by the High Court.

According to Sub rule (7) of Rule 7 of the KPFA Rules 2007, a licence shall, unless sooner suspended or cancelled, be in force till the end of the financial year and may be renewed for a period of one financial year at a time. As the implementation of the revised rate of licence fee was frozen till 9 January 2009, the Local Self Government Institutions (LSGIs) could not levy the enhanced rate of licence fee while issuing the licences during 2006-07 to 2008-09. Had the H&FWD followed the directions of High Court without delay, instead of issuing the orders freezing the implementation of the enhanced rates, the LSGIs could have collected the licence fee accordingly.

Thus the delay on the part of H&FWD in implementing the directions of the High Court resulted in loss of revenue of ₹ 2.58 crore being the difference between the existing licence fee and the enhanced licence fee in 38 LSGIs test-checked (details are given in **Appendix XVI**).

The matter was referred to Government in November 2009; their reply has not been received (November 2010).

## 4.2 Non-lifting of food grains allotted for implementation of SGRY

### Local Self Government Institutions of Thiruvananthapuram District failed to lift 3399.082 MT of food grains valued ₹ 2.77 crore allotted by GOI for implementation of Sampoorna Gramin Rozgar Yojana.

Sampoorna Gramin Rozgar Yojana (SGRY) launched by Government of India (GOI) in August 2001 was aimed to provide additional wage employment opportunities in rural areas and food security along with creation of durable social, economic and community assets and infrastructure development for the benefit of rural poor. The programme was to be implemented by District Panchayats (DPs), Block Panchayats (BPs) and Grama Panchayats (GPs). The scheme envisaged execution of work, the material cost of which should not exceed 40 per cent of the total value of work. To ensure food security to the rural workers, a part of the wage was to be paid in food grains, the cost of which was to be borne by Government of India (GOI). The balance cash component of the wage was to be shared between Central and State Governments in the ratio of 75:25. Under the scheme guidelines, the State Government could give five kilograms of food grains per worker per day.

GOI allotted (July/November/December 2007) 4399 Metric Tonne (MT) (rice: 2933 MT and wheat: 1466 MT) of food grains to the Project Director, Poverty Alleviation Unit, Thiruvananthapuram (PAU) for distribution to the DP, BPs and GPs in Thiruvananthapuram District in the ratio of 20:30:50 respectively under intimation to Food Corporation of India (FCI). The release order was valid up to 31 March 2008 and release of food grains was to be made within three months of allotment.

Though the PAU issued indent to the DP, BPs and GPs in Thiruvananthapuram District to lift the allotted quantity of food grains from FCI, none of the LSGIs lifted the food grains till February 2008. The delay in taking up the works included in the Annual Action Plan by the LSGIs was the reason for the poor lifting of food grains. As the progress in lifting the food grains by the LSGIs was poor, the State Government directed (March 2008) all the LSGIs to expedite lifting of allotted quantity of food grains, failing which responsibility would be fixed on the Secretaries of the LSGIs concerned for the loss of Central assistance sustained by the State. In spite of the Government direction, 3399.082 MT of food grains out of the allotted quantity of 4399 MT remained unlifted in the FCI as on 31 March 2008. The value of 3399.082 MT of food grains (rice: 2260.063 MT and wheat: 1139.019 MT) not lifted amounted to ₹ 2.77 crore<sup>1</sup>. The assistance under SGRY was stopped by GOI by 31 March 2008.

On being pointed out in audit, the PAU stated that though the LSGIs were informed (January 2008) of the closure of assistance under SGRY by 31 March 2008 by GOI, the laxity on the part of the LSGIs in the implementation of the scheme included under the Annual Action Plan resulted in the non-lifting of the allotted quantity of food grains in time. The Secretary of the District Panchayat, Thiruvananthapuram attributed the delay in

<sup>1</sup> Rice – 2260063 x ₹ 8.90 = ₹ 20114560.70; Wheat – 1139019 x ₹ 6.70 = ₹ 7631427.30

implementation of the scheme to the elaborate procedure for getting the Annual Action Plan of LSGIs approved by the District Planning Committee.

