

CHAPTER I

PERFORMANCE AUDIT

Performance Audit of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) Schemes in Nagaland

During 2008-09, an integrated performance audit of the Urban Development Department, Government of Nagaland (GON) was taken up which was incorporated in the Report of the Comptroller and Auditor General of India (CAG) for the year ended 31 March 2009, inter-alia covering two components - Basic Services for Urban Poor (BSUP) in Kohima and Integrated Housing and Slum Development Projects (IHSDP) in Dimapur under JNNURM. The findings of audit were discussed by the Public Accounts Committee (PAC) of the State Legislature in February 2011. To assess the impact of implementation of JNNURM and to evaluate the action taken by the Department on the recommendations, performance audit of JNNURM scheme including two new components - Urban Infrastructure and Governance (UIG) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) which were not covered in the earlier report were also taken up in the current audit along with the follow up audit of BSUP and IHSDP. The performance audit revealed that the objectives of the projects largely remained unachieved due to lack of proper planning, deviation from the approved projects, vulnerability to frauds, time overrun etc., despite being pointed out in earlier audit. The major observations noticed are highlighted below:

Highlights

- *Except for Kohima, no City Development Plan (CDP) was prepared for any town and the Detailed Project Reports (DPR) of different projects were submitted to GOI for approval without any scrutiny by the State Level Nodal Agency/Engineering Division, Urban Development Department and approval by the State Level Steering Committee.*

(Paragraph 1.8.1 and 1.8.2)

- *Financial management and control of finances was poor at all levels which resulted in delayed releases of funds, non-release of ACA by State, non-release of matching State share, short release of State share, irregular deduction of departmental charges, incorrect reporting and submission of UCs, violation of prescribed financial procedures and delays in submission of claims for reimbursement.*

(Paragraph 1.9)

- *Against GOI release of ₹121.80 crore as Additional Central Assistance (ACA), the State Government in turn released only ₹8.60 crore resulting in short release of ₹23.20 crore.*

(Paragraph 1.9.1)

- *The engineering division of the Department paid ₹16.35 crore interest free Mobilisation Advance in violation of Rules, out of which an amount of ₹7.25 crore remained with the contractor without valid Bank Guarantee.*

(Paragraph 1.9.4)

- *Against the targeted construction of 3504 Dwelling Units (DU) under BSUP and 2496 DUs under IHSDP, construction of only 1360 DUs and 720 DUs respectively were taken up by the Department.*

(Paragraph 1.11.3.1 and 1.11.4.1)

- *The Engineering Division, Urban Development Department irregularly paid ₹3.67 crore without actual execution of works under BSUP.*

(Paragraph 1.11.3.4)

- *Vital Mandatory and Optional reforms such as transfer of 18 functions to ULBs, shifting to Accrual based Double Entry Accounting System, etc. were not implemented despite entering into Memorandum of Agreement with Government of India (GOI). As a result, GOI had withheld ₹13.27 crore¹ under UIG and UIDSSMT projects since October 2010.*

(Paragraph 1.12)

1.1 Introduction

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched by the Ministry of Urban Development (MoUD), Government of India (GOI) as a Centrally Sponsored Scheme on 3 December 2005 for a period of seven years i.e. up to 2012 with the objective of reforms driven and fast track development of cities across the country with focus on sustainable development of physical infrastructure in cities including development of technical and management capacity for promoting holistic growth with improved governance. The Department implemented five sub-components of JNNURM involving ₹302.16 crore during 2006-11.

The main objectives of the JNNURM are:-

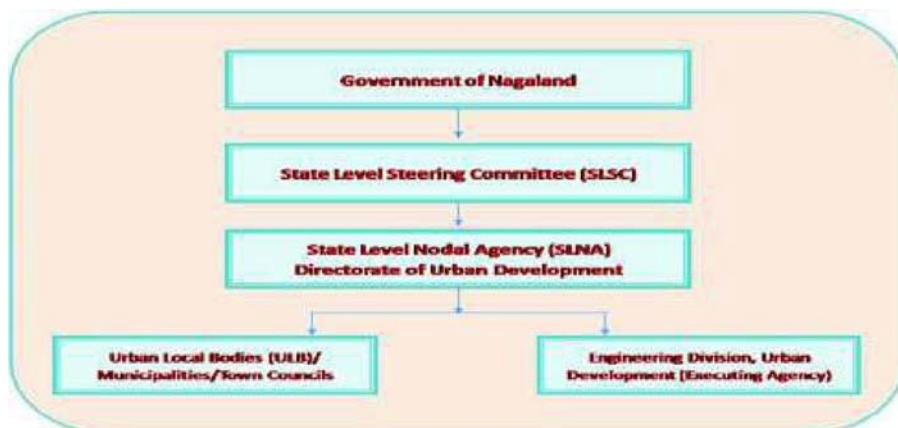
- i) Integrated development of infrastructural services in the cities covered under the Mission.
- ii) Ensure adequate investment of funds to fulfil deficiencies in the urban infrastructural services.
- iii) Planned development of identified cities so that urbanisation takes place in a dispersed manner.
- iv) Provision of basic services to the urban poor, including security of tenure at affordable prices, improved housing, water supply and sanitation.

¹ UIG-₹11.36 crore and UIDSSMT-₹1.91 crore

1.2 Organisational setup

The organisational setup for implementation of JNNURM in the State is given below:

Chart 1.1



1.3 Scope of Audit

The implementation of the JNNURM projects in the State of Nagaland from the period of sanction by GOI in the year 2006 to 2011 was reviewed as a follow up to the CAG report on Integrated Audit of Urban Development Department (UDD) for the year ended March 2009, through a test-check of the records in UDD and the Urban Local Bodies (ULBs) concerned.

The Department prepared City Development Plan (CDP) for Mission City, Kohima with a total investment plan of ₹999.94 crore which was approved by the GOI during 2006 for various projects to be implemented during the Mission period ending 2011-12. However, out of the projects envisaged in CDP only two projects were submitted by GON and GOI approved two projects - Roads and Transportation Projects and Integrated Road and Multi Level Parking project under UIG at a cost of ₹75.68 crore. Another three projects – Housing for Urban Poor in Kohima under BSUP, Housing and Slum Development under IHSDP and Upgradation of Roads at Chumukedima town under UIDSSMT were also approved by the GOI at a cost of ₹226.48 crore during 2006-11.

The present performance audit covered four projects² involving approved outlay of ₹251.74 crore with a reported expenditure of ₹113.29 crore (up to March 2011).

² 1. Roads and Transportation Project in Kohima under UIG, 2. Housing for Urban Poor in Kohima under BSUP, 3. Housing and Slum Development in Dimapur under IHSDP and 4. Upgradation of Roads at Chumukedima town under UIDSSMT. The remaining project Integrated Road and Multi-Level parking project under UIG was not selected as the expenditure incurred so far was only about 20 per cent.

1.4 Audit objectives

The objectives of the performance audit were to assess whether:

- I. comprehensive planning through City Development Plans (CDPs) were prepared outlining the vision and development strategy for sustainable future development of the city and had been appropriately documented;
- II. financial management control was adequately exercised;
- III. project management was efficient;
- IV. projects were executed efficiently and targets were achieved;
- V. the reform agenda visualised had been actually achieved;
- VI. there was a mechanism for adequate and effective monitoring and evaluation.

1.5 Audit criteria

The performance was assessed against the following criteria:

- Guidelines, instructions/circulars/orders issued by Ministry of Urban Development (MoUD), Ministry of Housing and Urban Poverty Alleviation (MoHUPA) and Ministry of Finance (MoF);
- Memorandum of Agreements (MoAs) and Detailed Project Reports (DPRs) of selected projects;
- City Development Plan (CDP);
- Toolkits issued by MoUD/MoHUPA for various issues under JNNURM;
- Guidance for Basic Services for Urban Poor (BSUP)/Integrated Housing and Slum Development Projects (IHSDP) - Minutes of the 26th Meeting of Central Sanctioning and Monitoring Committee (CSMC); and
- Recommendations of the PAC.

1.6 Audit Methodology

The performance audit commenced with an entry conference (April 2011) with the Secretary, Urban Development and other departmental officers to discuss the audit objectives. The audit findings were discussed in an exit conference held on 2 December 2011. The replies furnished by the Government have been appropriately incorporated in the report.

1.7 Acknowledgment

The office of the Accountant General (Audit), Nagaland places on record our sincere appreciation for the co-operation of the Urban Development Department especially the Engineering Wing, the Kohima Municipal Council, the Dimapur Municipal Council and the Chumukedima Town Council.

Audit Findings

1.8 Planning

Audit Objective I: To ascertain whether comprehensive planning through City Development Plans (CDPs) were prepared outlining the vision and development strategy for sustainable future development of the city and had been appropriately documented.

1.8.1 City Development Plan (CDP)

Preparation of CDP was a pre-requisite to obtain funding under JNNURM. The objective of the CDP was to identify infrastructure projects to be implemented under this scheme along with the proposed implementation mechanism including the Private Sector Participation (PSP) strategy.

Further, the PAC also while discussing (February 2011) Paragraph 3.7 of the CAG Report for the year ended March 2009 observed that the Department had to streamline its monitoring system so that complete planning was practised which would ensure optimum utilisation of available resources and best possible accumulation of benefits within a logical time frame.

The Department stated to the PAC (February 2011) that the CDP for all districts had been prepared and submitted to the Government. Scrutiny, however, revealed that except for Kohima, the DPRs prepared and submitted to the GOI by the Department for Dimapur Municipal Council and Chumukedima Town Council were not based on CDP.

Though CDP for Mission City, Kohima with a total investment plan of ₹999.94 crore was prepared and approved by the GOI during 2006 for various projects in different sectors such as water supply, sewerage & sanitation, solid waste management, tourism, drainage, road & transportation, etc. under UIG (₹974.11 crore) and BSUP (₹25.83 crore) to be implemented by different Departments during the Mission period ending 2011-12, the projected investment plan could not take off fully (July 2011) as envisaged in CDP.

