Report of the
Comptroller and Auditor General of India
on Local Bodies

for the year ended March 2012

Government of Karnataka
Report No.6 of the year 2013

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PREFACE

1. This Report has been prepared for submission to the Governor under Article 151 of the Constitution.
2. Chapters I and III of this Report contain an overview of the finances and financial reporting of Panchayat Raj Institutions and Urban Local Bodies, respectively.
3. The other chapters deal with the findings of performance audits and financial transactions of Panchayat Raj Institutions and Urban Local Bodies.
4. The Reports containing points arising from audit of the financial transactions relating to General and Social Sector departments including Autonomous Bodies, Economic Sector departments, Statutory Corporations & Government Companies and Revenue Receipts are presented separately.
5. The cases mentioned in the Report are among those which came to notice in the course of test-audit of accounts during the year 2011-12 as well as those which had come to notice in earlier years, but could not be dealt with in previous Reports. Matters relating to the periods subsequent to 2011-12 have also been included, wherever necessary.

OVERVIEW

OVERVIEW

This Report contains four chapters. The first and the third chapter contain a summary of finances and financial reporting of Panchayat Raj Institutions and Urban Local Bodies, respectively. The second chapter contains one performance audit and four paragraphs based on the audit of financial transactions of the Panchayat Raj Institutions. The fourth chapter contains two performance audits and four paragraphs based on the audit of financial transactions of Urban Local Bodies. A synopsis of the findings contained in the performance audits and paragraphs is presented in this overview.

1. An overview of Panchayat Raj Institutions

A review of finances of Panchayat Raj Institutions revealed that there was steady increase in the allocation of funds to Panchayat Raj Institutions by the State Government during the period 2007-12. Zilla Panchayats' control over expenditure was ineffective to the extent of direct transfer of Government of India funds to the implementing agencies. Action has not been taken by the State Government to revise the Activity Map. There was no mechanism at the Apex level to oversee the devolution of functions to Panchayat Raj Institutions. Taluk Panchayats have limited role in the preparation of Budget. Balances under suspense heads of accounts were not reconciled.

(Paragraphs 1.1 to 1.15)

2. Water quality component under National Rural Drinking Water Programme

A performance audit of the implementation of water quality component of National Rural Drinking Water Programme during the period 2007-12 was conducted between June and September 2012.

The performance audit showed that planning was deficient as the annual plans were approved after delays, sometimes stretching to the fag end of the financial year. There were deficiencies in survey of quality affected habitations; as a result the data could not be relied upon. The financial allocation for the quality aspect was deficient resulting in non-utilisation of earmarked funds and there were instances of time and cost overrun, non-completion/delayed completion of works and non-functional/ defunct works. The pace of coverage and completion of projects did not indicate that all the habitations would have access to safe drinking water anytime in near future. Monitoring and inspection of activities under the Programme at different levels was also not adequate.

(Paragraph 2.1)

3. Audit paragraphs – Panchayat Raj Institutions

Out of ₹10.77 lakh required to be remitted to the Government account, the Taluk Social Welfare Officer, Sira Taluk remitted ₹0.77 lakh only and fraudulently withdrew ₹10 lakh. The Taluk Social Welfare Officer then tampered with the Treasury challan to suppress the short remittance and fraudulent withdrawal.

(Paragraph 2.2)

Providing and laying surface dressing in village road works by Panchayat Raj Engineering Divisions in Bagalkot, Bellary, Chickmagalur, Gulbarga and Ramanagara districts contrary to the norms of Indian Roads Congress resulted in avoidable extra expenditure of ₹1.42 crore.

(Paragraph 2.3)

4. An overview of Urban Local Bodies

The 74th Constitutional amendment envisioned creation of local self-governments for the urban areas and envisaged devolution of 18 functions to Urban Local Bodies. However, the State Government had not transferred two functions. The annual accounts prepared by Urban Local Bodies were not certified by the Chartered Accountants for the years 2008-12. The budgets prepared by the Urban Local Bodies were not realistic as evidenced by savings in both Receipts and Payments vis-a-vis Budget provisions. The Urban Local Bodies utilised five to 100 per cent of Thirteenth Finance Commission grants on solid waste management during the period 2010-12. Internal Control mechanism was inadequate as there was no Internal Audit Wing and there were instances of improper maintenance of cash books, bank books and non-submission of statement of expenditure.

(Paragraphs 3.1 to 3.13)

5. Jawaharlal Nehru National Urban Renewal Mission projects implemented by Bruhat Bangalore Mahanagara Palike

Jawaharlal Nehru National Urban Renewal Mission was launched with a view to upgrading the infrastructure facilities and service delivery system to the citizens of cities and towns in a Mission mode.

A performance audit of the projects covering the mission period of 2005-12 was conducted to assess the completeness of infrastructure facilities created and delivery of basic services to the urban poor by the Bruhat Bangalore Mahanagara Palike.

Audit observed that the implementation of some of the mandatory and optional reforms at the State and Bruhat Bangalore Mahanagara Palike level was not achieved. Financial discipline was poor as evidenced by diversion of funds for other purposes, non-maintenance of statutory records, non-reconciliation of balances, non-maintenance of revolving fund, etc. In the remodelling of primary and secondary storm water drains, the contractors derived undue benefits by executing items for which abnormally high rates were negotiated. The rates had been brought down after negotiation for items which were not executed or hardly executed. These were subsequently re-awarded through additional and supplementary works. As a result, the works were executed in stretches where work fronts were available and the projects remained incomplete, thereby defeating the objective of remodelling of storm water drains. While payment of excess rate was noticed in completed road infrastructure projects, delay in execution of other road projects was attributed to non-availability of land. Implementation of housing projects under Basic Services to the Urban Poor was a failure since only four per cent of the dwelling units proposed could be completed within the Mission period.

(Paragraph 4.1)

6. Chief Minister's Special Grant of ₹100 crore each to seven City Corporations

Government of Karnataka had approved (August 2008) release of ₹100 crore to each of the seven City Corporations over a period of two years during 2008-2009 and 2009-10 to promote these cities as emerging growth centres and to reduce the pressure on Bangalore city. Government approved (August 2010) release of another ₹100 crore to each of these seven City Corporations during 2011-14.

A Committee headed by the Minister-in-charge of the district was to prepare an Action Plan for implementing works designed to deliver important municipal services. As the Committees only reacted to the recommendations coming from the City Corporations, there was no clear articulated minimum threshold measure for the cities' growth expected to be achieved by works to be taken up. Road works dominated the Action Plans prepared by the Committees and these constituted 58 to 68 per cent of the works taken up. Several works like construction and improvement of parks and improvement of village roads had also been included in the Action Plans and executed, though not permissible.

Estimation for works had been prepared without proper investigation and also been split up to avoid sanction of higher authorities. The tendering process lacked transparency as controls prescribed for ensuring competitive bidding had been overridden and contracts had been awarded to ineligible agencies. The contract management was ineffective as many items of work had been executed in disregard of the Indian Roads Congress guidelines, without justification. Payments to contractors had been made in several instances without following due procedures.

Monitoring of the delivery of the intended outcomes by the individual works or the programme of works was absent as the works taken up had been disaggregated and lacked proper structuring.

(Paragraph 4.2)

7. Audit paragraphs - Urban Local Bodies

Solid waste management in Belgaum district was inadequate as evidenced by non-segregation of municipal solid waste and non-declaration of buffer zone. Belgaum City Corporation made irregular payment on inert waste for tipping fees.

(Paragraph 4.3)

City Corporation, Gulbarga incurred wasteful expenditure of ₹1.05 crore under Urban Ashraya Housing Scheme, besides denial of housing facilities to identified beneficiaries belonging to Economically Weaker Section.

(Paragraph 4.4)

Undue haste in awarding and execution of a work by Mangalore City Corporation coupled with fictitious recordings in Measurement Book resulted in payment of ₹90.45 lakh before completion of work.

(Paragraph 4.5)

CHAPTER-I

An overview of Panchayat Raj Institutions

CHAPTER I

SECTION 'A'
AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

1.1 Background

Consequent to the 73rd Constitutional amendment, the State Government enacted the Karnataka Panchayat Raj (KPR) Act, 1993 to establish a three-tier Panchayat Raj Institutions (PRIs) system at the village, taluk and district levels in the State and framed rules to enable PRIs to function as institutions of local self-government.

The PRIs aim to promote participation of people and effective implementation of rural development programmes for economic development and social justice including those enumerated in the Eleventh Schedule of the Constitution.

1.2 State profile

The comparative demographic and developmental picture of the State is given in **Table 1.1** below. The population growth in Karnataka in the last decade was 15.67 *per cent* and was less than the national average of 17.64 *per cent*.

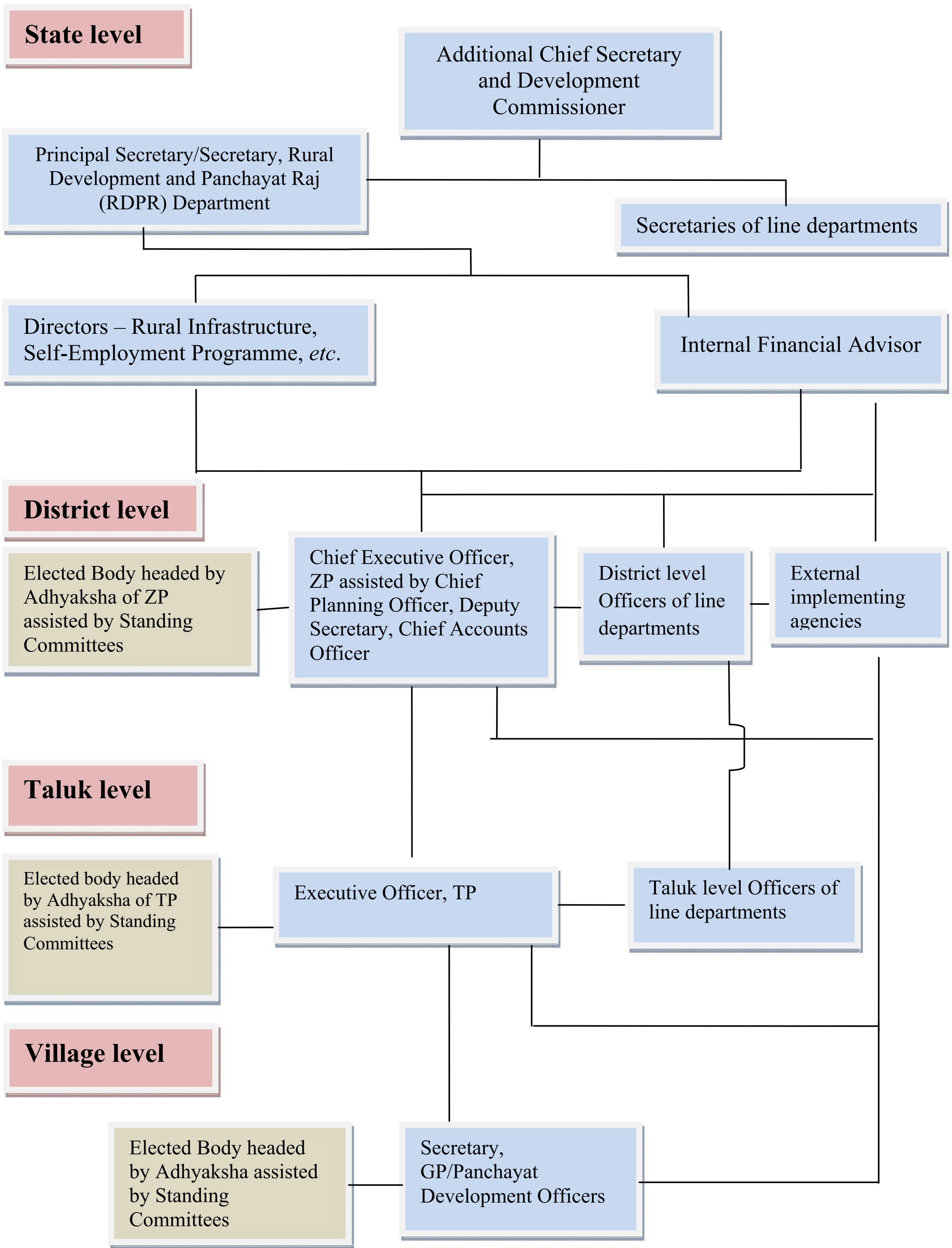
The urban and rural population decadal growth rates were 7.63 *per cent* and 31.27 *per cent* respectively. As per census 2011, the population of the State was 6.11 crore, of which women comprise 49 *per cent*. The State has 114 backward taluks out of which 39 taluks spread over 14 districts are the most backward.

Table 1.1: Important statistics of the State

Indicator	Unit	State value	National value	Rank amongst all States
Population	1,000s	61,131	12,10,193	9
Population density	Persons per Sq Km	319	382	13
Urban population	Percentage	38	31	4
Number of PRIs	Numbers	5,833	2,40,540 (Approx)	14
Number of Zilla Panchayats (ZPs)	Numbers	30	540 (Approx)	8
Number of Taluk Panchayats (TPs)	Numbers	176	6,000 (Approx)	13
Number of Grama Panchayats (GPs)	Numbers	5,627	2,34,000 (Approx)	16
Gender ratio (females per 1000 males)	Numbers	968	940	11
Poverty ratio	Percentage	25	22	NA
Literacy	Percentage	76	74	16

Source: Economic Survey Report 2011-12, Census 2011 and annual progress report of Rural Development and Panchayat Raj Department 2011-12.
NA: Not available

1.3 Organisational structure of PRIs



1.3.1 Standing Committees

The PRIs shall constitute Standing Committees to perform the assigned functions. The political constitution of the Committees is given in **Table 1.2** below:

Table 1.2: Political constitution of the Standing Committees

Level of PRIs	Chief political executive	Standing Committees	Political executives of Standing Committees
GP	Adhyaksha	(a) Production Committee (b) Social Justice Committee (c) Amenities Committee	Chairman (Elected among the elected members of GPs, TPs and ZPs)
TP	Adhyaksha	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee	
ZP	Adhyaksha	(a) General Standing Committee (b) Finance, Audit and Planning Committee (c) Social Justice Committee (d) Education and Health Committee (e) Agricultural and Industries Committee	

Source: KPR Act

1.4 Financial profile

1.4.1 Fund flow to PRIs

The resource base of PRIs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, State Government grants and Central Government grants for maintenance and development purposes. The fund-wise source and its custody for each tier and the fund flow arrangements in flagship schemes are given in **Tables 1.3** and **1.4**, respectively. The authorities for reporting use of funds in respect of ZPs, TPs and GPs are Chief Accounts Officer (CAO), Executive Officer (EO) and Secretary/Panchayat Development Officer (PDO) respectively.

Table 1.3: Fund flow mechanism in PRIs

Nature of Fund	ZPs		TPs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	-	-	Assessees and users	Bank	Assessees and users	Bank
Assigned revenues	State Government	Treasury	State Government	Treasury	State Government	Bank
SFC						
State Plan						
CFC/CSS grants	GOI	Bank	GOI	Bank	GOI	Bank

Source: As furnished by the RDPR Department/PRIs
CSS-Centrally Sponsored Scheme; GOI-Government of India

Table 1.4: Fund flow arrangements in flagship schemes

Scheme	Fund flow
Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	GOI and State Government transfer their respective shares of MGNREGS funds into a bank account, called State Employment Guarantee Fund (SEGF), set up outside the State accounts. The Director, MGNREGS administers onward transfer of funds from it to PRIs.
Sarva Shiksha Abhiyan (SSA)	The funding pattern of SSA is aligned with the Five Year Plans. The funding was to be shared between the Central and State Governments in the ratio of 75:25 during Tenth Five Year Plan (2002-07) and 50:50 thereafter. The State Government releases the funds to the district level officers through Chief Executive Officers (CEOs) of ZPs, who in turn releases to School Development and Monitoring Committees for implementation of the Scheme.
National Rural Health Mission (NRHM)	Funds for NRHM are released by GOI to the States through two separate channels *i.e.*, through State Finance Department for direction and administration, rural and urban family welfare services, procurement of supplies and services, *etc.*, and directly to the State Health Society for implementation of the Scheme. From the year 2007-08, the States were to contribute 15 *per cent* of the required funds duly reflecting their requirements in a consolidated Programme Implementation Plan (PIP). Funds were provided on the basis of approval of these PIPs by GOI.
Mid-Day Meal Scheme (MDM)	The Central assistance received is credited to the State funds and the State Government, after including its allocation, releases funds to the ZPs. The Central assistance for the Scheme was provided by way of free supply of food grains and also expenditure reimbursed in the form of subsidy for transportation and cost of cooking. In addition, assistance for physical infrastructure like kitchen-cum-store, water supply, *etc*., was also provided by GOI.
Pradhan Mantri Gram Sadak Yojana (PMGSY)	PMGSY is a 100 *per cent* Centrally Sponsored Scheme (CSS). Fifty *per cent* of the cess on high speed diesel is earmarked for this programme. The State Rural Road Development Agency is to select a bank with internet connectivity at the State Headquarters for maintaining the programme account. Once selected, the account shall not be changed to any other bank/branch without the concurrence of National Rural Road Development Agency. The Ministry of Rural Road Development releases the programme funds, administrative/travel expenses and quality control funds into the programme and administrative account.

Source: Schemes guideline

The grants enjoin the sanctioning authorities in GOI to ensure proper utilisation of the grant money. This is achieved through progress reports, Utilisation Certificates (UCs) and internal audit of scheme accounts in PRIs by the CAO.

1.4.2 Resources: Trends and Composition

Table 1.5 below shows the trends of resources of PRIs for the period 2007-08 to 2011-12.

Table 1.5: Time series data on resources of PRIs

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Own revenue~	202.86	205.59	224.09	NA	NA
CFC transfers (Twelfth /Thirteenth) $^{\pi}$	177.60	177.60	177.60	419.38	769.58
Grants from State Government and assigned revenues^	9,488.13	9,841.85	11,216.04	11,789.48	13,521.70
GOI grants for CSS and State Schemes*	2,680.40	3,285.09	2,871.95	3,575.74	2,253.08

Other receipts*	99.57	82.29	13.28	257.91	156.77
Total	**12,648.56**	**13,592.42**	**14,502.96**	**16,042.51**	**16,701.13**

Source: Certified annual accounts up to 2010-11 for ZPs and TPs
^ Figures as furnished by Treasury for 2011-12 in respect of ZPs and TPs
~ GPs' figures as furnished by RDPR Department for GPs. (2007-08: 5,411 GPs, 2008-09: 4,002 GPs, 2009-10: 4,449 GPs)
* GOI grants released to TPs through ZP accounts are excluded
π Utilisation Certificates of State Government. NA: Not available

Increase in resources of PRIs during 2011-12 was mainly due to increase in release of GOI grants under National Rural Drinking Water Programme (NRDWP) and Thirteenth Finance Commission.

1.4.3 Application of Resources: Trends and Composition

Table 1.6 below shows the trends of sector-wise application of resources of ZPs and TPs for the period 2007-08 to 2011-12.

Table 1.6: Application of resources sector-wise

(₹ in crore)

	2007-08	2008-09	2009-10	2010-11	2011-12
ZILLA PANCHAYATS					
State grants and assigned revenues					
Capital Expenditure	**38.61**	**17.92**	**0**	**0.46**	**4.57**
Social Services	31.95	17.61	0	0.46	1.37
Economic Services	6.66	0.31	0	0	3.20
Revenue Expenditure	**3,454.69**	**3,558.22**	**3,420.21**	**4,220.94**	**5,368.96**
General Services	105.34	123.22	115.56	121.93	44.69
Social Services	2,253.07	2,574.15	2,467.20	3,234.42	4,347.23
Economic Services	1,095.83	860.85	837.45	864.59	977.04
Suspense	0.45	0	0	0	0
CSS and State Schemes					
Capital Expenditure	**57.72**	**64.08**	**8.58**	**153.46**	**176.97**
Social Services	57.72	64.08	8.58	145.15	164.36
Economic Services	-	-	0	8.31	12.61
Revenue Expenditure	**1,941.02**	**1,455.20**	**1,605.88**	**3,308.29**	**2,612.34**
General Services	0	0	0.72	0	0
Social Services	454.52	548.18	374.36	453.09	329.28
Economic Services	1,486.50	907.02	1,230.80	2,855.20	2,283.06
Total	**5,492.04**	**5,095.42**	**5,034.67**	**7,683.15**	**8,162.84**
TALUK PANCHAYATS					
Capital Expenditure	**0**	**0**	**0.16**	**0.19**	**0**
General Services	0	0	0	0	0
Social Services	0	0	0.15	0.03	0
Economic Services	0	0	0.01	0.16	0
Revenue Expenditure	**3,951.21**	**4,537.89**	**4,971.83**	**6,333.23**	**7,087.02**
General Services	65.95	0	0	0	0
Social Services	3,427.17	4,194.75	4,560.82	5,841.25	6,389.61
Economic Services	350.04	334.84	408.75	491.98	697.41
Suspense	108.05	8.30	2.26	0	0
Grand Total	**9,443.25**	**9,633.31**	**10,006.66**	**14,016.57**	**15,249.86**

Source: Separate Audit Reports (SARs) of ZPs and consolidated SARs for TPs up to the year 2010-11. Figures as furnished by Treasury for 2011-12 for ZPs and TPs and CSS/State scheme figures are provisional

The transfer of funds by GOI directly to the implementing agencies, not routed through ZP and TP funds, rendered ineffective the control of the ZPs over expenditure. This also resulted in their inability to monitor the progress of works/expenditure incurred through GPs, external agencies and also district level offices. The position still persists despite being pointed out in earlier Audit Reports.

1.4.4 Quality of expenditure

In view of the importance of public expenditure under development heads of account for social and economic development, it is important for the State Government to take appropriate expenditure rationalisation measures and lay emphasis on provision of core public goods and services which will enhance the welfare of the citizens. Apart from improving the allocation towards development expenditure, the efficiency[1] of expenditure is also reflected by the ratio of capital expenditure to total expenditure. **Table 1.7** below shows the key parameters for evaluating the quality of expenditure of ZPs and TPs:

Table 1.7: Statement showing quality of expenditure

(₹ in crore)

Year	Total expenditure	Development Expenditure (DE)	Percentage of DE to Total	Social Sector Expenditure (SSE)	Percentage of SSE to Total	Capital Expenditure (CE)	Percentage of CE to Total
2007-08	9,443.25	11.74	0.12	6,134.76	64.96	96.33	1.02
2008-09	9,633.31	9.63	0.10	7,317.08	75.96	82.00	0.85
2009-10	10,006.66	13.18	0.13	7,411.11	74.06	8.74	0.09
2010-11	14,016.57	57.96	0.41	9,528.76	67.98	154.11	1.10
2011-12	15,249.86	13.34	0.09	11,066.12	72.57	181.54	1.19

Source: Annual Progress Reports of RDPR and SARs up to 2010-11 and 2011-12

1.4.5 Public investment in social sector and rural development through major CSS during 2011-12 is given in **Table 1.8**.

Table 1.8: Statement showing investment through major CSS

(₹ in crore)

Schemes	2011-12				Percentage of shortfall in utilisation
	Opening Balance	Releases	Total	Expenditure	
MGNREGS	1,095.93	859.75	1,955.68	1,640.99	16.09
NRDWP	321.99	1,186.19	1,508.18	1,181.52	21.66
PMGSY	529.00	87.00	616.00	446.35	27.54
Indira Awas Yojana (IAY)	113.70	438.85	552.55	302.67	45.22
Total Sanitation Campaign (TSC)	--	119.89	119.89	68.12	43.18

Source: Annual/Progress reports of RDPR and Management Information System (MIS)

It could be seen from the table above that the available funds under PMGSY, IAY and TSC schemes were not utilised optimally during the year 2011-12.

1.4.6 Rural Development Programmes

The Rural Development Programmes aim at facilitating development of rural areas through a number of State and District sector programmes. Major programmes/schemes implemented by PRIs are detailed in **Appendix 1.1**. Audit observed that the expenditure incurred towards Gram Swaraj Project, Suvarna Gramodaya Yojane and Mukhya Mantri Grameena Raste Abhivrudhi Yojane (CMGSY) during 2011-12 varied from 57 *per cent* to 82 *per cent* of total availability of funds.

[1] The capital expenditure reflects creation of assets which is a pointer for the efficiency of expenditure.

1.5 State Finance Commissions

The State Government constituted three SFCs to determine the principles on the basis of which adequate financial resources would be ensured for PRIs.

The details of finances of the State, share of PRIs as decided (October 2011) by the State Government based on the Third SFC recommendations and funds actually released to PRIs for the year 2011-12 were as in **Table 1.9** below:

Table 1.9: Details of allocation by the State Government during 2011-12

Particulars	₹ in crore
Non-Loan Net Own Revenue Receipts (NLNORR) of the State	50,563.00
Allocation as decided by the State Government (32 *per cent* of NLNORR)	16,180.16
Funds actually released to PRIs	15,122.83
Amount short released to PRIs	1,057.33

Source: State Finance Accounts

It could be seen from the table above that the funds released by the State Government constituted only 30 *per cent* of the NLNORR against the decision for allocation of 32 *per cent.*

1.6 Devolution of Functions, Funds and Functionaries

1.6.1 Functions

The 73rd amendment to the Constitution envisages transfer of the functions listed in the Eleventh Schedule to PRIs. Accordingly, the State Government through executive orders had to transfer all the 29 subjects to different tiers of PRIs. For effective functioning of both the State Government and PRIs, Function Activity Mapping delineated the role and responsibilities of each tier of PRIs under each transferred subject. The State Government, however, devolved functions under 26 subjects. While the 'Public Distribution System' is implemented by the Food and Civil Supplies Department, 'Social welfare' and 'Welfare of the weaker sections' are implemented by both the State Government and PRIs.

The functions of Agriculture and Soil Conservation were selected in audit to assess the extent of transfer of funds, functions and functionaries in two selected districts[2]. The agriculture functions were carried out by the Agriculture Department and that of Soil Conservation by the Watershed Development Department.

The State Government has distributed 82 functions under eight activities of Agriculture and 11 functions under one activity of Soil Conservation among PRIs as per Activity Map published during August 2003.

As devolution of governance to the different tiers of PRIs involved a large number of line departments, there was a need to monitor the devolution through a 'Monitoring Cell' at the State level. However, no such cell/mechanism is in place in the State. The Activity Map brought out in the year 2003 had not been revised even after nine years.

[2] Bidar and Hassan

It was observed in the test-checked districts that out of 25 functions to be transferred to ZPs under Agriculture, only 17 functions were transferred. Out of 32 functions to be transferred to TPs, only 24 functions were transferred. The activities of Post Harvest Management, Soil testing and Protection and maintenance of village commons were not transferred to the PRIs[3] and remained with the State sector. None of the 25 functions to be transferred to GPs were transferred to them.