GOI allotted the food grains for the implementation of work approved under the Annual Action Plan prepared by the LSGIs under SGRY. Failure in lifting the allotted quantity of food grains resulted in the non-implementation of the approved work under Annual Action Plan for 2007-08 in addition to the reduction in the creation of employment (6.80 lakh mandays) and food security to the rural poor.

Government stated (March 2010) that against the GOI allotment of 4399 MT of food grains only 2199 MT was available with FCI for distribution in the district under SGRY and PRIs had lifted 999.92 MT of food grains and hence the quantity of food grains not lifted was only 1199.08 MT and the notional loss was ₹ 97.78 lakh. Government added that the Panchayats were reluctant to lift the food grains on the ground that they could not utilise it after 31 March 2008 as GOI had informed in March 2008 of their intention to wind up SGRY scheme and to introduce with effect from April 2008 the National Rural Employment Guarantee Scheme in which food grains do not form part of wage component.

The fact, however, remains that though allotments of food grains were received in July/November and December 2007 there was no progress in lifting of food grains till February 2008. The food grains provided in each allotment were preferably to be uplifted within three months of the allotment. Since there was no upliftment of allotted food grains till February 2008, the contention of Government regarding the actual availability of food grains with FCI does not hold good.

#### **4.3 Loss of Central Assistance**

##### **Failure of Nedumangad Municipality in fulfilling the conditions stipulated by Government of India for construction of an indoor stadium resulted in loss of Central assistance amounting to ₹ 67.50 lakh.**

Under the scheme “Grants for Creation of Sports Infrastructure”, Government of India, Ministry of Youth Affairs and Sports conveyed approval (February 2004) for providing Central assistance of ₹ 67.50 lakh for “Construction of Indoor Stadium – Category II” by Nedumangad Municipality at Karippur in Thiruvananthapuram District. The approval was subject to the condition that the commitment of Government of India was valid for two years from 20 December 2004 and that the Municipality should spend at least 50 per cent of its share first in the cost of the project before approaching the Ministry for release of Central financial assistance.

The Municipality prepared (November 2004) estimate amounting to ₹ 1.55 crore for the work. On getting technical sanction (May 2005) tenders were invited for the work estimating ₹ 1.48 crore (excluding ₹ seven lakh for electrification, fire and safety works). The work was awarded (July 2005) to the lowest tenderer at 5.9 per cent above estimate rate, subject to approval of Government. The tender excess was, however, not approved by Government (August 2005). The lay out of the indoor stadium was sent for the approval of

the Chief Town Planner only in October 2005. The Town Planner observed (February 2006) that the same plot was identified by the Municipality for construction of a Town Hall under the Integrated Development of Small and Medium Town (IDSMT) Scheme. While sending the layout of indoor stadium for approval, the Municipality did not mention the fact that the site of the indoor stadium was the site originally proposed for construction of town hall. As such, the Town Planner informed (February 2006) the Municipal Secretary to commence construction of indoor stadium only after convincing the Chief Town Planner the above fact and getting approval from him. The layout has not been approved so far (November 2009). The total value of work done (construction of retaining wall, earth filling, etc.) and paid for (March 2007) amounted to ₹ 25.97 lakh.

While reporting (August 2005) the fact that Government of India had discontinued the scheme from April 2005, the Director of Sports and Youth Affairs requested the Municipality to expedite the work so as to claim Central assistance, as there was only remote chance for getting any extension of the validity period. Though the validity period for claiming Central assistance was extended (May 2006) by the Ministry up to the end of June 2006, the Municipality could not furnish utilisation certificate and progress report due to the delay in construction. The request of the Municipality for further extension of time was turned down and the sanction issued for the project was cancelled by the Ministry in July 2008. Audit scrutiny revealed that:

- though Government of India approved provision of financial assistance in February 2004, the estimate for the work was prepared only in November 2004 and technical sanction obtained only in May 2005 leading to inordinate delay in awarding the work.
- there was also considerable delay in sending the layout of the indoor stadium (October 2005) for approval of Chief Town Planner.
- timely intimation of the fact that the location of the indoor stadium was the site proposed earlier for the Town Hall was not given to the Chief Town Planner.
- the Municipality could not furnish utilisation certificate and progress report for availing central assistance despite repeated requests from the Director of Sports and Youth Affairs.