Only two DPRs at a cost of ₹75.68 crore for road & transportation and integrated roads & multi level parking were submitted to the MoUD by the UDD. However, none of the other Departments prepared and submitted DPRs for taking up the projects as envisaged in the CDP. As the DPRs were not prepared by the Departments/ULBs in respect of water supply, sewerage & sanitation, solid waste management, tourism, drainage, etc., the State could not avail the funds of ₹898.43 crore from Government of India as envisaged in the CDP. The possibility of availing the funds under JNNURM appears to be remote now as the DPRs are yet to be prepared and the mission period will also expire by March 2012.

Instances of deficiencies in planning are given in subsequent paragraphs.

1.8.2 Deficiencies in processing of DPRs

JNNURM Guidelines stipulate that project proposals/DPRs for BSUP and IHSDP as prepared by the ULBs/Implementing Agencies are required to be submitted to the State Level Nodal Agency (SLNA) for obtaining sanction of State Level Steering Committee (SLSC). The DPRs approved by the SLSC are then sent to GOI/Sub-Mission Directorate/CSMC for seeking assistance from Central Government under JNNURM.

Audit scrutiny revealed that the DPRs for BSUP and IHSDP were submitted to the Ministry without any processing/appraisal by the Engineering Division, Urban Development Department/SLNA and also without the approval of the SLSC. Further, in reply to a specific query by audit, the Director, Urban Development and the Executive Engineer, Urban Development stated (June 2011) that the DPRs were not initially processed by their establishments. It was also noticed that neither SLNA nor the Executing Division were in possession of the original DPRs which indicates serious lapses in processing of DPRs and approval of projects. The impact of sanction of projects without any appraisal from the SLNA had resulted in delays and several other failures as highlighted in paragraphs 1.10 and 1.11.

The Department stated that (December 2011) the DPRs for BSUP and IHSDP were submitted to the Ministry during the nascent stage of the launch of JNNURM when the Department was not properly sensitised with the guidelines of the Mission. Thus, the DPRs may have been submitted directly to the Ministry.

1.8.3 Capacity Building

As per JNNURM guidelines, a provision of 5 per cent of the Central Grant or the actual requirement, whichever is less, may be kept for sanction to cities covered under the Mission for preparation of City Development Plan (CDP), Detailed Project Reports (DPRs), training and capacity building, community participation, information, education and communication (IEC). The ULBs and para-statal agencies in consultation with SLNA are authorised to engage consultants for capacity building and seek reimbursement from MoUD and MoHUPA.

However, it was noticed that no consultant was appointed by the Department for training and capacity building and no assessment was made in respect of personnel required to be trained. Further, no training programme was organised by SLNA for training and capacity building.

The Department in reply (December 2011) stated that under capacity building, a number of workshops and seminars have been held all over the country by the MoUD which officers of the Department have been attending. The reply of the Department is not tenable since adequate trainings have to be imparted for both UDD officials as well as ULBs for facilitating implementation of envisaged reforms and execution of projects in a time bound manner. The Department had also failed to seek the funds from GOI for

training and capacity building from 5 per cent³ funds of the Central Grant earmarked for the purpose.

1.9 Financial Management

Audit Objective II: To ascertain whether financial management control was adequately exercised.

The projects under JNNURM are funded in the form of Additional Central Assistance (ACA). Cities in North Eastern States are eligible for 90 per cent of funds as central assistance and the remaining 10 per cent of the funds have to be borne by the State Government. Funds would be released as ACA⁴ (100% Central Grant in respect of Central Share) to the State Government or its designated SLNA. The State Government would pass on the Central funds along with their matching share, to the implementing agencies, immediately.

The project cost, amount of ACA admissible and matching State Share are shown below:-

Table 1.1

(₹ in crore)

Sl No.	Name of Project	Project Cost	Central share/ ACA sanctioned	Matching share of ACA	State Share		Consolidated amount of State share (percentage to project cost)
					Own share	Contingencies, etc (not sponsored by JNNURM)	
(1)	(2)	(3)	(4)	(5)	A&OE and Consultancy (reimbursed as per eligibility)	(6)	(7)
1	BSUP, Kohima	134.50	105.60	11.73	11.51 ⁵	5.66	28.90 (21.49%)
2	IHSDP, Dimapur	87.74	44.14	34.65	7.07 ⁶	1.88	43.60 (49.69%)
3	Roads and Transportation, Kohima	25.26	22.73	2.53	-	-	2.53 (10%)
4	Upgradation of Town Roads in Chumukedima	4.24	3.82	0.42	-	-	0.42 (10%)

(Source:- CSMC minutes/approval and figures obtained from the Ministry)

³ This amounts to ₹6.09 crore (5 per cent of ₹121.80 crore released by GOI to GON under JNNURM)

⁴ Excluding the amount for Consultancy fee, Administrative & Office Expenses (A&OE) which are reimbursed on actual basis based on admissibility and Contingency which is to be met by the State.

⁵ A&OE ₹7.04+ Consultancy ₹4.47

⁶ A&OE ₹3.94 +Consultancy ₹3.13

The amount of funds released by Centre and State during 2006-11 are shown below:-

Table 1.2

(₹ in crore)

Name of Project	ACA Released by Centre & percentage	State matching share to be released	Total Amount to be released (excluding own share) (Col 2+3)	ACA Released by State	Matching share released by the State	Total Released (Col 5+6)	Total Short Release (Col 4-6)	Expenditure incurred upto March 2011	UCs Submitted (Including State share & Departmental charge)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
BSUP, Kohima	79.20 (75%)	8.80 (75%)	88.00	57.36	5.48	62.84	25.18	62.84	58.67
Roads, Kohima (UIG)	11.37 (50%)	1.26 (50%)	12.63	11.16	0.56	11.72	0.91	11.72	12.99
IHSDP, Dimapur	29.32 (66.43)	23.02 (66.43%)	52.34	28.17	8.46	36.63	15.71	36.63	38.64
Upgradation of Town Roads, Chumukedima	1.91 (50%)	0.21 (50%)	2.12	1.91	0.21	2.12	0	2.12	2.12
Total	121.80	33.29	155.09	98.60	14.71	113.31	41.80	113.31	112.42

(Source:- Departmental figures)

Analysis of the funds released by GOI and subsequent release by the State Government revealed the following:-

1.9.1 Short release of ACA by the State Government

Guidelines stipulate that ACA released by Centre should be released to the ULB/Implementing Agency immediately along with the State share. As shown in the above table, against the Central release of ₹121.80 crore (ACA), the State released only ₹98.60 crore. Thus, the Central share of ₹23.20 crore was short released by the State Government.

The Department accepted the facts (December 2011) and stated that they had taken up the issue of short release with the Finance Department.

1.9.2 Non-release of matching share

As per the CSMC, the State was required to release ₹26.12 crore (Table 1.1 : col 6+7) as administrative and office expenses (A&OE), consultancy charges and contingency. However, no funds were released by the State Government till date, though an amount of ₹7.43 crore⁷ was spent by the Department from the Central release as discussed in paragraph 1.9.8.

The Department while accepting the facts (December 2011) stated that it was processing the release of State share commensurate with the Central releases. Non-release of State share had badly affected the progress of works at the sites since progress of work and funds released to works are intrinsically linked, as also admitted by the Department (December 2011).

⁷ 1. ₹189.89 lakh towards A&OE and 2. ₹74.15 lakh (₹23.15 lakh for CDP and ₹51 lakh for DPR of UIG) and ₹5.09 crore (BSUP- ₹3.72 crore & IHSDP ₹1.37 crore), as mentioned in the Paragraph 1.9.8.

1.9.3 Short-release of State share

Against the GON share of ₹33.29 crore, a sum of only ₹14.71 crore was released to the Department, resulting in short-release of ₹18.58 crore by the State Government.

The Department while accepting the facts (December 2011) stated that the matter was being taken up with the State Government.

The PAC while discussing the CAG report (February 2011) for the year ended March 2009 observed that the Department cannot justify the delayed release of funds with lame excuses. The loop holes of short releases and delayed funds show inability to control the administrative machinery. The Committee also noted the late release of most of the funds regularly and desired to eliminate this occurrence.

The Department in reply assured the Committee that it was endeavouring to expedite the release of funds as per timelines. Despite PAC's recommendations (February 2011) and assurance given by the Department, the Government/Department had not taken any concrete action (December 2011), as detailed in Paragraphs 1.9.1, 1.9.2 and 1.9.3 above, which is likely to affect success of the entire scheme.

1.9.4 Payment of interest free mobilisation advance

As per Nagaland Public Works Department (NPWD) Code there is no provision for providing Mobilisation Advance. As per CPWD Works Manual 2003, in respect of certain specialised and capital intensive works with estimated cost put to tender of ₹2 crore and above, provision of mobilisation advance may be kept in the tender documents. Mobilisation advance limited to 10 per cent of tendered amount at 10 per cent simple interest can be sanctioned against a Bank Guarantee (BG) to the contractors on specific request as per the terms of contract. The Central Vigilance Commission (CVC) had also directed (June 2004) that if mobilisation advance is to be given, it is to be expressly stated in the NIT/Bid documents, indicating the amount, rate of interest and submission of BG of equivalent amount. Scrutiny revealed that the NIT/Bid documents contained a clause for providing mobilisation advance on the basis of BG without specifying the limit and requirement of payment of interest.

❖ **BSUP:** Department paid Mobilisation advance amounting to ₹5 crore (₹3 crore (36.80 per cent) and ₹2 crore (24.88 per cent)) to one contractor against BG in April 2008 and January 2009 in respect of two works (Group C package 1 & 2). The advance was recovered from the contractor from the Running Account bills paid in November 2009 without charging any interest. Thus, the failure of the Department to adhere to the above provisions resulted in a loss of interest of ₹61.67 lakh⁸ and undue financial benefit to the contractor to that extent.