Though all the functions of the Soil Conservation department were transferred to the ZP and TP levels, none of the functions were transferred to GPs. The activities not transferred to PRIs were carried out through state sector programmes for which the action plans were approved by the respective Directorate instead of PRIs.

1.6.2 Funds

Funds required for the implementation of activities were to be devolved along with the transfer of functions. The details of funds released to PRIs through District and State Sector programmes are as in **Table 1.10**.

Table 1.10: Details of sector- wise releases and expenditure for the period 2007-12

(₹ in crore)

Name of the Function	Releases			Expenditure		
	State Sector (Percentage)	District Sector (Percentage)	Total	State Sector (Percentage)	District Sector (Percentage)	Total
Agriculture	1,809.35 (94)	110.43 (6)	1,919.78	1,643.25 (94)	108.88 (6)	1,752.13
Soil Conservation	691.28 (41)	993.20 (59)	1,684.48	537.88 (40)	812.84 (60)	1,350.72

Source: Annual Progress reports of Agriculture and Watershed Development Departments

It could be seen from the above table that 94 *per cent* of expenditure was incurred under Agriculture function from the State Sector and only six *per cent* from the district sector. This indicates that the funds released under district sector programmes were not in proportion to the functions transferred to the PRIs under Agriculture department. Further, it was also observed that more expenditure was incurred under District sector than State sector in respect of soil conservation activity during the period 2007-12.

1.6.3 Functionaries

The officers and staff required for performing various functions entrusted to PRIs are posted by the Government from amongst its own officers and staff. Though these Government servants are on deputation to PRIs, the Karnataka Civil Services (Classification, Control and Appeal) Rules,1957 [KCS (CCA) Rules] prescribe that the CEO of ZP shall have the powers of the appointing authority in respect of Government servants of Group B, C and D and Doctors working in Primary Health Centres, for placing them under suspension and of the disciplinary authority for the purpose of taking disciplinary proceedings against such Government servants and to impose any of the penalties specified in Sub Rules I to IV (a) of Rule 8 of KCS (CCA) Rules.

[3] PRIs for Agriculture at ZP and TP level are Joint Director of Agriculture (JDA) and Assistant Director of Agriculture (ADA) respectively

The vacancy position in selected districts was as detailed in **Table 1.11**:

Table 1.11: Details of vacancy position of technical posts as of March 2012

District	Agriculture[4]			Soil conservation		
	Sanctioned	Working	Vacancy (Percentage)	Sanctioned	Working	Vacancy (Percentage)
Bidar	385	211	174 (45)	45	41	4 (9)
Hassan	186	42	144 (77)	78	40	38 (49)
Total	**571**	**253**	**318 (56)**	**123**	**81**	**42 (34)**

Source: As furnished by the JDA and District Watershed Development Officers (DWDO) of the districts

It could be seen from the above table that more than 55 *per cent* of technical posts[5] in Agriculture department were not filled by the State Government. Similarly, 34 *per cent* of technical posts relating to Soil Conservation functions in the Watershed Development Department were not filled by the State Government.

1.7 District Planning

1.7.1 The objective of district planning is to arrive at an integrated, participatory, coordinated idea for development of a district. The District Planning Committee (DPC) in each district, constituted by the State Government is responsible for consolidation of plans of all PRIs and Urban Local Bodies (ULBs). Audit observed the following deficiencies in district planning in the test- checked districts.

1.7.2 Preparation of District Development Plans

1.7.2.1 GOI had issued (November 2007) guidelines for preparation of a Comprehensive District Development Plan (CDDP) for each district for the Eleventh Five Year Plan (EFYP) period (2007-12) facilitating the DPCs to prepare Annual District Development Plans (ADDPs) in tune with the CDDP. The Ministry of Panchayati Raj, GOI had also instructed for preparation of CDDP by March 2008. Audit observed that in both the test-checked districts (Bidar and Hassan) the CDDPs were submitted (July 2010) by the respective consultants after a delay of more than two years after prescribed date of completion and after three years of commencement of EFYP. Thus, the CDDPs were not utilised for the preparation of ADDPs for the years 2007-08 to 2009-10 by DPC. The Chief Planning Officer, ZP, Bidar replied (December 2012) that the delay in preparation of CDDP was by the agency which prepared the CDDP.

1.7.2.2 Functioning of DPC

As per the provisions of KPR Act, the DPC was required to meet once in a quarter to prepare development plans for the district, coordinate planning, evaluate implementation of the plan programmes and promote innovative strategies. Audit observed in test-checked districts that the DPCs did not meet regularly and only four and 10 meetings were held in Hassan and Bidar ZPs, respectively, for the period 2007-08 to 2011-12, instead of the prescribed 20 meetings in each District.

[4] Including the staff position of Raitha Samparka Kendras (RSK)
[5] Agriculture Officer, Assistant Agriculture Officer, Assistant Horticulture Officer, *etc.*

1.8 Accountability framework

1.8.1 Audit mandate

1.8.1.1 State Accounts Department (SAD) is the statutory external auditor for GPs. Its duty, *inter alia,* is to certify correctness of accounts, assess internal control system and report cases of loss, theft and fraud to audited entities and to the State Government.

1.8.1.2 The Comptroller and Auditor General of India (CAG) audits and certifies the accounts of ZPs and TPs under Section 19(3) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971.

Audit of accounts of 188 ZPs/TPs against 206 for the period up to 2011-12 was conducted as of March 2012.

The State Government entrusted (May/July 2011) the audit of GPs under Technical Guidance and Supervision (TGS) Module to the CAG by amending the KPR Act, 1993. As of March 2012, 149 GPs have been audited under TGS module.

SECTION 'B' – FINANCIAL REPORTING

1.9 Framework

1.9.1 Financial reporting in the PRIs is a key element of accountability. The best practices in matters relating to drawal of funds, incurring of expenditure, maintenance of accounts, rendering of accounts by the ZPs and TPs are governed by the provisions of the KPR Act, Karnataka ZPs (Finance & Accounts) [KZP (F&A)] Rules, 1996, KPR TP (F&A) Rules, 1996, Karnataka Treasury Code, Karnataka Financial Code, Manual of Contingent Expenditure, Karnataka Public Works Accounts Code, Karnataka Public Works Departmental Code, Stores Manual, Budget Manual, other Departmental Manuals, standing orders and instructions.

1.9.2 Annual Accounts of ZPs and TPs are prepared in five statements for Revenue, Capital and Debt, Deposit and Remittance (DDR) heads as prescribed in Rule 37(4) and 30(4) of KZP (F&A) and KPR TP (F&A) Rules, 1996. GP accounts are prepared on accrual basis by adopting Double Entry Accounting System (DEAS) as prescribed under KPR GPs (Budgeting and Accounting) Rules, 2006. As per the recommendations of the Thirteenth Finance Commission (TFC), the ZPs and TPs prepared the accounts in the Model Accounting System (MAS) formats from 2011-12, but the GPs were yet to adopt the MAS formats.

1.10 Financial Reporting issues

1.10.1 Budget formulation

Budget is the most important tool for financial planning, accountability and control. As per KPR Act, the budget proposals containing detailed estimates of income and expenditure expected during the ensuing year were to be prepared by the respective Standing Committees of PRIs after considering the estimates and proposals submitted by the executive authorities of PRIs every year. After considering the proposals, the Finance, Audit and Planning Committee was to prepare the budget showing the income and expenditure of the respective PRIs for the ensuing year and to place it before the governing body not later than the tenth day of March every year. The approved budget of PRIs had to be consolidated by the respective ZPs for submission to the State Government for consideration in the State budget. Further, supplementary budget was to be prepared and submitted to the State Government for approval in case of requirement exceeding sanctions and limitations.

1.10.1.1 Limited role of TPs in the preparation of Budget

Two ZPs[6] and three TPs[7] were test-checked to review the controls and financial reporting systems in PRIs. It was observed that all the test-checked TPs prepared budget for only salary and forwarded to ZPs for incorporation in the ZP budget. No budget proposals were prepared for TP programmes by TPs, instead it was the ZPs which finalised the budget proposal for the district sector programmes which included TP programmes and forwarded to Government for allocation of funds. The State Government allocated lump sum grants to TPs under each ZP. The ZPs allocated funds to each TP under

[6] Bidar and Hassan
[7] Alur, Holenarasipura and Humnabad

the district. Thus, TPs did not have much role in preparation of budget for TP schemes.

1.10.1.2 Budget proposals and releases of funds in the Agriculture and Soil Conservation functions

Audit reviewed budget proposals and releases of funds to the Agriculture and Soil Conservation functions in the selected districts. The details of budget proposed, releases and expenditure are given in **Table 1.12**.

Table 1.12: Details of Budget proposals, allocation and expenditure

(₹ in crore)

Year	Function	Budget Proposed	Budget allocated	Amount released	Short release (percentage) w.r.t. allocation	Expenditure (percentage to Releases)	Savings w.r.t. budget proposed (Percentage)
(1)	(2)	(3)	(4)	(5)	(6) (6=4-5)(6/4*100)	(7) ((5-7)/5*100)	(8) (8=7-3)(8/3*100
2007-08	Agriculture	4.85	5.18	4.63	0.55 (11)	4.05 (87)	0.80 (16)
	Soil conservation	21.60	22.60	4.97	17.63 (78)	4.97 (100)	16.63 (77)
2008-09	Agriculture	4.47	4.25	3.58	0.67 (16)	3.25 (91)	1.22 (27)
	Soil conservation	26.07	20.87	14.54	6.33 (30)	9.55 (66)	16.52 (63)
2009-10	Agriculture	4.35	4.31	4.27	0.04 (1)	4.23 (99)	0.12 (3)
	Soil conservation	21.70	17.83	16.41	1.42 (8)	13.13 (80)	8.57 (39)
2010-11	Agriculture	4.39	4.39	4.07	0.32 (7)	3.90 (96)	0.49 (11)
	Soil conservation	26.71	16.57	9.17	7.40 (45)	8.54 (93)	18.17 (68)
2011-12	Agriculture	4.47	4.47	3.70	0.77 (17)	3.47 (94)	1.00 (22)
	Soil conservation	10.85	8.72	3.62	5.10 (58)	5.15 (142)	5.70 (53)
Total	**Agriculture**	**22.53**	**22.60**	**20.25**	**2.35 (10)**	**18.90 (93)**	**3.63 (16)**
	Soil conservation	**106.93**	**86.59**	**48.71**	**37.88(44)**	**41.34 (85)**	**65.59 (61)**

Source: As furnished by the JDA and DWDO of the districts

It could be seen from the above table that the State Government released less than the amount allocated, ranging from eight to 78 *per cent* during the period 2007-08 to 2011-12 towards Soil Conservation activities and one *per cent* to 17 *per cent* towards Agriculture activities. The departments did not utilise the full amount released by the Government for these activities during the period 2007-12. The expenditure ranged from 87 *per cent* to 96 *per cent* for Agriculture activities and from 66 *per cent* to 142 *per cent* for Soil Conservation activities. Further, there were savings aggregating 16 *per cent* and 61 *per cent* with respect to budget proposed and expenditure incurred during 2007-12 in Agriculture and Soil Conservation activities respectively. Thus, the budget proposed by the departments was in a routine manner without considering the actual requirements, resulting in unrealistic budget.

1.10.1.3 Unauthorised excess expenditure by District Watershed Development Department

According to Rule 33(10) of KZP (F & A) Rules 1996, the Drawing and Disbursing Officers (DDOs) of the ZP shall satisfy themselves regarding the availability of budget provision before incurring any expenditure from ZP funds and according to rule 38(2) *ibid*, the Finance, Audit and Planning Committee can ratify the excess expenditure over budget provision after examination. Further, the CEO, ZP is responsible for controlling expenditure against allotment of funds. The District Watershed Development Office, Bidar incurred excess expenditure of ₹3.42 crore over the funds authorised during 2007-08, 2010-11 and 2011-12 under Major Head - 2402 thus reflecting weak budgetary control.

1.10.2 Rush of expenditure

The financial rules require that expenditure should be evenly distributed throughout the year. The rush of expenditure particularly in the fag end of the financial year is regarded as a breach of financial rules. Audit observed in the selected districts that 44 *per cent* of the total annual expenditure was incurred during the last quarter of the year 2011-12 against the release of 33 *per cent* during the last quarter of the year 2011-12.

1.10.3 Loss of grants

ZPs are to draw the grants released by the Government as soon as it is received and release the funds to DDOs. However, it was observed that ₹5.65 crore[8] was not drawn by ZPs, Hassan and Bidar during 2011-12, resulting in loss of grants to that extent. The ZPs attributed (October 2012) it to the delay in receipt of Government Orders. The reply was not acceptable as Government Orders were in fact received before 30 March 2012.

1.10.4 Delay in receipt of ZP/TP Accounts

The KPR Act stipulates that annual accounts are to be passed by the General Body of the PRIs within three months from the closure of the financial year and are to be forwarded to the Accountant General for audit. The delay in submission of annual accounts persisted despite being pointed out in earlier Audit Reports. Thirty ZPs and 134 TPs forwarded annual accounts for the year 2011-12 with delays ranging from two days to 230 days and one to 118 days, respectively. The remaining 42 TPs had not submitted the accounts yet (February 2013). This was due to non-convening of the General Body meetings by PRIs in time because of administrative reasons. Non-preparation of annual accounts and non-conduct of audit of centrally sponsored schemes by Chartered Accountants within the stipulated date were also attributed to delay in passing the annual accounts.

1.10.5 Placement of SARs before the State Legislature

The SARs of 17 ZPs for 2010-11 were yet to be placed in the State Legislature (February 2013).

1.10.6 Deficiencies in ZP and TP accounts

The deficiencies noticed in accounts of ZPs and TPs during 2009-10 and 2010-11 are detailed below:

- The State Government withdrew (June 2007) the Letter of Credit (LOC) system in Panchayat Raj Engineering Divisions and Forest Divisions and cheque drawing powers of DDOs. The balances outstanding under suspense heads[9] should be cleared after due reconciliation as the validity of the cheques drawn expires three months after the month of issue.

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[8] ZP Bidar- under Major Head 2501-₹0.10 crore, ZP Hassan – under Major Head 5054 - ₹1.55 crore and 4702- ₹4.00 crore

[9] DDR heads of account

However, annual accounts of ZPs for the year 2011-12 reflected huge balances as detailed in **Appendix 1.2**.

- The State Government dispensed with (September 2004) the operation of TP and GP suspense accounts by ZPs in the annual accounts. However, 16 ZPs had not taken any action to clear the suspense accounts. The balances outstanding are detailed in **Appendix 1.3**. It was also observed that in respect of six ZPs, adverse balances of ₹100.70 crore and ₹14.94 crore under TP and GP suspense accounts, respectively were exhibited in the annual accounts 2011-12 which was irregular and was fraught with the risk of misuse.

1.11 Resource utilisation

There are various schemes implemented by the PRIs. TFC grant and Swarnajayanti Gram Swarojgar Yojana (SGSY) schemes were selected to ascertain the utilisation of fund by the PRIs.

1.11. 1 Thirteenth Finance Commission grants

1.11.1.1 Unspent balances

The TFC recommended grant-in aid to the local bodies as a percentage of the previous years' divisible pool of taxes, over and above the share of the States. The GOI released General Basic Grant of ₹945.09 crore and Performance Grant of ₹243.87 crore during 2010-11 and 2011-12 to PRIs in Karnataka in two instalments annually. The State Government instructed PRIs to follow the guidelines prescribed for XII Finance Commission. In test-checked PRIs it was observed that expenditure ranged from 19 *per cent* to 50 *per cent* during 2010-12 and ₹6.88 crore remained unutilised as at the end of 31 March 2012 as detailed in **Table 1.13** thereby defeating the intention of providing timely service to the rural population as envisaged.

Table 1.13: Details of unspent balance of TFC grant

(₹ in lakh)

Name of the PRI	Grants released during 2010-11	Grants released during 2011-12	Total	Amount utilised	Balance	Percentage of expenditure to total releases
ZP Bidar	146.67	215.12	361.79	116.60	245.19	32
ZP Hassan	170.86	250.63	421.49	208.88	212.61	50
TP Alur	38.00	55.76	93.76	38.18	55.58	41
TP Holenarasipura	45.38	67.21	112.59	20.89	91.70	19
TP Humanabad	59.88	87.85	147.73	65.22	82.51	44
Total	**460.79**	**676.57**	**1,137.36**	**449.77**	**687.59**	**40**

Source: As furnished by the respective PRIs

1.11.1.2 Delayed release of funds

The TFC guidelines stipulated that the GOI was to release the funds to the State Government. The funds were to be transferred to PRIs within five/ten days of their receipt depending upon the availability/non-availability of banking facilities, failing which interest at Reserve Bank of India rate was to be paid for the delayed period. Audit observed that there were delays ranging from four to 143 days in crediting funds to individual bank accounts of PRIs. On this being pointed out, the State Government released ₹2.11 crore to PRIs on 06 February 2013.

1.11.1.3 Payment of Honorarium

The State Government issued order (May 2011) for payment of honorarium from TFC grants to Presidents and members of ZPs and TPs though provision was available in the State budget. This was in contravention of the objective of the TFC. Audit observed during test-check of 13 ZPs and 45 TPs that honorarium of ₹1.28 crore was paid during 2011-12 depriving developmental works in ZPs and TPs.

1.11.2 *Swarnajayanti Gram Swarojgar Yojana*

1.11.2.1 SGSY is a centrally sponsored self employment scheme with 75:25 funding between GOI and State Government since April 1999. The objective of the scheme is to bring the assisted poor rural families above the poverty line and to ensure sustainable level of income by organising them into Self Help Groups (SHGs) through a process of social mobilisation, training, capacity building and provision of income generating assets with bank credit and Government subsidy. The financial position of SGSY scheme in the selected two districts is given in **Table 1.14**.

Table 1.14: Statement showing the financial position in selected two districts

(₹ in crore)

Year	Opening Balance	Grant Released by GOI	Grant Released by the State Government	Miscellaneous receipts	Total grants available	Expenditure (Percentage)	Closing Balance
2010-11	1.17	6.23	1.87	0.26	9.53	7.46 (78)	2.07
2011-12	2.07	5.68	2.29	0.09	10.13	9.38 (93)	0.75
Total	**3.24**	**11.91**	**4.16**	**0.35**	**19.66**	**16.84 (86)**	**2.82**

Source: Utilisation Certificates furnished by ZPs (Bidar and Hassan)

The ZPs utilised 78 and 93 *per cent* of the total available grant during the period 2010-11 and 2011-12 respectively, which was less than the State utilisation (88 *per cent*) during 2010-11 and more during 2011-12 (83 *per cent*).

1.11.2.2 Loss of Central Assistance

Due to late receipt of UC from ZP, Hassan during 2011-12, the GOI deducted ₹49.91 lakh from the second instalment of 2011-12 whereby the ZP lost Central assistance to that extent.

1.12 Other issues

1.12.1 Non-submission of Non-payable Detailed Contingent (NDC) bills

While codal provisions permit the DDOs to draw funds on Abstract Contingent (AC) bills towards contingent charges required for immediate disbursement, DDOs are required to submit the NDC bills to the CAOs before the 15th of the following month. The CAO, ZP is to exercise watch over the pendency of NDC bills and to issue advice, under the orders of the CEO, ZP concerned, to the Treasury Officer not to honour any bill presented by the defaulting DDOs and also to withhold the salary of the DDOs.

It was seen in the selected ZPs that Social Forestry and Social Welfare departments had not submitted the NDC bills aggregating ₹60.60 lakh drawn on 38 AC bills since 1998 to 2011-12. Despite this irregularity being pointed out in previous Audit Reports, the CAOs did not initiate action against officers who failed to render detailed accounts.

1.12.2 Cases of misappropriation/defalcation

The State Government instructions stipulate that each PRI should report any case of loss, theft, embezzlement or fraud to the executive authority of the concerned ZPs. These cases would then be investigated by the designated enquiry officer so that losses could be recovered, responsibility fixed and systemic deficiency, if any, removed.

As of March 2012, 29 and 23 cases of misappropriation were pending in the selected two ZPs and the amount involved was ₹43.93 lakh.

1.12.3 Non withdrawal of unspent amount

The State Government *vide* Order dated 8 September 2004 had split the ZP and TP funds into three categories *viz*; Fund I (Funds related to CSS and state share of CSS programmes), Fund II (State grant) and Fund III (Own Funds), and directed Treasuries to write back the unspent amount available at the end of the financial year in Fund II account to Government account. However, State Government did not withdraw unspent balance of ₹1,657.72 crore outstanding under ZP and TP fund II accounts as on 31 March 2012.

1.12.4 Locking up of fund

Unspent amounts aggregating ₹5.09 crore were lying in inoperative bank accounts of the two selected ZPs as on 31 March 2012 pertaining to various[10] closed/inactive schemes for last one to five years and no action was taken by the ZPs to refund the amount to Government. This resulted in locking up of Government fund to the extent of ₹5.09 crore.

1.12.5 Incomplete projects of ₹266.67 crore

Eleven ZPs reported that 94 works remained incomplete as on 31 March 2012. The delay in completion ranged between 24 months to 120 months. Delay in completion of projects resulted in denial of intended benefits to beneficiaries.

1.12.6 Utilisation Certificate

The Bidar ZP released ₹1.28 crore to Karnataka Rural Infrastructure Development Limited (KRIDL) during March 2012 and booked the releases as expenditure. The UCs and the accounts were not obtained from the KRIDL by the ZP. Thus, the utilisation of ₹1.28 crore exhibited as expenditure in the annual accounts of the ZP was not ascertainable.

1.12.7 Reconciliation

As per rule 38 of KZP (F&A) Rules 1996, the DDOs have to reconcile the expenditure figures with CAO of ZP. However, in the selected two ZPs, 45 DDOs had not reconciled their expenditure fully with those of ZPs.

1.12.8 Arrears in Audit

The State Accounts Department is the statutory auditor for the accounts of GPs. Audit of accounts of 3,844 GPs (68 *per cent*) against the planned 5,628

[10] Ambedkar Bhavana, BPL, Pradhan Mantri Gramodaya Yojana (Gramin Awas), Sampoorna Gramin Rozgar Yojana, *etc.*

for the period up to 2011-12 was conducted by SAD as of March 2012. The Controller, SAD stated (April 2013) that the reasons for not conducting audit of 1,784 GPs were shortage of staff in the department and non-production of records by 1,221 GPs.

Further, the CAO has to conduct internal audit of all the line departments of PRIs. It was seen that in the test-checked ZPs of Hassan and Bidar, CAOs had conducted internal audit of only 16 units out of 92 units during 2011-12. CAO replied (September 2012) that audit could not be completed due to shortage of staff. Further, 18 other ZPs reported that out of 2,196 institutions, audit of only 543 institutions was conducted due to insufficient staff.

1.13 Poor response to Inspection Reports

The KZP (F&A) Rules stipulate that the heads of the Departments/DDOs of the ZPs shall attend promptly to the objections issued by the Accountant General. It is further stipulated that the ultimate responsibility for expeditious settlement of audit objections lies with the CEOs of ZPs. As of March 2012, 3,301 Inspection Reports (IRs) containing 11,949 paragraphs were outstanding in various ZPs. Year-wise details in respect of all the ZPs are detailed in **Appendix 1.4**. Out of the total IRs outstanding, 1,086 (33 *per cent*) IRs containing 2,409 (20 *per cent)* paragraphs were pending for more than 10 years, which highlighted the inadequate action of the CEOs in settling the objections.

1.14 Conclusion

No action has been taken by the State Government to revise the Activity Map even after nine years. There was no mechanism at the apex level to oversee the devolution of functions to PRIs. Unspent balances of ₹1,657.72 crore under ZP and TP fund account II were not withdrawn by the State Government. Also unspent amount of scheme funds were locked up in inoperative bank accounts. Balances under suspense heads of accounts were not reconciled.

1.15 Recommendations

- The State Government should take action to revisit the Activity Map to ensure effective devolution of functions to PRIs.
- PRIs should ensure optimum utilisation of the available resources and the grant should be utilised in a time bound manner to derive the intended benefit.
- Concerted efforts are needed to adjust the old outstanding balances under DDR heads of account by the ZPs.
- The ZPs and DDOs should respond promptly to the IRs issued by the Auditors for speedy settlements of audit observations.

CHAPTER-II

Results of Audit of Panchayat Raj Institutions

CHAPTER II

RESULTS OF AUDIT

SECTION 'A' – PERFORMANCE AUDIT

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.1 Water quality component under National Rural Drinking Water Programme

Executive summary

The Accelerated Rural Water Supply Programme introduced by the Government of India during 1972-73 was revisited and revised (April 2009) as National Rural Drinking Water Programme (NRDWP). Under NRDWP, the issue of water quality monitoring and surveillance was given due emphasis and the National Rural Water Quality Monitoring & Surveillance Programme, launched in February 2006, was merged with NRDWP.

A performance audit of the implementation of water quality component of NRDWP during the period 2007-12 was conducted between June and September 2012.

The performance audit showed that planning was deficient as the annual plans were approved after delays, sometimes stretching to the fag end of the financial year. There were deficiencies in survey of quality affected habitations; as a result the data could not be relied upon. The financial allocation for the quality aspect was deficient resulting in non-utilisation of earmarked funds and there were instances of time and cost overrun, non-completion/delayed completion of works and non-functional/ defunct works. The pace of coverage and completion of projects did not indicate that all the habitations would have access to safe drinking water anytime in near future. Monitoring and inspection of activities under the Programme at different levels was also not adequate.

2.1.1 Introduction

2.1.1.1 Background

Provision of safe drinking water is a basic necessity. The Government of India (GOI) has been extending policy, technological and financial support to State Governments through the centrally sponsored Accelerated Rural Water Supply Programme (ARWSP) since 1972–73. The major thrust of the ARWSP was to ensure provision of adequate drinking water supply to the rural community. The programme was given (1991) a mission approach with stress on water quality, appropriate technology intervention and other related activities. For this purpose, projects were taken up under the Sub-mission component of the ARWSP, which was funded in the ratio of 75:25 (Centre: State).

In order to address the issues identified in the Eleventh five year plan (2007-12), the rural water supply programme was revised (April 2009) as National

Rural Drinking Water Programme (NRDWP). Under the NRDWP, the issue of water quality monitoring and surveillance has been given due emphasis and the National Rural Water Quality Monitoring & Surveillance (WQM&S) programme, launched in February 2006, has now been merged with NRDWP.