The failure of the Municipality in fulfilling the conditions stipulated by Government of India resulted in loss of Central assistance of ₹ 67.50 lakh. Besides, the objective of the scheme could not be achieved even after the lapse of more than four years despite spending ₹ 25.97 lakh on the project.

In reply to the audit observation (October 2009) the Municipal Secretary stated (November 2009) that the Chief Town Planner did not approve the layout so far. As such the Municipality could not complete the work in a time bound manner and avail the Central assistance.

The matter was referred to Government in January 2010; their reply has not been received (November 2010).

#### 4.4 Unfruitful expenditure on construction of a town hall

**The expenditure of ₹ 24.03 lakh incurred by Cherthala Municipality on construction of a town hall remained unfruitful due to the failure of the Municipality to get the work completed even after six years.**

Cherthala Municipal Council and Greater Cochin Development Authority accorded (August 2003) Administrative and Technical sanctions respectively for construction of a town hall at Cherthala at an estimated cost of ₹ 60 lakh. The project was conceived as a remunerative project with anticipated annual income of ₹ 15 lakh. The Municipality awarded (November 2003) the work to the lowest tenderer for a contract amount of ₹ 52.46 lakh (12.56 per cent below estimate) fixing the time of completion as one year. The contractor, however, did not complete the work within the stipulated time reportedly due to labour problem and scarcity of materials and the Municipality extended the time of completion till August 2006. After executing the civil work up to the lintel level of the building and receiving (March 2006) ₹ 15.65 lakh towards value of work done, the contractor stopped the work. Though the contractor did not resume the work despite several notices issued to him, the Municipality did not take any action to terminate the contract and rearrange the work at his risk and cost. As a result, the construction of the town hall remained incomplete even after six years.

As of September 2009, the total expenditure incurred on the work was ₹ 18.61 lakh. Besides, the interest liability on the loan amount of ₹ 15 lakh availed (June 2005) by the Municipality for the construction of the town hall would come to ₹ 5.42 lakh. On the whole, the expenditure of ₹ 24.03 lakh incurred on the project remained unfruitful. Failure of the Municipality to invoke the risk and cost clause of the agreement and get the work completed rendered the expenditure of ₹ 24.03 lakh unfruitful, besides loss of potential revenue of ₹ 65 lakh towards rent for the period from December 2004 to March 2009.

Government stated (October 2010) that Municipal Council had decided to terminate the contract and to complete the work at the risk and cost of the contractor.

#### 4.5 Infructuous expenditure on Irrigation Project

**Failure in conducting proper feasibility study resulted in infructuous expenditure of ₹ 19.59 lakh incurred on the setting up of an Irrigation Project.**

The District Planning Committee approved (January 2001) the Chekuthanthodu Irrigation Project near 10<sup>th</sup> mile Chekuthanthodu, proposed under People's Plan Programme by District Panchayat (DP), Wayanad for improving paddy yield in 19 hectares of land owned by 31 families. The work comprised of construction of a well and a pumphouse at Kariyadan Kunnu near Kakkathodu, a water tank at Kappikunnu which was 38 metre high and 750 metre away from Kariyadan Kunnu and laying PVC distribution line. The estimated cost of the project was ₹ 22.15 lakh.