⁸ ₹45 lakh (₹300 lakh x 10 per cent for 18 months)+₹16.67 lakh (₹200 lakh x 10 per cent for 10 months)

➤ **IHSDP:** The Department paid Mobilisation Advance of ₹4.10 crore (15.56 per cent) to one contractor against Bank Guarantee on 10 November 2008 in respect of Housing and Slum Development Project, Dimapur. The advance was recovered from the contractor from the 3rd Running Account bill paid in March 2009 without charging any interest in violation of the above rules and orders which resulted in a loss of interest of ₹15.37 lakh⁹ and undue financial benefit to the contractor to that extent.

Similarly, an amount of ₹7.25 crore (55 per cent of remaining amount) was paid as mobilisation advance to the contractor on 18 January 2010 on the basis of two BGs. Scrutiny revealed that though the next bill was paid within a few days after payment of Mobilisation Advance, no recovery of the mobilisation advance was made. No measurement of work executed was taken since then and the recovery of the same was pending till the date of audit (July 2011). Scrutiny also revealed that the validity of the BGs expired in February 2010 and May 2010 respectively but the Department did not take any steps to renew the BGs as a result of which ₹7.25 crore remained with the contractor without any BG till the date of audit. Thus, the division extended undue financial benefit to the contractor without safeguarding the interest of the Government and without charging interest amounting to ₹1.02 crore payable upto June 2011 in violation of the existing guidelines.

The Department in reply (December 2011) stated that interest was not charged as it was not stipulated in the NIT/Bid documents. The Department however, stated that the audit observation had been noted which would be taken up with the State Government. But the fact remains that the Department had violated the directives of the Central Vigilance Commission (CVC) by not expressly stating in the NIT/Bid documents, indicating the amount, rate of interest and submission of BG of equivalent amount for the purpose of mobilisation advance.

The PAC while discussing the CAG report (February 2011) for the year ended March 2009 also directed the Department to evolve interest rates in respect of mobilisation advances.

In compliance, the Department assured the Committee that interest shall be charged on all mobilisation advances which extended for 2 years or more. However, it is clear from the above observations that the Department failed to honour its commitment given to the PAC as they were not able to streamline the system of mobilisation advances, causing financial loss to the Government on the one hand and undue financial benefit to the contractor on the other.

1.9.5 Deduction of departmental charges

As per JNNURM guidelines, no departmental charges are to be deducted from the funds released against the project. Further, the DPR also did not include any provision for

⁹ ₹410 lakh x 10 per cent for 4.5 months

departmental charges. Details of deduction as departmental charges as observed in audit are given below:-

Table 1.3

(₹ in crore)

Name of project	ACA released by Centre	State matching share to be released	Total amount to be released (excluding own share) (Col 2+3)	Deptl. charges deducted from ACA released by Centre	Deptl. charges deducted from State matching share to be released
(1)	(2)	(3)	(4)	(4)	(5)
BSUP, Kohima	79.20	8.80	88.00	1.63	0.67
Roads, Kohima (UIG)	11.37	1.26	12.63	0.21	0.07
IHSDP, Dimapur	29.32	23.02	52.34	0.83	1.11
Upgradation of Town Roads Chumukedima	1.91	0.21	2.12	0.00	Nil
Total	121.80	33.29	155.09	2.67	1.85

The Finance Department deducted ₹4.52 (₹2.67+₹1.85) crore as departmental charges, in contravention of the Scheme guidelines.

The Department in reply (December 2011) stated that since this was not permissible, they had proposed for restoration of the amount and an amount of ₹1.15 crore had already been restored (September 2011) and released by the Government, resulting in un-restored departmental charges to the tune of ₹3.37 crore, which is likely to affect successful execution of components of the Scheme.

1.9.6 Submission of Utilisation Certificates

As per Scheme guidelines Utilisation Certificates (UC) indicating the actual utilisation of funds (including State Share) is to be submitted to the GOI in the prescribed form for release of subsequent instalment.

The SLNA submitted utilisation of ₹12.99 crore against the actual release/utilisation of ₹12 crore by inflating the release of State Share in the Utilisation Certificates/Quarterly Progress Reports to the Ministry in respect of 'Roads and Transportation Project, Kohima' under UIG. Thus, inflated expenditure figures were reported to GOI.

The Department while accepting the facts (December 2011) stated that the inflated figure shall be rectified in the next Quarterly Progress Report.

1.9.7 Operation of Bank Accounts

The implementing agencies at the ULB/other implementing agencies were required to open and maintain separate bank account for each project in a scheduled commercial bank for receipt and expenditure of all funds in respect of each project. ULBs/implementing agencies should maintain registers for utilisation of funds separately for Central and State shares and loan from financial institutions.

Audit scrutiny, however, revealed that the Executing/Implementing agencies were operating combined current bank accounts for all State Plan funds, Centrally Sponsored schemes and JNNURM instead of operating separate bank accounts for each scheme and project under JNNURM. The Department had also not maintained separate registers for utilisation of funds for each project under JNNURM. This resulted in weak financial control and non-monitoring of project wise receipts and expenditure figures as well as the proportionate shares of GOI and GON leading to incorrect reporting of expenditure figures.

The Department while accepting the facts (December 2011) stated that they shall henceforth maintain separate accounts for each scheme.

1.9.8 Delay in submission of claims for reimbursement of Charges for preparation of CDP/DPR

As per JNNURM guidelines expenditure incurred for preparation of CDP and DPRs are reimbursed at the rate prescribed by the MoUD/HUPA on the basis of application submitted by the SLNA. In order to enable the reimbursement of the expenditure on the above a tool kit was also prescribed by the Ministry.

Scrutiny revealed that not only the Department utilised the Central Share from 2007-08 onwards for preparation of CDP/DPRs, but also did not claim for reimbursement from GOI till March 2010. The claims for reimbursement of ₹48.40 lakh¹⁰ to MoUD and ₹115 lakh to MoHUPA were submitted only in March 2010 against the expenditure of ₹77.15 lakh (₹23.15 lakh for CDP and ₹54 lakh for DPR of UIG) and ₹5.09 crore (BSUP- ₹3.72 crore & IHSDP ₹1.37 crore).

The Department while accepting the facts (December 2011) stated that the claim for reimbursement had been submitted and the sanction by the Ministry was awaited.

Thus, as seen from the observations above there exists poor financial control and management of finances at all levels in implementation of JNNURM Scheme in the State of Nagaland resulting in delayed releases of funds and non-release of ACA by the State, non-release of matching share from GON, short release of State's share, irregular deduction of departmental charges, incorrect reporting and submission of UCs, violation of prescribed financial procedures and delays in submission of claims for reimbursement.

¹⁰ CDP-₹23.15 lakh and UIG - ₹25.25 lakh

1.10 Project management

Audit Objective III: To ascertain whether project management was efficient.

1.10.1 Project details

The projects sanctioned under JNNURM and their status are as follows:-

Table 1.4

Sl. No	Name of the project	Sector	Date of approval by CSMC	Approved Cost (₹ in crore)	Stipulated date of completion (As per DPR)	Present Status	Remarks
1	Roads and Transportation Project, Kohima	UIG	26/10/07	25.26	December 2010	Completed	Selected for test check
2	Housing for Urban Poor in Kohima	BSUP	14/12/06	134.50	April 2009	Ongoing	Selected for test check
3	Housing and Slum Development, Dimapur	IHSDP	29/12/06	87.74	August 2008	Ongoing	Selected for test check
4	Upgradation of Roads at Chumukedima Town	UIDSSMT	24/05/07	4.24	December 2011	Ongoing	Selected for test check
5	Integrated Road and Multi-level Parking Project, Kohima	UIG	30/10/10	50.42	March 2012	Ongoing	Not Selected
Total				302.16			

1.10.2 Delay in completion of the Projects

As per CSMC guidelines, the work may be divided into packages and allotted to different contractors in order to complete the work within the stipulated time of 12 to 18 months and to avoid any cost and time over runs. In order to avoid cost overruns, JNNURM guidelines also envisaged completion of projects within 12 to 18 months of approval of the DPR by the CSMC, suitably splitting the works in various phases/packages and engaging different contractors.

Though there exist directions from CSMC for timely completion of projects, there were huge delays in execution of projects due to non-adherence to the directions by the Department. Scrutiny of the four selected projects revealed that, so far only one project was completed (June 2011).

The CSMC sanctioned ₹87.74 crore for construction of 2496 Dwelling Units (DUs) under IHSDP which was stipulated for completion in August 2008. The work order was issued for construction of 912 DUs. However, the contractor took up construction of only 720 DUs, of which 240 DUs were fully completed and construction of 480 DUs were in progress (June 2011). Construction works in the remaining 1776 DUs had not yet commenced (June 2011). Thus, the Department failed to take up construction works of 1776 DUs. Besides, there was a time overrun of 34 months.

➤ Similarly out of 3504 DUs to be constructed under BSUP stipulated for completion in April 2009, work order was issued for construction of 1512 DUs. However, works were in progress only in 1360 DUs and works in 2144 DUs had not commenced (June 2011). Thus, there was a time overrun of 26 months.

➤ In respect of UIDSSMT projects which were scheduled for completion in December 2011, the Department reported (October 2010) that the work was stopped by the contractor after completion of 45 *per cent* of the works without citing any reason. The prospect of the UIDSSMT project works being completed on time also remained doubtful.

The Department while admitting the facts (December 2011) attributed the delay to late receipt of sanction orders, delay in approval by the Committees, delay in achievement of reforms, etc.