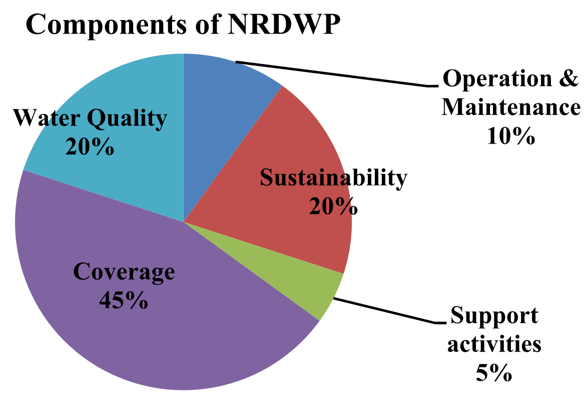
2.1.1.2 What is safe drinking water?

As per Indian Standard-10500 of Bureau of Indian Standards, water is defined as safe if it is free from biological contamination (guinea worm, cholera, typhoid, *etc.*) and within maximum permissible limits of chemical contamination (Arsenic <0.05 mg/l, Fluoride < 1.5 mg/l, brackishness < 2000 mg/l, Iron < 1 mg/l , Nitrate 45 mg/l, *etc.*).

2.1.1.3 Programme objective and components of NRDWP

The prime objective of NRDWP was to provide every rural person with adequate safe water for drinking, cooking and other domestic basic needs on a sustainable basis. This basic requirement should meet minimum water quality standards and be readily and conveniently accessible at all times and in all situations.

Water supply schemes (WSS)/projects are taken up under coverage, water quality, sustainability and support activity. A graphical overview of component-wise allocation of NRWDP funds at the State level is given below:



2.1.1.4 Funding pattern and flow of funds

The cost sharing between Centre and States in respect of operation & maintenance (O&M), coverage and water quality components is in the ratio of 50:50.

Under ARWSP, the GOI had been releasing grants to the State Government, which, in turn, released the grants to the Zilla Panchayats (ZPs) to take up approved WSS and other related activities.

As per NRDWP guidelines, the GOI releases the grants, on the basis of allocations made, to Karnataka Rural Water Supply and Sanitation Agency (KRWSSA), which has been declared (September 2009) as the State Water and Sanitation Mission (SWSM). The State Government also releases its matching share to KRWSSA. During each quarter, the Chief Executive Officers (CEOs) of ZPs send requests to the Director, KRWSSA for authorisation to utilise the funds. The Director, KRWSSA authorises the CEOs to operate the funds in the Programme Account maintained at KRWSSA. The

Executive Engineers (EEs), Panchayat Raj Engineering Divisions (PREDs) submit the bills to the CEOs of ZPs for scrutiny and payment.

2.1.2 Institutional structure for service delivery

The Institutional structure for service delivery was as follows:

Level	Authority	Functions and responsibilities
Habitation[11]	Grama Panchayat	• Operation and maintenance of schemes and arranging for testing of water quality periodically.
District	Panchayat Raj Engineering Divisions	• Proposing works depending on the status of habitations, selection of site for works based on water yield/potability and suitability and execution of works
	Zilla Panchayat	• Preparation of annual action plan for the district and according approval for works. • Monitoring progress of works, operation and maintenance and testing quality of water periodically.
State	Panchayat Raj Engineering Department	• Maintenance of database regarding status of habitations, ground water level, water quality. • Planning at the State level and preparation of consolidated annual action plan for the State. • Monitoring the implementation, operation and maintenance and water quality testing of the schemes at the field level
	Rural Development and Panchayat Raj Department	• Timely release of Central and State funds. • Overall monitoring of the implementation of the scheme.
	State Level Scheme Sanctioning Committee (SLSSC)	• Approval of consolidated annual action plan and onward transmission to Government of India for obtaining funds. • Review the functioning/performance of existing water supply schemes

2.1.3 Audit objectives

The main objectives of the Performance Audit were to ascertain whether:

- there was an effective process of planning and survey of habitations affected by quality;
- funds were released timely and utilised economically and financial control was adequate and effective;
- individual projects for addressing water quality were implemented within the stipulated time and cost, and were executed economically, efficiently and effectively; and

[11] Habitation is a term used to define a group of families living in proximity to each other.

- the mechanism for monitoring of water quality and surveillance was adequate and effective.

2.1.4 Audit criteria

The audit criteria were derived from the following:

- Guidelines for NRDWP (April 2009);
- Guidelines for ARWSP (August 2000);
- Guidelines for National Rural Drinking Water Quality Monitoring and Surveillance Programme (January 2006);
- Karnataka Public Works Accounts (KPWA) Code, Karnataka Public Works Departmental (KPWD) Code, Karnataka Financial Code (KFC) and Karnataka Transparency in Public Procurements (KTPP) Act, 1999;
- State Government orders, notifications, circulars and instructions issued from time to time; and
- Meeting proceedings of SLSSC.

2.1.5 Audit scope, sampling and methodology

The implementation of ARWSP including water quality component was previously included in the Report of the Comptroller and Auditor General of India (Panchayat Raj Institutions) for the year ended 31 March 2007.

Implementation of water quality component of NRDWP[12] during the period 2007-12 was reviewed through test-check of records (June-September 2012) of Rural Development and Panchayat Raj (RDPR) department, Chief Engineer, Panchayat Raj Engineering Department (CE) and implementing agencies in seven districts[13]. The districts were selected using judgmental sampling method. During the review period, 256 multi-village WSS were in progress in the State to address water quality problems in 2602 habitations. Out of 140 schemes taken up in the test-checked districts, Audit selected 77 schemes (55 *per cent*) through simple random sampling method for detailed examination. Audit also examined the implementation of WQM&S programme and reviewed the execution of 32 projects, which were sanctioned before April 2007.

The audit objectives and methodology of Performance Audit were discussed with the Principal Secretary, RDPR department along with officers from PRED during an Entry Conference held in June 2012. The audit findings were discussed with the Principal Secretary, RDPR department during Exit Conference (January 2013). The replies received from the State Government in March 2013 have been incorporated at appropriate places in the report.

Acknowledgement

Audit acknowledges the cooperation extended by the State Government, CE and other audited entities in conducting the performance audit.

[12] erstwhile Sub-mission projects under ARWSP (2007-09)
[13] Bagalkot, Belgaum, Bellary, Chickmagalur, Davanagere, Koppal and Tumkur

The audit findings are discussed in the succeeding paragraphs.

Planning

2.1.6 Preparation and approval of plans

2.1.6.1 Non-preparation of consolidated Annual Action Plan

As per ARWSP guidelines, the State Government was to prepare a consolidated Annual Action Plan (AAP) on the basis of a shelf of schemes, likely size of the allocation as well as likely carry-over funds, if any, and submit them to the Department of Drinking Water Supply, GOI (DDWS) by the beginning of October of the previous year for use at Annual Plan discussions. Audit observed that neither the consolidated AAP nor the shelf of schemes was prepared during 2007-09. However, the AAPs were prepared and approved district-wise. The department agreed during Exit Conference that consolidated AAP was not prepared.

Under NRDWP, the consolidated AAPs were prepared during 2009-12 and were available in the Integrated Management Information System (IMIS) hosted by DDWS.

The State Government replied (March 2013) that the work of formulating AAPs was assigned to Districts/divisions. However, the reply was not acceptable as the State Government was responsible for preparing a consolidated AAP to have a macro picture about the entire gamut of planning.

2.1.6.2 Non-preparation of five year rolling plan

Under NRDWP, the State Government had to prepare a five year rolling plan and, during each financial year, the sub-goal and the priorities would be fixed on the basis of mutual consultation between the Centre and the State. However, it was seen that the five year rolling plan was not prepared and sub-goals and priorities had not been fixed, which was accepted during the Exit Conference. Thus, the planning did not have a long term perspective.

The State Government (March 2013) replied that there was no requirement for preparing a five year rolling plan. The reply was not correct as the guidelines required preparation of the five year rolling plan.

2.1.6.3 Non-preparation of master plan for WQM&S programme

Under NRDWP, the State Water and Sanitation Support Organisation (WSSO) was to prepare a master plan for the WQM&S programme and AAPs, indicating year-wise financial implication which was to be approved by the SLSSC. However, it was seen that the master plan was not prepared. As a result, the planning for the quality surveillance was completely neglected.

The State Government replied (March 2013) that the master plan was introduced for the first time during 2009-10 and there were certain clarifications required in this behalf.

2.1.6.4 Alternate sources to combat water quality not looked into

The NRDWP guidelines refer to the paradigm shift under NRDWP to ensure sustainable and environmental friendly drinking water supply projects. Under this, there was, *inter alia*, a *move consciously away from 'high cost treatment technologies for tackling Arsenic and Fluoride contamination' to* *'development of alternative sources in respect of Arsenic' and 'alternate sources/dilution of aquifers through rainwater harvesting in respect of tackling Fluoride contamination'*. It was also aimed to *promote simple-to-use technologies, such as terracotta based filtration systems, solar distillation and dilution through rainwater harvesting for tackling Iron, salinity and suspended particulate matters.*

However, it was seen that only one project comprising 300 De-fluoridation (DF) plants[14] was planned in October 2011, based on low cost and simple-to-use technologies. The estimated cost of each plant ranged from ₹5.78 lakh for 500 litres per hour capacity to ₹11.78 lakh for 4000 litres capacity, which was to be shared equally by Government and the contractor. The contractor was permitted to collect user fee. The work order for the installation of the DF plants was issued (October 2011) to four agencies with instructions to complete the installation within three months in different districts. However, none of the agencies had commenced or installed DF plants so far (July 2012). One agency was yet to receive the work order for installing 50 DF plants (July 2012).

The State Government stated (March 2013) that the alternate sources had to be provided as a temporary measure in view of lack of adequate surface water sources. It was also stated that drilling of bore wells at distant places was being adopted and sustainability structures were taken up for recharging of ground water. However, drilling of bore wells can not be termed as alternate sources in combating water quality. Further the reply was not acceptable as the agreement for maintenance of DF plants was for 10 years, which could not be termed as a temporary measure.

2.1.6.5 Delay in finalisation of Annual Action Plans

The AAPs have to be approved by the Government/SLSSC on the basis of proposals received from ZPs. The AAP under ARWSP was to be reviewed and finalised by April. However, there were delays ranging from six to seven months in according approval to AAPs of the test-checked districts [15]during the years 2007-08 and 2008-09.

After the commencement of NRDWP, the State Government had to submit to DDWS a Comprehensive Water Security Action Plan (CWSAP) by February every year which, *inter alia*, includes broad directions/thrust and tangible targets planned to be achieved in the financial year. Audit observed that not only the State Government had delayed (by 2 to 10 months) the submission of CWSAP to the SLSSC, the SLSSC also delayed (two to three months) in giving the approvals.

The State Government stated (March 2013) that AAPs were prepared after taking into account results of survey, yearly data updation and also funds available, as a result there was some delay in approval of AAPs. However, the reply was not acceptable as these issues had to be addressed beforehand and AAPs had to be submitted in time as per guidelines.

[14] Installation of DF plants is a low-cost alternate technology for habitations having high content of Fluoride.

[15] Bagalkot, Belgaum , Bellary and Tumkur

2.1.7 Provision of safe drinking water to quality affected habitations

2.1.7.1 Validation of data on quality affected habitations

Water sample collection, household survey and sanitary inspections of drinking water sources should be done by village level workers from Gram Panchayat (GP). However, it was seen that the survey details of the water sources were not available with the test-checked ZPs. The IMIS also indicated that no sanitary surveys had been conducted during any of the years under review. In the absence of these details and proper validation by any other agency in the test-checked ZPs or in PREDs, Audit could not ascertain the actual number of habitations which were quality affected.

The State Government accepted (March 2013) that comprehensive sanitary survey had not been taken up.

2.1.7.2 Coverage of quality affected habitations

The ARWSP and NRDWP guidelines require that priority should be given for coverage of quality affected habitations. As per the data furnished by the CE, there were 21,008 quality affected habitations during the year 2000-01. In 2010-11, the total number of quality affected habitations had come down to 15,001. Audit compared these figures with projects taken up to address the quality affected habitations and observed that projects had been envisaged to cover 3,266 quality affected habitations only, out of which projects in 851 habitations were completed (March 2012). Evidently, coverage of habitations was far behind the number of habitations that were quality affected. The pace of coverage and completion of projects did not indicate that all the habitations would have access to safe drinking water anytime in near future.

The State Government stated (March 2013) that 6,750 habitations have been provided with safe drinking water. However, no documentary proof was submitted to validate the coverage of 6,750 habitations.

2.1.7.3 Inadequate efforts in tackling water quality problems

Audit analysed the schemes taken up for addressing water quality district-wise. In five districts[16], as per Annual Reports of RDPR department, there were 1,119 quality affected habitations (March 2012). It was, however, noticed that no action was taken either by the SLSSC or the State Government for addressing water quality problems in these habitations. Not even a single scheme was brought before the SLSSC for approval, indicating lack of planning to cover these habitations in a phased manner.

The State Government replied (March 2013) that schemes could not be taken up due to non-availability of sustainable and dependable sources in Bangalore (Rural) and Bangalore (Urban) districts. In the remaining districts the habitations were scattered and per capita cost would be very high if surface source was adopted. However, the department failed to provide alternate sources of safe drinking water by using low cost technology in scattered habitations.

[16] Bangalore (Rural), Bangalore (Urban), Dakshina Kannada, Kodagu and Udupi

2.1.7.4 Provision of less quantity of water to habitations

As per the ARWSP guidelines, the basic norm was to provide 40 litres per capita per day (LPCD) of safe drinking water to rural population in the habitations. However, in two test-checked works, the proposed service level was less than the basic norm of 40 LPCD. The details are given in **Table 2.1** below:

Table 2.1: Details of works where less than 40 LPCD had been proposed

Name of the work/ Year of commencement	Estimated cost (₹ in crore)	Proposed service level
WSS to Kanakagiri and other nine villages in Koppal district (February 2009)	8.17	25 LPCD
WSS to Islampur and 60 other villages in Bagalkot district (March 2008)	18.09	30 LPCD

Source: as furnished by the department

Thus, the planning of these schemes was inadequate and not directed towards achieving the desired objective of providing the basic service level of 40 LPCD to these habitations.

The State Government stated (March 2013) that the works were proposed to keep the project cost of the scheme within the administratively approved amount. It was further stated that dual system of water supply was adopted which was sufficient to cater to drinking water supply requirements. The reply was not acceptable as 40 LPCD was the minimum quantity of safe drinking water to be provided.

2.1.7.5 Obtaining requisite sanctions for approved works

As per ARWSP Guidelines, the project should follow a scheme cycle not exceeding 36 months consisting of four distinct phases and a post project completion phase. The scheme/system planning phase which, *inter alia*, included detailed designing, estimation, seeking approval of the competent authority, identification of the contractors and assigning the job for implementation, *etc.*, was to be completed within nine months. It was, however, seen in five test-checked districts[17] that though the SLSSC had approved eight works (covering 367 habitations) costing ₹218.63 crore during October 2009- October 2010, technical sanctions were not obtained even as of May 2012. In another 20 works (366 habitations) costing ₹203.36 crore in six test-checked districts[18], where technical sanctions had been accorded (June 2011-January 2012), the tenders were not approved/finalised (May 2012).

Thus, the failure of concerned implementing agencies in obtaining requisite approvals resulted in non-commencement of these works and denial of envisaged benefits to 733 habitations. The possibility of cost overrun in these cases could not also be ruled out.

The State Government attributed (March 2013) non obtaining sanctions to non-availability of land, excess per capita cost, non-responsive tenders, change in alignment, *etc*. The reply was not acceptable as the department was

[17] Belgaum, Bellary, Davanagere, Koppal and Tumkur
[18] Bagalkot, Belgaum, Bellary, Davanagere, Koppal and Tumkur

responsible for preparation of realistic estimates, identification of unencumbered land, *etc*., before commencing the works.

2.1.7.6 Water supply schemes without a dependable source

Any work taken up should have a dependable source of water which can provide drinking water throughout the year to the habitations covered under the project. However, in three test-checked works taken up in two districts, there was no dependable source of water, and this was fraught with the risk of shortage of water or non-provision of safe drinking water to the identified habitations throughout the year. The details are as follows:

Table 2.2: Works taken up without a dependable source

Sl. No.	Name of the work	Expenditure as of March 2012	Audit remarks
1.	WSS to Mydala & nine other villages in Tumkur district Estimated cost- ₹3.45 crore Date of approval-23.12.09	₹2.60 crore	The estimated inflow in Mydala tank per year is 0.4994 Mcum at 100 *per cent* dependability. Out of this, CMC[19], Tumkur draws 0.4599 Mcum, whereas the requirement for this WSS is 0.34 Mcum. In case water is to be drawn, CMC has to be requested to stop drawal of water and to restrict irrigation in the area. Both the issues remained unresolved and no action was taken to sort out the issue.
2.	WSS to Uradigere and two other villages in Tumkur district Estimated cost - ₹0.93 crore Date of approval-19.03.07	₹1.10 crore	The source is a tank which depends on monsoon. If the monsoon fails, no water can be provided to the identified habitations.
3.	WSS to Manihal and nine other villages in Belgaum district Estimated cost-₹4.42 crore Date of approval -19.03.07	₹3.67 crore	The volume of water in the identified source from Malaprabha river reduces considerably during summer. Hence, it was proposed to construct a barrage across the river at an estimated cost of ₹1.61 crore. However, the barrage was not constructed, even though tendered (July 2007).

Source: As furnished by EEs. Mcum: Million cubic metre

The State Government replied (March 2013) that a work for providing water to Dabaspet industrial area in Tumkur was under progress, after completion of which Mydala tank would get water for all the seasons. In respect of Uradigere, there was no problem so far and in respect of Manihal, proposed barrage could not be commenced due to site problem. However, the reply was not acceptable as all these projects were conceived without an assured source of water.

2.1.8 Operation and Maintenance of water supply schemes

2.1.8.1 Handing over of completed schemes to Village Water & Sanitation Committees

In order to create awareness among the people of using water optimally, the Government had issued (December 2009) an order directing the PREDs to hand over the completed WSS to Village Water and Sanitation Committee (VWSC) for O&M. The implementing agency, before calling for tenders, was

[19] CMC- City Municipal Council

required to obtain a consent letter from VWSC for the maintenance of WSS after its completion.

Audit observed that such a consent letter had not been obtained in any of the test-checked districts/divisions.

It was also noticed that provision for O&M was not uniform in the test-checked districts. It was seen that EE, PRED, Tumkur had included O&M in the estimates for two works[20] but did not include the O&M in the estimates for two other works[21]. It was also seen that EE, PRED, Chikkodi in Belgaum district, had requested (October 2011) Government to release ₹15.80 crore towards maintenance cost of schemes including rectification of defects noticed post completion, against which the Government released ₹2.64 crore only.

The State Government replied (March 2013) that due to high cost of maintenance and poor maintenance by VWSC/GPs, the Government took the responsibility of maintaining 146 completed schemes and process of allotting O&M tender to other agencies was under progress. The reply was not acceptable as the completed schemes were to be handed over to GPs for maintenance for which incentive was given by the GOI.

2.1.9 Financial performance

2.1.9.1 The details of funds released and utilised by the State Government during the period 2007-12 under water quality component were as follows:

Table 2.3: Fund utilisation for addressing water quality

(₹ in crore)

Year	Total releases			Expenditure on water quality	
	GOI	GOK	Total	Amount	Percentage with respect to releases
2007-08	-	-	529.20	141.85	27
2008-09	-	-	656.39	87.25	13
2009-10	627.86	395.62	1,023.48	272.11	27
2010-11	587.76	522.18	1,109.94	139.63	13
2011-12	667.79	518.42	1,186.21	119.09	10

Source: as furnished by the CE and IMIS

Note: For the years 2007-08 and 2008-09, break-up of releases was not available.

It could be observed that the minimum of 20 *per cent* expenditure on water quality issues was not achieved during the years 2008-09 and 2010-12. Evidently, low priority was given to the provision of safe drinking water to the quality affected habitations.

2.1.9.2 Non-maintenance of cash book

The codal provisions stipulated that all monetary transactions should be entered in the cash book as soon as they occur and the cash book should be closed daily. The cash book should also be reconciled for the difference between the cash book balance with the balance appearing in the bank pass sheet. However, it was observed in test-checked divisions that cash books were not maintained for the receipts or the remittances from/to the bank during

[20] Bellavi and C S Pura
[21] Mydala and Rangapura

2009-12. Non-maintenance of cash book coupled with non-reconciliation is fraught with the risk of fraud, excess payments, non-remittances, *etc*.

The State Government replied (March 2013) that PREDs were instructed to maintain cash book as per codal provisions.

Execution of works

2.1.10 Physical progress of works

2.1.10.1 As stated earlier, there were 256 works in progress as of March 2012. The status of execution of these works was as detailed in **Table 2.4** below:

Table 2.4: Status of works (March 2012)

Period	Number of projects					Expenditure on incomplete works (₹ in crore)
	Approved	Cost (₹ in crore)	Completed	Not started for want of approval	Under progress	
2007-08	144	786.44	74	Nil	70	476.57
2008-12	112	1,008.39	Nil	80	32	55.55

Source: Progress reports furnished by the CE

It could be seen that 70 (49 *per cent*) of 144 works remained incomplete even though the works had been approved during 2007-08. In respect of 112 works approved during the period of 2008-12, not even a single project was completed and 80 projects were not even started for want of technical sanction, non-completion of tender process and non approval of tenders, *etc*. Even though the guidelines prescribed that AAPs should give priority to completion of incomplete works, it was evident from the above that execution of works was lackadaisical. In test-checked districts, 87 out of 140 projects (62 *per cent*) remained incomplete even after incurring an expenditure of ₹271.19 crore (March 2012).

The State Government replied (March 2013) that the engineers in PREDs lacked basic knowledge about the projects and the department lacked infrastructure to prepare detailed project reports and further added that projects were handled in a routine manner like a normal water supply programme.

2.1.10.2 Incorrect reporting on completed projects

As per the progress reports furnished to the State Government, the following six projects in Bellary and Belgaum districts were reported to be completed at a total cost of ₹24.15 crore. However, on a scrutiny of the files relating to these projects in PREDs, it was seen that the works were under progress and were in fact at different stages of execution as indicated in **Table 2.5**:

Table 2.5: Details of works claimed to have been completed

(₹ in crore)

Sl. No.	Name of the work	District	Estimated cost	Date of completion as per Progress Report	Expenditure	Actual progress (March 2012)
1.	WSS to Somalapura village in Bellary Taluk	Bellary	1.04	January 2011	1.05	Heavy boulder rocks present in the bed of the Impounding Reservoir (IR); the blasting work is under progress.

2.	WSS to Genikihal and other four villages in Bellary Taluk	Bellary	1.76	January 2011	2.33	Water filling was under progress; time extension submitted to CE for approval.
3.	WSS to Korlagundi village in Bellary Taluk	Bellary	2.28	November 2011	2.34	Filter media yet to be laid.
4.	WSS to Yelibenchi village in Bellary Taluk	Bellary	1.38	Not mentioned	1.72	Redesign of pumping machinery to be done; work slip, Extra Item Rate List was submitted for approval. The State Government replied (March 2013) that work was nearing completion and tenders for express feeder line were re-invited as no bidder participated during the first call.
5.	WSS to Mincheri and other four villages in Bellary Taluk	Bellary	3.82	Not mentioned	4.17	IR under progress
6.	WSS to Amtur and other 19 villages in Bailhongal Taluk	Belgaum	9.21	February 2008	12.54	Works under progress; two out of 19 villages were yet to get water supply
Total			**19.49**		**24.15**	

Source: Progress Reports furnished by the CE and reports of EE, PREDs

Evidently, the information furnished to the State Government was not correct and could not be relied upon.

2.1.10.3 Non-achievement of targets relating to coverage of habitations

The targets set by the State Government *vis-a-vis* the achievements in respect of coverage of quality affected habitations during the period 2007-12 were as follows:

Table 2.6: Target and achievement of quality affected habitations

Year	Target	Achievement	Percentage
2007-08	2,407	372	***15***
2008-09	2,035	608	***30***
2009-10	4,055	3,692	***91***
2010-11	3,683	1,452	***39***
2011-12	1,689	1,495	***89***
Total	**13,869**	**7,619**	***55***

Source: Annual reports of RDPR department

As seen from the above, there were wide variations in the achievement of coverage of quality affected habitations. It ranged from 15 to 91 *per cent* of the targets fixed each year. Failure of the divisions to complete the projects resulted in non-provision of safe drinking water to the affected rural habitations.

Further, the achievements as stated in the annual reports could not be assessed by Audit as the progress reports (March 2012) furnished by the CE indicated completion of works only in 851 habitations, while the figures given by the RDPR department indicated achievement as 7,619 habitations during 2007-12. Thus, the figures furnished by the CE and the Government were at variance.

The State Government replied (March 2013) that the targets could not be achieved due to poor progress in completing the multi village schemes.

2.1.10.4 Cost and time overruns

As per the guidelines, completion of ongoing project was to be given priority over new projects and approved works were to be completed within three years, lest it should result in time and cost overrun. As the amount released by GOI could not be adjusted against any cost escalation or excess expenditure over and above the approved cost, it was the responsibility of the State Government to meet expenses on this account.

In the test-checked districts, it was seen that majority of the schemes, approved till 2007-08, were completed with time and cost overruns as detailed in **Table 2.7** below:

Table 2.7: Details of Time and Cost overrun

Sl. No.	District	Total No. of projects	No. of projects with cost and time overrun			
			Cost overrun		*Time overrun*	
			Number	Amount (₹ in crore)	Number	Delay in months
1.	Bagalkot	19	10	12.94	18	8 to 31
2.	Belgaum	34	21	19.52	29	1 to 63
3.	Bellary	41	28	16.85	32	1 to 71
4.	Chickmagalur	3	2	0.99	3	7 to 36
5.	Davanagere	12	12	25.61	11	15 to 36
6.	Koppal	12	5	17.34	9	25 to 35
7.	Tumkur	4	2	0.29	4	19 to 35
Total		**125**	**80**	**93.54**	**106**	

Source: Progress reports (March 2012) as furnished by the CE

As seen from the above table, there was increase to the extent of ₹93.54 crore in respect of 80 projects and delays up to 71 months in respect of 106 projects completed during the review period. The cost overrun of ₹93.54 crore would be an extra burden on the State exchequer as the excess expenditure over and above the approved cost was not reimbursable from GOI.

The State Government replied (March 2013) that the department lacked the infrastructure to take up these bigger multi village schemes. It was also replied that delays in acquisition of land, unrealistic estimates submitted to SLSSC, execution of additional quantities/extra items, *etc.*, resulted in cost and time overrun. The reply was not acceptable as these were avoidable factors and proper planning could have been done while formulating and executing the schemes.