The civil work of the reservoir, well and pumphouse, entrusted to the convenor of the beneficiary committee in March 2001 was completed in December 2004 at a total cost of ₹ 9.42 lakh. Before completion of civil works, though the DP purchased (March 2002) two 30 HP electric motors from Regional Agro Industrial Development Co-operative of Kerala Limited (RAIDCO) at a total cost of ₹ 6.43 lakh, those motors were not installed even after the completion of civil work. The District Panchayat Council (DPC) decided (February 2005) to purchase another diesel pump set instead of two electric motors on the plea that huge amount (₹ seven lakh) could be avoided towards remittance of deposit for electric connection. The DPC decided to purchase the diesel pump set ignoring the advice (February 2004) of RAIDCO that the capacity and performance of the diesel pump set was less than that of electric motors already supplied and 28 HP diesel pump set would not lift the water from the pump house to the height (38 feet) of the tank already constructed. The Secretary, DP purchased (March 2007) one 28 HP capacity diesel pump set (cost: ₹ 3.74 lakh) from RAIDCO and installed the pump in March 2007. The project was, however, not commissioned on the ground that the issue of sharing of recurring cost of the operation of the pump had not been settled. The Audit team along with the Assistant Engineer of the DP and the convenor of the beneficiary committee conducted (July 2009) a joint inspection of the project area and found that there was no cultivation of paddy any where in the locality. The Secretary, DP stated (September 2009) that the beneficiaries for whom the project was intended had switched over to Plantain and Areca nut cultivation as cultivation of paddy was not remunerative.

Thus, due to failure of the DP in conducting proper feasibility study, the expenditure of ₹ 19.59 lakh incurred on the setting up of the irrigation project with the intention of improving paddy yield became infructuous.

The matter was referred to Government in November 2009; reply has not been received (November 2010).

#### 4.6 Idle investment on a market yard building

**A market yard building consisting of 11 rooms completed in September 2004 could not be let out even after five years for want of takers resulting in idle investment of ₹ 10.25 lakh.**

Vengad Grama Panchayat (GP) in Kannur District undertook (2003-04) construction of a rural market yard building at Thattari for improvement of shopping facility of the locality under Rural Infrastructure Development Fund Scheme (RIDF VII). The estimated cost of the work (₹ 11 lakh) was to be met from NABARD<sup>2</sup> (₹ 10 lakh) and GP's own fund. The work, awarded to a contractor (March 2004) was completed in all respects (including electricity and water supply) in September 2004 at a total cost of ₹ 10.25 lakh.

The building with 11 rooms and open yard platform was proposed to be let out. However, even after the lapse of more than five years since its construction, none of the rooms could be let out (November 2009) for want of takers. The GP should have conducted proper feasibility study before

<sup>2</sup> National Bank for Agriculture and Rural Development



submitting the project for approval of District Planning Committee (DPC). Lack of proper feasibility study before taking up of the project resulted in idle investment of ₹ 10.25 lakh. Besides, the interest liability of the State Government on the amount of ₹ 8.33 lakh reimbursed (₹ 1.74 lakh on 28 February 2004 and ₹ 6.59 lakh on 30 September 2007) by NABARD to the GP worked out to ₹ 1.70 lakh (November 2009) at the rate of seven per cent per annum.

On this being pointed out (August 2009) in audit, the Secretary, GP stated (December 2009) that no feasibility study was conducted. The Secretary further stated that the building was constructed about 200 metres away from the main junction towards the eastern side. However, the locality developed towards the opposite side adversely affecting the project. As there were no takers for the rooms despite annual auctions conducted, the GP decided (March 2009) to contact the people personally and to allot the rooms. However, as of December 2009, no rooms could be let out.

Government stated (March 2010) that the development of the town was completely shifted to the western side as at the time of construction of the market yard building a new medical college had come up at a place two kilometers from the junction. Government added that the GP would take all efforts to make the market yard functional by giving awareness to the local people.

#### 4.7 Misappropriation of money

##### **Failure to exercise proper internal checks led to misappropriation of money to the tune of ₹ 0.83 lakh in Rayamangalam Grama Panchayat in Ernakulam District.**

In Rayamangalam Grama Panchayat (Ernakulam District) an amount of ₹ 83082 drawn (between April 2004 and June 2008) from Panchayat's own fund for remittance to various accounts was misappropriated by an Upper Division Clerk as under.