1.10.3 Delay in award of work order

Scrutiny revealed that, though the BSUP project in Kohima was sanctioned by the CSMC in December 2006 the NIT was called only during June to December 2007 and the work order for construction of DUs was issued after a delay of 6 to 11 months due to delay in identifying the location, revision of DPR and purchase of land. This was one of the factors for delay in completion of the project which was not completed till December 2011.

The Department stated that (December 2011) though there was some delay, the projects were in progress.

1.10.4 Engagement of Consultants

The GOI sanctioned two projects (one BSUP and one IHSDP) in December 2006 on the basis of the DPRs submitted by the Government of Nagaland. The Department paid ₹5.09 crore to two consultants¹¹ for preparation of DPRs during November 2007 to April 2008.

As per the Conditions of Agreement the firm shall be paid professional fee in three stages. The first stage payment of 80 *per cent* shall be released on submission and approval of drawings and designs, preparation of detailed working estimates, etc. The second stage payment of 20 *per cent* shall be paid in installments consistent with the value of work from time to time. The third stage payment of remaining amount if any, was to be released after completion of work. Further, as per clause 6 (5) of the terms and conditions of the agreement the work (cost of the building) included all items such as structural, sanitary, plumbing, electrical, lifts, landscaping, etc.

¹¹ BSUP – M/s R&S Design (₹3.72 crore) & IHSDP – M/s Eji Architects (₹1.37 crore)

Scrutiny of records revealed that the Engineering Division released the full payment of ₹5.09 crore¹² to the consultants even before the actual commencement and completion of the works ignoring the above provisions and terms and conditions of the agreement compromising the interest of the Government.

The Department in reply (December 2011) stated that payments were made on the basis of all documents including working estimates submitted by the consultant. The reply is not tenable as the payments were made in full before actual commencement of work violating the terms and conditions of the agreement and canons of financial propriety as per the General Financial Rules.

1.10.5 Setting up of Programme Management Unit & Programme Implementation Unit

JNNURM guidelines¹³ provided for establishment of Programme Management Unit (PMU) to assist the SLNAs in discharging its roles and responsibilities such as assigned as per the JNNURM guidelines. PMU was designed to provide the requisite technical and managerial support to SLNA to ensure effective implementation of the programme at State level. The PMU would operate as a unit under the overall supervision and guidance of SLNA. Focus of the role was mainly on Programme Management and Monitoring. Similarly, Project Implementation Unit (PIU)¹⁴ was also provided under JNNURM meant to be an operations unit supplementing and enhancing the existing skill mix of the ULB. PIU was expected to work in tandem with the existing staff with focus on strengthening implementation of JNNURM. The focus of PIU was to enhance the pace and quality of implementation of the Mission activities.

It was found in audit that though the action to set up PMU and PIU was initiated in November 2009, these had not been set up till the date of audit. Implementation of various projects under different components under the Scheme was being undertaken by the Engineering wing of Urban Development Department (UDD) and monitored by the Directorate of UDD which were also responsible for executing/monitoring of all other projects under State and Central Plan schemes implemented by the Department.

Thus, failure in timely setting up of PMU and PIU in the State had an impact on implementation of various projects under JNNURM in the State which could be seen from delayed execution of projects and compromising the quality of the works as discussed in Paragraph 1.11.

The Department in reply (December 2011) stated that PMU and PIU had been appointed in August 2011.

¹² ₹3.72 crore to M/s R & S design (November 2007) and ₹1.37 crore to M/s Eji Architects in three instalments (January 2008- ₹82.35 lakh, April 2008- ₹52.64 lakh and March 2009- ₹2.01 lakh)

¹³ JNNURM (2007) - Toolkit for Programme Management Unit

¹⁴ JNNURM (2007) - Toolkit for Programme Implementation Unit

1.10.6 Performance Security

As per Rule 158 of General Financial Rules, Performance Security was to be obtained from every successful bidder irrespective of his registration status @ five to ten *per cent* of the value of the contract in the form of an Account payee Demand Draft, Fixed Deposit Receipt from a Commercial bank, Bank Guarantee from a Commercial bank in an acceptable form safeguarding the purchasers interest to ensure due performance of the contract. Performance Security should remain valid for a period of sixty days beyond the date of completion of all contractual obligations of the supplier including warranty obligations. Bid security should be refunded to the successful bidder on receipt of Performance Security.

Audit observed that Performance Security had neither been prescribed in the bid document nor obtained from the contractors in any of the test checked projects, thus compromising the Government interest to ensure successful completion of the projects. The performance security works out to an amount of ₹6.36 crore¹⁵ which if collected could have prevented the undue delay in execution of projects.

The Department in reply (December 2011) stated that performance security was not obtained as it was not stipulated in the NIT/Bid documents. The reply of the Department was untenable as it was trying to justify one mistake by another. The Department further stated that now two bid tender system had since been introduced for all major works and therefore performance security shall henceforth be deducted.

1.10.7 Community Participation Fund

A Community Participation Fund (CPF) was to be established to engage the community in the process of JNNURM to encourage innovation at local level. A Community Development Network (CDN) aims at participation of poor through network of Community Development Security (CDS), Self Help Group (SHG) and other community level organisations for poverty reduction and livelihood development. Participatory techniques for achieving slum free and poverty free city agenda network could not take off as CPF and CDN had not been introduced till date (February 2012). It was observed in audit that non-establishment of CPF and CDN resulted in non-participation of stakeholders defeating the very objective of the Scheme guidelines.

The Department stated (December 2011) that CRF was yet to be introduced as it was not there in the original guidelines and the Department shall look into the matter.

¹⁵ BSUP (so far work orders issued to the tune of ₹65.59 crore) – the Performance Security not collected amounts to ₹3.28 crore. IHSDP (so far work orders issued to the tune of ₹33.33 crore) – the Performance Security not collected amounts to ₹1.67 crore. UIDSSMT (so far work orders issued to the tune of ₹4 crore) – the Performance Security not collected amounts to ₹0.2 crore. UIG (so far work orders issued to the tune of ₹24.22 crore) – the Performance Security not collected amounts to ₹1.21 crore

1.11 Execution of Projects

Audit Objective IV: To ascertain whether projects were executed efficiently and targets were achieved.

1.11.1 Selection of Beneficiaries

As per BSUP and IHSDP Scheme guidelines, selection of beneficiaries had to be made by SUDA/DUDA/ULBs/Government Nodal Agency authorised by the State Government. Identification of beneficiaries and their willingness to relocate is a must for any relocation project. Biometric identification of the beneficiaries should be done and uploaded in the website. The CSMC stressed (December 2007) the need for identification of beneficiaries by conducting a proper survey before taking up the projects.

It was seen in audit that out of 4713 applicants¹⁶, the Department identified 2784 probable beneficiaries¹⁷ in 2010. The Department had not finalised the beneficiary list and therefore the biometric identification and uploading the list of beneficiaries was also not done.

Non-finalisation of beneficiaries indicates that the project was initiated without ascertaining the actual requirements and identifying the beneficiaries/stakeholders. Besides, this may also lead to selection of non-deserving beneficiaries at a later stage depriving eligible poor/economically weaker sections at the time of allotment of the DUs.

While accepting the facts (December 2011) the Department stated that the list of beneficiaries was being verified by the Sector Committees for authentication after which bio-metric identification shall be carried out.

1.11.2 Beneficiary Contribution

As per the Scheme Guidelines, DUs should not be allotted free of cost to the beneficiaries. At least 10 *per cent* of the cost of construction but not more than ₹40000 should be recovered as beneficiary contribution in four instalments. It was observed that;

☛ In respect of BSUP in Kohima, the Department arbitrarily raised the beneficiary contribution to ₹76,000 each against stipulated norm of ₹40000.

☛ In respect of IHSDP in Dimapur, the Department arbitrarily raised the beneficiary contribution to ₹1 lakh each against the original proposal of ₹0.21 lakh specified in the DPR.

¹⁶ 2213 applicants in respect of BSUP in Kohima and 2500 in respect of IHSDP in Dimapur.

¹⁷ 1872 beneficiaries in respect of BSUP and 912 beneficiaries in respect of IHSDP

However, no concrete initiative was taken so far to collect the beneficiary contributions¹⁸ amounting to ₹8.32 crore for both the above projects.

The Department in reply (December 2011) stated that the beneficiary contribution shall be collected when the buildings are handed over to them and further stated that the beneficiaries were willing to pay even the enhanced amount of ₹1 lakh in case of project in Dimapur.

The reply was not convincing as the Scheme guidelines, specifically provided for a maximum limit of ₹40000 per DU based on the economic status of the beneficiaries. The reply of the Department also indicates that the DUs were being contemplated to be allotted to persons other than the BPL, Low Income Group and Economically Weaker Sections defeating the very purpose of the Scheme.

1.11.3 Basic Services for Urban Poor (BSUP)

BSUP, one of the four sub-missions of JNNURM, was administered by MoHUPA through the Directorate for BSUP to provide basic services to urban poor including security of tenure at affordable prices, improved housing, water supply, sanitation and ensuring delivery through convergence of other already existing universal services of the Government for education, health and social security.

The MoHUPA sanctioned (December 2006) a project at an estimated cost of ₹134.50 crore (Central Share ₹105.60 crore and State Share ₹28.90 crore) for construction of 3504 Dwelling Units at colonies in Kohima Mission City along with development of other infrastructural facilities.

Scrutiny of records relating to the implementation of the project revealed the following:-

1.11.3.1 Arbitrary modification of DPR and reduction of Dwelling Units

The CSMC approved (December 2006) construction of 3504 dwelling units (DUs) in six colonies of Kohima (New Market, Daklane, Naga Bazar, Kezieke- Kenuozou & Pezielietisa, High School and Bayavu) at a total project cost of ₹134.50 crore (Central Share ₹105.60 and State share ₹28.90 crore).

