CHAPTER IV
TRANSACTION AUDIT

4.1 Nugatory expenditure on an irrigation project

No benefits had accrued till date from a minor irrigation project on which an expenditure of ₹ 36.56 lakh was incurred.

District Panchayat (DP), Wayanad constructed a minor irrigation project (project) comprising of a Vent Cross Bar (VCB) and a canal across Muttil Puzha at Chilanjichal in Muttil Grama Panchayat (Grama Panchayat) to irrigate 35 hectares of paddy field at a cost of ₹ 36.56 lakh (VCB: ₹ 29.63 lakh, canal: ₹ 6.93 lakh). The project was intended to raise the income of 45 families by increasing the frequency of paddy cultivation to twice a year.

The construction of VCB, a project of Annual Plan 1999-2000, was completed in March 2002. The canal, which was necessary to make VCB functional, was not included in original project. The construction of the canal was taken up separately in Annual Plan 2004-05 and was completed in March 2005. The project, after construction, was to be handed over to Grama Panchayat for operation and maintenance through a beneficiary committee. The DP, however, initiated the process of transfer of the project after a delay of four years for which no recorded reasons were available. In the meanwhile, side-walls of VCB got damaged and deposition of waste and mud at the bottom of VCB affected the free flow of water.

View of Vent Cross Bar

A joint inspection conducted by audit with Grama Panchayat officials revealed damages to the side-walls of VCB and accumulation of silt. It also confirmed the fact that there was no paddy cultivation in the area and the cultivation was of coconut and arecanut palms only.

View of the canal and the surrounding areas

The Government stated (September 2011) that due to shooting up of production cost of the paddy, farmers were compelled to switch over to other crops. However, the project could be utilised for other crops also. Government reply is not acceptable as Grama Panchayat had refused (March 2010) to take over the project as there was no demand for the project either from beneficiaries or from Grama Panchayat and the coconut and arecanut palm cultivation do not require the irrigation facility. Thus no benefits had accrued till date from a project on which an expenditure of ₹ 36.56 lakh was incurred.

4.2 Short levy of road restoration charges

Failure of 40 Local Self Government Institutions in four districts to demand road restoration charges at prescribed rates led to short levy of ₹ 15.32 crore from Kerala Water Authority, affecting their financial position.

Construction and maintenance of District /village roads vested with the Local Self Government Institutions (LSGIs) in their jurisdiction is a function of the respective LSGIs[1]. Whenever these roads are excavated the agency excavating has to restore the roads or pay restoration charges to LSGIs. The rates are prescribed by Public Works Department (PWD) of Government in its Schedule of Rates.

Kerala Water Authority (KWA) had to excavate roads in the jurisdiction of LSGIs in five districts, viz., Thiruvananthapuram, Kollam, Kottayam, Kozhikode and Kannur, during 2008-09 under a project of Japan Bank for International Co-operation (JBIC). In Thiruvananthapuram District, road restoration works were done by KWA itself, whereas in the remaining four districts the works were executed during 2010-11 by the LSGIs concerned. Hence the KWA was liable to pay restoration charges for 1022 roads in 40 LSGIs in the four districts.

The PWD rates applicable with effect from 01 April 2009 were ₹ 868 per square metre and ₹ 534 per square metre respectively for roads having Black Topped (BT) surfaces and Water Based Macadam (WBM) respectively. However, KWA paid (December 2009) road restoration charges at rates varying from ₹ 227 per square metre to ₹ 580 per square metre for BT and from ₹ 283 per square meter to ₹ 593 per square metre for WBM in these four districts instead of prescribed rates. LSGIs should have demanded the PWD rates instead of accepting lesser rates from KWA. As a result, against ₹ 32.40 crore to be received from KWA, LSGIs received only ₹ 17.08 crore, resulting in short levy of ₹ 15.32 crore. The details are given in **Appendix XVII**.

Further analysis revealed that the rates paid by KWA were insufficient in the case of 54 roads in Kozhikode District as three LSGIs had to spend ₹ 80.76 lakh more than the amount received from KWA. As all LSGIs were not maintaining records on the expenditure incurred for restoration of each road work separately, audit could not verify the actual amount spent by LSGIs towards restoration works.