- Amount of ₹ 8254 drawn (April 2004) for remittance of employees' pension contribution was shown as remitted to treasury using fictitious chalan.
- Two chalans for ₹ 10 each used for making payment of subscription towards Family Benefit Scheme on 9 January 2007 and 15 April 2008 respectively were fraudulently corrected showing fictitious remittance of employees' pension contribution of ₹ 14601 and ₹ 19434. Thus, an amount of ₹ 34035 drawn on this account was misappropriated.
- An amount of ₹ 20793 drawn (December 2007) for remittance to Kerala Construction Workers Welfare Fund was shown as sent by Demand Draft (DD) No. 394718. However, no such DD was reportedly issued by the bank.
- Though an amount of ₹ 186990 was drawn (June 2008) for remittance to Kerala Panchayat Employees' Provident Fund, the amount actually remitted to treasury was only ₹ 166990 thereby misappropriating

₹ 20000. In this case, the figure ₹ 166990 originally written in the chalan was subsequently corrected as ₹ 186990 in the office copy.

Guidelines issued (June 2003) by Government on the maintenance of accounts of Panchayat Raj Institutions prescribed that the head of the institutions or some responsible subordinate other than the writer of the cash book should verify the entries in the cash book corresponding to all remittances into treasury/bank/post office with reference to the chalan or pay in slip and attest all the entries. The failure of the Secretary of the Grama Panchayat to discharge his responsibility in the maintenance of cash book led to this misappropriation. On this being pointed out (October 2009) during the first audit of the institution the delinquent official admitted the offence and remitted ₹ 63082 immediately and reported that the amount of ₹ 20000 misappropriated in June 2008 was remitted in June 2009 (that is after one year). This was verified in audit and found to be correct.

Government stated (February 2010) that the misappropriated amount has been recovered from the concerned official and the official has been placed under suspension.

#### 4.8 Non-completion of a Water Supply Scheme

**In Puzhakkal Block Panchayat, non-completion of a water supply scheme for more than 11 years resulted in non-achievement of the objective of solving water scarcity in Adat Grama Panchayat and unfruitful expenditure of ₹ 13.38 lakh.**

Puzhakkal Block Panchayat (BP) accorded (July 1997) administrative sanction for the project ‘Water Supply to Vilangan Hills in Adat Grama Panchayat (GP)’ with a view to solve water scarcity during summer season in five wards of the GP (lying on the valley of the hills). The Assistant Engineer, Puzhakkal Block accorded (April 1998) technical sanction for the work. The construction of pump house and cistern, erection of motor/pump and laying pipes to the overhead tank (Phase I) was entrusted (June 1998) to M/s Nirmithi Kendra, Thrissur (NKT), an accredited agency, at their estimated cost of ₹ 10 lakh. The estimate was subsequently revised (December 1998) to ₹ 11.38 lakh due to certain deviations from the original proposal. The second phase of the project (laying pipe lines for distribution of water) was also entrusted (May 2001) to the same agency at the estimated cost of ₹ two lakh in spite of the fact that they did not complete the first phase even after three years.

The BP had paid ₹ 13.38 lakh to M/s NKT in five instalments between June 1998 and March 2002. The first and second phases of the project were to be completed in six months on receipt of the advance amount. However, the first phase was completed only in March 2004. Though electric connection was obtained in April 2005, the trial run of the motor was yet (December 2009) to be conducted. The reasons attributed (April 2005/June 2009) by M/s NKT for not conducting trial run were voltage drop and disconnection of power supply to the premises for non payment of electricity charges. However, the Assistant Engineer, Electrical Sub Division, Muthuvara reported (December 2009) that the power supply was not disconnected and that non functioning of



the motor was due to higher capacity (35 HP) of the pump connected to the 25 HP motor and not due to low voltage.

Audit scrutiny revealed that:

- the Grama Panchayat had been remitting electricity charges in respect of the above connection on an average rate of ₹ 875 per month from May 2005 to November 2009 in spite of the fact that the motor was non functional.
- instead of supplying and installing 25 HP motor and pump set, M/s NKT had supplied and installed 25 HP motor and 35 HP pump set. This aspect was discussed during the meeting with the supplier (M/s NKT) and KSEB officials by the Block Panchayat and clarified that to run the pump of 35 HP, motor capacity should be more than the pump capacity. Due to this technical problem of compatibility /mismatch the pump set was not put to operation.
- M/s NKT did not even commence the second phase of the project. As per the agreement (May 2001) the BP was to follow the norms stipulated (January 1999) by Government for payment viz. 20 per cent of the total cost on execution of agreement and balance in five stages. However, payment of the total cost of ₹ two lakh for the second phase was made in March 2000 (₹ one lakh) before execution of agreement and in March 2002 (₹ one lakh). This was in violation of the Government orders in this regard.
- there was no clause in the agreement entered into with M/s NKT for levy of penalty for delay in completion of the project. While executing the agreement, the Secretary, BP failed to ensure that the agreement contained adequate provisions for safeguarding the interest of the BP.