The Department revised the DPR (by relocation to 4 locations¹⁹) for construction of 1872 DU at a revised project cost of ₹117.34 crore (Central Share ₹105.60, State share ₹11.73 crore), by reducing the amount of State share from ₹28.90 crore to ₹11.73 crore and three components²⁰ which were originally not sanctioned under Central share component by the CSMC but shifted from State share to Central share. Audit also observed that, though

¹⁸ Ongoing Number of DUs (BSUP and IHSDP): 2080. The beneficiary contribution should have been collected @ of ₹40000 amounts to ₹8.32 crore.

¹⁹ K Badze – 720, Keyake – 360, Ruziezou- 360, Meriema-432

²⁰ Consultancy fee, contingency, A&OE, etc.

1872 DUs were to be constructed as per revised DPR which was put to tender (June to December 2007) at four locations, work started only in three locations where 1512 units were proposed to be constructed. However, construction works were in progress only in 1360 DUs. Thus, the Department arbitrarily revised the DPR by reducing the State share amount and number of DUs without obtaining prior approval of the Ministry.

It was also observed that the Department further submitted (April 2011) a revised DPR at an estimated cost of ₹130.05 crore wherein ₹82.58 crore was earmarked for construction of 1512 DUs in progress and ₹47.47 crore for in-situ up-gradation of 1992 DUs not yet taken up. This proposal was forwarded to the appraisal agency by the CSMC during April 2011 and the outcome had not been received.

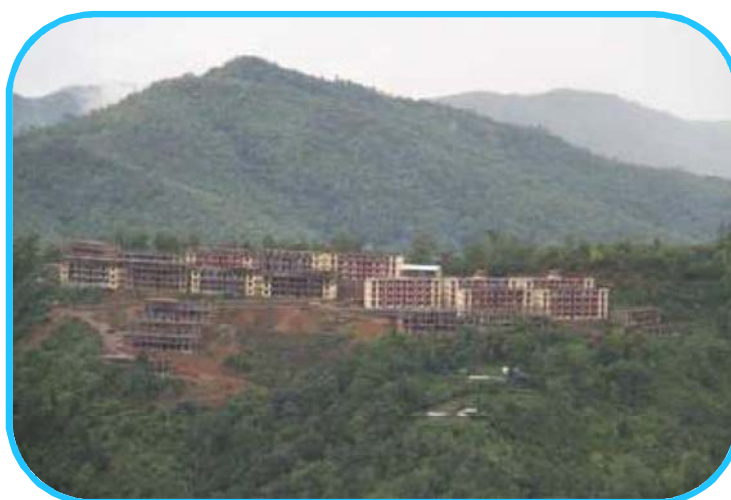
The Department in reply (December 2011) stated that there were lapses in the procedure of processing the DPRs initially. The CSMC in its 107th meeting (March 2011) had approved construction of 1512 DUs and 1992 DUs in-situ up-gradation. Even with modification of the DPR, the numbers of beneficiaries was not compromised.

The reply of the Department was not tenable as the BSUP guidelines and initial sanction from GOI have not envisaged in-situ up-gradation though the CSMC approved the GON proposals for in-situ up-gradation. The reply of the Department was also not acceptable as construction works was in progress only in 1360 DUs against 1512 DUs approved by the CSMC without corresponding reduction in cost and the Department had already incurred an expenditure of ₹62.84 crore for just 1360 DUs. Further, the in-situ upgradation had not commenced till December 2011.

Photographs showing the status of works in progress.

Construction of DUs in progress at K Badze site

(Package A - Photo taken on 03/06/2011)



Construction of DUs in progress at Ruziezu site
(Package C - Photo taken on 3 June 2011)



Construction of DUs in progress at Meriema site
(Package D - Photo taken on 3 June 2011)



1.11.3.2 Purchase of land

As per JNNURM guidelines, land free from all encumbrances must be owned by or purchased by the ULBs before the proposal for sanction of the project was brought to the SLSC.

As per the DPR submitted to the CSMC for approval, 43.37 acres of land was required for construction of 3504 DUs in six colonies.

✎ Audit scrutiny revealed that the Department did not conduct any feasibility study or assess the actual availability and requirement of land before preparation of the DPR. Thus, after the project was sanctioned by the CSMC, the Department purchased 31 acres of land in four locations at a total cost of ₹10.81 crore other than the locations specified in the DPR due to non-availability of land in the proposed colonies/locations. Deviation

from the original DPR resulted in delay in commencement and completion of the work. Though the work was stipulated to be completed by April 2009, the same was not completed (December 2011). Further, the objective of providing Basic Services to Urban Poor including security of tenure at affordable prices, improved housing, water supply and sanitation also remained unachieved.

➤ Out of the four plots of land purchased (August 2007), the land at Keyake purchased at a cost of ₹2.79 crore is located outside Kohima Municipal area having no public transport connectivity and human habitation. No construction works at Keyake had commenced yet (June 2011). Further, the Building Material and Technology Promotion Council (BMTPC), the appraisal agency, observed that the site was located very far from Kohima Town and directed the Department to relocate near to Kohima town. This corroborates that the land was randomly purchased without any foresight.



funds²¹, which remained unused.

The Department stated that (December 2011) due to non-availability of 4-5 acres of compact land, available land at the outskirts of Kohima town was purchased. Now with the CSMC approval to take up 1992 DUs on in-situ basis, the plot at Keyake would be used for some other suitable project by the State Government. However, the fact remains that the purchase of plot at Keyake was made out of JNNURM

1.11.3.3 Deviation in design of DUs

As per guidelines and subsequent directive issued (December 2007) by the CSMC each DU should have two rooms, balcony, kitchen and separate bathroom and latrine.



It was observed in audit that as per the DPR approved (December 2006) by the CSMC, every housing block proposed under BSUP in Kohima should have eight DUs each in all floors, each DU facing the other with open space in the middle. All the DUs should have one living room-cum-bedroom, one kitchen, one toilet and one store. As per the revised DPR which was put to tender there was no

provision for store room and eight DUs in a floor were built in one row.

However, during joint physical verification of the DUs it was noticed that two adjoining DUs were interconnected with an opening in the inner wall of the DUs.

²¹ The cost of purchase of Keyake land was ₹2.79 crore (8 acres = 348480 sq ft x ₹80 per sq ft)

Though the reason for such an opening remained unexplained, in the present situation it clearly indicated that only 756 beneficiaries could be accommodated in 1512 DUs under construction as the adjoining DUs can be allotted to only one beneficiary.

Scrutiny of the MBs revealed that though the two adjoining DUs were interconnected with an opening in the inner walls, no deduction were made for the opening while calculating the value of work done leading to over payment of ₹7.02 lakh in respect of 112 DUs for which measurement was taken.

The Department stated that (December 2011) the contractor had already been instructed to close the opening between two adjacent DUs.

1.11.3.4 Payment made before actual execution of work

Rule 350 of NPWD code provides that advance to contractors as a rule was prohibited. Further, the NPWD code prescribe that payment for all works done otherwise than by daily labourers and for all supplies shall be made on the basis of detailed measurements recorded in the MB. The Executive Engineer was also required to exercise 100 per cent check of the measurements recorded by his/her subordinates.

Mention was also made in paragraph 3.14 of the Report of the Comptroller and Auditor General of India for the year ended March 2009 that payments were made without recording detailed measurements and actual execution of work. Test check of Measurement Books of the works revealed that the payments were made before actual execution of works. The test-checked cases are given below:

Table 1.5

Sl. No.	Details of the work	Measurement Book	Amount paid without execution of works	Date of payment	Audit observation (Physical Verification)	Department's reply (December 2011)
1	Building Block No 11 and 12 (G+2 type) under package A-I.	MB No 382 (P/79 to 92)	₹1.21 crore	January 2010	No work was started in these building blocks as of June 2011.	Construction of work is now in good progress.
2	Cost of construction of five G+3 Building Blocks under package C-II.	MB No 384(a) (P/29 to 54)	₹4.58 crore (Excess paid out of this is 0.92 crore)	1 st RA Bill: November 2009 and February 2010	Out of five building blocks for which payment was made, only four building of type G+3 were in progress under Package II. Thus, there was an excess payment of ₹0.92 crore without actual execution of work in one building block.	Works are in progress.
3	Package D	MB No 380(a) (P/138-153)	₹1.30 crore	4 th RA Bill: February 2010	An amount of ₹1.30 crore was paid for other works which were not measured. It was also seen that against the actual execution of 6195.74m ³ of two items of work upto 5 th Running Bill, the Department paid for	The excess payment was adjusted in the 5 th RA bill.

Sl. No.	Details of the work	Measurement Book	Amount paid without execution of works	Date of payment	Audit observation (Physical Verification)	Department's reply (December 2011)
					7004.72m ³ of work in the 4 th RA bill by inflating the quantity of actual work executed.	
4	Approach road at Meriema – Package D.	3 rd RA Bill	₹0.24 crore	19 November 2009	Scrutiny of 3 rd RA bill however, revealed that the contractor was paid 19 per cent above SOR 2005 resulting in excess payment of ₹2.39 lakh.	Excess payment would be recovered in subsequent bills.
Total			₹3.67 crore			

Thus as seen from the above table, the Department in the four test checked projects had paid ₹3.67 crore against the provisions of NPWD code resulting in undue financial benefit to the contractors to that extent.

The Department in reply (December 2011) stated that the works were making good progress and excess payments made were adjusted/being adjusted in running account bills. The fact however, remains that payments were made without actual execution of work in violation of financial rules and NPWD code.

1.11.4 Integrated Housing and Slum Development (IHSDP), Dimapur

The GOI launched IHSDP as a sub-component of JNNURM in December 2005. The basic objective of the scheme was to strive for holistic slum development with a healthy and enabling urban environment by providing adequate shelter and basic infrastructure facilities to the slum dwellers of identified urban areas. The GOI sanctioned (December 2006) a project under Dimapur Municipality at a cost of ₹87.74 crore for construction of 2496 DUs in four colonies.