2.1.11 Tendering process

Audit observed the following discrepancies/irregularities in tendering process in the test-checked schemes:

2.1.11.1 Calling for tenders without obtaining technical sanction

The codal provisions stipulate that no tender shall be invited before obtaining administrative approval and technical sanction. Contrary to the provision, EEs in four test-checked districts[22] invited tenders in 16 cases amounting to ₹93.29 crore before obtaining technical sanction from the CE. Evidently, tenders were invited without technical scrutiny which was not in order and even resulted in postponement of tenders, up to 11 times.

[22] Bagalkot, Bellary, Chickmagalur and Tumkur

The State Government replied (March 2013) that tenders were invited in view of urgency and in anticipation of approval by the CE. However, this was against the codal provisions.

2.1.11.2 Restricted participation in tenders

- The State Government amended (September 2003) the procedure for sale of tender documents as per KTPP Act and stipulated that tender documents should be made available for entire period provided for the submission of tenders. However, it was seen in almost all selected schemes that tender notifications provided for sale of tender forms only for a short duration and not till the last date of receipt of sealed tenders. This not only contravened the provisions of the KTPP Act but also restricted the participation of tenderers.

The State Government replied (March 2013) that short term tenders were called in view of urgency and after obtaining the necessary approval. The reply was not acceptable as the reason for not providing sale of tender forms till the last date of receipt of sealed tenders was not explained and also there were delays in completion of these works.

- The codal provisions stipulated that the tenders, in respect of all works costing more than ₹10 crore, should be published in Indian Trade Journal (ITJ) published by the Ministry of Commerce and Industry (Ministry), GOI. It was seen in Bagalkot that though the tender notice in respect of WSS to Islampur and other 60 villages in Hungund Taluk (estimated at ₹20.60 crore), was forwarded (May 2008) to the Ministry, the same was not published in ITJ as the Ministry did not receive the Notice Inviting Tender (NIT) in time. The Ministry returned (August 2008) the NIT to EE, PRED, Bagalkot with the advice to send NITs through speed post in future.

The State Government agreed (March 2013) to follow the procedure in future.

- As per the guidelines issued (December 2002) by the State Government, fresh tenders were to be invited when less than three tenders were received for a work. It was, however, seen that in majority of the works in all the test-checked districts, only two contractors had participated and the concerned EEs did not invite fresh tenders in such cases. Thus, possibility of bid rotation between the two contractors, subverting the spirit of competition, could not be ruled out.

In another 22 cases in four[23] test-checked districts, single tenders were accepted for works costing ₹82.53 crore, which was in contravention to the KTPP Act.

The State Government replied (March 2013) that the tenders were accepted to avoid delays in completion. This was not justifiable as this had violated codal provisions and there were abnormal delays ranging up to 43 months in completion of works in all these test-checked cases.

2.1.11.3 Routine price negotiations

The above stated guidelines also discouraged conducting negotiations even with the lowest tenderer in a routine manner as it defeated the very purpose

[23] Bagalkot (1), Bellary (13), Chickmagalur (1) and Tumkur (7)

and ethics of competitive tendering. This was to reduce the possibility of tenderers jacking up the prices in the original tender and reducing the prices marginally during negotiation. The first choice for the tender inviting authority was to reject the tenders and invite fresh tenders. Audit observed in the test-checked divisions that the CE, instead of rejecting the tenders, invariably negotiated with the lowest tenderers who had quoted higher rates, even up to 45 *per cent* of the estimated rates. After negotiations, the contractors reduced their quoted rates to 15 *per cent*.

The State Government stated (March 2013) that negotiations were held to arrive at a workable amount and to avoid cost/time overrun. The reply was not acceptable as negotiations without resorting to fresh tenders was in contravention of the guidelines.

2.1.11.4 Works were entrusted to ineligible contractors

The State Government's instructions (October 2008), read with NIT, specified certain conditions for participation in a tender above ₹50 lakh, such as satisfactory completion of at least one work to the extent of 80 *per cent* of the tendered cost for works costing more than one crore; the contractor owning at least 50 *per cent* of the equipment required for the work, turnover of at least two times the amount put to tender, *etc.* Scrutiny of two technical evaluations[24] for works in Chickmagalur district showed that the execution of works were below the threshold fixed and the details of equipment owned by the contractors were not insisted upon. Thus the tender evaluation was not done as prescribed and works were entrusted to the contractor without adhering to the eligibility criteria for executing such works. It may be mentioned that both the works remained incomplete even after the scheduled dates of completion.

The State Government replied (March 2013) that the works were entrusted after ensuring the eligibility of the contractor. However, the documents with Audit prove the fact that the contractor was ineligible for entrustment of the particular work.

2.1.12 Wasteful expenditure on water supply projects

2.1.12.1 Non-functional water supply scheme

The WSS to Manakapur and Kasnal villages in Chikkodi taluk of Belgaum district was taken up during September 2001 and was completed (November 2009) after incurring an expenditure of ₹1.15 crore. It included infrastructure such as pumping machinery, water treatment plant, sumps and pipelines for distribution. However, the Health Department issued directions (February 2011) not to use the water as it was contaminated due to discharge of chemicals from industrial units. Accordingly, the EE proposed (February 2011) closure of the scheme and to take up a new scheme in its place. Failure of the Government in preventing contamination of the source resulted not only in wasteful expenditure of ₹1.15 crore but also denied safe drinking water to quality affected habitations in spite of availability of necessary infrastructure as stated above.

[24] Kalasa (cost- ₹2.60 crore and stipulated to be completed by December 2010) and Ballenahalli (cost –₹6.80 crore and stipulated to be completed by August 2011)

The State Government accepted (March 2013) that work was stopped and water was being utilised for domestic purposes, and not for drinking purposes.

2.1.12.2 Non-provision of water to habitations even after completion of scheme

➢ The WSS to Katageri and 13 other villages in Badami taluk of Bagalkot was approved by SLSSC (March 2007) for an amount of ₹4.60 crore. After obtaining approval (January 2008) the work was tendered and entrusted (August 2008) to an agency at a cost of ₹7.21 crore including a Main Balancing Tank (MBT). In addition to this scheme, the treated water from the MBT was also to cater to 11 villages under Anwala scheme. For both the works consisting of 25 villages, the treated water was to flow through gravity to the proposed villages. The work was stated to have been physically completed at a cost of ₹7.98 crore with water being supplied to the villages (November 2011).

A scrutiny of records showed that MBT was to be constructed at a height of 646 metres Full Service Level (FSL). However, the MBT was constructed at a height of 617 metres FSL as observed by the CE during his inspection (July 2012). As a result, the treated water could not be supplied through gravity to 13 villages proposed in these two schemes, and the assets created for supplying water to these villages could not be utilised.

The consultant also failed to check where the proposed MBT was being constructed. Thus, the negligence of the concerned engineers to construct the MBT at the appropriate level as proposed in the estimates resulted in non-provision of safe drinking water to 13 habitations, besides wasteful expenditure of ₹7.98 crore. There was, however, nothing on record to indicate any action being contemplated against the engineers.

The State Government replied (March 2013) that an alternative proposal at a cost of ₹98 lakh had been submitted for rectification of defects in the scheme.

➢ The WSS to Mangalur and two other villages in Yelburga taluk of Koppal district was approved in March 2007. The work was stated to be physically completed (March 2012) at a cost of ₹2.94 crore with trial run of water supply under progress. After the completion of work, it was seen that water was reaching only Mangalur village and not the other two villages i.e. Vanagere and Guttur. The CE blamed (September 2011 and February 2012) the consultant for the defects in the design for the scheme and for not providing an intermediate sump and a pump house, due to which water could not reach these villages. However, the consultants’ response (September 2011) was that the sump and a pump house were provided in the original design and these were deleted in the final approved estimates due to financial constraints. From the correspondence, it was seen that the consultant and the engineers of the department blamed each other for the failure of the scheme, but did not take corrective steps. As a result, the expenditure of ₹2.94 crore remained unfruitful. The failure needed to be analysed and responsibility fixed.

The State Government replied (March 2013) that a proposal to provide additional and other requisite components had been submitted (November 2012) before SLSSC for approval. However, the reply was silent on the reasons as to why the sump was not approved and how the scheme was expected to be successful without planning for the sump.

2.1.12.3 Execution of water supply scheme by using sub-quality materials and workmanship

The WSS to Islampur and 60 other villages in Hungund taluk of Bagalkot district was entrusted (March 2008) to an agency at a tendered cost of ₹20.60 crore with stipulation to complete the work by March 2009. The work was reported to be physically completed and treated water was being supplied to the villages. A sum of ₹19.81 crore was also paid to the agency as at the end of March 2012.

It was seen in audit that of the 60 habitations the scheme was to benefit, only 27 habitations received water daily. The remaining 23 habitations received water intermittently, six did not receive water at all and four habitations were altogether excluded from the scheme. Further, there were several deficiencies in the execution as the quality of air valves and control valve chambers was not up to mark and needed immediate replacement which was not carried out; water was reaching only to few Ground Level Reservoirs (GLR); the consultant noticed large number of leaks in joints due to which there was heavy pressure drop and due to low pressure water was not being pumped; 160mm dia PVC pipes were laid instead of 200mm dia PVC pipes and the pipes were laid in Black Cotton (BC) soil without murrum cushion resulting in damages to pipes due to uplift to the joints.

The CE was aware of these deficiencies as he had inspected (May 2011) the scheme and also appointed (May 2012) a consultant to inspect the work. The CE stated (July 2012) that the scheme was a failure due to large scale leaks in the pipelines and valve chambers. Thus the expenditure of ₹19.81 crore remained largely wasteful. The CE also rejected the proposal of the division for extension of time and ordered imposition of penalty (₹1.35 crore) as per the tender conditions. An enquiry was also ordered (July 2012).

Audit observed (August 2012) that ₹ one lakh only was recovered towards penalty. No further corrective/preventive measures were taken to rectify the defects or propose alternatives to service the habitations which were denied the envisaged benefits under the scheme. No responsibility was also fixed on the concerned officials.

The EE, PRED, Bagalkot replied (August 2012) that the matter would be investigated and action would be initiated to recover the penalty from the contractor. The State Government replied (March 2013) that works were completed and action was taken to plug the leaks and provide sufficient water to the proposed villages. However, the fact remains that the quality of materials used has been poor and intended benefits have not been extended to all the habitations.

2.1.13 Extension of undue benefits to the contractors

Audit came across cases where undue benefits were accorded to the contractors. These cases are detailed in succeeding paragraphs:

2.1.13.1 Loss due to non-recovery of Central excise exemption obtained by the contractors

As per the GOI, Ministry of Finance letter dated 28 October 2005; exemption from excise duty was available for pipes required for obtaining untested water from its source to water treatment plant and to the first storage point. The exemption was to be given by the Deputy Commissioner (DC) of the district, based on a certificate that the pipes were required from the place of tapping to the place where treatment plant was set up. It was seen in audit that in 22 cases in four test-checked divisions[25], the EEs had addressed the DC for providing exemption from central excise duty for the pipes and other accessories for the water supply works. The DCs gave the exemptions, based on the proposal. No action was, however, taken to recover the duty so exempted by the Government from the contractor. Thus the contractors were getting additional benefit as they had quoted the rates inclusive of central excise duty. As the purchase bills from the supplier were not available, the exact amount could not be worked out.

The State Government replied (March 2013) that action would be taken to recover the excise duty from the contractors.

2.1.13.2 Extra payment due to provision of higher diameter of pipes

The work of WSS to Mayaconda and 14 other villages in Davanagere district was taken up (February 2008) at a tendered cost of ₹9.71 crore. The work was completed (January 2011) at a cost of ₹11.94 crore. A pipeline of 300 mm DI pipes was proposed for raw water raising main. It was seen in audit that the CE had directed (December 2007) inclusion of 250 mm DI pipes in the tender documents instead of 300 mm before the last date of submission of tenders due to reduction in supply from 55 LPCD to 40 LPCD. However, the EE, PRED, Davanagere did not include the revised specification in the tender documents. The tender documents specified provision for 300 mm DI pipes. Audit also observed from running account bills and work slip approval statement that the Agency had laid only 250 mm DI pipes. However, the agency was paid at the rate for the 300 mm pipes. This resulted in excess payment of ₹66.94 lakh for 8,370 running metres.

The State Government replied (March 2013) that 300 mm DI pipes were used, hence payments were made accordingly. However, the reply was contradictory to the running account bills which indicated usage of 250 mm DI pipes only.

2.1.13.3 Irregular payment towards pipes

The material component, especially pipes, constituted a major portion of the estimated cost. As per the special conditions attached to the tender document, which formed part of the agreement, and also the specifications for the component, the contractor was to be paid only for the pipes supplied, laid, jointed and hydraulically tested.

The CE had also instructed (August 2010) the divisions to desist from making payments towards supply of pipes in the first bill. In spite of these instructions, it was noticed in 18 test-checked projects of three PREDs[26] that the divisions

[25] Bagalkot (10), Bellary (5), Koppal (3) and Tumkur (4)
[26] Bagalkot (10), Bellary (2) and Tumkur (6)

had made payments of ₹22.75 crore for the pipes in the first bill, though there were no earthwork excavations for the laying of pipelines.

The State Government replied (March 2013) that works in Tumkur and Huvinahadagalli divisions had been completed. However, the fact remained that payments were made contrary to agreement conditions and the orders issued by CE.

2.1.13.4 Adoption of soft, hard rocks and hard soil in the excavation of soils

As per codal provisions, trial pits should invariably be dug at the site of work and nature of soil such as ordinary soil, hard soil, hard rock, soft rock, *etc.*, ascertained before preparing the estimates for work. The rates are highest for excavation in hard rock, followed by soft rock, hard soil and lastly ordinary soil. It was seen in audit that this exercise was not done in any of the cases and no certificates were available on record. In the absence of such tests, the CE, while approving the estimates, should have adopted excavation rates only in respect of ordinary soil.

As per the work bills the expenditure on excavation of soils other than ordinary soil in two PREDs[27] worked out to ₹3.17 crore. In view of non-conducting of tests before estimation, it was evident that the engineers had prepared the estimates on ad hoc basis. As such, excess payments could not be ruled out.

The State Government replied (March 2013) that trial pits were drilled on random basis in Tumkur division and in Koppal division reports were submitted. However, the reports were not made available to Audit. In the absence of these reports, Audit could not assess the correctness of quantities executed and payments made.

2.1.13.5 Excess payment due to adoption of tendered rates for excess quantity

➢ As per the agreements entered into by the PRED with the agency, extra items or quantities in excess of 125 *per cent* of the tendered quantity should be paid at Current Schedule of Rate (CSR) plus or minus tender premium.

It was seen in respect of WSS to Mundargi and 37 other villages in Koppal taluk (Mundargi & 87 villages Ph-I) of Koppal district that quantities of pipes increased beyond 125 *per cent* of the tendered quantity. The EE, PRED, Koppal, while calculating the rates for additional quantities, had adopted the tendered rates, instead of CSR plus the tender premium of 14.89 *per cent*. The decision to adopt the tendered rates was based on the letter of the contractor agreeing to execute the extra quantities at the tendered rates, which was also agreed to by the department. The deliberate and considered decision of the department to adopt tendered rates for additional quantities resulted in over payment of ₹21.08 lakh to the contractor as the tendered rates were more than the CSR plus tender premium.

➢ Similarly, in the work of WSS for Sindigere and four other villages in Bellary district, though the quantity of murrum had increased beyond 125 *per cent*, the contractor was paid at his tendered rates of ₹150 per cum, while the

[27] Koppal (₹78.78 lakh) and Tumkur (₹238.60 lakh)

CSR plus tender percentage worked out to ₹107.43 per cum. This resulted in undue benefit of ₹7.21 lakh to the contractor.

The State Government replied (March 2013) that payments were made after approval from the competent authority. The reply was not acceptable as it was against the agreement clause.

2.1.14 Doubtful execution of works

2.1.14.1 Irregular payment towards pipes

The engineer overseeing the work is responsible for recording each set of measurements in the Measurement Books (MB), which should be check-measured by the Assistant Executive Engineer (AEE). The EE is also required to check 25 *per cent* of the works executed. In WSS to Navali and 22 other villages in Gangavathi taluk of Koppal district, the work commenced during January 2009 was stated to be nearing completion and the payment amounting to ₹10.63 crore was made to the contractor by the end of March 2012. The payments for the pipes were made against the initial bills between February and September 2009. While inspecting (July 2011) the work, the CE had ordered recheck of total quantity of pipes laid. Accordingly, AEE, Koppal sub-division verified the quantity of pipes actually available *vis-à-vis* the pipes for which payments were made. The AEE's report, however, did not indicate the excess payment. As per AEE's report (August 2011), there were 63,161 running metres (RMT) of pipes of various classes actually laid, whereas the payments had been made for 71,202.50 RMT of pipes. Audit calculated the difference which worked out to ₹98.15 lakh. Thus, there was failure in internal control checks to be followed while check-measuring the works. This resulted in irregular payments of ₹98.15 lakh to the contractor.

The State Government replied (March 2013) that the difference in quantity of pipes was laid subsequently after the inspection by CE. However, the reply was not acceptable as there was no documentary evidence to substantiate the reply and the payments were made much before the actual laying of pipes.

2.1.14.2 Irregular check measurement and payment of bills to contractors without ensuring availability of materials

Each set of measurements to be recorded should commence with entries stating among other things, date of recording measurements. A scrutiny of WSS to Machakanur and nine other villages in Mudhol taluk of Bagalkot district showed that the measurements were taken and recorded on 25 March 2011 in the MBs even before materials required for laying of pipelines had arrived at the work spot. The payment of ₹3.13 crore was made for different works which, *inter alia*, included supply of pipes and conveying to work site, rolling, lowering into trenches, jointing of pipes and specials, encasing the pipes with 15 cm soft gravel, giving hydraulic tests, testing and commissioning.

It was seen in audit that the Third Party Inspection (TPI) agency had inspected the materials on 26 March 2011 at Jalgaon (Maharashtra State) which were after the date of check measurement i.e. on 25 March 2011 and the place of inspection was also hundreds of kilometers away from the work spot. Thus, there was a total failure of the internal control system at all levels.

The State Government replied (March 2013) that payments had been made after verification and as per rules. However, the reply was not acceptable as materials would not have arrived on the date of check measurement.

2.1.14.3 Construction of impounding reservoir did not yield the desired results

The WSS to Mincheri and four other villages in Bellary taluk, was taken up (August 2008) at an estimated cost of ₹3.82 crore and civil works were stated to be completed. However after completion, water brought to IR was getting drained through seepages. Even after water was filled for over 12 hours daily, it was seen that water could be retained only to a depth of 0.45 meter on one side and nil on the other side. The division claimed that the agency had laid a 30 cm Black Cotton soil blanket in the IR. It was noticed in audit that IR had been constructed in a place which was not the original one initially proposed in the estimates. The change, stated to be necessitated due to protest from villagers, was accepted without obtaining approval from the competent authority. The division continued with the civil works and completed all the items contemplated in the estimates at an expenditure of ₹4.17 crore as per the progress report of March 2012. As the water was not getting retained in the IR, the consultant opined (May 2011) that BC blanket of 60-100 cms was required to be spread in the IR so as to retain water in the tank. This was not done even though two years had lapsed after the date of completion of civil works. As a result, the entire expenditure of ₹4.17 crore remained wasteful besides non-provision of safe drinking water to the proposed villages.

The State Government replied (March 2013) that water was not being stored due to high porosity of soil and work would be taken up in consultation with State level quality control task force.

2.1.15 Installation and functioning of De-Fluoridation plants

2.1.15.1 Non-functional de-fluoridation plants

The DF plants are installed in habitations which have high content of Fluoride for which alternate sources of safe drinking water cannot be provided and are considered as low cost technology to address quality issues. A total number of 100 Reverse Osmosis (RO) and 25 Absorption Technology Systems (ATS) were installed (September 2002 to June 2003) and as none of the units installed were functioning, it was proposed in the annual reports of RDPR department to entrust the maintenance of these plants to the approved organisation on contract basis. It was further seen that the RDPR department had been claiming every year from 2007-08 onwards that action had been taken to entrust the work of maintenance of these plants on contract basis and guidelines had been issued for the annual maintenance contract. A paragraph on non-functional DF plants was included in the Report of the Comptroller and Auditor General of India (Panchayat Raj Institutions) for the year ended 31 March 2007 (Paragraph 2.9). However, out of the total 100 non-functional RO and ATS plants in the State, only 61 RO plants had been repaired and the remaining RO plants continued to remain non-functional. Further, none of the ATS plants had been repaired and put to use (July 2012). This resulted in not only the expenditure on installation remaining wasteful but the failure in repairing of plants also defeated the objective of providing safe drinking water.

It was seen in Belgaum district that on a proposal (April 2009) made by the CE, Government released (May 2012) ₹64.50 lakh to ZP Belgaum for repair of 16 RO plants installed at a cost of ₹1.63 crore. However, the Chikkodi division was yet to identify the agency to carry out the rectification work (August 2012), resulting in non-provision of safe drinking water to the habitations.

The State Government replied (March 2013) that the agency in Belgaum district was not traceable and balance 10 *per cent* was held up. However, the reply was silent about the rectification work.

2.1.15.2 Failure to complete terrafil plants for combating Arsenic contamination

The GOI had approved (March 2008) establishment of terrafil units[28] in Chickmagalur district for which an amount of ₹7.16 crore was released (February 2009) to ZP. After tendering, the work order was issued (September 2009) to an agency for fixing 1,156 units in 344 habitations at a unit cost of ₹63,000 with instruction to complete the work within three months. The total tendered amount for the project was ₹7.28 crore, which worked out to 14.54 *per cent* over the amount put to tender.

The agency, however, did not complete the work and installed only 110 units in one taluk and a payment of ₹69.30 lakh was made to the agency. The agency requested (January 2011) the department that it could not undertake the work due to increased cost and requested for extension of time as well as relieving him from the responsibility. The division and the Superintending Engineer recommended (February 2012) the case to the CE who approved the same with a nominal penalty @ ₹20 per day amounting to ₹0.14 lakh. Alternate arrangements for the completion of work of providing these filters were not made. This resulted in denial of safe drinking water to the needy habitations, besides non-utilisation of the amount allocated.

The State Government replied (March 2013) that establishment of terrafil units in Chickmagalur district was done on pilot basis and the balance villages would be considered after obtaining feedback on the pilot project.

2.1.15.3 Wasteful expenditure on repairs of DF plants

In Tumkur district, 27 DF plants were not functional, out of which the EE, PRED, Madhugiri proposed to repair 12 DF plants during 2007-08 for which ZP released ₹30 lakh. The EE, without obtaining any approval from the CE, split the work into 12 individual works and entrusted the works to class III contractors who were not experts in the field of installation and maintenance of DF plants. The work orders were issued on 17 December 2007 and the works were stated to have been completed within 20 days at a cost of ₹29.95

[28] Terrafil filter is a low cost device to filter impure water into clean drinking water when the water is rich in sediments, suspended particles, Iron and certain micro-organisms causing water borne diseases. It is most suitable for areas where water from both surface and ground water sources like dug wells, ponds, tube wells and rivers are used for drinking purpose. (Source: Council of Scientific and Industrial Research, Bhubaneswar, Orissa)

lakh. However, when the CE proposed to repair all the DF plants in the State as a whole, the division reported that these 12 DF plants were not working, even though repaired. Thus, the repair of DF plants through unprofessional agencies resulted in wasteful expenditure of ₹29.95 lakh.

The State Government replied (March 2013) that CE was not aware of the repairs done and action would be initiated against the engineers for entrusting work to unprofessional agencies.

2.1.16 Monitoring of the Scheme

2.1.16.1 Establishment and functioning of Committees

Proper functioning of various Committees and Bodies to be constituted under the programme is a must for the achievement of end objective. However, it was seen that the functioning of various monitoring agencies was far from satisfactory and, in some cases, the same were not constituted at all as discussed below:

Monitoring agency	Functions and responsibility	Status noticed by Audit
State Water and Sanitation Mission headed by the Chief Secretary/Additional Chief Secretary with members from various departments.	It was to provide policy guidance, monitoring and evaluation of physical and financial performance and management of the water supply and maintaining the accounts for programme Fund and Support Fund.	The SWSM had not met anytime from the date of constitution (September 2009). The mission was largely ineffective as allocation contemplated under the guidelines were not made available, large number of works remained incomplete, monitoring of programme was lackadaisical.
State Level Scheme Sanctioning Committee headed by a Chairperson who is the Secretary, RDPR department and the Committee should meet at least twice in a year.	Sanctioning new schemes, progress, completion and commissioning of the schemes approved.	After its constitution in December 2009, the SLSSC met only four times against five prescribed during 2009-12. Further, in majority of the meetings, discussions concentrated only on sanctioning of new schemes rather than on progress of works.
District Water and Sanitation Mission (DWSM) functions at ZP and is headed by President of ZP and shall meet at least quarterly.	To review the implementation of the schemes approved, taking action for the works remaining incomplete.	In none of the test-checked districts the DWSM was constituted, evidencing slackness in programme implementation.
Village Water and Sanitation Committee	Constituted for the maintenance of the completed schemes.	In test-checked districts, the VWSC had not been constituted for the proper maintenance and upkeep of the water supply schemes.

The State Government replied (March 2013) that the action had been taken to constitute the Committee in SWSM and same was expected to be functional in 2013-14 and establishing DWSM would be done in 2013-14. As far as VWSC was concerned, the State Government stated that the matter was under consideration.

2.1.16.2 Inspections

Proper inspection of scheme is a basic requirement for its success. Audit observed several deviations in the monitoring and inspection by Departmental officers as detailed below:

Provision in the guidelines	Position noticed in audit
DWSM should constitute a team of experts in the district who should review the implementation in different block frequently.	Such a team of experts was not constituted in any of the test-checked districts.
The SWSM should conduct review of the programme in the districts once in six months.	SWSM had not even met since its constitution. Evidently, there was no inspection at the highest level.
The community needs to be involved in the water quality monitoring & surveillance programme.	No information was available regarding such inspection in any of the test-checked districts.
Inspection as to whether the water quality information of the drinking water sources is displayed in GPs by wall painting.	No inspection was done.

The State Government accepted (March 2013) the fact and stated that establishment of DWSM was under serious consideration and once these were constituted, the same would be strengthened by inducting experts.