Thus failure of Secretaries of 40 LSGIs in four districts for raising the demand at revised rates led to short levy of ₹ 15.32 crore towards restoration charges affecting the financial position of these bodies.

The Government stated (December 2011) that instructions have been issued to adjust the amount to be received from KWA against the water charges due to be paid by LSGIs to KWA.

[1] As per Kerala Panchayat Raj Act, 1994 and Kerala Municipality Act, 1994

4.3 Delay in completion of a bus stand - cum - shopping complex

Interest liability on a loan of ₹ 2.48 crore borrowed for financing construction of a bus stand - cum - shopping complex by Manjeri Municipality increased as construction was not completed within the stipulated period of 18 months.

Manjeri Municipal Council (MMC) took up (February 2005) a project for 'construction of a third bus stand along with a three storied shopping and office complex' (bus terminal), at Arukizhaya, in 3.02 acres of paddy fields donated by 17 persons. A private consultant prepared the plan, estimate and structural design of the project and National Institute of Technology, Kozhikode (NIT) scrutinised the structural design of the building. The project cost was estimated at ₹ 3.35 crore (as per 2004 SoR), which required technical sanction from Chief Engineer. But the Superintending Engineer, Greater Cochin Development Authority accorded (February 2007) technical sanction for the project, though the cost exceeded his financial limit of ₹ 45 lakh. Municipality incurred ₹ 9.27 lakh towards preparation, scrutiny and approval of the plan, estimate and design of the project.

MMC awarded (April 2007) the work to the lowest bidder at 15 *per cent* above estimate, stipulating the period of completion as 18 months. During execution of the project, engineering wing of the Municipality detected (October 2007) many defects such as (i) non-inclusion of items like electrical fitting, plumping and drainage (ii) insufficient size of the beam (iii) non-provision for land filling etc., in the design. This necessitated modifications in the plan and revision of estimates to ₹ 5.25 crore (as per 2004 SoR). Approval of defective design indicated lack of professional competence of the private consultant engaged by MMC as well as failure of NIT in detecting the defects during scrutiny of the structural design of the building.

Bus terminal under construction

After executing works worth ₹ 2.49 crore, the contractor refused to continue the balance work[2] as per original contract based on 2004 SoR, and demanded 20 *per cent* increase above 2009 SoR for the balance work costing ₹ 3.89 crore. The Government accorded (August 2011) sanction to execute balance work as per 2009 SoR with 15 *per cent* tender excess. Municipality entered (September 2011) into a supplementary agreement with the contractor for the balance work for ₹ 4.38 crore[3] with time of completion as six months. The work was in progress (October 2011). Thus total cost is expected to be ₹ 6.87 crore (₹ 2.49 crore + ₹ 4.38 crore). Additional commitment on the balance work due to revision of estimates as per 2009 SoR is ₹ 1.27 crore[4].

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[2] Cost ₹ 2.76 crore as per 2004 SoR which works out to ₹ 3.89 crore as per 2009 SoR

[3] Cost of balance work as per 2009 SoR (₹ 3.89 crore) + 15 per cent tender excess = ₹ 4.38 crore

[4]

Cost of balance work at 2009 SoR	: ₹ 4.38 crore
Cost of balance work at 2004 SoR	: ₹ 3.11 crore
Difference	: ₹ 1.27 crore

Municipality anticipated annual revenue of ₹ 1.41 crore from the bus terminal. Due to delay in completion of the project, estimated loss of revenue works out to ₹ 4.47 crore for the period October 2008 to November 2011. Municipality had availed loan of ₹ 2.48 crore for the project from Kerala Urban Development Finance Corporation (KUDFC) at 11 *per cent* interest compounded quarterly. Delay in completion of the work would not only increase the interest liability but also affect the repayment of loan from KUDFC as the repayment of loan was critically dependent on income generated from the bus stand.

The Secretary of Manjeri Municipality accepted (August 2011) the audit observations.

The matter was referred to the Government in January 2012; reply has not been received (May 2012).

4.4 Idle investment on a market building

A market building consisting of 33 stalls completed in January 2007 by Kodungallur Municipality could not be let out even after five years for want of demand resulting in idle investment of ₹ 33.05 lakh. Consequently, a waste water treatment plant constructed at a cost of ₹ 23.30 lakh was also remaining idle for the past three years.