The above facts were verified and confirmed by the BP (December 2009). Thus, failure of the BP in getting the work completed even after the lapse of more than 11 years rendered the expenditure of ₹ 13.38 lakh incurred on the scheme unfruitful. Besides, the objective of the scheme, namely, solving water scarcity in five wards of Adat GP could not be achieved.

While accepting the facts, Government stated (February 2010) that instructions had been issued to the District Collector to convene a meeting of the District Nirmithi Kendra, Kerala State Electricity Board, representatives of the Block and Grama Panchayats to make the scheme functional without further delay.

#### 4.9 Non-fulfilment of project objective

**Non-completion of work sheds and common facility centres in SC colonies in Kollam District despite spending ₹ 3.50 crore resulted in denial of benefit intended from the project for the past two years apart from loss of interest of ₹ 36.03 lakh on the blocked up funds.**

District Panchayat (DP), Kollam accorded administrative sanction (March 2007) under Special Component Plan for the scheduled castes (SC), for the project 'Construction of work shed and common facility centres' one each in

35 SC colonies to enable SC entrepreneurs to start traditional and self employment enterprises in their colonies. The DP entrusted (March 2007) the work to the Government recognized agency, Nirmithi Kendra, Kollam (NKK) at their estimated cost of ₹ 3.50 crore (@ ₹ 10 lakh per unit). As of January 2010, technical sanction was obtained (January and March 2008) for work in 28 colonies only. In terms of the agreement executed (March 2007) between the Executive Secretary, NKK and the Secretary DP, the total cost of the work amounting to ₹ 3.50 crore was deposited (April 2007) with NKK. Following deficiencies were noticed in implementation of the project:

(i) Construction of all the 35 work sheds and common facility centres was to be completed and handed over by September 2007 as per the agreement. Subsequently, the period was extended up to December 2008 and again up to September 2009. As of September 2009, NKK had completed construction of work sheds only in six colonies (March – August 2009). In 11 colonies the percentage of completion was 50 to 90 and in 12 colonies it was 20 to 50. The construction had not even started in the remaining six colonies, of which one colony was excluded from the project due to protest from local people and two colonies for want of technical sanction.

The objective of the scheme was to establish common work shed and common facility centres one each in 35 SC colonies of the District to enable SC entrepreneurs to start traditional and self employment enterprises in their colonies and thereby provide better living condition to at least 350 SC families. Non-completion of the project resulted in denial of the intended benefit for the past two years.

(ii) In January 1999, Government in the Local Administration Department prescribed the procedure for implementation of public works by authorized non-governmental organizations like Nirmithi Kendra. According to this, payment could be made at 20 per cent of the total cost on execution of agreement at stage one, 20 per cent each of the total cost at stages two, three and four and 10 per cent of the total cost at stage five on production of utilization certificate with documents for 90 per cent of the advance amount given at that stage. The final 10 per cent could be paid after approval by the technical committee. As such, payment of the total cost in lumpsum to NKK was in violation of the Government directions. While seeking ratification (February 2008) from Government for payment of ₹ 3.50 crore made to NKK as 100 per cent advance, the DP reported that the work was commenced in 16 out of 35 centres and that NKK had agreed to complete the above works by March 2008 and the entire project by June 2008. Government ratified (March 2008) the payment for the reason that implementation of the project had been completed even though none of the work sheds were completed as of March 2008.