2.1.17 Conclusion

Planning was deficient as the annual plans were approved after delays, sometimes stretching to the fag end of the financial year. The pace of coverage and completion of projects did not indicate that all the habitations would have access to safe drinking water anytime in near future. The financial allocation for the quality aspect was deficient resulting in non-utilisation of earmarked percentage of funds. The physical achievements were far from satisfactory. The key aims of creating assets for providing safe drinking water remained undelivered. As there were abnormal delays in completion of works, the Government failed to provide the basic minimum need of safe drinking water to quality affected habitations. Monitoring and inspection of activities under the programme at different levels was not adequate.

2.1.18 Recommendations

- The AAPs should be prepared as scheduled so that schemes could be commenced and completed within the stipulated time.
- At least 20 *per cent* of the allocation under NRDWP should be utilised for addressing quality affected habitations.
- The delays in acquisition of land, poor progress by contractors, unrealistic estimates, execution of additional quantities/extra items, *etc.*, leading to cost and time overruns should be avoided.
- The department should ensure strict action against officials found responsible for faulty execution of works and monitoring and inspection should be strengthened at all levels.

SECTION 'B' – PARAGRAPHS

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT AND SOCIAL WELFARE DEPARTMENT

2.2 Fraudulent withdrawal of funds from bank account

Out of ₹10.77 lakh required to be remitted to the Government account, the Taluk Social Welfare Officer, Sira Taluk remitted ₹0.77 lakh only and fraudulently withdrew ₹10 lakh. The Taluk Social Welfare Officer then tampered with the Treasury challan to suppress the short remittance and fraudulent withdrawal.

In order to avoid misuse of Government money lying in bank accounts, the Principal Secretary, Social Welfare department, Government of Karnataka had instructed (May 2011) all District Social Welfare Officers to convert existing savings bank accounts to a joint account in the names of Deputy Commissioner (DC) and Chief Executive Officer (CEO) of Zilla Panchayat (ZP). The Taluk Social Welfare Officers (TSWOs) were also instructed to close all their bank accounts and to remit the balances lying in these accounts to the joint account maintained at the district level.

On a test-check of records in the office of TSWO, Sira taluk in Tumkur district, it was seen that a sum of ₹53.23 lakh was lying in a bank account as of July 2011. The TSWO, instead of closing the bank account and remitting the entire amount, remitted (July 2011) only ₹42.19 lakh (including commission charges) to the concerned district authorities and incurred a sum of ₹0.27 lakh on other expenses. The balance amount of ₹10.77 lakh was recorded as remitted to the Treasury on 15 December 2011. The challan for the remittance of ₹10.77 lakh to the Government account under the Major head 0049 (Interest receipts) was kept on record.

On verification of remittances in the Schedule of Receipts maintained by the Sub-Treasury Office (STO), Sira, it was seen that only ₹0.77 lakh was remitted vide challan No. 27. Audit confirmed (September 2012) from the bank that the TSWO had drawn two cheques on 15 December 2011, one for ₹10 lakh for issue of a demand draft in favour of M/s Aditya Enterprises, Kestur and another for ₹77,365/- for remitting the same to Government account.

Evidently, the TSWO had remitted only ₹0.77 lakh out of the amount available in the bank account and added '10' (both in figures and words) before the amount of ₹77,365/- to suppress the short remittance.

Thus, the action of the TSWO in not closing the bank account soon after receiving the instructions and then tampering with the challan resulted in fraudulent withdrawal of ₹10 lakh.

On this being pointed out (13 September 2012) by Audit, the then TSWO remitted ₹10 lakh to the Government account on 18 September 2012. Though the funds fraudulently drawn have been remitted to the

Government account, the matter needs to be investigated by the Government to fix the responsibility.

The Government endorsed (January 2013) the reply of the CEO, ZP, Tumkur which acknowledged the fraudulent withdrawal of Government money. It was stated that a criminal case has been filed on 04 December 2012 in this regard and the final outcome was awaited (January 2013).

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

2.3 Extra expenditure

Providing and laying surface dressing in village road works by Panchayat Raj Engineering Divisions in Bagalkot, Bellary, Chickmagalur, Gulbarga and Ramanagara districts contrary to the norms of Indian Roads Congress resulted in avoidable extra expenditure of ₹1.42 crore.

The construction of rural roads (other district roads and village roads) is governed by the specifications in Rural Roads Manual (Special Publication: 20-2002) issued by the Indian Roads Congress (IRC). The specifications *ibid* recommend that bituminous layer of Pre-mix Carpet (PMC)[29] with seal coat or Surface Dressing[30] (SD) may be applied over the semi-rigid base.

The Executive Engineers (EEs) of Panchayat Raj Engineering Divisions (PREDs) in five districts[31] took up (2010-11) the works of 'improvements to village roads' under NABARD[32] Rural Infrastructure Development Fund-XV and XVI. From a test-check of records (June 2012 - January 2013), it was seen that estimates for these works included construction of granular sub-base and three grades of metalling *i.e.* water bound macadam (WBM) as base course and two wearing courses *viz.*, SD as intermediate wearing course followed by tack coat and close graded PMC as final wearing course. Accordingly, the SD was laid in between the base course and PMC by incurring an expenditure of ₹1.42 crore (detailed in **Appendix 2.1**). However, as per the norms of IRC, in case of rural roads, 20 mm thick bituminous layer of PMC with seal coat or 20 mm thick mix seal surfacing or SD was to be applied on the WBM. Hence, laying of the intermediate wearing course *i.e.*, SD in between base course and final wearing course was contrary to IRC norms.

The EE, PRED, Chickmagalur replied (June 2012 and September 2012) that single coat SD was executed as this item was particularly recommended by the NABARD authority and SD was provided to serve as binding material as these works came under Malnad Region. The EE, PRED, Gulbarga replied (December 2012) that SD ensured waterproofing of the base layer as well as fixation of aggregates. The replies were not acceptable for the following reasons:

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29 PMC involves laying of closely graded premix material in 20 mm compacted thickness on a previously prepared surface.

30 Surface dressing involves successive spraying and spreading of binder and aggregate respectively. This mainly seals granular surface and ensures waterproofing of the base layer as well as ensures contact between the traffic and pavement.

31 Bagalkot, Bellary, Chickmagalur, Gulbarga and Ramanagara

32 National Bank for Agriculture and Rural Development

- IRC is the standard setting authority in respect of road works. Even the Pradhan Mantri Grama Sadak Yojana (PMGSY) guidelines which is a flagship programme related to rural roads and NABARD guidelines for selection/scrutiny of road works also stipulate construction of rural roads in accordance with the specifications as given in the Rural Roads Manual issued by IRC.
- SD was followed by tack coat and PMC, which also served as binding material.

Hence, the execution of SD as intermediate wearing course was not warranted and expenditure of ₹1.42 crore incurred on SD was avoidable.

The matter was reported to the State Government (August 2012 and February 2013); reply is awaited.

2.4 Unfruitful expenditure on water supply scheme

Entrustment of work to a contractor without acquiring land resulted in unfruitful expenditure of ₹1.41 crore on advance procurement of materials besides denial of safe drinking water to the villages.

The codal provisions[33] require taking up of projects after ensuring availability of required land, preparation of design and drawings after proper survey so that the project could be completed within the stipulated time to realise the intended benefits. Any delay in providing these inputs results only in time and cost overrun and postponement of benefits.

With an objective of providing safe drinking water to Kurdi and seven other villages of Manvi taluk, Raichur district, a water supply scheme (Scheme) under Sub-mission project of Rajiv Gandhi National Drinking Water Mission estimated to cost ₹6.86 crore was administratively approved by the Director and ex-officio Joint Secretary to Government, Rural Development and Panchayat Raj (RDPR) Department in August 2008, based on the decision (December 2007) of the State Level Empowered Committee. The project cost was to be shared between the Government of India and the State Government in the ratio of 75:25. The Scheme envisaged construction of impounding reservoir, with Tungabhadra river being the source of water. Twenty two acres of land at Rajalabanda village belonging to Horticulture Department was identified on the assurance of the local Horticulture Departmental officers for construction of the impounding reservoir.

The Chief Engineer, Panchayat Raj Engineering Department (CE), while according the technical sanction (20 November 2008) stipulated that land should be acquired before inviting the tenders. However, the Executive Engineer, Panchayat Raj Engineering Division, Raichur (EE) had already invited (07 October 2008) tenders even before getting the technical sanction and ensuring the availability of land. Out of two bids received (10 December 2008), only one tenderer[34] qualified for the technical evaluation. The EE, instead of rejecting the tender due to lack of competition, entrusted (February 2009) the work to the contractor at a cost of ₹6.50 crore against an amount of ₹5.04 crore put to tender. The work was stipulated to be completed by January

[33] Paragraphs 209 and 211 of Karnataka Public Works Departmental Code (Volume I)
[34] Shri M. Earanna, Grade I contractor

2010. The approved designs and drawings for construction of intake-well pump house, water treatment plant *etc.,* were provided during September 2010 after a delay of 19 months. The contractor, in anticipation of execution of work, had procured PVC pipes, pumping machinery *etc.,* even before the approval (August 2010) of designs and drawings and an amount of ₹1.41 crore was paid by the EE in March 2009. However, the Horticulture Department refused to release the required land (May 2009).

Thus, the improper action of the EE in entrusting the work without ensuring the availability of land and procurement of materials resulted in unfruitful expenditure of ₹1.41 crore.

The EE replied (July 2012) that alternative land in the same village was identified but the consultants opined that the land was not fit for impounding reservoir as it was submerged in water due to heavy rains. Hence, another land was identified in Gorkal village and a proposal for land acquisition sent to the Deputy Commissioner, Raichur on 24 February 2010, for which an amount of ₹20 lakh had been deposited.

The Government endorsed (December 2012) the reply of the Chief Executive Officer, Zilla Panchayat, Raichur which also stated that action had been initiated to acquire the land and works would be completed within 8 to 10 months. However, the fact remains that the land acquisition process is still in a preliminary stage and identified villages have been denied safe drinking water even after a lapse of five years. The possibility of cost overrun could also not be ruled out. The commencement of work without taking possession of the required land was, therefore, imprudent and contravened the codal provisions.

2.5 Entrustment of work in disregard of norms

Chief Executive Officer, Zilla Panchayat, Bellary colluded with Executive Engineer, Panchayat Raj Engineering Division, Bellary and vitiated the tendering process, resulting in wasteful expenditure of ₹31.92 lakh on sub-standard work. The Government also did not initiate appropriate action against the concerned officers.

The codal provisions[35] stipulate that pre-requisites like preparation of detailed estimate, obtaining sanction, provision of funds, *etc.*, should be ensured before taking up a project so as to realise intended benefits. Further, as per the Karnataka Transparency in Public Procurements (KTPP) Act and Rules thereunder, no procurement entity shall procure goods or services except by inviting tenders and should ensure a minimum period of 30 days for submission of tender up to ₹ two crore and any reduction in time should be specifically authorised by superior authority for reasons to be recorded in writing. It was also stipulated that in respect of works involving computer peripherals and related services, the list of pre-qualified tenderers empanelled by the Directorate of Information Technology, Government of Karnataka (DIT) should be referred to.

The Executive Engineer, Panchayat Raj Engineering Division, Bellary (EE) took up (2010-11) the work of '*implementation of contract management and*

[35] Paragraph 211 of Karnataka Public Works Departmental Code (Volume I)

reporting of Panchayat Raj Engineering Divisions, Bellary and Hadagali' which was a workflow-based web application.

Test-check of records (July 2012) showed that the Chief Executive Officer, Zilla Panchayat, Bellary (CEO) along with EE vitiated the tendering process to benefit a particular contractor as discussed below:

The work was estimated at ₹32.19 lakh and involved development of software. The CEO ordered (September 2010) making use of savings available under other heads[36] of account, which was irregular.

The EE, instead of calling tenders as per KTPP Act or selecting from the list of pre-qualified tenders invited (09 August 2010) quotations with the last date of submission as 20 August 2010. This was done as per 'oral instructions' of CEO. The notice inviting quotations was not given publicity and was only pasted on the office notice board. Three agencies located outside Bellary[37] submitted their quotations.

It was seen that all three quotations contained the same grammatical and spelling mistakes. Further, the EE certified to have opened the quotations on 20 August 2010 though these were submitted on 17/18 September 2010. Later the EE rejected all the quotations without assigning any reason.

Thereafter, the EE again invited short term tender through e-tendering on 23 September 2010. The approval of superior authority was not obtained for calling short term tender of 19 days. Further, the tender for an amount of ₹32.19 lakh was called through KW-1 document which was meant for civil works below ₹20 lakh and did not require two cover system. Out of two tenders received, the lower tender of M/s Viztek BPO Solutions Pvt. Ltd., Hubli (vendor) amounting to ₹31.92 lakh was accepted (14 October 2010) without the technical evaluation of bids. This was one of the three agencies who had submitted the quotations earlier and also had discussions with the CEO on 13 August 2010.

The EE entered into agreement with the vendor on 14 October 2010. The work was reportedly completed during March 2011 for which a sum of ₹31.92 lakh was paid (December 2010 – March 2011). While making payments, the Junior Engineer (JE) concerned had certified that the work was satisfactory.

However, District Informatics Officer, National Informatic Centre, Bellary, reported (August 2011) that the application was still in preliminary stages and made the following observations:

- User requirements were not gathered properly and there was no user requirement specification (URS) document.
- Tables design was not done properly and linking of master data was not appropriate.
- There was no module for estimate preparation.
- More validations were required in input screen during data capture.
- Fund management was not handled properly.

[36] 3054, 4702 and 5054 meant for civil works
[37] Bangalore, Hubli and Hyderabad

- There was no provision for rejection of bills in the application.
- The user manual did not contain the required information.
- Customised reports were not readily available and the source code was not given.

Later the JE submitted (September 2011) that the vendor was a close associate of former CEO who had forced him to certify the work though he was not qualified in software technology.

The irregularities were brought to the notice (September 2011) of the Government; however, appropriate action was not taken (July 2012) against the officers concerned. Only the JE was suspended (August 2011) but reinstated during February 2012.

The EE made (January 2012) unfruitful efforts to contact the vendor to rectify the defects in the software. The software was not being used (July 2012) in the division. Evidently, the entire tendering process was vitiated to entrust the work to a particular vendor which resulted in wasteful expenditure of ₹31.92 lakh on sub-standard work.

Audit Officer of Panchayat Raj Engineering Division, Bellary accepted (July 2012) all the audit observations and reiterated that the work was taken up as per oral instructions of CEO and without obtaining proper approvals. It was also stated that so far no action has been taken either to rectify the defects or to initiate enquiry against officers concerned.

The matter was reported to the Government in August 2012; reply is awaited (February 2013).

CHAPTER-III

An overview of Urban Local Bodies

CHAPTER III

SECTION 'A'
AN OVERVIEW OF URBAN LOCAL BODIES

3.1 Introduction

3.1.1 The 74th Constitutional amendment enacted in 1992 envisioned creation of local self-governments for the urban area population wherein municipalities were provided with the constitutional status for governance. The amendment empowered Urban Local Bodies[38] (ULBs) to function efficiently and effectively as autonomous entities to deliver services for economic development and social justice with regard to 18 functions listed in the XII Schedule of the Constitution.

The category-wise ULBs in the State, as of March 2012, were as shown in **Table 3.1** below:

Table 3.1: Category-wise ULBs in Karnataka State

Sl. No.	Urban Local Bodies	Number of ULBs
1	City Corporations (CCs)	8
2	City Municipal Councils (CMCs)	44
3	Town Municipal Councils (TMCs)	94
4	Town Panchayats (TPs)	68
5	Notified Area Committees (NACs)[39]	4

Source: Administrative Report of Urban Development Department for the year 2011-12

The CCs are governed by Karnataka Municipal Corporations Act, 1976 (KMC Act) and other ULBs are governed by Karnataka Municipalities Act, 1964 (KM Act). Each corporation/municipal area is divided into a number of wards, which is determined and notified by the State Government considering the population, geographical features, economic status, *etc.*, of the respective area.

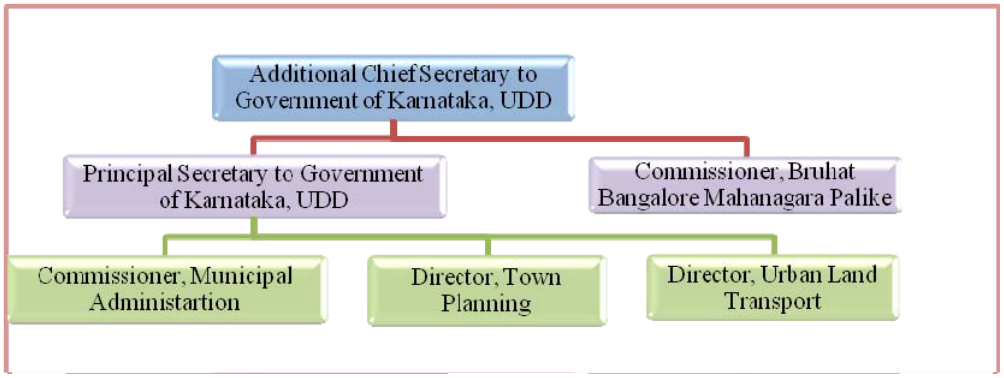
3.2 Organisational structure

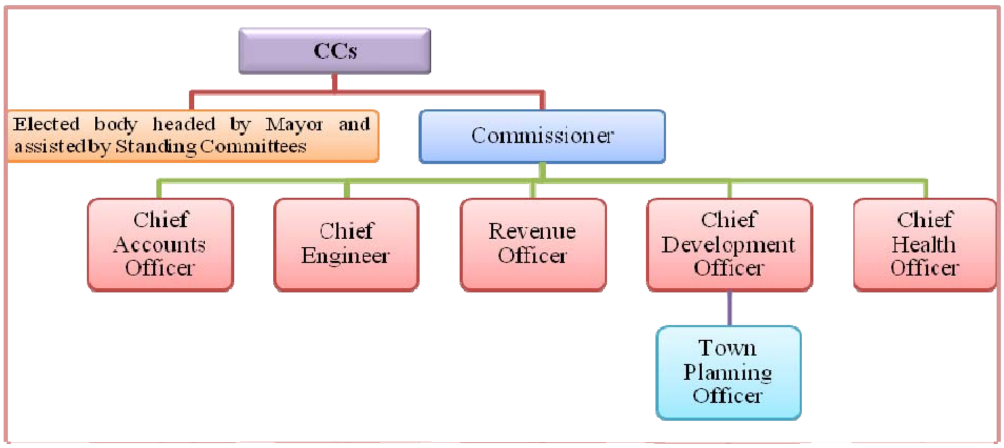
3.2.1 The Urban Development Department (UDD) is headed by Additional Chief Secretary to Government of Karnataka and is the nodal department. The organisational structure with respect to functioning of ULBs in the State is as follows:

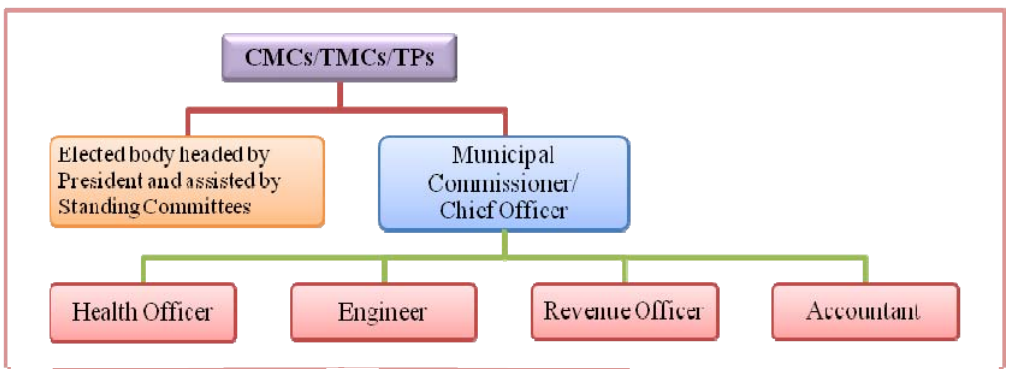
[38] Classified as City Corporations, City Municipal Councils, Town Municipal Councils and Town Panchayats based on the population

[39] Audit of accounts of NACs had not been entrusted to the Comptroller and Auditor General of India

State level







The Directorate of Municipal Administration (DMA), established in December 1984, is the nodal agency to control and monitor the administrative, developmental and financial activities of the ULBs except Bruhat Bangalore Mahanagara Palike (BBMP), which functions directly under the UDD.

3.2.2 All the ULBs have a body comprising of Corporators/Councillors elected by the people under their jurisdiction. The Mayor/President who is elected on majority by the Corporators/Councillors presides over the meetings of the Council and is responsible for governance of the body. While the ULBs other than BBMP have four[40] Standing Committees, BBMP has 12 Standing Committees[41] to deal with their respective functions. The Commissioner/Chief Officer is the executive head of ULBs.

3.2.3 The subordinate wings of UDD and their responsibilities are as indicated in **Table 3.2** below:

Table 3.2: Subordinate wings of UDD and their responsibilities

Sl. No.	Wing	Responsibilities
1	Municipal Administration	• to ensure that ULBs discharge their functions and guide them in discharge of obligatory, special and discretionary functions • urban reforms, especially relating to revenue collection, computerisation and accounting • implementation of the Centrally Sponsored and State Government Schemes
2	Town Planning	• assist the Government in formulation of policies on matters related to planning and development of urban and rural areas of the State • extending technical support to Urban Development/Planning authorities, ULBs in preparation and enforcement of development plans and preparation of town extension schemes, *etc*.
3	Urban Land Transport	• periodical assessment of travel demand in a given urban area through scientific methods • determination of the level of public transport required in different corridors and the type of transport systems required based on a comprehensive appraisal of public transport technologies • assessment and recommendation of the new investments needed for creation of infrastructure over a specified time horizon • liaisoning with the municipal bodies/Urban Development Authorities (UDAs) in designing and developing integrated policies and plans for city level transportation and their financing

Source: Administrative Report of UDD for the year 2011-12

3.2.4 In order to ensure comprehensive development and to improve service delivery system in thickly populated areas and urbanised areas in the State, the State Government constituted various Boards/Authorities[42] assigning specific functions to them.

3.3 Financial profile

3.3.1 Resources of ULBs

The ULBs do not have a large independent tax domain. The finances of ULBs comprise of receipts from own sources, grants and assistance from Government of India (GOI)/State Government and loans procured from

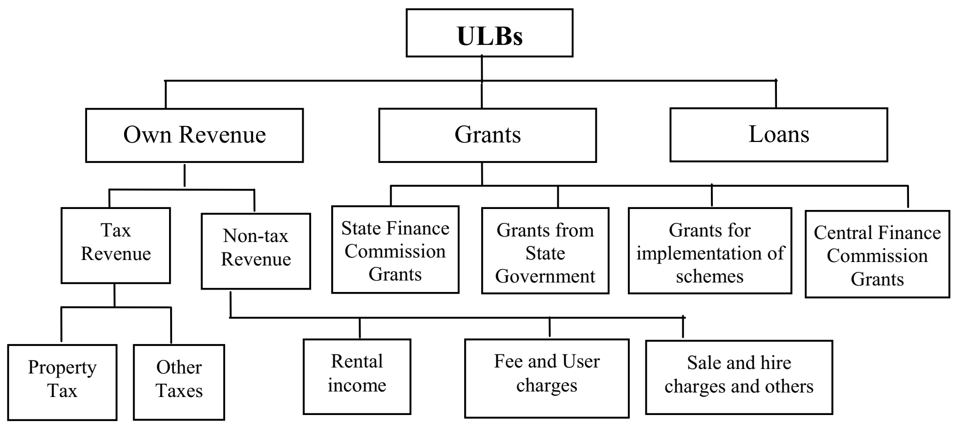
[40] 1) Accounts 2) Public Health, Education and Social Justice 3) Taxation, Finance and Appeals 4) Town Planning and Improvement

[41] 1) Accounts 2) Appeals 3) Education 4) Establishment and Administrative Reforms 5) Horticulture 6) Major public works 7) Markets 8) Public health 9) Social Justice 10) Taxation and Finance 11) Town planning and improvement and 12) Ward level public works

[42] Bangalore Development Authority, Bangalore Metropolitan Regional Development Authority, Bangalore Metro Rail Corporation Limited, Bangalore Water Supply and Sewerage Board, Karnataka State Town Planning Board, Karnataka Urban Water Supply and Drainage Board, Karnataka Urban Infrastructure Development and Finance Corporation, UDAs for 29 cities

financial institutions or nationalised banks as the State Government may approve. The property tax on land and buildings is the mainstay of ULB's own revenue. While power to collect certain taxes is vested with the ULBs, powers pertaining to the rates and revision thereof, procedure of collection, method of assessment, exemptions, concessions, *etc*., are vested with the State Government. The own non-tax revenue of ULBs comprise of fee for sanction of plans/mutations, rental income, water charges, *etc*.

Grants and assistance released by the State Government/GOI as well as loans raised from financial institutions are utilised for developmental activities and execution of various schemes. Flow chart of finances of ULBs is as shown below:



3.3.2 Custody of funds in ULBs

The grants received from the State Government are kept in Personal Deposit Account maintained at Treasury. All receipts are to be credited into the treasury and any money required for disbursement is drawn from the treasury through cheque. The grants received for implementation of schemes are kept in banks duly authorised by the State Government. The Drawing and Disbursing Officers (DDOs) under ULBs are empowered to draw the fund from the treasury/banks after getting sanction from the Commissioner/Chief Officer.

3.3.3 Release of grants to ULBs

The details of grants released by the State Government to ULBs during the period from 2008-09 to 2011-12 are as shown in **Table 3.3** below.

Table 3.3: Statement showing release of grants to ULBs

(₹ in crore)

ULBs	2008-09		2009-10		2010-11		2011-12	
	Budget	Grant released	Budget	Grant released	Budget	Grant released	Budget	Grant released
CCs	802	749	679	662	617	616	2,800	2,864
CMCs/TMCs	1,210	1,259	1,335	1,372	1,789	1,936	1,252	1,126
TPs/NACs	449	331	351	438	474	423	285	258
Total	**2,461**	**2,339**	**2,365**	**2,472**	**2,880**	**2,975**	**4,337**	**4,248**

Source: State Budget Estimates and Finance Accounts

It could be observed that though the grants released to CCs increased by 365 *per cent,* the grants released to CMCs and TPs decreased by 42 *per cent* and 39 *per cent* respectively during 2011-12 when compared to the previous year.

The increase in grants to CCs was mainly due to release of grants under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) to BBMP and CC, Mysore and also due to release of grants under Mukhya Mantri Nagarothana Yojane, Tribal Sub-Plan (TSP)/ Special Component Plan (SCP) to all CCs. The decrease in grants to CMCs and TPs was due to non release of grants under SCP and TSP programmes.