(i) Kodungallur Municipality undertook (October 1993) construction of a Market-cum-shopping Complex at Kavil Kadavu for improvement of shopping facility in the locality under Integrated Development of Small and Medium Towns Scheme. The land identified was 90 cents of Municipal land adjacent to Thrissur-Kodungallur State Highway. The Municipality also acquired 64.25 cents of private land for construction of the building, road, parking area etc. The project involved construction of a four storey building in two phases. The first two floors of the building were planned to be constructed in the first phase and the estimated cost of the first phase (₹ 2.85 crore) was to be met through loan (₹ two crore) from Kerala Urban Development Finance Corporation Limited (KUDFC) and the balance from Government grants. The estimated annual revenue from the project was ₹ 36.56 lakh. The work awarded (February 2003) to a contractor at 6.6 *per cent* below estimates was completed in January 2007 at a cost of ₹ 2.21 crore.

The shopping complex building with 61 rooms and 33 stalls of the market was proposed to be let out at auction. Out of the 33 stalls (cost: ₹ 33.05 lakh) of the market only two fish stalls and two fish counters could be let out. The Municipality, before embarking on such a project, was required to prepare a feasibility report after conducting a survey to ascertain whether there were enough parties willing to take the stalls on rent. Failure of the Municipality to assess the demand for stalls resulted in the available resources (₹ 33.05 lakh) being tied up in an idle asset. Further the Municipality was facing Revenue Recovery action for not repaying the outstanding loan of ₹ 3.98 crore including interest (November 2011) availed from KUDFC.

(ii) As part of the scheme for modernisation of fish markets implemented by Fisheries Department, Kodungallur Municipality took up (June 2007) a project to provide a waste water treatment plant and other amenities at an estimated cost of ₹ 17.50 lakh for the above market. A private consultant prepared a project report which included installation of waste water treatment plant, construction of drainage, road and rolling shutters for fish stalls. The Government sanctioned (June 2007) ₹ 12.08 lakh, excluding the cost of construction of road. However, Municipality, without obtaining administrative sanction including financial sanction and technical sanction tendered the project for execution. As no bids were received, Municipality split the project into two, viz. (i) construction of drain and rolling shutters and (ii) installation of waste water treatment plant. Municipality executed the work on the drain and rolling shutters through a contractor at a cost of ₹ 2.55 lakh. As there were problems in the design of the water treatment plant, College of Engineering, Thrissur prepared a fresh design costing ₹ 20.75 lakh. Additional amount required for the plant was decided to be met from own funds of the Municipality. The work was awarded (March 2008) at estimate rate to a firm based on open tenders and the plant was installed in December 2008. Municipality paid the entire amount of ₹ 20.75 lakh to the firm by December 2010. Due to non-functioning of the market, the treatment plant had not been operationalised. The firm's guarantee period for the plant expired in March 2010. As the parts of the plant have got rusted proper operation of the plant is doubtful. Failure of the Municipality in ensuring that the fish market would be fully functional by the time the work on treatment plant is completed led to idling of the plant constructed at a cost of ₹ 23.30 lakh for the past three years.

Parts of treatment plant got rusted

The Government replied (June 2012) that two fish stalls and two fish counters have been auctioned off, and that once all the remaining stalls are auctioned off the treatment plant would become operational. Reply of the Government is not acceptable as five years have elapsed since the completion of the market and only four stalls have been auctioned off so far. The treatment plant is yet to be functional.

4.5 Improper payment of advance to service provider without ensuring feasibility of project

District Panchayat, Ernakulam paid more than 80 *per cent* of the total cost for installation of biogas plants in advance to the service provider in violation of Government orders, without ensuring feasibility of project and availability of land, resulting in Development Expenditure Fund of ₹ 66.40 lakh remaining with the service provider for over 44 months.

District Panchayat (DP), Ernakulam formulated a project for decentralisation of waste management in their annual plan for 2007-08, which envisaged production of electricity by installing 17 biogas plants in 17 Grama Panchayats (GPs) and one biogas plant in pig breeding farm of the DP at

Angamali. The cost of construction per plant was ₹ 10.30 lakh, of which ₹ six lakh was to be met by DP, Ernakulam, ₹ 3.10 lakh by the GP concerned from their Development Expenditure Fund and the balance of ₹ 1.20 lakh from subsidy received from Government of India. DP, Ernakulam accorded administrative sanction for the project in September 2007 and the District Planning Committee approved the project in February 2008. In March 2008, DP, Ernakulam and ten GPs paid ₹ 1.19 crore[5] and ₹ 31 lakh respectively to the service provider.