Scrutiny of records relating to the implementation of the project revealed the following:-

1.11.4.1 Allotment of work

As per CSMC guidelines, the work may be divided into packages and allotted to different contractors in order to complete the work within stipulated time and to avoid any cost and time over runs.

Scrutiny revealed that the Department divided the work into two packages and invited tenders for package 1 A and 1 B and awarded the work for construction of 912 DUs to a contractor in October 2007 and November 2008. In respect of package II, no tender had been called till February 2012.

Against the work order issued for construction of 912 DUs, construction works of only 720 units (G+2 30 Buildings) were in progress at two locations and no work had started in third location till February 2012.

It was further seen from the records that the Department was contemplating to construct third floor on all the buildings under construction in Netaji and Burma Camp. Scrutiny of records and joint physical verification however, revealed that finishing work of terrace (2nd floor) had already been completed and overhead water tanks (with RCC base and PVC tanks) were placed on top. Therefore, there was no prospect of constructing the third floor above those buildings as shown in the photograph.



It was also seen from the Quarterly Progress Reports submitted to the Ministry that against 720 DUs actually taken up, the SLNA reported to GoI stating that construction of 912 DUs were taken up.

Thus, it was evident that the Department had no plan to construct the remaining DUs as no work order was issued till date and buildings were being constructed without any provision for construction of proposed third floor at two locations. The action of the Department in furnishing incorrect reports to the Ministry was irregular and fraught with the risk of mismanagement of funds.

While accepting the facts (December 2011) the Department stated that the proposal to construct third floor was dropped and the works would be executed in two phases. However, the Department was silent on false reporting of 912 DUs to GoI, against 720 DUs actually taken up.

1.11.4.2 Arbitrary revision of Approved DPR

The project was approved by the CSMC in December 2006 at a Project Cost of ₹87.74 crore for construction of 2496²² DUs at four locations under Dimapur Municipality.

However, it was noticed that the DPR was revised by the Urban Development Department to construct 2496 DUs at three locations (Netaji²³, Burma Camp²⁴ and Chekiye²⁵) without obtaining prior approval of the CSMC.

²² Netaji Colony 480, Burma Camp 720, Walford 600, Chekiye 696

²³ G+3 – 15 Buildings-480 DUs (Phase I- 10 G+2, Phase II-5 G+3 and Third Floor on 10 Bldgs)

²⁴ G+3 – 30 Buildings-960 DUs (Phase I-20 G+2, Phase II- 10 G+3 and Third floor of 20 bldgs)

²⁵ G+3 -33 Buildings -1056 DUs (Phase I-8 G+2, Phase II-25 G+3 Bldgs and Third floor of 8 Bldgs)

As per the revised DPR, the project was divided into 3 packages viz. Package 1 A (₹28.07 crore), I-B (₹7.18 crore) and Package II (₹41.70 crore). The remaining amount of ₹10.79 crore was earmarked for purchase of land, consultancy and contingency.

Scrutiny revealed that Package 1 A consisting of construction of 720 DUs and other works was prepared as per SOR 2004 with a premium of 20 percent and Package I B (192 DUs) and Package II (1584 DUs) consisting of construction of 1776 DUs and other works was prepared as per SOR 2008.

Thus, the Department irregularly revised the DPR without obtaining prior approval of the CSMC as provided in the guidelines.

While accepting the facts (December 2011) the Department stated that since State share was almost 50 *per cent* which was too high for the State, the project was broken into Phase I and Phase II. Phase I was taken up with GOI funds for construction of 912 DUs and the remaining was planned to be taken up in Phase II with State Contribution and beneficiary contribution and hence approval of CSMC was not sought.

The reply was not convincing as the Department had obtained funds for construction of 2496 DUs but had taken up construction of only 720 DUs. Further, an amount of ₹36.63 crore had already been spent for construction of only 720 DUs which were not completed (proportionate expenditure for 720 DUs as per project cost amounts to only ₹25.30 crore²⁶). Thus, the number of DUs were reduced without corresponding reduction of project cost.

1.11.4.3 Purchase of land

As per JNNURM guidelines, land free from all encumbrances must be owned by or purchased by the ULBs before the proposal for sanction of the project was brought to the SLSC. Similar to the observation made at para 1.11.3.2 for BSUP, there was lack of planning in respect of IHSDP also.

As per the DPR submitted to the Central Sanctioning and Monitoring Committee (CSMC) for approval, 37 acres of land involving ₹16.11 crore was required for construction of 2496 DUs in 4 locations²⁷ for IHSDP projects in Dimapur.

Audit scrutiny however, revealed that the Department neither conducted any feasibility study nor assessed the actual availability and requirement of land before preparation of the DPR. Thus, against the requirement of 37 acres, the Department purchased only 21.43

²⁶ No of DUs planned: 2496. Project Cost: ₹87.74 crore. Cost per DU: ₹0.0351 crore. For 720 DUs: ₹0.0351 crore x 720 DUs = ₹25.30 crore.

²⁷ Netaji Colony- 8.5 acres, Burma Camp -10 acres, Walford-9 acres and Chekiye-9.5 acres.

acres of land at three locations at a cost of ₹8.81 crore after the project was sanctioned by the CSMC, as detailed below:-

Table 1.6

Sl. No.	Location	Area required	Area purchased	Difference
		(In acres)		
1	Netaji Colony	8.50	2.89	(-) 5.61
2	Burma Camp	10.00	6.44	(-) 3.56
3	Walford	9.00	0.00	(-) 9.00
4	Chekiye	9.50	12.10	(+) 2.60
Total		37.00	21.43	(-) 15.57

As shown above, the Department did not purchase any land at Walford due to non availability of land in that locality and therefore the project proposed at Walford was abandoned and the DPR was modified to accommodate more DUs in other two locations (Chekiye and Burma Camp) without obtaining prior approval of the CSMC.



➤ Scrutiny of records further revealed that the work at Burma Camp was delayed due to non clearance of a saw mill existing at the site despite several requests by the contractor. However, the Department had not taken any initiative to get the land cleared till February 2012 to speed up the work as shown in the photograph.



➤ Though, land measuring 12.10 acres valued at ₹4.74 crore was purchased at Chekiye where 1056 DUs were to be constructed (as per the revised DPR), till February 2012 no work had commenced. Besides, the present land purchased by the Department at Chekiye was not only situated outside Dimapur Municipality but was also originally not specified in the DPR.

The Department while accepting the audit observations stated (December 2011) that they had taken up the matter with DC, Dimapur.

The above instances indicate that the Department did not follow the guidelines of the Scheme for procurement of land primarily due to deficient planning and design, which has already resulted in time overrun of about 8 months (December 2006 to August 2007) though the project was sanctioned by GOI, leading to non-achievement of the objectives of providing affordable housing to the urban poor.

1.11.4.4 Change in Design

As per the suggested design of IHSDP, the DUs should have two rooms, one kitchen and toilet. As per the original DPR, each DU should have one living-cum-dining room, one bed room, a toilet and utility room. However, the Department arbitrarily revised the DPR wherein it was proposed to construct two rooms, a toilet and verandah in each DU.



Joint physical verification revealed that eight DUs in one Building in Netaji Colony and 17 out of 20 Buildings under construction in Burma Camp were being constructed with one room, toilet and veranda without any deduction in floor area.

The action of the Department was not in order as this was done without the approval of the CSMC and in violation of the guidelines.

The Department in reply (December 2011) stated that the DPR for project under IHSDP was neither prepared nor vetted by the Department and the Department also did not have the copy of the DPR. The fact however, remains that the DPR was revised without the approval of the CSMC.

1.11.4.5 Deficiencies in Measurement

Scrutiny of the 4th RA Bill (Bill Amount ₹516.14 lakh) revealed that an amount of ₹171.60 lakh was paid in March 2009 against security fencing, surface drain & storm water drain in Burma Camp and Netaji Colony after recording the measurement of work done as per DPR. However, scrutiny of the 5th RA Bill paid in January 2010 revealed that the actual value of work done for the same items of work up to the 5th RA bill was only ₹146.34 lakh. Thus, the Engineering Division paid an amount of ₹171.60 lakh in the 4th RA bill without actual execution of work.

Scrutiny of the MBs and RA bills further, revealed that the measurement of buildings were recorded in bulk for many building/blocks together without even specifying the location which indicates that bills were being prepared and paid without detailed measurement of actual works done.

The Department in reply (December 2011) stated that 2-3 building blocks having insignificant differences were clubbed together while recording in the MB. The reply was not acceptable as payment made before actual execution of work was irregular and fraught with the risk of mis-utilisation of funds.

1.11.4.6 Quality of work/Social issues

IHSDP guidelines envisaged construction of quality housing in a vector-free²⁸ atmosphere and healthy environment.

- Joint physical verification revealed that the quality of the construction of dwelling units was not satisfactory as can be seen from the photographs shown below:-



The poor quality of works indicates deficient quality control and monitoring mechanism in the Department.

Department stated (December 2011) that the buildings were designed and constructed as per specifications but since, Netaji site was a low lying area, it led to the cracks. This indicates improper planning and design by the Department.

- As per the DPR, there was a provision of ₹2.99 lakh for construction of Water Harvesting Pond at Netaji Colony site. Physical verification revealed that the contractor



constructed an open pond, without any provision for collecting water from the buildings and having no outlet for clearing the water accumulated in the pond. It was also seen that the pond was not fenced. The expenditure incurred for construction of the pond was not only infructuous but also a potential health hazard due to risk of mosquitoes breeding in stagnant water and thus defeating the objective of providing healthy environment.

The Department in reply (December 2011) stated that the pond had now been fenced.

²⁸ Atmosphere free from insects/germs so as to prevent communicable diseases.