3.3.4 Revenue and expenditure of ULBs

The revenue of ULBs include own revenue, assigned revenue, grants, loans, *etc*. Details of revenue and expenditure of ULBs are shown in **Table 3.4** below:

Table 3.4: Statement showing revenue and expenditure of ULBs

(₹ in crore)

Revenue	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**Total**
Own revenue	477.52	665.18	834.68	912.82	**2,890.20**
Assigned revenue	1.38	4.75	4.42	5.12	**15.67**
Grants	954.60	1,142.40	1,695.14	1,848.18	**5,640.32**
Loans	106.52	21.96	22.96	27.86	**179.30**
Others	17.85	29.46	29.16	27.14	**103.61**
Total	**1,557.87**	**1,863.75**	**2,586.36**	**2,821.12**	**8,829.10**
Expenditure					
Roads, Drains, Culverts	292.96	366.66	708.73	789.92	**2,158.27**
Public Health and Sanitation	27.23	42.20	52.49	69.39	**191.31**
Water supply	55.77	52.68	78.55	87.61	**274.61**
Pay & Allowances	180.39	217.07	267.26	270.40	**935.12**
Loan repayment	57.22	21.85	23.83	11.39	**114.29**
Others	321.76	434.37	566.35	652.65	**1,975.13**
Total	**935.33**	**1,134.83**	**1,697.21**	**1,881.36**	**5,648.73**

Source: As furnished by DMA Details for the year 2011-12 were not furnished.

The above position indicated that though collection of own revenue increased by 91 *per cent* during the period 2007-08 to 2010-11, it constituted only 33 *per cent* of the total revenue during the same period. Thus, ULBs were largely dependent on Government grants (64 *per cent*).

The total expenditure of the ULBs increased by 101 *per cent* during the period 2007-08 to 2010-11. The recurring expenditure on Public Health and Sanitation was less and it constituted only 3 *per cent* of the total expenditure.

3.3.5 Financial position of selected ULBs

Out of 214 ULBs, Audit test-checked the records of BBMP, Mangalore CC, three CMCs[43], seven TMCs[44] and four TPs[45] to review the budgetary control and financial reporting system in ULBs.

3.3.5.1 Financial position in BBMP

Audit scrutiny of the financial statements (unaudited) of BBMP prepared under Fund Based Accounting System (FBAS) for the years 2007-08 to 2010-11 showed the following:

- General Fund registered an increase of 148 *per cent* during the period 2007-11 whereas Enterprise Market Fund increased by 0.82 *per cent* over

[43] Basavakalyana, Bidar and Hassan
[44] Bantwal, Bhalki, Chittaguppa, Humnabad, Moodbidri, Puttur and Ullal
[45] Aurad, Belthangadi, Mulki and Sullia

the same period. BBMP replied (December 2012) that against expected revenue of ₹701 crore, only ₹460 crore was collected during 2010-11, but the reason for less collection of revenue was not furnished.

- The current Liabilities and Provisions increased from ₹495.33 crore in 2007-08 to ₹689.30 crore in 2008-09. It increased to ₹2,797.33 crore in 2009-10 (i.e. an increase of ₹2,108.03 crore) and to ₹4,906.97 crore in 2010-11 (i.e. an increase of ₹2,109.64 crore). There was increase of 891 *per cent* in current Liabilities and Provisions during 2007-11. BBMP replied (December 2012) that due to merger of 110 villages and five city municipalities to BBMP, there was increase in liabilities.
- Long term debt (Loans) increased from ₹887.65 crore in 2007-08 to ₹3,138.11 crore in 2010-11. BBMP replied (December 2012) that long term loans were borrowed to provide basic infrastructure to newly created wards.
- Fixed assets of BBMP showed an increasing trend during the period 2007-11. It registered an increase from ₹5,146.09 crore in 2007-08 to ₹10,242.82 crore in 2010-11. The reasons for continuous increase in fixed assets could not be ascertained as the details of additions made during the above period were not provided to Audit.
- The current assets also registered a steady increase from ₹858.51 crore in 2007-08 to ₹1,052.60 crore in 2008-09, and to ₹1,625.92 crore in 2009-10. It increased to ₹2,084.01 crore in 2010-11. This was mainly due to increase in receivables towards property tax arrears.

3.3.5.2 Financial position in other ULBs

The details of own revenue *i.e.* tax and non-tax revenue realised by 15 selected ULBs are shown in **Appendix 3.1**.

The analysis of revenue indicated that:

- Tax revenue of ULBs increased from ₹17.20 crore to ₹39.29 crore during 2007-12 mainly due to increased collection under Property tax.
- The main source of non-tax revenue was rent, water charges, building licence fee, trade licence fee, *etc*. It increased from ₹34.21 crore to ₹69.30 crore during 2007-12.

- ***Property Tax***

The Government of Karnataka introduced the Self Assessment scheme in all municipalities of the State with effect from 1 April 2002.

Audit scrutiny showed that as against the demand of ₹174.44 crore, property tax of ₹167.93 crore (96 *per cent*) was collected in 14 test-checked ULBs (March 2012). The ULBs did not take action to identify all land and buildings situated in the municipal area using Geographic Information System (GIS) and issue demand notices, as stipulated. TMC, Humnabad had not furnished the details.

- ***Short realisation of water charges***

Every Municipality was responsible for providing supply of wholesome water for the domestic use of inhabitants. The supply of water for domestic and non-domestic users was to be charged at the prescribed rates.

It was seen in 14 test-checked ULBs that a sum of ₹124.63 crore (87 *per cent*) was collected towards water charges as against the demand of ₹143.48 crore (March 2012). TMC, Humnabad had not furnished the details.

- ***Non-realisation of rent***

As of March 2012, 13 test-checked ULBs had raised a demand of ₹18.71 crore towards rent from stalls and shops of market complexes, against which a sum of ₹16.08 crore (86 *per cent*) was collected. The arrears in realisation of rent amounted to ₹2.63 crore at the end of March 2012. The shortfall in realisation of rent reduced the revenues of these ULBs to that extent, thereby widening the resource gap. TMC, Bantwal had collected 100 *per cent* of the rent due (₹41.73 lakh). TP, Aurad had not furnished the details.

- ***Non remittance of cess***

As of March 2012, 14 test-checked ULBs had not remitted to the State Government an amount of ₹17.59 crore collected towards Beggary, Health and Library cess. CMC, Bidar had remitted the entire amount of ₹39.32 lakh collected towards cess.

3.4 State Finance Commission

3.4.1 The 73rd and 74th Constitutional amendments mandated the constitution of SFC every five years to determine sharing of revenue between the State Government and local bodies. So far, three SFCs were constituted and recommendations of the first and second SFCs were implemented.

The third SFC had recommended (December 2008) the devolutions to the ULBs at 10 *per cent* of State's Net Own Revenue Receipts, to be implemented from 2010-11 onwards. However, the State Government decided only in October 2011 to allocate 8.5 *per cent* of Non-loan Net Own Revenue Receipts (NLNORR) during 2011-12 and increase it by 0.5 *per cent* every year. The State Government had released ₹4,247.90 crore to ULBs during 2011-12 which was 8.4 *per cent* of NLNORR (₹50,563 crore).

3.5 Devolution of Functions, Funds and Functionaries

3.5.1 Transfer of functions

The 74th Constitutional amendment envisaged devolution of 18 functions listed in the XII Schedule of the Constitution to ULBs. As of March 2012, the State Government had transferred 14 functions to ULBs. Two functions[46] were being implemented by both ULBs and the State Government. The other two functions namely, Urban Planning and Fire Services had not been transferred to ULBs. The water supply for domestic and industrial purposes was implemented through separate agencies[47] of the State Government.

[46] (1) Urban forestry, protection of environment and ecology (ULBs and Forest Department) (2) Slum improvement and up-gradation (ULBs and Slum Development Board)

[47] Bangalore Water Supply and Sewerage Board for BBMP area and Karnataka Urban Water Supply and Drainage Board for other ULBs

3.5.2 Transfer of funds

Devolution of funds to ULBs is a natural corollary to the implementation of transferred functions. The State Government releases funds directly to the ULBs to implement the devolved functions. In addition, grants are released to implement State and Centrally Sponsored Schemes. In audit, the functions of Slum improvement and up-gradation and Urban Poverty Alleviation were test-checked to ascertain the extent of transfer of funds. It was seen that the State Government had not separately earmarked funds for both these functions. The funds were released as lump sum amount under SFC grants. It was seen that out of 15 test-checked ULBs, only five ULBs[48] had spent ₹3.01 crore towards Urban Poverty Alleviation during the period 2007-08 to 2011-12 and only CMC, Bidar had spent ₹0.78 lakh for Slum improvement and up-gradation during the period 2010-11. The ULBs replied (September-December 2012) that funds were being spent on Urban poverty alleviation and Slum improvement and up-gradation programmes through other schemes such as Swarnajayanti Shahari Rojgar Yojane (SJSRY). However, the fact remained that separate funds were not earmarked and also action plans were not prepared in this regard.

3.5.3 Transfer of functionaries

The KMC and KM Acts stipulate that the State Government, as it considers necessary, appoint personnel including officers from Karnataka Municipal Administrative Service to ULBs and also depute the staff as per the percentage fixed under Karnataka Municipalities (Recruitment of Officers and Employees) Rules, 2010.

As at the end of October 2012, the total sanctioned strength of the CMCs, TMCs and TPs was 24,952 whereas the working strength was 17,105 (69 *per cent*). The vacancies in the posts of Office Manager, Revenue Officer, Health Inspector and water supply operator were more than 40 *per cent* of the sanctioned strength which hampered the functioning of ULBs. The details of working strength relating to CCs were not available with the DMA.

3.6 Accountability framework

3.6.1 Powers of the State Government

The Acts governing ULBs entrust the State Government with the following powers so as to enable it to monitor the proper functioning of the ULBs:

- frame rules to carry out the purposes of KMC and KM Acts;
- dissolve the ULBs, if the ULBs fail to perform or default in the performance of any of the duties imposed on them;
- cancel a resolution or decision taken by ULBs, if Government is of the opinion that it is not legally passed or in excess of the powers conferred by provisions of the Acts; and
- regulate the classification, method of recruitment, conditions of service, pay and allowance, discipline, conduct of the staff and officers of ULBs.

[48] Belthangadi (₹29.16 lakh), Bidar (₹32.77 lakh), Mangalore (₹64.30 lakh), Mulki (₹62.29 lakh) and Sullia (₹112.38 lakh)

A detailed list of powers of the State Government is given in **Appendix 3.2**.

3.6.2 Vigilance mechanism

The Lokayukta appointed by the State Government has power to investigate and report on allegations or grievances relating to the conduct of officers and employees of ULBs.

3.6.3 Audit mandate

The Controller, State Accounts Department (SAD) is the primary Auditor of ULBs in terms of KMC and KM Acts. The State Government entrusted (May 2010) the audit of accounts of all ULBs[49] to the Comptroller and Auditor General of India (CAG) under Section 14(2) of CAG's Duties, Powers and Conditions of Service (DPC) Act, 1971 from 2008-09 and under Technical Guidance and Supervision from 2011-12 onwards by amending the statutes (October 2011).

3.6.4 Arrears in Primary Audit

Out of 214 ULBs, audit of accounts of 190 ULBs for the period up to 2010-11 was conducted by SAD as of 31 March 2012. The audit of remaining 24 ULBs (11 *per cent*) was not conducted due to non-submission of accounts by ULBs and inadequate staff in SAD.

3.6.5 Response to Audit observations

The Commissioners/Chief Officers are required to rectify the defects and omissions contained in the Inspection Reports (IRs) and report their compliance to SAD within three months from the date of issue of IRs. The Controller, SAD informed (February 2013) that the DMA, though intimated of the position through regular correspondence, failed to ensure prompt and timely action by the concerned officers of the ULBs. As a result, there were 1,15,646 audit paragraphs outstanding as at the end of March 2011 relating to the period up to 2009-10 involving ₹1,347.04 crore.

On a review of statutory auditor's report on the accounts of BBMP for the year ended 31 March 2009, it was observed that audit paragraphs involving financial irregularities amounting to ₹1,321.12 crore for the period from 1964-65 to 2007-08 were outstanding (November 2012). Out of this, an amount of ₹197.03 crore was proposed for recovery by Audit. During the course of last audit conducted for the year 2008-09, audit paragraphs involving financial irregularities amounting to ₹190.72 crore were communicated to BBMP by the Auditors for taking corrective action, of which an amount of ₹50.38 crore was proposed for recovery. BBMP replied (December 2012) that a separate cell was formed during 2009-10 to clear the audit objections.

3.7 Resource utilisation

3.7.1 Thirteenth Finance Commission grants

The Thirteenth Finance Commission (TFC) was constituted (November 2007) to recommend the measures needed to augment the consolidated funds of the States to supplement the resources of the Panchayat Raj Institutions (PRIs) and ULBs. TFC had recommended grant-in aid to the local bodies as a

[49] Except Notified Area Committees(NAC)

percentage of the previous years' divisible pool of taxes, over and above the share of the States. The grants allocated to the ULBs in the State for the period 2011-12 were General Basic grants (₹215.10 crore) and Performance grants (₹73.53 crore).

The GOI released General Basic grants of ₹232.50 crore and Performance grants of ₹116.64 crore during 2011-12 to ULBs in Karnataka in two instalments. TFC had suggested earmarking at least 25 *per cent* of grants for solid waste management (SWM) activities. The State Government allocated the grants to all ULBs based on the population and issued (August 2010) guidelines for execution.

3.7.1.1 Delayed release of funds

TFC guidelines stipulated that the funds should be transferred to the accounts of ULBs within five days from the date of receipt of grants from GOI, failing which the State Government would be liable to release the instalment with interest at the Reserve Bank of India rate for the delayed period. The GOI released the first and second instalments during November 2011 and March 2012. Audit observed that there were delays ranging from four to 39 days in transfer of funds to ULBs. On this being pointed out (October 2012) by Audit, the State Government released interest of ₹45.96 lakh to ULBs during November 2012.

3.7.1.2 Non-utilisation of TFC grants

It was observed in test-checked ULBs that utilisation of TFC grants during 2010-12 ranged between five and 100 *per cent* and ₹96.79 crore remained unutilised as at the end of 31 March 2012 as detailed in **Table 3.5**, thereby defeating the intention of providing timely service to the urban population as envisaged.

Table 3.5: Details of utilisation of TFC grants in test-checked ULBs

(₹ in crore)

Name of the ULB	Grants released		Total	Amount utilised	Balance	Percentage of utilisation
	2010-11	2011-12				
Aurad TP	0.41	0.52	0.93	0.44	0.49	47
Bantwal TMC	0.59	0.99	1.58	0.71	0.87	45
Basavakalyana CMC	0.66	0.77	1.43	0.79	0.64	55
BBMP	41.34	92.07	133.41	60.54	72.87	45
Belthangadi TP	0.34	0.39	0.73	0.61	0.12	84
Bhalki TMC	0.52	0.43	0.95	0.08	0.87	8
Bidar CMC	1.57	2.99	4.56	0.28	4.29	6
Chittaguppa TMC	0.57	0.57	1.14	0.06	1.08	5
Hassan CMC	0.99	2.02	3.01	0.48	2.53	16
Humnabad TMC	0.64	0.51	1.15	0.36	0.79	31
Mangalore CC	3.69	5.79	9.48	0.43	9.05	5
Moodbidri TMC	0.54	1.02	1.56	0.94	0.62	60
Mulki TP	0.38	0.44	0.82	0.82	0.00	100
Puttur TMC	0.75	1.18	1.93	0.99	0.93	51
Sullia TP	0.46	0.53	0.99	0.56	0.43	57
Ullal TMC	0.57	1.22	1.79	0.58	1.21	32
Total	**54.02**	**111.44**	**165.46**	**68.67**	**96.79**	**42**

Source: As furnished by ULBs

It was seen that the test-checked ULBs excluding BBMP had kept the amount in Personal Deposit accounts maintained at Treasuries. Separate cash books for accounting these grants were not maintained. Thus, Audit could not ensure the correctness of the amount utilised and balance available under TFC**.**

3.7.1.3 Non preparation of Action Plan

As per guidelines issued (August 2010) by the State Government for utilisation of TFC grants, an action plan was required to be prepared and approved by Council and also by DMA before utilising the grants. However, no such action plan was prepared by BBMP before utilisation of grants. BBMP replied (December 2012) that TFC grants were included in programmes of works as per the budget approved by the Council. The reply was not acceptable as BBMP had to prepare a separate action plan for the TFC grants and got approved by the Council and DMA. In the other test-checked ULBs, action plans were prepared.

3.7.1.4 Loss of Interest

BBMP operated the TFC funds through current account opened in Syndicate Bank instead of savings bank account which yields interest on unspent balance amount. As a result, the Corporation lost the opportunity of earning interest of ₹95 lakh (approximately) on unspent funds lying in bank account during the period 2010-11 and 2011-12 at the rate of 3.5 *per cent* of interest applicable on savings account. BBMP replied (December 2012) that there was no instruction to keep the amount in savings account. However the fact remained that BBMP could have earned an interest of ₹95 lakh in case the amount had been kept in savings account.

3.7.2 Swarnajayanti Shahari Rojgar Yojane

Swarnajayanti Shahari Rojgar Yojane (scheme) was under implementation in 214 ULBs in the State from 01 December 1997. The objective of the scheme was to provide gainful employment to the urban unemployed and under-employed poor by encouraging them to set up self employment ventures and to provide wage employment. The important components of the scheme were Urban Self Employment programme and Urban Wage Employment programme. The scheme was implemented through the community based organisations created under the programme. The details of release of grants to ULBs during 2007-12 are shown in **Table 3.6** below.

Table 3.6: Release of grants to ULBs in Karnataka under SJSRY

(₹ in crore)

Year	OB	Grants released		Total grants available	Expenditure (Percentage)	Balance
		GOI	State Government			
2007-08	16.15	24.10	8.03	48.28	26.36 **(55)**	21.92
2008-09	21.92	48.96	16.32	87.20	33.87 **(39)**	53.33
2009-10	53.33	35.24	11.75	100.32	28.31 **(28)**	72.01
2010-11	72.01	53.76	13.13	138.90	47.90 **(34)**	91.00
2011-12	91.00	48.74	21.03	160.77	71.30 **(44)**	89.47

Source: As furnished by DMA

It was observed that out of ₹69.77 crore released during 2011-12 by GOI/State, DMA released only ₹56.88 crore to ULBs. Reason for not releasing the full amount to ULBs was not given.

The utilisation of grants ranged between 28 and 55 *per cent* which indicated that implementation of the scheme was not encouraging. However, the test-checked ULBs except BBMP spent ₹13.54 crore (84 *per cent*) out of ₹16.04 crore received during the period 2007-12. In BBMP, out of ₹20.12 crore received during 2009-12, ₹9.85 crore (49 *per cent*) were utilised indicating poor implementation of the scheme.

The reasons for shortfall attributed by selected ULBs were shortage of staff and inadequate public awareness.

It was also seen that cash book for the scheme account was not written properly by any of the test-checked ULBs and balances were not reconciled with bank account. A few other observations are as follows:

- The Chief Officer, Chittaguppa, TMC had drawn ₹1.05 lakh through self cheque in contravention of guidelines.
- TMC, Humnabad had shown subsidy amount of ₹10.42 lakh as expenditure though it was not drawn by beneficiaries.

3.8 Non-maintenance of Asset Register

As per the provisions contained in KM Act, assets of the ULBs should be recorded scheme-wise in Register of Immovable Properties. However, none of the test-checked ULBs had maintained the Asset Register. Thus, the properties encroached by others were not ascertainable by the ULBs. In TMCs, Bhalki and Humnabad, though municipal land to an extent of 1,28,284 square feet was encroached by others, no action was taken by the Chief Officers to evict them.

3.9 Conclusion

Out of 18 functions to be devolved to ULBs, the State Government had not devolved two functions. No separate funds were earmarked for Urban Poverty Alleviation programmes and Slum Improvement programmes. The ULBs had not adopted GIS system to identify the properties to levy Property Tax. There were delays in transfer of TFC grants to ULBs and separate cash books for TFC funds were not maintained in test-checked ULBs.

SECTION 'B'

FINANCIAL REPORTING

3.10 Framework

3.10.1 Financial reporting in the public sector is a key element of accountability. According to Karnataka Municipalities Accounting and Budgeting Rules, 2006 (KMABR), the ULBs should prepare the financial statements consisting of Receipts and Payments Account, Balance Sheet, Income and Expenditure Account along with Notes on Accounts in the form and manner prescribed and submit to the Auditor appointed by the State Government, within two months from the end of the financial year.

3.10.2 Municipal Reforms

The initiative of municipal reforms was consummated during 2005 through the Nirmala Nagara programme whose components, among others, included accounting reforms, computerisation of municipal functions, setting up public grievance system, *etc*. This programme was initially funded under Karnataka Urban Development Coastal Environmental Project. Only 57 ULBs, including eight CMCs which merged with BBMP were covered under this programme. These reforms are now adopted by the remaining ULBs of the State under Karnataka Municipal Reforms Project (KMRP). The main objectives of KMRP are to:

- improve delivery of urban services through enhancing the quality of urban infrastructure;
- enhance accountability, transparency and improve governance of ULBs;
- make ULBs need sensitive, demand responsive and self reliant;
- improve the financial health of the ULBs; and
- promote institutional reforms, capacity building measures and performance based investments and to explore and promote ways for public-private partnerships.

The Municipal Reforms Cell (MRC) working under DMA is responsible for computerisation and maintaining accounts on Fund Based Accounting System in ULBs (except BBMP). To bring in better governance and more efficient service delivery through the use of technology and process re-engineering, the State Government initiated (2005) the process of computerisation of municipal functions in all the ULBs of the State in a phased manner.

3.10.3 Accounting reforms

On the recommendations of Eleventh Finance Commission, GOI entrusted the responsibility of prescribing appropriate accounting formats for the ULBs to the CAG.

The Ministry of Urban Development, GOI developed the National Municipal Accounts Manual (NMAM) as recommended by the CAG's Task Force. The

State Government brought out the KMABR based on the NMAM with effect from 1 April 2006. KMABR was introduced in a phased manner in all the ULBs except BBMP. As of 31 March 2012, all the ULBs were preparing the fund-based accounts in double entry system. BBMP was maintaining FBAS based on the Bangalore Mahanagara Palike (Accounts) Regulations, 2001.

3.10.4 Budget formulation

According to the provisions of KMC Act, KM Act and Rule 132 of KMABR**,** the ULBs were to prepare the budget estimates before 15th of January each year for the ensuing financial year and submit to the Municipal Council for approval. Further, as per Rule 133 of KMABR, the ULBs should have two rounds of public consultations during November and December before finalisation of budget. The approved budget should be notified in two local newspapers having maximum circulation. The Commissioner/Chief Officer was to seek additional funds, if any, through re-appropriation/additional grants after getting the approval of the Municipal Council.

Out of 15 test-checked ULBs, except CMC, Hassan, no other ULBs had records to show that public meetings were conducted and notified in the newspapers.

Expenditure should not be incurred without the approved budget. However, it was seen that eight[50] out of 15 test-checked ULBs had incurred expenditure though there were delays ranging from 27 days to 270 days in passing the budget. Thus, the expenditure incurred by the ULBs before passing of budget was irregular.

In BBMP, there were delays ranging from 3 to 24 weeks in approving the budget during the period 2007-08 to 2011-12. BBMP replied (December 2012) that vote on account was obtained during that period, but reason for delayed approval was not furnished.

3.11 Financial Reporting issues

3.11.1 Preparation of unrealistic budget in BBMP

The details of budget estimates *vis-à-vis* actuals of BBMP for the years 2007-11 are detailed in **Table 3.7** below.

Table 3.7: Details of receipts and payments of BBMP for the years 2007-11

(₹ in crore)

Year	Receipt		Variation (short realisation)		Payments		Variation	
	Budget	Actuals	Amount	Percentage	Budget	Actuals	Amount	Percentage
2007-08	3,302.35	1,935.87	1,366.48	**41**	3,325.51	1,821.97	1,503.54	**45**
2008-09	2,842.48	2,502.55	339.93	**12**	2,918.71	2,430.70	488.01	**17**
2009-10	3,959.29	3,627.90	331.39	**8**	4,238.42	3,508.59	729.83	**17**
2010-11	8,446.75	3,326.31	5,120.44	**61**	8,862.04	3,620.22	5,241.82	**59**

Source: BBMP Budget documents Figures for 2011-12 were not furnished by BBMP.

3.11.1.1 Budget estimates for receipt

It could be observed that as compared to budget estimates, there was short realisation of receipts to the extent of 61 *per cent* during the year 2010-11. BBMP replied (December 2012) that higher revenue was anticipated due to

[50] Bantwal, Basavakalyana, Bhalki, Bidar, Hassan, Moodbidri, Mulki and Ullal

change in property tax assessment system and addition of new areas, however, it was not realised.

3.11.1.2 Budget estimates for expenditure

The payments made during the year 2007-08 and 2010-11 when compared to the budgeted provisions were short by ₹1,503.54 crore (45 *per cent*) in 2007-08 and ₹5,241.82 crore (59 *per cent*) in 2010-11.

It was also seen that BBMP had incurred excess expenditure over budget provision under Finance & Accounts head during the period 2007-10 and under public works activities during 2008-10, which was irregular. Further, BBMP did not utilise ₹1,000 crore provided to Engineering capital investment plan during 2010-11. The shortfall ranging from 17 to 59 *per cent* was observed in expenditure *vis-à-vis* the budget provision during the period 2007-11, indicating preparation of unrealistic budget estimates. BBMP replied (December 2012) that number of developmental works were taken up during 2007-08 to 2011-12 which had been approved during 2006-07 by erstwhile CMCs, hence provision was made to complete those works.

3.11.2 Budget estimates in other ULBs

A comparison of budget provision and expenditure incurred (2009-12) by 15 test-checked ULBs under three heads of account showed the following:

- **Roads & Footpaths:** As against the budget provision of ₹144.36 crore, 15 test-checked ULBs incurred ₹132.76 crore (92 *per cent*) during the period 2009-12. However, in nine ULBs[51], the expenditure had exceeded the budget provisions, which was irregular. ULBs stated (September-December 2012) that the excess expenditure was met out of grants available under other heads of account.

- **Urban Forestry, Parks & Garden**: In six ULBs[52], expenditure incurred (2009-12) under this head of account was ₹0.38 lakh whereas the budgeted provisions were ₹2.89 crore. CMC, Hassan had spent ₹1.55 crore during the year 2011-12 though there was no budget provision. In remaining eight ULBs[53], budget provisions were not made. Evidently, the ULBs had not given importance for urban forestry activities and the budget was also not realistic as the expenditure incurred in six ULBs was only 13 *per cent* of the budget provision.