Inappropriate disbursement of funds

DP, Ernakulam awarded the work to Biotech, a firm approved by the Government as service provider for Solid Waste Management for Local Bodies in the State. As per the agreement executed by the service provider, the biogas plants were to be commissioned within 90 days from the date of receipt of contribution from DP, Ernakulam or date of handing over of site along with contribution from the GPs whichever was later. As per Government order issued in April 2006, payment of advance from Development Expenditure Fund can be made only to those institutions, viz., Kerala State Electricity Board, Ground Water Department, Public Works Department, etc., mentioned therein. As Biotech is not included in the Government order, payment of advance to the firm was in violation of the above Government order. While making advance payment, no safeguards by way of bank guarantee from the service provider were put in place.

Non-availability of land/non-functioning of plants

Before entering into agreement with the service provider, DP, Ernakulam had not ensured availability of land or considered the environmental problems due to installation of the biogas plants. DP, Ernakulam subsequently abandoned the projects in six GPs as the GPs had failed to arrange and hand over the sites for construction of the biogas plants. In the pig breeding farm and in two GPs (Aikkaranad and Thiruvaniyoor) work was abandoned due to public protest. In Manjalloor GP work was not completed even as of October 2011. Thus, out of ₹ 1.50 crore paid by DP, Ernakulam and 10 GPs to the service provider, ₹ 66.40 lakh remains with the service provider for the past 44 months due to non-installation of nine biogas plants. DP, Ernakulam had also not taken any action to get the advance amount of ₹ 66.40 lakh refunded from the service provider.

Issues relating to operation of completed projects

The biogas plants were to be operated and maintained under the direct supervision of the service provider for the first five years. For the day-to-day operation of the biogas plants, the service provider was required to appoint a plant operator and a part-time supervisor, whose wages were to be paid by the GPs. As and when the projects are completed, the service provider and the GP concerned are to enter into a separate agreement in this regard for future operation and maintenance.

[5] Share of DP, Ernakulam: ₹ six lakh each for 17 GPs and ₹ 9.10 lakh for Angamali Pig Breeding Farm, contribution of ₹ five lakh from Piravam GP and ₹ three lakh from Nayarambalam GP

The service provider completed (2008-09) the construction of the plants in eight GPs out of which only five[6] were working satisfactorily. The remaining three plants constructed at a cost of ₹ 27.20 lakh were not commissioned as the GPs had not executed separate agreement with the service provider for future operation and maintenance.

View of the non-commissioned biogas plants

Maradu **Nayarambalam** **Cheranalloor**

Thus, payment of major portion of the cost of the project in advance to the service provider in violation of Government orders and without ensuring availability of land and feasibility of project resulted in Development Expenditure Fund of ₹ 66.40 lakh remaining with the service provider for over 44 months without any benefit to the general public. Further, expenditure of ₹ 27.20 lakh incurred on the three completed biogas plants remains unfruitful.

The Secretary, DP, Ernakulam stated (September 2011) that action had been taken to achieve the objective of the project.

The matter was reported to the Government in September 2011; reply has not been received (May 2012).

4.6 Implementation of a project without proper planning

A project for production of honey implemented by District Panchayat, Pathanamthitta to provide income to BPL women resulted in net loss of ₹ 1.18 crore.

With a view to create regular employment to 10,000 BPL women in 54 local bodies in the district, the District Panchayat, Pathanamthitta approved (September 2007) a project named 'Madhuram' (estimated outlay: ₹ 36.27 crore) for production and processing of 2000 tonnes of honey annually. The period of implementation of the project was three years and District Mission Co-ordinator of Kudumbashree[7] was the implementing officer. The honey produced was to be marketed as Agmark honey (five lakh kg) and value added products of honey (15 lakh kg). Administrative Approval and Technical Sanction were accorded in September 2007 and December 2007 respectively. The District Planning Committee also approved the project in December 2007. Under the project, 200 beehives and accessories (estimated cost: ₹ 2.50 lakh) for the production of honey were to be supplied to each activity group[8]. The cost of the items was to be met by the beneficiaries through bank loan. The project envisaged backend subsidy of 44 *per cent* of project cost subject to a