1.11.5 Roads and Transportation Projects in Kohima under UIG

The Government of India launched (December 2005) Urban Infrastructure and Governance (UIG) as a sub-component of JNNURM with an aim to improve major urban infrastructure projects relating to water supply including sanitation, sewerage, solid waste management, road network, urban transport and redevelopment of inner (old) city areas with a view to upgrading infrastructure therein, shifting industrial/commercial establishments to conforming areas, etc in 65 Mission cities.

The GOI approved (October 2007) 'Roads and Transportation Project in Kohima' consisting of improvement of six town roads, development of two parking areas, construction of four foot paths and beautification of eight junctions in Kohima at an estimated cost of ₹25.26 crore. The work commenced in December 2008 and was completed in December 2010 against which, the Government released ₹11.93 crore (GOI 11.37 and State ₹0.56 crore) till March 2011.

Scrutiny of records relating to the implementation of the project revealed the following:-

1.11.5.1 Deviation from approved DPR

As per the original DPR prepared by M/s Lea Associates and approved by the CSMC improvement of six roads, beautification of eight junctions, construction of footpath on four roads and parking at two locations were to be taken up at a total cost of ₹25.26 crore.

Audit observed that the division modified the DPR and took up the following works without obtaining prior approval of the CSMC.

Table 1.7

(₹ in lakh)						
Sl. No.	Name of work as per approved DPR	No. of works approved	No. of works executed	Estimated cost	Works actually taken up	Estimated cost of works taken up
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Roads						
1	Billy Graham Road	1	1	313.50	Same works as shown in column (2)	300.42
2	Midland Road	1	1	263.10		442.69
3	Ladies Mile Road	1	1	272.50		250.84
4	Tanquist Road	1	1	222.60		250.33
5	Thizama Road	1	1	720.60		470.68
6	Secretariat Road	1	1	373.90		473.59
Footpaths (as shown in the QPR)						
7	Thizama Road	1	0	25.70	Footpath not taken up at Thizama Road	63.45
8	Billy Graham Road	1	1	64.10	Same works as shown in column (2)	97.81
9	High school Jn to Secy Road	1	1	35.50		₹7.49 lakh included in Roads
10	TCP Gate to SP Point	1	1	65.50		66.09

Development of Parking						
11	Science College, Minister Hill	1	1	37.90	Parking at Ruliezou was constructed instead of approved two works in Column (2).	75.00
12	Vety. Hospital Complex	1		44.10		
Junction Beautification						
13	At 8 locations (8 works)	8	1	83.10	Covering of Centennial Plaza instead of approved eight works in Column (2).	30.36
Others						
Number of works		20	11			
Total project Cost				2525.60		2525.60

As could be seen from the table above, against 20 items of work, the Department took up only 11 items of work and diverted the earmarked funds to other items of work not specified in the DPR. However, the Department submitted Quarterly Progress Reports to the Ministry stating that all the items of work as per the original DPR were executed. Thus, the Department arbitrarily diverted the funds meant for other purpose not covered by the sanctions. As a result nine works projected in the DPR were left undone. The Department also misled the Ministry by furnishing incorrect report.

The Department in reply (December 2011) stated that the funds were utilised for much needed infrastructure with the approval of the State Government and that QPRs were being submitted as per the DPRs. The reply of the Department was not acceptable as the approval of the CSMC was not obtained and funds were diverted to other purpose not covered by the sanction. Besides, the Department furnished incorrect QPRs to the Ministry.

1.11.5.2 Delay in commencement of work

Timely commencement is important for early completion of works within the estimated cost and to achieve the desired outcome of any project.

Though the CSMC approved the project in October 2007, audit scrutiny revealed that the tender for the project was called for and Work Orders issued only in July 2008-February 2009, after a gap of more than one year. Though the project was completed without any cost escalation, the public was deprived of the improved facilities by more than a year.

The Department while accepting the facts (December 2011) stated that delay occurred due to lack of clear directions from GOI regarding tendering, submission of reports, etc. But the fact remains that the Department had been executing works under JNNURM from the year 2007 and was therefore, fully aware of the procedures.

1.11.5.3 Non execution of work



The work order for construction of Footpath at Thizama Road at a cost of ₹61.60 lakh was awarded to a contractor in November 2008.

Scrutiny of MB No.343 (P/187 to 193) revealed that the contractor commenced the work on 15/11/08 and completed on 21/11/09 and the contractor was paid ₹61.57 lakh (Gross) in February 2010.

However, joint physical verification of the site revealed that no footpath was constructed on the road as can be seen in the photograph below:

Thus, the Engineering Division of the Department fictitiously paid ₹61.57 lakh without execution of any work.

The Department stated (December 2011) that the footpath was constructed in another location.

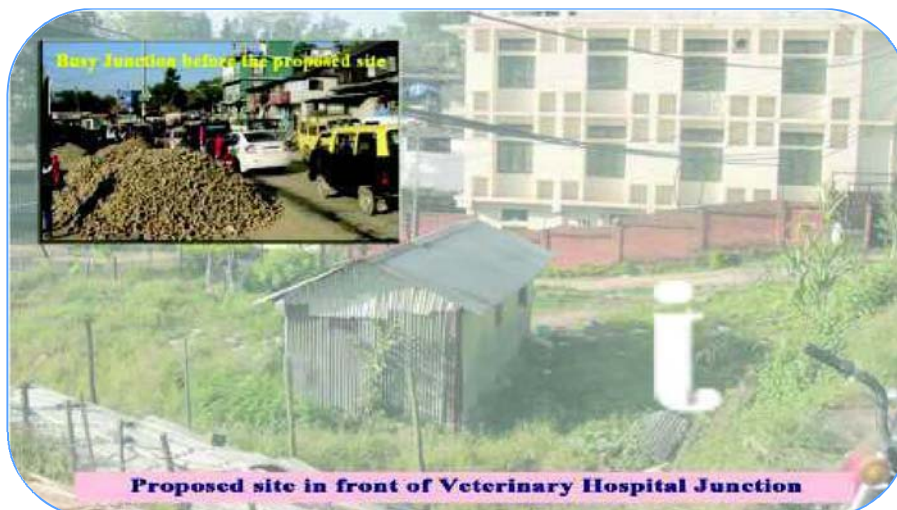
The reply of the Department was not tenable since, in case the footpath was constructed in another location the Department was silent why detailed measurements for construction of footpath at Thizama were recorded in MB.

Thus, an amount of ₹61.57 lakh was paid to the contractor for construction of footpath at Thizama while there existed no footpath at Thizama.

1.11.5.4 Infertuous expenditure

GOI had approved two parking projects at Veterinary Hospital Complex and Science College Road as discussed in paragraph 1.11.5.1 to relieve the traffic congestion at these places.

a) Parking place at Veterinary Hospital Complex: GOI approved the proposal of GON for construction of parking place at Veterinary Hospital Complex at an estimated cost of ₹44.10 lakh with a primary purpose to ease out traffic congestion at that busy junction where vehicles were parked on both sides of the road obstructing the flow of traffic as shown in the photograph below:



The Department however, instead of taking up the approved project at Veterinary Hospital Complex to reduce traffic congestion, had diverted the funds sanctioned to construct parking place at Ruliezou.

b) Parking place at Science College Road: The second parking place which was proposed and got approved from GOI at an estimated cost of ₹37.90 lakh was at Science College Road. However, the parking lot at Science College Road was already constructed under 10 per cent lumpsum provision for North Eastern Areas during 2007-08, as incorporated in paragraph 3.9.5 of Audit Report for the year ended March 2009. The Department diverted these funds also to construct parking place at Ruliezou.

Further scrutiny in audit revealed that the parking place taken up at Ruliezou by diverting the funds sanctioned for Veterinary Hospital Complex and Science College Road, was located on the outskirts of Kohima town, serving no useful purpose towards improvement of urban infrastructure.

During joint physical verification of parking place at Ruliezou (June 2011), it was seen that the developed area was utilised by the Department for parking/storing of heavy machinery. However, a field visit conducted again in October 2011 revealed that a portion of the developed area was partially occupied by a company dealing in frozen foods.



As could be seen from the photograph, the site which was proposed for parking was not adequately developed and fit for parking purpose.

The Department stated (December 2011) that the company dealing with frozen foods had taken temporary permission only for six months and the material shall be removed and parking of vehicles would start soon.

The Department's reply was not convincing since the primary purpose for which the funds were sanctioned was to ease the traffic congestion at Veterinary Hospital Complex and Science College Road by constructing parking places. Further, the very Scheme of JNNURM was meant for providing better infrastructure for urban areas. Thus, diversion of funds for construction of parking place at Ruliezou located on the outskirts of the town had defeated the primary objective for which the funds were sanctioned and the intended objective of easing traffic congestion was also not achieved. As such it resulted in infructuous expenditure.

1.11.6 Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)

To improve infrastructural facilities and to create durable public assets and quality services in towns, GOI launched (December 2005) Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) as a sub component of JNNURM. According to the scheme, GOI would contribute 90 *per cent* of the cost of each project and the remaining 10 *per cent* was to be contributed by the State Government. Assets created under the scheme were to be taken over by the respective ULBs.

The GOI sanctioned (September 2009) one project for 'Upgradation of Chumukedima Town Roads' with an estimated cost of ₹4.24 crore as per the proposal submitted by the Chumukedima Town Council (CTC) through Government of Nagaland. The Government released ₹2.12 crore (GOI ₹1.91 crore and State ₹0.21 crore) against the project till March 2011. Scrutiny of records relating to the implementation of the project revealed the following:-

1.11.6.1 Discontinuation of work and quality of execution

The work was awarded to the contractor in November 2009 with a stipulation to complete the work within 24 months. The contractor commenced the work in November 2009 and was paid ₹211.25 lakh in four RA bills on the basis of measurement taken upto 6 July 2010 (paid on 19/8/2010).