- **Urban Poverty Alleviation**: Out of 15 test-checked ULBs, only five ULBs[54] had made provisions for the urban poverty alleviation programmes. TPs, Belthangadi & Mulki had utilised grants ranging from 41 to 99 *per cent*, whereas CMC, Bidar did not incur any expenditure though a provision of ₹53.75 lakh was made during the years 2009-10 to 2011-12. In TP, Sullia, the expenditure of ₹40.25 lakh (2009-12) was in excess of the budget provision of ₹31.21 lakh.

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[51] Aurad, Bantwal, Belthangadi, Bhalki, Bidar, Chittaguppa, Hassan, Mangalore and Sullia
[52] Aurad, Bantwal, Basavakalyana, Bidar, Mangalore and Puttur
[53] Belthangadi, Bhalki, Chittaguppa, Humnabad, Moodbidri, Mulki, Sullia and Ullal
[54] Belthangadi, Bidar, Mangalore, Mulki and Sullia

3.11.3 Preparation and certification of accounts

According to KMABR, the financial statements of ULBs should be audited by the Chartered Accountants (CAs) appointed by the DMA. The CAs after completion of audit should submit a report along with the audited accounts to the Municipal Council and the State Government. **Table 3.8** below shows the position of accounts prepared by ULBs and certified by the CAs during the period 2007-08 to 2011-12 (January 2013).

Table 3.8: Position of preparation and certification of accounts

Year	Number of ULBs which prepared accounts					Number of accounts certified by CAs				
	CC	CMC	TMC	TP	Total	CC(8)	CMC(44)	TMC(94)	TP(68)	Total
2008-09	8	43	70	5	**126**	6	37	17	3	**63**
2009-10	8	42	87	68	**205**	3	12	25	50	**90**
2010-11	8	39	81	67	**195**	0	36	12	13	**61**
2011-12	8	22	51	52	**133**	0	0	0	0	**0**

Source: Information furnished by MRC

It was observed that while the number of ULBs which had prepared the accounts during 2008-11 varied between 126 and 205 out of 214, there was shortfall in number of accounts certified by CAs. Despite preparation of 133 accounts, CAs did not certify any accounts for the year 2011-12. DMA replied (January 2013) that the financial auditors were appointed during November 2012.

3.11.4 The Commissioner, BBMP was responsible for preparation of annual accounts and its submission to the Chief Auditor by 1st day of October each year. It was seen that BBMP had delayed submission of annual accounts to its Statutory Auditor by eight months for the year 2008-09 and four months for the year 2010-11. BBMP accounts for these years were not certified by the Chief Auditor. BBMP replied (December 2012) that Auditor's Report on the annual accounts for the years 2008-09 to 2010-11 were yet to be received.

3.11.5 Improper maintenance of cash book and bank book

None of the test-checked ULBs maintained cash book in the prescribed proforma and reconciled the figures with treasury and bank. Further, as per KMABR, the ULBs had to maintain a bank book to record all transactions pertaining to bank and treasury. However, it was seen that none of the ULBs had prepared the bank book. Thus, the correctness of the figures exhibited in the financial statements could not be ensured in Audit.

3.11.6 Non-submission of Statement of expenditure

As per rule 73 of KMABR, the amount paid to PWD/other implementing agencies should be treated as advance and a statement showing the outlay incurred during each month with up-to-date figures should be obtained and adjusted against the advances paid. The unspent balance of advance released for the work, if any, should be claimed immediately after the completion of work from the Agency. In 10 test-checked ULBs[55], it was observed that a sum of ₹20.58 crore was released to implementing agencies to incur expenditure on behalf of ULBs. However, statement of expenditure was not received by ULBs and adjusted against the advances. No action was taken by the ULBs to

[55] Aurad, Basavakalyana, Bantwal, Bhalki, Bidar, Humnabad, Mangalore, Moodbidri, Puttur and Ullal

obtain unspent amount also. This resulted in incorrect exhibition of figures in accounts.

3.11.7 Internal control

The State Government did not have Internal Audit Wing to oversee the functions of ULBs. DMA stated (January 2013) that matter was taken up with the State Government to set up Internal Audit Wing.

Further, it was observed that ULBs were not adhering to financial rules as the utilisation certificates were not obtained and monthly/annual accounts were not prepared and certified within the stipulated dates. The cash books and bank books were not properly maintained and reconciled, indicating inadequate internal control system in ULBs.

3.11.8 Theft, loss, misappropriation, surcharge, etc.

During 2010-11, the Controller, SAD had reported misappropriation/ defalcation cases involving ₹6.28 crore in ULBs of 16 districts.

During January 2011, the department had issued show cause notice to two officers for recovery of ₹2.98 lakh on the basis of the report of SAD for the year 2007-09.

3.12 Conclusion

Inspite of preparation of accounts by ULBs, there was shortfall in certification of accounts by CAs during the years 2008-09 to 2011-12. Budgets prepared by ULBs were not realistic as evidenced by savings in both receipts and payments *vis-à-vis* budget provisions. Internal control mechanism was inadequate as there was no Internal Audit wing and there were instances of improper maintenance of cash books and bank books, non-submission of statement of expenditure, *etc*.

3.13 Recommendations

The ULBs should mobilise additional resources both through Tax and Non-Tax revenue for expanding the tax base. They should also make efforts to collect revenue arrears. All the accounts should be prepared and certified within the stipulated time frame. Internal control system should be strengthened by establishing Internal Audit Wing.

CHAPTER-IV

Results of Audit of Urban Local Bodies

CHAPTER - IV

SECTION 'A' – PERFORMANCE AUDIT

URBAN DEVELOPMENT DEPARTMENT

4.1 Jawaharlal Nehru National Urban Renewal Mission projects implemented by Bruhat Bangalore Mahanagara Palike

Executive Summary

Cities and towns have a vital role in the country's socio-economic transformation and change. Most cities and towns are severely stressed in terms of infrastructure and service availability. Jawaharlal Nehru National Urban Renewal Mission was launched with a view to upgrading the infrastructure facilities and service delivery system to the citizens of these cities and towns in a mission mode.

A performance audit of the projects covering the mission period of 2005-12 was conducted to assess the completeness of infrastructure facilities created and delivery of basic services to the urban poor by the Bruhat Bangalore Mahanagara Palike.

Audit observed that the implementation of some of the mandatory and optional reforms at the State and Bruhat Bangalore Mahanagara Palike level was not achieved. Financial discipline was poor as evidenced by diversion of funds for other purposes, non-maintenance of statutory records, non-reconciliation of balances, non-maintenance of revolving fund, *etc.* In the remodelling of primary and secondary storm water drains, the contractors derived undue benefits by executing items for which abnormally high rates were negotiated. The rates had been brought down after negotiation for items which were not executed or hardly executed. These were subsequently re-awarded through additional and supplementary works. As a result, the works were executed in stretches where work fronts were available and the projects remained incomplete, thereby defeating the objective of remodelling of storm water drains. While payment of excess rate was noticed in completed road infrastructure projects, delay in execution of other road projects was attributed to non-availability of land. Implementation of housing projects under Basic Services to Urban Poor was a failure since only four *per cent* of the dwelling units proposed could be completed within the Mission period.

4.1.1 Introduction

Bangalore, the capital of Karnataka State, is the fifth largest metropolitan city in the country. As per the 2011 census, Bangalore had a population of 95.89 lakh people living in urban areas. The Bruhat Bangalore Mahanagara Palike (BBMP) discharges obligatory and discretionary functions by providing civic services and infrastructure facilities to the citizens of Bangalore as per the provisions of Karnataka Municipal Corporations Act, 1976.

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched on 3rd December, 2005 with the objective of reforms-driven and fast track development of cities across the country, with focus on efficiency in urban infrastructure and service delivery mechanism, community participation, and accountabilities of Urban Local Bodies (ULBs)/Parastatal[56] agencies towards citizens. The two Sub-missions under JNNURM are Urban Infrastructure and Governance (UIG) and Basic Services to Urban Poor (BSUP). The main thrust was on major infrastructure projects relating to water supply including sanitation, sewerage, solid waste management, road network, urban transport *etc.,* with a view to upgrading the infrastructure. The other important thrust was integrated development of slums for providing shelter, basic services and related civic amenities to urban poor through BSUP.

4.1.2 Organisational structure

The organisational structure for implementation of the projects under UIG and BSUP is as under:

Authority	Responsibility
The Principal Secretary to Government, Urban Development Department (UDD)	Overall monitoring of the implementation of the JNNURM programme in the State
The Commissioner, BBMP assisted by Special Commissioner; Engineer-in-Chief (Projects); Chief Engineers (CE)- Storm Water Drain (SWD), Major roads, Road infrastructure, and BSUP	Implementation of the projects in BBMP
The Chief Financial Officer (CFO), JNNURM assisted by Programme Implementation Unit (PIU)	Overseeing the financial management of JNNURM funds and monitoring the implementation of the programme
The Managing Director (MD), Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC) assisted by Project Monitoring Unit (PMU)	State Level Nodal Agency (SLNA) for the programme and monitors the physical and financial progress. Agency to release the Central and State Share of funds to the implementing agencies, creation of revolving fund for maintenance of completed projects, liaisoning with Government of India (GOI) for approval of projects and implementation

4.1.3 Sub-mission projects in Bangalore city

The State Government and the ULBs including Parastatal agencies, where necessary, were to execute a Memorandum of Agreement (MoA) with GOI indicating their commitment to implement identified reforms with timeline. The MoA would spell out specific milestones to be achieved for each item of reform. Funds under the JNNURM would be released by the Central Government to the State Government/nodal agency, which in turn would release funds to the implementing agency in the form of loan, soft loan-cum-grant or grant.

There are 53 projects (39 UIG and 14 BSUP) costing ₹3,472.02 crore being implemented under JNNURM in Bangalore city. As of March 2012, an expenditure of ₹2,181.67 crore was incurred. Out of these 53 projects, BBMP is implementing 17 projects. The remaining projects are being implemented

[56] Statutory agencies of State Governments, which are assigned the responsibility for delivering urban services, *e.g*. water supply, sewerage system, *etc.* In this context, the term has been used for urban agencies.

by other agencies[57] for projects such as underground drainage system, sanitation, development of traffic and transit management system, construction of flyovers, rehabilitation and redevelopment of slums, *etc*. The Mission period was contemplated till 2012; however, it was extended (April 2012) up to 2013-14.

4.1.4 Scope of Audit and methodology

A performance audit of projects under UIG and BSUP Sub-missions implemented by BBMP covering the period 2005-12 was conducted between June and August 2012 by test-check of records on the basis of judgmental sampling of (1) all four projects of remodelling of primary and secondary SWDs, (2) five projects out of 10 road infrastructure projects and (3) one out of three projects on redevelopment of slums.

Out of an expenditure of ₹707.10 crore incurred by BBMP as of March 2012, an expenditure of ₹579.76 crore was test-checked.

An Entry Conference for the performance audit was held in June 2012 and the objectives, audit criteria and methodology of the performance audit were discussed with the Principal Secretary to Government of Karnataka, UDD; the Special Commissioner, BBMP; MD, KUIDFC and the Chief Engineer of BBMP. The Exit Conference was held during January 2013 wherein the audit observations were discussed.

4.1.5 Audit objectives

The objectives of audit were to assess:

- the extent of achievement of the reforms agenda;
- the effectiveness of system of procedures for receipt, utilisation and accounting of funds;
- the adequacy and effectiveness of the planning process at all levels;
- the efficiency, effectiveness and economy of execution of the programmes in terms of achievement of intended objectives; and
- the adequacy and effectiveness of the processes for monitoring and evaluation.

4.1.6 Audit criteria

The main sources for audit criteria were:

- Guidelines of the Sub-mission projects and instructions issued from time to time.
- City Development Plan (CDP), Detailed Project Reports (DPRs), tender documents; and
- Budget documents, codal provisions and Municipal Acts and Rules.

[57] Bangalore Water Supply and Sewerage Board, Bangalore Metropolitan Transport Corporation, Bangalore Development Authority and Karnataka Slum Development Board.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the State Government and BBMP for the smooth conduct of performance audit.

Audit findings

The audit findings are discussed below:

4.1.7 Status of Sub-mission projects in Bangalore City

On an average around two years' time was granted for completion of the projects from the date of approval by Central Sanctioning and Monitoring Committee (CSMC). Out of 53 projects approved, 25 projects (46 *per cent*) have been completed as of March 2012. Seven out of 14 projects approved during 2006-07 were still not completed. The reasons, as per audit observations and BBMP's response, included non-availability of work front, non-availability of land, non-acquisition of land, not obtaining clearances from other authorities on time, *etc*.

4.1.8 Implementation of reforms

4.1.8.1 The State Government and the ULBs were required to initiate reforms in line with the 74^{th} Constitutional Amendment Act, in accordance with the guidelines of JNNURM and as per the tripartite MoA signed (December 2006) by the GOI, the State Government and BBMP. As per MoA, the State Government should ensure meaningful association and engagement of BBMP in the urban management functions including service delivery functions by Parastatal agencies. All the reforms were to be implemented by the State/ULB/ Parastatals within the Mission period. The reforms were categorised as mandatory and optional reforms. Optional reforms were termed thus, as the cities under JNNURM were to have the freedom to opt for any two reforms from the optional category in each year of implementation.

4.1.8.2 Conduct of election in BBMP

As per article 243U of the Constitution of India, election to ULBs once in every five years is mandatory. If a Municipality is dissolved, the election to constitute a new Municipality is required to be held '*before the expiry of a period of six months*' from the date of its dissolution. This provision in the Constitution was reinforced as a mandatory reform.

The Council in BBMP was not in existence during the period 2006-10 and, in its absence, the Administrator appointed by the State Government discharged its obligatory and discretionary functions. The election to the Council was held in March 2010 and the Council was formed in April 2010.

4.1.8.3 Status of implementation of reforms by the State Government and BBMP

A summary of implementation status of mandatory and optional reforms at the State and BBMP level is given in **Table 4.1**:

Table 4.1: Status of implementation of mandatory and optional reforms

Sl. No.	Mandatory reforms – State level	Timeline as per MoA	Current status/Audit remarks
1	Implementation of 74th Constitutional Amendment Act – Devolution of functions to ULBs	June 2010	Two functions *viz*., Fire Services and Urban Planning remained to be transferred.
2	Integration of City Planning and Delivery functions	June 2010	Achieved.
3	Rationalisation of Stamp Duty	2012	Achieved.
4	Repeal of Urban Land Ceiling and Regulation Act	2012	Achieved.
5	Enactment of Community Participation Law	June 2010	Achieved.
6	Enactment of Public Disclosure Law	December 2009	Stated to have been achieved. Audit observed that the financial statements and audited accounts were not uploaded on the website of BBMP. BBMP was also not updating the service level information such as road history/inventory due to which actual requirements of road construction/ improvement, *etc.,* could not be assessed.
	Mandatory reforms - BBMP level		
7	Introduction of system of e-governance	October 2009	Stated to have been achieved. Scrutiny of e-governance initiative in property tax collection showed that a comprehensive data base of properties liable for payment of tax was not being maintained by BBMP.
8	Municipal Accounting	2011	Achieved.
9	Property Tax	December 2009	As per Geographical Information System (GIS) survey, BBMP had identified 16.19 lakh properties for payment of property tax, of which unique Property Identification Number (PID) was issued to 11 lakh property owners (June 2012). Though GIS-based property tax had been implemented in all its 198 wards, collection coverage up to 85 *per cent* was not achieved within the Mission period (2005-12). The Special Commissioner, BBMP stated (March 2013) that against the tax demand of ₹1,600 crore for the year 2011-12, a sum of ₹1,210 crore had been collected (75.63 *per cent*).
10	User charges	2009-10	Solid Waste Management user charges are being collected as part of property tax. As GIS-based property tax has been implemented partially, there would have been short-recovery of user charges.
11	Internal earmarking of funds for services to urban poor	2006-07	Achieved.
12	Provision of basic services to urban poor	2012	Yet to be achieved. Audit findings related to housing projects are commented upon in *paragraph 4.1.13.*
	Optional reforms – State and BBMP		
13	Introduction of property title certification system	2012	Yet to be achieved. Draft proposal on property title certification system was yet to be approved.
14	Revision of building bye-laws to streamline the approval process	2007-08	Achieved.

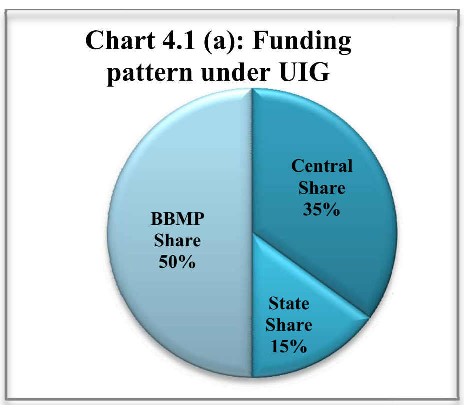
15	Revision of building bye-laws to make rainwater harvesting mandatory in all buildings	2008-09	Achieved.
16	Earmarking of at least 20-25 *per cent* of developed land in all housing projects (public and private) for economically weaker sections with a system of cross subsidisation	June 2010	Yet to be achieved. A notification to reserve not less than 10 *per cent* of the net residential area in all layouts has been issued by the State Government.
17	Simplification of legal and procedural framework for conversion of agricultural land for non-agricultural purpose	2007-08	Achieved.
18	Introduction of computerised processing of registration of land and property	2007-08	Achieved.
19	Bye-laws on reuse of recycled water	2008-09	Achieved.
20	Administrative reforms	June 2010	Achieved.
21	Structural reforms	2006-07	Achieved.
22	Encouraging public private partnership projects	2008-09	Achieved.

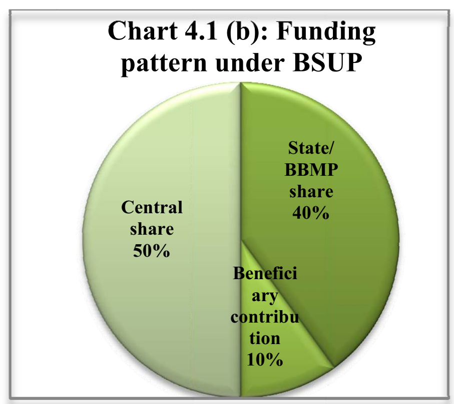
Source: Status Report of SLNA as of March 2012

4.1.9 Financial Management of UIG and BSUP projects

4.1.9.1 Fund position

The funding pattern for the projects under UIG and BSUP were as detailed in **Charts 4.1 (a)** and **(b)** below:





Funds under the Sub-missions would be released by the GOI in the form of grant to the State Government and the State Government, along with its own share, would release funds to the SLNA, which in turn would release to the implementing agency. As per the MoA, the first instalment of grants, being 25 *per cent* of the total central assistance admissible for the projects sanctioned under JNNURM by the CSMC, would be released on signing the MoA and further central assistance would be considered only if the timelines indicated in the MoA to implement the reform agenda were adhered to and utilisation certificates (UCs) for previous releases of grants were furnished by SLNA.

Terms and conditions prescribed under release orders of the State Government stipulated that the audit reports on the accounts of JNNURM funds should be furnished within a reasonable time. However, no separate financial statement on the JNNURM funds was prepared by the BBMP. It was seen that BBMP had prepared the annual accounts which included JNNURM funds up to the year ending March 2011. The audit of annual accounts for the year 2010-11 submitted (January 2012) to the statutory auditors was pending (January 2013).

The financial position *i.e.* project-wise share allocation, releases and expenditure as of March 2012 for the test-checked projects implemented by BBMP is detailed in **Appendix 4.1**.

As could be seen, the expenditure exceeded the release of funds. The reason for such excess was reporting of expenditure including deduction of security deposit made from the payment bills. There was short-release of ₹1.30 crore of GOI and State Government grants by SLNA to BBMP which was mainly due to savings on completed projects against their approved project cost. There was also delay in release of funds by SLNA during the period from 2006-07 to 2011-12 ranging from 10 to 95 days.

4.1.9.2 Diversion of Sub-mission project funds

According to financial rules, funds released for projects should not be diverted or utilised for purposes other than those for which these were released. Scrutiny of bank statements and records showed that BBMP had diverted ₹36.66 lakh released for SWD projects for payment of contractors' bills (March 2008) towards execution of interior works of the Office of CE, SWD located at Jayanagar shopping complex, Bangalore. The Special Commissioner, BBMP replied (March 2013) that this amount had been recouped from BBMP funds. However, on verification by Audit, it was found that this amount had not yet been recouped (March 2013).

4.1.9.3 Non-creation of Revolving Fund by SLNA

The SLNA was to sanction soft loan or grant-cum-loan or grant to the ULBs/ Parastatal agencies in such a manner that 25 *per cent*/10 *per cent* of the Central and State grant put together for UIG/BSUP projects was to be recovered and ploughed into a Revolving Fund to leverage market funds for financing further investment in infrastructure projects/meeting operation and maintenance (O&M) expenses of assets created under BSUP respectively.

Audit scrutiny showed that the Revolving Fund had not been created by the SLNA and a sum of ₹13.47 crore remained to be deposited in Revolving Fund as of June 2012 in respect of the approved Sub-mission projects. The Special Commissioner, BBMP replied (March 2013) that State Level Empowered Committee (SLEC) in its 21st Meeting instructed SLNA to study the practices prevalent in other states, in view of the implementing agencies expressing their concern on contribution towards Revolving Fund. However, no funds were ploughed back from BBMP for creation of Revolving Fund (March 2013).

4.1.9.4 Weak financial control mechanism

- ***Deficiencies in maintenance of cashbook***

As per the codal provisions, BBMP was required to maintain a cashbook recording all financial transactions in real time in the format prescribed. However, on a review of cashbook maintained for JNNURM project accounts for the period 2006-12, it was observed that the cashbooks were not maintained in the prescribed format as per Karnataka Financial Code (KFC) and only payments made through cheques were recorded in the bank columns of the cashbook. The prescribed columns such as budget head of account from which receipts and payments were accounted in the cashbook, advances made and recoupment of such advances, were not shown. Cashbook was not closed daily and the opening and closing balances were not exhibited. Daily balance at bank as per bank pass book and balance as per cashbook was not arrived at and shown in the cashbook. The bank reconciliation statement was also not prepared monthly by the CFO. Audit verified the cashbook, bank pass book and other information furnished by BBMP and arrived at the balances as of 31 March 2012 in respect of two projects of MG Road and Koramangala road works. Audit observed that there was a difference of ₹52.80 lakh in bank balance between bank pass book and cashbook in respect of Koramangala road works.

In test-checked cases, funds amounting to ₹23.93 crore, as worked out by Audit, which were transferred through inter bank accounts were not recorded in the cashbook. It was stated during Exit Conference that cashbook would be maintained in the prescribed form and the accounts for JNNURM would be prepared.

The Special Commissioner, BBMP stated (March 2013) that cashbook was now being maintained in the format of KFC and cashbook was being closed on monthly basis along with the reconciliation statement. The reply was not acceptable as the cashbook was not closed daily and Audit again verified (March 2013) and found that monthly reconciliation statement was not prepared.

- ***Non-renewal of Bank Guarantees***

Financial codal provisions stipulate that Bank Guarantees (BG) should be obtained from the contractors as a valid security towards performance of contracts for a specified period from the date of completion of work. These BGs were required to be cross-verified with the banks to ascertain their genuineness. They had to be renewed on expiry and encashed in case of any default in performance of the contracts. However, it was seen that in 20 cases, BGs amounting to ₹34.52 crore were not renewed after their periods of expiry. As of January 2013, non-renewal of BGs in these cases ranged from seven to 48 months which mainly pertained to SWD package works and the decision for foreclosure was pending with the State Government. Non-renewal of BGs was fraught with the risk of non-repayment of dues to BBMP as observed in the case of Koramangala package II[58] indicating lack of internal control mechanism. It was also observed that even though the maintenance of SWD in Hebbal valley package II was for five years from the date of completion (December 2009), the BG was not renewed from May 2012. It was assured in the Exit Conference that action would be taken to renew the BGs at the earliest.

The Special Commissioner, BBMP stated (March 2013) that reminders for renewal of BG were being sent to banks and were being monitored regularly.

[58] Payment due from the Contractor to the extent of ₹1.67 crore as per final bill.

4.1.9.5 Locking up of funds for housing projects

Of the entrusted 1,524 houses in 13 slums, the Karnataka State Police Housing Corporation Limited (KSPHCL) could take up only 124 Dwelling Units (DUs) under five slums, estimated to cost ₹4.59 crore. BBMP released (April 2008) ₹15.62 crore to KSPHCL and the expenditure incurred as of December 2012 was only ₹7.59 crore. Out of the balance funds of ₹8.03 crore, ₹4.50 crore was refunded (₹3.50 crore in March 2012 and ₹ one crore in December 2012) to BBMP and the remaining amount of ₹3.53 crore was locked up with the KSPHCL.

The Special Commissioner, BBMP accepted (March 2013) that the remaining DUs could not be taken up for construction due to non-availability of land and unwillingness of beneficiaries. It was also stated that KSPHCL had been asked to return the balance amount.

Implementation of Urban Infrastructure Projects

4.1.10 Detailed Project Reports

4.1.10.1 Storm Water Drain works

The DPRs for remodelling of SWDs were required to be prepared to identify the causes for deficiencies in the existing SWDs and measures required to correct the situation, prevent sewage entering SWDs and to suggest modifications of the primary and secondary drains to the required capacities which were technically, financially, socially, legally and environmentally feasible.

Four DPRs were prepared for the SWDs in four valleys[59] and were sent to the CSMC for approval in September 2006. As of August 2012, the department had spent ₹77.59 lakh on preparation of DPRs.

Audit found the following deficiencies in the DPRs, which eventually led to delays in the projects:

- DPRs did not include the total quantum of land required for the project. No details of land owned by BBMP alongside the SWDs for widening were available.

The Special Commissioner, BBMP accepted (March 2013) the fact and stated that these details were not included in the DPR due to non-conducting of revenue survey along the SWDs.

- The issue of clearances for shifting of utilities along SWDs from the concerned agencies like Bangalore Water Supply and Sewerage Board (BWSSB)/Bangalore Electricity Supply Company (BESCOM)/ Defence/ Airport authorities *etc.,* was not brought on record.

The Special Commissioner, BBMP stated (March 2013) that the clearances from the concerned agencies would be obtained.