[6] Piravam, Paingottur, Amballoor, Udayamperoor and Pallippuram GPs

[7] State Poverty Eradication Mission (Kudumbashree) launched by the State Government aims at the empowerment of women, through forming self help groups and encouraging their entrepreneurial or other wide range of activities

[8] Group consisting of 10 women

maximum of ₹ 1.10 lakh per activity group for repayment of bank loan. The implementing officer was to release the subsidy amount to the banks for adjustment against bank loan.

During the period 2007-08 to 2009-10, eight Block Panchayats and 47 Grama Panchayats and State Kudumbashree Mission contributed ₹ 4.14 crore[9] for the implementation of the programme. Against the target of 1000 activity groups to be established in the 54 Grama Panchayats, the implementing officer could establish (May 2008 to October 2008) only 215 activity groups in 26 Grama Panchayats. Of these, five groups had become defunct. Activities like establishment of the Agmark laboratory, processing plants, bottling units and District production unit which were part of the project were not taken up on the ground of non-availability of building for the installation of machinery. District Panchayat returned (January 2011/ March 2011) the unutilised portion of the shares (₹ 1.16 crore) of Block Panchayats and Grama Panchayats as decided by District Panchayat Committee.

Following points were noticed in audit:

- The project was expected to generate annual income of ₹ 31.40 crore through the production of 2000 tonnes of honey (by 1000 activity groups). Against this, the average annual production of honey was only 33.98 tonne which fetched average annual income of ₹ 0.66 crore to 210 activity groups (11 *per cent* of the targeted income).
- Out of 8262 women trained after incurring expenditure of ₹ 25.06 lakh[10], only 2100 had come forward to form the groups. This indicated that the project was formulated without proper assessment of its feasibility and acceptability among the beneficiaries.
- Till March 2011, the loan liability of the activity groups was ₹ 3.16 crore. Though the backend subsidy to be released to the banks was only ₹ 1.39 crore (44 *per cent* of ₹ 3.16 crore), the implementing officer released ₹ 2.30 crore. The excess subsidy paid amounted to ₹ 91 lakh.
- The project envisaged net annual income of ₹ 6.40 crore to 1000 activity groups. Against this targeted income, 210 activity groups had sustained net loss of ₹ 1.18 crore during the three years from 2008-09 to 2010-11. Further, the project had created loan liability of ₹ 1.77 crore[11] to the groups.

For the effective implementation of a project of such massive nature involving all the three tiers of Panchayats, a pilot project to ascertain its feasibility and viability should have been conducted. Failure of the District Panchayat to assess the viability of the project resulted in non-achievement of its objective of providing employment to 10000 women through the production and processing of 2000 tonnes of honey.

After the deficiencies were pointed out (November 2010) by Audit, District Panchayat Committee made an assessment of the project in January 2011 and concluded that the implementation of the project was a failure as it was not

[9] Block Panchayats: ₹ 29.97 lakh; Grama Panchayats: ₹ 1.08 crore; Kudumbashree Mission: ₹ 2.77 crore

[10] Including honorarium of ₹ 2.97 lakh paid to resource persons

[11] Loan availed: ₹ 3.16 crore minus Subsidy admissible : ₹ 1.39 crore

implemented as envisaged in the project report. Audit also noticed that due to adverse climatic conditions and diseases a large number of bees died. As of December 2011, the number of live beehives decreased to 28 *per cent.*

As regards the excess subsidy released to the banks, the Government stated (February 2012) that the project was implemented through a project of Kudumbashree known as Rural Micro Enterprises and the groups had to spend their own money to protect the beehives besides the loan amount that they had received. Reply of the Government was not in consonance with the project report which provided for subsidy of ₹ 1.10 lakh per group (Kudumbashree share: ₹ 1,00,000; Grama Panchayat share : ₹ 10,000) which constituted 44 *per cent* of the project cost of ₹ 2.50 lakh. As the expenditure on the project by each group was less than the project cost, the subsidy element should have been scaled down accordingly. Failure to do so resulted in excess release of ₹ 91 lakh as back-end subsidy to the bank.

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