Audit scrutiny revealed the following:

- NKK did not complete construction of work shed and common facility centre by June 2008 as promised even though Government ratified the payment of total cost in lumpsum.
- the project was to be implemented in SC colonies that could surrender at least three cents of land for the work shed. The District Scheduled Caste

Development Officer reported (July 2007) that the required land was not available in most of the colonies listed in the project report. The Secretary, DP stated (January 2009) that the required land could not be handed over to NKK even by the end of December 2008 for construction work in 10 colonies. Thus, payment of the entire amount to NKK was without even ensuring the availability and suitability of the land required for construction.

- the DP had shown ₹ 3.50 crore in its accounts as expenditure incurred during 2006-07, though it was given as advance.

Payment of the total cost of the work in advance to NKK in violation of Government directions and without ensuring availability of land resulted in blocking of ₹ 1.31 crore<sup>3</sup> for 30 months (April 2007-September 2009) assuming that 10 per cent, 50 per cent and 100 per cent respectively of the unit cost of 29 incomplete works was blocked up with NKK. The loss of interest on the above amount worked out to ₹ 36.03 lakh @ 11<sup>4</sup> per cent per annum.

The matter was referred to Government in December 2009; the reply has not been received (November 2010).

#### 4.10 Unproductive investment on a slaughter house

**Failure of Malappuram Municipality to complete construction of a modern slaughter house even after the lapse of more than eight years led to unproductive investment of ₹ 20 lakh.**

Under the Centrally Sponsored Scheme “Assistance for modernisation of slaughter houses” Malappuram Municipal Council accorded administrative sanction (January 2001) for the project “Construction of modern slaughter house at Malappuram Municipality” submitted by M/s Steel Industrials Kerala Limited (SILK), a Government company. The Municipality did not obtain technical sanction for the work. The State Government had approved (February 1998) M/s SILK as the nodal agency for execution of the projects for construction of modern slaughter houses for Urban Local Bodies, as it was the only agency in Kerala approved by Government of India for turnkey execution of slaughter house modernisation programme. Accordingly, the work was entrusted (August 2001) to M/s SILK at their estimated cost of ₹ 39.93 lakh stipulating the period of completion as eight months. M/s SILK did not make any earnest attempt to complete the work despite repeated letters sent to it. Nevertheless, the Municipality paid ₹ 20 lakh to the firm between August 2001 and August 2005. The firm had constructed only a shed the cost of which was estimated as ₹ five lakh. The Municipality informed (October

<sup>3</sup> 11 works @ 10% of the unit cost = 11x₹ 1 lakh = ₹ 11.00 lakh  
 12 works @ 50% of the unit cost = 12x₹ 5 lakh = ₹ 60.00 lakh  
 6 works @ 100% of the unit cost = 6x₹ 10 lakh = ₹ 60.00 lakh

Total	= ₹ 131.00 lakh
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<sup>4</sup> Rate of interest on the amount borrowed by State Government and given as grant to local bodies (10<sup>th</sup> Five Year Plan guidelines issued in GO(MS)40/04/Plg dated 31.03.2004).

2005) the firm that no work other than AC sheet roofing, painting etc., was done by them since August 2005 and requested the firm to complete the balance work early. The roofing work was reportedly done by the firm after the steel columns and truss began to rust. As the discussions held with the officials of SILK to resume the work were not fruitful, the Municipal Chairman sought (August 2006) intervention of Government in the matter. Accordingly, Government directed (September 2006) the firm to complete the work within three months and informed the possibility of blacklisting the firm for breach of contract. However, the firm did not resume the work. Failure of the Municipality to get the work completed even after the lapse of more than eight years led to unproductive investment of ₹ 20 lakh.

Audit scrutiny (August 2009) further revealed that:

- the agreement with SILK did not contain any clause for levy of penalty for delay in completion of work or to terminate the contract at their risk and cost for breach of contract.
- in terms of the agreement, 40 per cent of the contract amount was payable as mobilisation advance and the balance on pro rata basis. However, ₹ 20 lakh was paid to the firm against the admissible advance of ₹ 15.97 lakh.
- the proposed site for the modern slaughter house was close to the pumping station of Kerala Water Authority on the banks of Kadalundi river. The Municipality did not obtain clearance of the State Pollution Control Board for the slaughter house.
- as construction of the slaughter house was not completed, meat stall owners were slaughtering animals on their own without any check by the Municipality, posing threat to public health and environment.