As per report submitted by the Executive Engineer, the contractor had stopped the work since October 2010. Joint physical verification also revealed that work was

discontinued and that pot holes had already appeared on different stretches of roads within 11 months of the completion of the works, which raise doubt about the quality of execution of work.

The Department while accepting the facts (December 2011) stated that the contractor had been asked to complete the work.

1.12. Implementation of Reforms

Audit Objective V: To ascertain whether the reform agenda visualised had been actually achieved.

The main objective of the reforms under JNNURM had been stated to provide an enabling environment for the growth of the cities by enhancing effective delivery of urban services and civic infrastructure through improvements in urban management, land management, financial management and stakeholder participation in local governance. To achieve this objective, State Governments, Urban Local Bodies and para-statal agencies were required to accept implementation of an agenda of reforms.

In the Audit Report of CAG for the year ended 31 March 2009, it was pointed out that effective steps had not been taken to implement the stated reforms.

The PAC while discussing the report had observed (February 2011) that partial guidelines/reforms had just been approved by the Cabinet and proposal submitted to the Ministry and desired that action should be taken.

Reforms to be implemented by the State/ULB/para-statals within the Mission period are broadly categorised as follows:

1.12.1 Mandatory Reforms

- State level reforms like ‘Implementation of 74th Constitution Amendment Act’, ‘Transfer of 18 functions under 12th Schedule’, ‘Amendments in Rent Control legislation’, ‘Rationalisation of Stamp Duty’ etc.
- ULB/Para-statal level reforms were mainly related to systems and process improvement which were time consuming and needed proactive involvement of the ULB like ‘Shift to Accrual based Double Entry Accounting System’, ‘Property Tax Reforms’, ‘Internal Earmarking of Funds for Poor’ and ‘e-Governance’.

1.12.2 Optional Reforms

The State and the ULBs/Parastatals were encouraged to adopt certain set of reforms such as ‘Introduction of Property Title Certification’, ‘Computerised registration of Land and Property’, ‘Revision of Building bye laws’ etc.

1.12.3 Non implementation of Reforms

The State Government and the ULBs including para-statal agencies were required to execute Memorandum of Agreement (MoA) with GOI indicating their commitment to implement identified reforms spelling out the specific milestones to be achieved for each item of reform. Signing of MoA was a necessary condition to access Central Assistance. Three ULBs viz., Kohima Municipal Council, Dimapur Municipal Council and Chumukedima Town Council and Government of Nagaland had signed MoA (February 2007) with the GOI assuring their commitment to implement various Mandatory and Optional reforms during the Mission period.

1. Though incorporated in MoA, the major reforms as per the 74th Constitution Amendment Act had not been implemented as detailed below:

- Elections had to be held mandatorily within six months of the end of the tenure of ULBs. Though the term of the Municipalities/Town Councils had expired in December 2009, no elections were held till date (February 2012) and Council members were being nominated by the State Government.
- State Finance Commission (SFC) was constituted in August 2008. However, the same was not made fully functional till February 2012.
- Though District Planning Committees (DPC) were claimed to be constituted for Kohima and Dimapur in 2008-09, they were not made functional as envisaged. DPCs for other districts had also not been constituted.
- Community Participation law and Public Disclosure law had been passed only in March 2011, i.e. after a delay of more than two years from the target date.

- Though agreed to transfer all 18 functions under 12th Schedule of the Constitution of India within the timeline period and before completion of the programme period, only public health, sanitation, water conservation and solid waste management functions had been transferred to ULBs.

2. Convergence of City Planning functions involving ULBs in City Planning and delivery of urban infrastructure development and management functions was also not achieved. For instance in Mission City, Kohima though CDP was prepared with huge outlay of ₹999.94 crore for different sectors such as water supply, sewerage & sanitation, solid waste management, tourism, drainage, etc., to be executed by various departments, only two projects costing ₹75.68 crore were executed by UDD. Thus the objectives of convergence could not take off as envisaged.

3. The Department had submitted a report to the GOI (March 2011) indicating achievement of ULB/Para-statal level reforms such as preparation of 'Municipal Accounting Manual' and 'shift to Accrual based Double Entry Accounting system', without any actual achievement, thus misleading the GOI.

4. Preparation of Building Bye-laws to make rainwater harvesting mandatory was in progress, as of December 2011.

Thus, though MoA was entered into by the respective ULBs and the Government of Nagaland with GOI, several mandatory reforms had not been taken up/ implemented by the State/ULBs.

The intended objectives of the Constitution of India to bring out reforms in the institutions and make the local bodies vibrant through devolution of powers, funds and functions to the ULBs could not be achieved fully in the State of Nagaland. Further, due to the non-implementation/slow progress in implementation of Mandatory/Optional reforms and lack of involvement of the ULBs, the GOI withheld ₹13.27 crore²⁹ under UIG and UIDSSMT projects since October 2010.

The Department in reply (December 2011) stated that altogether nine reforms had been achieved and two more reforms were under process of implementation. The Mandatory/agreed reforms at ULB level - internal earmarking of funds for the poor and provision of BSUP and State Level Reforms - Reform in rent control, Stamp duty rationalisation to five *per cent*, Repeal of ULCRA, Enactment of Community Participation law and Enactment of public disclosure law had been implemented. The Optional Reforms - earmarking of 25 *per cent* developed land in all housing projects for EWS/LIG and simplification of legal and procedural framework for conversion of agricultural land for non-agricultural purposes had been implemented.

²⁹ UIG-₹11.36 crore and UIDSSMT-₹1.91 crore

1.13 Monitoring and Evaluation

Audit Objective VI: To ascertain whether there was a mechanism for adequate and effective monitoring and evaluation.

1.13.1 Monitoring by Independent Review and Monitoring Agencies

With the intention to review and monitor the projects in the Mission cities and to keep track of the physical and financial progress of projects throughout the project development life-cycle (pre-construction, Construction, Commissioning and trial run and post construction), MoUD evolved a state level mechanism for third party monitoring and review of the projects sanctioned under JNNURM Sub-Mission-I (UIG). To enable SLNAs to set in motion the process of appointing Independent Review and Monitoring Agencies (IRMAs) for monitoring and review of all projects a tool kit was issued.

In compliance with the MoUD directive, the Department appointed M/s Tectra Tech as IRMA for monitoring and evaluation of projects being implemented under UIG during 2009-10. However, it was observed in audit that the IRMA did not visit any of the sites and did not prepare/ submit any reports till February 2012.

While accepting the facts the Department stated (December 2011) that reminder shall be issued to the firm.

1.13.2 Monitoring by Third Party Inspection and Monitoring (TPIM) Agency

As per JNNURM guidelines, TPIM Agency was required to be appointed to bring transparency and quality in the implementation of BSUP and IHSDP projects. The duty of TPIM was to monitor the quality, physical and financial progress of the project.

Water and Power Consultancy Services (India) Limited was appointed as TPIM for Nagaland in September 2010 for monitoring of BSUP and IHSDP projects. TPIM made four visits to the State to review the projects. However, only two reports (second and third report) were available with the Department. It was stated that no report for the previous visits were submitted to the Department.

While accepting the facts the Department stated (December 2011) that the TPIM had made a visit recently and a Report had been submitted.

1.13.3 Monitoring by State Agencies/departments

The State Government set up a Monitoring Cell under Planning and Co-ordination Department to monitor the Centrally Sponsored Schemes during 2008-09. The Monitoring team conducted review of JNNURM projects (BSUP, IHSDP and UIG) only once in 2009-10 along with review of other projects. The Cell commented on the slow progress of BSUP and IHSDP projects and directed the Department to speed up the work

in order to avoid further delay. Despite Committee's comments, the Department failed to complete the works.

The Department stated (December 2011) that it shall take cognisance of the recommendations of the Monitoring Cell for more effective implementation.

Thus, inadequate and poor monitoring of the projects at every stage of project development cycle resulted in inordinate delay in execution of projects besides leading to several deviations from financial rules, codes and approved DPRs such as diversion of funds, payments without execution of work, relocation of works, etc.

1.14. Conclusion

Though the JNNURM guidelines provide for involvement of ULBs in the implementation, the activities under JNNURM had not been devolved to ULBs. The Department submitted the DPRs under BSUP and IHSDP projects without proper appraisal and approval of the SLNA and SLSC. The Department also did not conduct any survey to ensure availability of land and other resources before preparation of the DPRs. The State Government also did not release its share. As a result, the DPRs were revised, works relocated and items of works as per the DPRs were curtailed to the limit of available funds. Deficient contract management and lack of internal controls in the Department resulted in delays in award of contract, delay in execution of works, release of advance payments and payment against unexecuted items of works. The prospect of successful implementation of JNNURM in the State of Nagaland is bleak as the Department had not identified the beneficiaries under BSUP and IHSDP and the dwelling units under construction were not constructed as per the approved specifications. Due to ineffective planning and inaction of the Department in taking remedial actions on the observations pointed out in the earlier audit report, there were instances of time overruns and cost overruns leading to non-achievement of the objectives of providing affordable housing facilities to the urban poor.

1.15. Recommendations

- *The State should strengthen the planning process and preparation of DPRs. CDPs should be prepared for all towns.*
- *Financial management should be strengthened at all levels for timely and adequate release of funds and to avoid instances of incorrect reporting and submission of UCs, violation of prescribed financial procedures, irregular payment of mobilisation advances, delays in submission of claims for reimbursement etc.*
- *Deviation from approved DPRs and curtailment of approved item of works should not be taken up unless unavoidable as it compromises the achievement of the stated objectives besides resulting in time and cost overruns.*

- *The Engineering Wing should ensure that payments are commensurate with the actual execution of the works and action should be taken to recover overpayments along with interest.*
- *The State/ULBs should speed up implementation of urban reforms to facilitate flow of funds from GOI as well as to achieve the objectives of implementation of mandatory and optional reforms.*