On this being pointed out (August 2009) in audit, Government replied (August/October 2010) that the Municipality entrusted the work to M/s SILK and paid the advance on the conviction that being a Government company they would complete the work satisfactorily. Government added that the value of the work done by SILK has been assessed as ₹ 3.56 lakh and that the Secretary, Malappuram Municipality has been directed to recover the advance amount from the company with 12 per cent interest after adjusting the value of the work done.

#### 4.11 Supply of scooters to mentally and physically challenged persons in violation of Government guidelines

**Manjeri Municipality supplied 26 numbers of three wheeler scooters costing ₹ 10.40 lakh to mentally and physically challenged persons in violation of Government guidelines.**

Manjeri Municipality formulated (2007-08) three projects (total outlay: ₹ 15.90 lakh) for supply of various equipment, free of cost, to mentally and physically challenged persons. The items supplied included 26 numbers of three wheeler scooters costing ₹ 10.40 lakh purchased from M/s Keltron Electro Ceramics Limited, Kuttippuram.

As per the guidelines issued (July 2007) by Government on subsidy and related issues of Local Governments, only tricycles (run by hand or by motor) could be provided free of cost to mentally and physically challenged persons. Any violation of the subsidy norms would be deemed to be misutilisation of Local Government funds and any excess subsidy paid was recoverable from the person (s) responsible as per the provisions of law. The supply of 26 numbers of three wheeler scooters valued at ₹ 10.40 lakh was therefore not in order. This was pointed out by audit in June 2009.

It would be worth mentioning in this connection that Government had specifically stated (November 2008) that while it was permissible to supply tricycles (run by hand or by motor) to mentally and physically challenged persons, supply of scooters was not permissible. Had motorised tricycles been supplied instead of scooters, the benefit of subsidy could have been extended to more number of beneficiaries with the amount available. Again in 2008-09 a project was formulated proposing to supply, among other things, five numbers Kinetic Honda scooters fitted with two additional wheels (cost: ₹ 2.25 lakh). Based on the audit observation, the suppliers were informed not to supply the scooters and the amount drawn on this account was refunded in July 2009.

The matter was referred to Government in January 2010; their reply has not been received (November 2010).

#### **4.12 Wasteful expenditure on an incinerator**

**An incinerator costing ₹ 12.40 lakh had to be abandoned due to lack of proper maintenance after being used only for 14 months.**

Cherthala Municipality purchased (March 1999) an oil fired incinerator for ₹ 12.40 lakh for burning the biomedical waste generated at the Taluk Head Quarters Hospital. The hospital used the incinerator for nine months (March–November 2000). The Municipality handed over (June 2001) the machinery to the Hospital Development Committee on the pretext that the operating expenses were high. The Committee, however, began using the incinerator after the lapse of more than two years, that is, only from September 2003 onwards. The Superintendent, Taluk Head Quarters Hospital reported (July 2008) that the incinerator became inoperative in January 2004 and was not repaired since the Hospital Development Committee could not bear the huge repair charges/running expenses. Records evidencing conduct of feasibility study/assessment of probable amount of operating expenses, before purchase of incinerator were not available. Evidence of assessment of the capability of Hospital Development Committee to meet the operating expenses/periodical maintenance and repair charges of the equipment before handing over were also not available. The incinerator was lying idle in the hospital compound in an abandoned stage. The bio-medical waste generated in the hospital was being disposed of by the hospital utilising the service of a Palakkad based firm. The Hospital had incurred ₹ 4.61 lakh up to 2008-09 for disposing of the biomedical waste.

On this being pointed out (July 2009) in audit, the Municipal Secretary stated (October 2009) that the incinerator got rusted while it was kept idle for more

than two years by the Hospital Development Committee and that timely repairs could not be done due to procedural delay. Thus, lack of proper maintenance caused damage to the incinerator and its abandonment after use for 14 months (March to November 2000, September 2003 to January 2004) rendered the expenditure of ₹ 12.40 lakh wasteful.

The matter was referred to Government in January 2010; their reply has not been received (November 2010).



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