- The project cost did not have a separate statement on the cost involved in land acquisition, environment compliance cost, cost of surveys and investigations, *etc.*

[59] Challaghatta, Hebbal, Koramangala and Vrishabhavathi

The Special Commissioner, BBMP replied (March 2013) that cost involved in land acquisition would be known only after completion of revenue survey. The reply was not acceptable as the tool kit for preparation of DPR under JNNURM envisaged disclosure of these components distinctly in the DPRs.

- The sources for mobilisation of funds of BBMP during the project implementation were not distinctly brought out in the DPRs. The contribution of BBMP fell short by ₹165.77 crore for these four works as of March 2012.

The Special Commissioner, BBMP stated (March 2013) that there was no short release as payments for additional/supplementary works were made through BBMP's contribution. The reply was not acceptable as there was shortfall in contribution against the original project cost of SWDs. The reply was silent about the deficiencies in preparation of DPRs.

4.1.10.2 Underpass at CNR Rao Circle

The construction of underpass at CNR Rao Circle was designed on the basis of DPR submitted by a consultant (entrusted during September 2007). The consultant was paid ₹3.50 lakh (December 2007). On verification, it was observed that the traffic density study was conducted only for 12 hours on a single day (9 November 2006), which was prior to entrustment of the work of preparation of DPR. This also contravened the provisions contained in the Indian Roads Congress (IRC) specifications which stipulated traffic study for a period of at least seven days at peak hours. The data on pedestrian count survey was also not depicted in the DPR, indicating defective DPR by the consultant.

The Special Commissioner, BBMP (March 2013) stated that peak hours flow was observed in the morning and evening within a span of 12 hours. But the reply did not explain the reason for not conducting the peak hour traffic study for seven days as stipulated by IRC.

4.1.10.3 BSUP

The DPR for the project of development of 13 slums (1,524 DUs) was originally prepared (March 2007) through an agency (M/s. Manasa Consultants, Bangalore) which was approved by SLEC (May 2007) for ₹50.88 crore. The project was entrusted by BBMP to KSPHCL. Of these, KSPHCL could execute only five slums having 124 DUs. BBMP proposed entrustment of balance 1,400 DUs in eight slums to Karnataka Slum Development Board (KSDB). However, KSDB expressed its inability to undertake the construction in the identified eight slums and proposed construction of DUs in other locations in Bangalore.

The SLEC, while according (March 2010) approval to these proposals, directed to obtain the approval of CSMC for change of locations and also to submit a DPR to Ministry of Housing and Urban Poverty Alleviation. Apart from changing locations, the KSDB increased the number of slums to be developed from originally identified eight to eleven without any alterations in the number of DUs sanctioned. Further, the KSDB revised the DPR for the project, in entirety, during May 2011 for an estimated cost of ₹52.87 crore.

Audit analysis of the DPR prepared by KSDB disclosed the following inconsistencies:

- The DPR was prepared for 1,524 houses though construction of only 1,400 houses was entrusted to KSDB.
- The cost of 124 houses entrusted to KSPHCL was irregularly reduced by ₹64.43 lakh[60] compared to their estimated cost projected in the original DPR, though these works had been entrusted to contractors at much higher rates during 2008-10.
- Standards/criteria adopted for selection of slums were not spelt out in the DPR.
- The detailed list of schools, colleges, primary health centres and hospitals identified in the vicinity of this project was not appended to the DPR.

The Special Commissioner, BBMP agreed (March 2013) that the DPR did not include provision for education and health facilities.

4.1.11 Remodelling of primary and secondary storm water drains

SWD system is a network of structures, channels and underground pipes that carry excess rain water, street washings and roof washings to ponds, lakes, streams and rivers, so as to clear the roads of the stagnant water. In order to improve the SWD system, works such as drain widening, drain deepening, drain wall raising, drain wall reconstruction and restoration, bed protection were proposed for execution under the project.

4.1.11.1 Storm water drain project in Bangalore City

The SLEC forwarded (September 2006) four SWD project proposals to the CSMC, which were approved during November 2006. The four works were divided into 15 packages. For each package, separate tenders were invited. However, these works were already ongoing works and the DPRs had been finalised even before JNNURM was launched. The project cost as sent to CSMC was ₹643.06 crore and, in addition, 334 supplementary/additional works costing ₹332.31 crore were also taken up by various other contractors during 2008-12. The SLEC approved (October 2009) the revised DPRs for these SWD projects which included the additional/supplementary works. The CSMC also approved (March 2011) the DPRs costing ₹925.38 crore. As of March 2012, an expenditure of ₹431.86 crore was incurred on these projects which included additional/supplementary works. Details of 15 package works are shown in **Appendix 4.2**.

4.1.11.2 Award of work

- ***Issue of work orders before administrative approval/technical sanction***

Audit noticed that out of 15 packages, the Executive Engineers (EE) issued work orders in following three packages even before administrative approval

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[60] Difference between the estimated cost of 124 houses as per original DPR (₹459.39 lakh) prepared during 2008-09 and that projected for the same DUs in revised DPR (₹394.96 lakh) prepared during 2011-12

and technical sanction for the estimates by the competent authorities.

Table 4.2: Details of issue of work order before administrative approval/technical sanction for package works

Package/Valley	Estimated cost (₹ in crore)	Date of Work order	Date of Administrative/ Technical sanction
Koramangala package II	17.49	16.05.2005	27.12.2005
Koramangala package III	29.48	10.06.2005	11.07.2005
Challaghatta package I	15.33	01.07.2005	26.12.2005

Source: Records of BBMP

Evidently, the prescribed control procedures for taking up works for execution were ignored.

- ***Restricted participation in tenders***

The State Government amended (September 2003) the procedure for sale of tender documents as per Karnataka Transparency in Public Procurements (KTPP) Act and stipulated issue of tender documents for the entire period provided for the submission of tenders. However, it was seen from the notice inviting tenders that the issue of tender forms was closed 15 days earlier to the last date of receipt of tender forms. This restricted competition and participation of tenders for the bid. Consequently, only two to three tenders were received for almost all the package works of four valleys. In respect of packages II and III of Hebbal valley and package V of Vrishabhavathi valley, only a single tenderer had participated. The tender was awarded to the single tenderer who was not qualified technically for package III of Hebbal valley as per the tender evaluation proceedings[61]. The same tenderer was also awarded the contract in package IV of Hebbal valley for the reason that the contractor was executing other package works of Koramangala and Challaghatta valleys.

The Special Commissioner, BBMP stated (March 2013) that the amended circular would not have been circulated in BBMP at the time of tender notification. The reply was not acceptable as this procedure was being followed even while inviting tenders for additional/supplementary works from the year 2008 onwards.

- ***Irregular exemption from tendering***

Out of the test-checked additional/supplementary works, nine works costing ₹9.03 crore were considered as emergency works as the surrounding areas of primary and secondary drain were flooded during monsoon season. BBMP sought (August 2007-December 2008) exemption from tendering these works under KTPP Act. The State Government included (September 2007-February 2009) these works as emergency works requiring direct entrustment to willing contractors. The State Government required the works to be executed by 30 November 2008.

Audit observed the following discrepancies in these emergency works:

- The commencement of all works was after the date of emergency

[61] (i) Validity of registration as contractor had expired during bid period.
(ii) Tender conditions prescribed for furnishing proof for having completed three bridge works in last five years. But as the tenderer had executed only two bridge works, the tender was considered technically not qualified.

period as indicated in **Appendix 4.3**.

- Even before the proposal was mooted by BBMP, the contractors had requested to award these works to them. Letters of intent were issued by the EE to the contractors to commence the work even before approval of the proposal for the work by the concerned authorities. Evidently, the contractors were aware of the works being taken up by BBMP and possibility of favouritism in entrustment of work by the BBMP cannot be ruled out.
- These works were completed with delays up to 24 months. Evidently, these works cannot be categorised as emergency works requiring exemption from tendering.

4.1.11.3 Negotiations with contractors

As per codal provisions, negotiations can be held only with the lowest bidder and in the following circumstances:

- When the tendered rates are too high; and
- In case of erratic rates[62] in the lowest tender requiring rationalisation and moderation of individual rates.

However, the provisions of KTPP Act discourage conducting negotiations even with the lowest tenderer in a routine manner as it defeats the very purpose and ethics of competitive tendering. This was to reduce the possibility of tenderers jacking up the prices in the original tender and reducing the prices marginally during negotiation.

It was seen in Audit that in eight out of the 15 packages, the CE, SWD entered into negotiations with the lowest bidder. Audit obtained the estimated rates, the quoted rates and the rates arrived at after the negotiations. These were compared with the items of works actually executed and the analysis showed that instead of rationalising the rates, they were made more irrational. The findings are as under:

- ➢ In all packages, the percentage of execution was high in respect of those items for which the rates went up after negotiation. The percentage was as high as 580 *per cent* in a package. This had led to extra expenditure of ₹13.90 crore. An illustration is given below to explain this observation more clearly.

Illustration-I

In package II of Koramangala, the estimated rate for earthwork excavation other than foundation was ₹40 per cum and the quoted rate was ₹49 per cum. The rate was negotiated and agreed at ₹190 per cum which was 288 *per cent* higher than the quoted rate. Against the estimated quantity of 39,805 cum, the quantity executed was 2,70,703.09 cum (580 *per cent* increase), of which 1,60,229 cum was paid at the agreed rate. This item alone constituted extra payment of ₹2.26 crore.

One of the main items where the rate was substantially increased was

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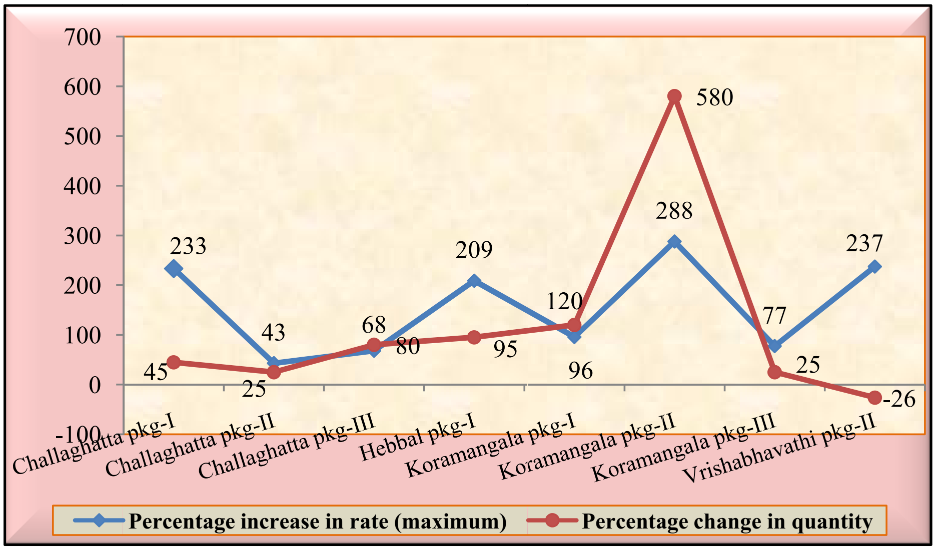
[62] Rates quoted being more than 125 *per cent* or less than 75 *per cent* of the estimated rates

'earthwork excavation other than foundation'. The increase in rate after negotiation and change in executed quantity of this item across the eight packages was as illustrated in **Chart 4.2** below:

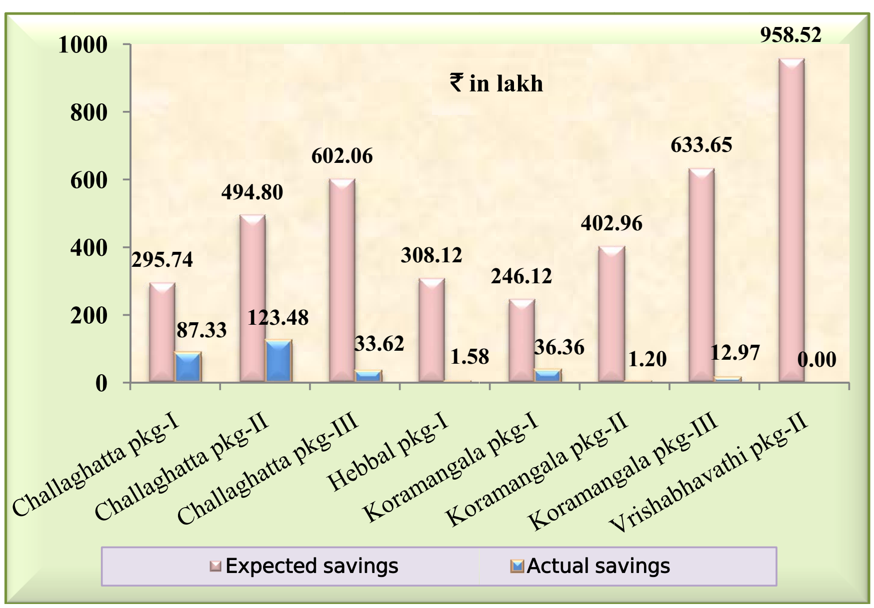
Chart 4.2: Chart showing increase in rates and change in quantities



In four valleys the quantity estimated for removal of silt through earthwork excavation was 10.93 lakh cum. As per bills of SWD works, 14.96 lakh cum of silt had been removed from the four valleys on payment of ₹18.68 crore.

Similarly, the decrease in certain items after negotiations was drastic and the percentage of execution of such items was very low or even nil in most cases. Further, the expected saving from the reduction in these items of work was ₹39.42 crore; however, the actual saving was only ₹2.96 crore due to negligible execution of these items as illustrated in **Chart 4.3**:

Chart 4.3: Chart showing the expected savings vis-à-vis actual savings in eight packages



An illustration is given below to explain this observation more clearly.

Illustration II

In package II of Vrishabhavathi valley, the estimated rate for providing and filling M20 concrete in foundation was ₹2,275.40 per cum and the quoted rate for this item was ₹2,640 per cum. This rate was negotiated and reduced to as low as ₹140 per cum, which was 93 *per cent* lower than the quoted rate. The tendered quantity was 20,295 cum, which was not executed. A cum of M20 concrete would require four quintals of cement. The negotiated rate was not enough to cover even 11 *per cent* of the cost of cement (₹320 per quintal), leave alone the other components such as labour and other materials required. Thus, even though the savings from reduction in execution of this item of work alone constituted ₹5.07 crore, BBMP by accepting such a low rate may have well been aware of the intention of the contractor that this item would not be executed as estimated.

The Special Commissioner, BBMP stated (March 2013) that rationalisation of rates was done before commencement of the project works. The observation of Audit was years after execution of the work. The work has been executed as per the requirement and on ground reality wherever work front was available. The reply was not acceptable as the process of rationalisation of rates led to rates becoming further irrational. Consequently, the items for which the rates were increased after negotiation were mainly executed. The items for which the rates were decreased were either executed negligibly or not executed, as explained above.

- Scrutiny showed that for items of excavation, the same contractor was selected for execution of packages III and IV of Hebbal valley. However, the contractor quoted rates which varied widely during the same period (March-May 2006). In package IV, the quoted rate was ₹207 per cum and in package III the rate was ₹333 per cum. In respect of package IV, the rate was brought down to ₹170 per cum, whereas the rate quoted in package III was agreed upon, resulting in extra expenditure of ₹3.74 crore.

The Special Commissioner, BBMP stated (March 2013) that the tender for package III was found to be reasonable and hence, not negotiated. The reply was not acceptable considering the agreed rates in other packages of Hebbal valley tendered during the same period.

- ***Foreclosure of SWD package works***

The stipulated dates of completion of the package works ranged from September 2006 to November 2007. However, as of March 2012, the physical progress of the package works, including additional works, ranged from 50 to 77 *per cent.* All the package works were stopped in 2008-09 and in 13 packages out of 15 packages, proposals for foreclosure were submitted (January 2012) by the Commissioner, BBMP to the State Government. The main reason cited was that work fronts could not be made available to the contractors due to not clearing of encroachments. Even the consultant for revenue survey was appointed only in May 2012. Thus, the works were executed in stretches where work fronts were available and the projects remained incomplete, thereby defeating the objective of remodelling of the primary and secondary SWDs of Bangalore City.

As a result of foreclosure of works, a majority of the items were not executed as per the estimates. These were primarily those items for which the rates had been reduced after negotiation. The items for which the rates had increased during negotiation were those items that were eventually executed. It was seen that the overall negotiated amount at the time of acceptance of tender was 16 to 63 *per cent* above the estimated cost. However, considering the cost of executed items alone, Audit worked out that the works were executed at rates ranging from 34 to 146 *per cent* above the estimated rates. This indirectly benefitted the contractors and the BBMP lost ₹35.94 crore due to foreclosure of works as detailed in **Appendix 4.4**.

The Special Commissioner accepted (March 2013) that the SWD projects were not fully implemented due to rapid encroachment on both sides of the drains, sewer lines, presence of manholes inside the drains, delay in obtaining clearances from other agencies, disputes in acquiring land, *etc*. It was, however, stated that utmost care was being taken to implement the SWD projects as per the revised DPR.

- ***Avoidable extra expenditure on additional/supplementary works***

The State Government approved (July 2008) additional/supplementary works for execution in the SWDs which were tendered from year 2008 onwards after the stipulated period of completion of package contract works. Audit observed that out of test-checked cases, 23 works were already forming part of the original package works. These works mainly pertained to Reinforced Cement Concrete (RCC) works for which the package contractors had negotiated abnormally low rates. These works were not executed as the work fronts were not made available. The difference between the rates agreed for these additional/supplementary works and the negotiated rates of the package works worked out to ₹8.05 crore. Had BBMP provided the necessary work fronts to the original package contractors and insisted on execution of RCC works at the negotiated rates, the extra expenditure of ₹8.05 crore could have been avoided.

4.1.11.4 Avoidable expenditure on diversion of water course

The general and special conditions of contract formed part of the agreements entered into with the contractors for execution of additional/supplementary/ balance works. The general specifications of tender document stipulated that the rates included the cost of shoring, coffer dam channels or other incidental servicing necessary for diverting the water and it should be maintained in good working condition till the completion of the structure.

Audit observed that diversion of water course by providing coffer dam was estimated as a separate item/considered as extra item and payments were also made to the contractors to the extent of ₹27.55 lakh in 16 works, which was avoidable.

4.1.11.5 Excess payments

In package works, Audit found cases where excess payments were made to the contractors. These cases were as follows:

- As per the specifications for Roads and Bridges issued by GOI, Ministry of Road Transport and Highways (MORTH), the cost of excavation for foundations of Roads and Bridges and the retaining walls included backfilling the space between the foundation masonry/concrete and the sides of excavation with approved material including its compaction.

In 14 packages, the contractors were paid ₹2.53 crore for backfilling the foundation and basement with available earth. Payment for backfilling separately to the contractors was not warranted as the specification in the estimate and the rates quoted by the contractors for excavation for foundation included this item of work. This amounted to extending undue financial benefits to the contractors.

The Special Commissioner, BBMP stated (January 2013) that the excavated soil contained various types of organic materials and were mainly used for levelling the excavated portion at the bottom of foundation and not for backfilling of retaining walls. The reply was not acceptable as there was no evidence on record to justify that the excavated soil contained various types of organic materials.

- As per clause 13 of PWG-65, which was made part of the agreement, the quantities executed in excess of 125 *per cent* of tender provisions had to be paid for at current schedule of rate (SR) plus or minus overall tender premium.

Audit observed that in seven packages quantity of earthwork excavated in excess of 125 *per cent* of the tender provisions was paid for at rates ranging from ₹57.23 to ₹568 per cum. The photographs taken during execution of the package works by BBMP showed that the excavation was in fact done using machines. Audit worked out the rates for mechanical excavation from National Highways (NH) SR and compared them to the rates paid by BBMP. The mechanical rates were much lower than the rates paid. This was due to BBMP deriving rates from Public Works Department (PWD) SR applicable to excavation by manual means in disregard of the clause contained in PWG-65. This led to excess payment to the contractor to an extent of ₹2.16 crore.

The Special Commissioner, BBMP replied (March 2013) that the excavation was done manually and the excavated stuff was loaded on trucks mechanically. However, the reply was not acceptable as the photographs of mechanical excavation obtained from the records of CE, SWD shown below did not support the argument put forth by BBMP.

Earthwork excavation by mechanical means in Vrishabhavathi valley

- The estimates for eight packages of four valleys provided for construction of coursed rubble stone masonry walls. However, it was observed that two types of stone masonry works *i.e.,* size stone masonry (SSM) walls and coursed rubble stone masonry walls were executed in different reaches of these packages. Execution of stone masonry walls was intended to utilise the available dismantled sized stones from the existing dilapidated walls which were provided in the estimates. Further scrutiny showed that instead of utilising the entire quantity of dismantled sized stone for construction, BBMP utilised only partially the available stones. As a result, BBMP incurred an extra expenditure of ₹1.09 crore.

The Special Commissioner, BBMP replied (March 2013) that only 60 *per cent* of the dismantled stones were available for reconstruction of stone masonry wall and the remaining quantity was mortar and cement. Reasons for not utilising the entire quantity of dismantled stones at least for rubble stone masonry wall were not explained to Audit.

- The SR rates include among other things the lead (conveyance) charges for the construction materials for a specific distance. If the materials are brought from a distance more than that specified in the SRs, extra lead charges are to be calculated and paid.

In package III of Challaghatta valley, 94,018 cum of embankment was constructed from chainage 10,000 mtrs to 12,000 mtrs. In this chainage, the drains were widened to 35 metres from the existing 15 metres and one lakh cum[63] of earth was available from earthwork excavation.

It was seen that, during rate analysis this item of work was taken as an extra item and a rate of ₹354.44 per cum was arrived at which included lead charges of ₹211.50 per cum[64] based on PWD SR. This implied that embankment material, primarily consisting of earth was brought from a distance of 37 kms. The lead charges of 37 km for bringing earth were not justified since the quantum of earth available was sufficient for the embankment. There were also no details on record of transportation of earth brought from burrow areas. This has led to excess payment of ₹1.99 crore. Similarly, in eight additional/supplementary works, the avoidable lead charges on obtaining earth from burrow areas, in absence of details of transportation, worked out to ₹19.21 lakh.

The Special Commissioner, BBMP replied (March 2013) that the available earth contained silt and organic materials which was unfit for embankment. The reply was not acceptable as there was no documentary evidence produced to Audit to that effect. Also, no evidence to prove transporting either the excavated material or earth from burrow areas was produced.

4.1.11.6 Deficiencies in Agreements

- The agreements did not contain cement content variation clause to recover the cost of cement saved by the contractor on the concrete

[63] 20 mtrs wide X 2.5 mtrs depth X 2000 mtrs length = One lakh cum of earth

[64] Lead upto 5 km @ ₹7; 6th km to 10th km @ ₹6.40; 11th km to 15th km @ ₹5.80; and above 15th km to 37th km @ ₹5.25, works out to ₹211.50

items paid at tendered rates, due to downward revision of cement content as per the design mix.

Audit observed that in execution of package II work of Hebbal valley, M25 and M35 cement concrete works to the extent of 16,950.23 cum and 927.87 cum respectively were executed in drains and bridges. Against the prescribed cement content as per SR of 400 kgs and 475 kgs per cum for M25 and M35 respectively, the cement content utilised in the design mix was 340 kgs and 380 kgs per cum. As there was no cement variation clause in the agreement, BBMP was unable to recover the cost of ₹50.29 lakh on the quantity of (11,051.52 quintals) cement saved in concrete items of works by the contractor at the SR rate of ₹320/- per quintal plus tender premium of 42.21 *per cent*.

- The quantities of cement concrete of different grades executed above 125 *per cent* of tender quantities in package II of Hebbal valley, packages III and IV of Vrishabhavathi valley were paid at current SR plus or minus tender premium. While deriving the rates from PWD SR, BBMP did not adjust the variation in the cement content of 8,266.05 quintals between the quantity prescribed as per SR and the design mix, which resulted in excess payment to the contractor to an extent of ₹37.51 lakh.

The Special Commissioner, BBMP replied (March 2013) that the tendered rate was for a finished item of work and the question of application of variation clause did not arise. The reply was not acceptable as SR specified the quantity of cement content to be utilised in a particular design mix. Even in the Exit Conference, the Special Commissioner, BBMP had agreed to adopt the variation clause as a best practice as prevalent in Water Resources Department.

4.1.11.7 Defective estimates in chain link fencing work

Chain link fencing work over the retaining walls of SWDs is carried out as a protective measure to prevent dumping of solid waste into the SWDs. The work involves fixing of Mild Steel (MS) rectangular poles, MS block pipes, chain link fence material and providing plain cement concrete for fixing the poles. The estimates are prepared on the basis of length of the fencing proposed for execution, the distance between the MS rectangular poles and block pipes as per the approved drawings and designs. Audit observed that there was over-estimation of these items of work when compared to approved drawings and designs in five works of three valleys (Hebbal, Koramangala and Vrishabhavathi). This resulted in extra expenditure of ₹54.99 lakh on these items.

4.1.12 Implementation of Road Infrastructure projects

Under road infrastructure projects, the work of grade separators/underpass/ bridges at junctions and intersections of roads, improvements to the existing roads were taken up to ease traffic congestion. The audit findings in respect of the selected road infrastructure projects are as follows:

4.1.12.1 Upgradation work of sidewalk and asphalting works of MG Road, Koramangala and surrounding areas

The project of upgradation work of sidewalk and asphalting works of MG Road, Koramangala and their surrounding areas was approved by CSMC (January 2007). This project comprised the work of improvements to side drains with RCC and SSM, pavement strengthening with Bituminous Macadam (BM) and Bituminous Concrete (BC) and reconstruction/ rehabilitation of cross drainage structures.

The work was started between October 2005 and August 2006 and was completed during March 2006 to June 2009. Against the estimated cost of ₹91.48 crore, the expenditure on this project was ₹87.77 crore.

- ***Unjustified grant of exemption***

The KTPP Act was enacted to streamline the procedures and to ensure accountability in public procurement. The Act, however, has given the State Government the power to give exemption under Section 4.

Audit observed that the State Government had accorded (September 2005) exemption under Section 4 (a) from KTPP Act up to March 2006 to take up works of providing relief and rescue operation in rain affected areas of all districts. Since Bangalore roads were also stated to have been damaged due to rain, the City Infrastructure Review Committee headed by the Chief Secretary to Government of Karnataka, in its meeting held during December 2005 entrusted these works for immediate execution. Thus, 15 MG Road works and 14 Koramangala road works were given exemption. However, the Expert Committee opined that the road works proposed were not damaged badly by the rain which warranted exemption from the Act, and direct entrustment to Karnataka Land Army Corporation (KLAC).

It was seen in Audit that 12 works taken up by KLAC were completed eight months to three years after their commencement, thereby defeating the purpose for which the exemption was provided. Further, out of 29 works for which exemption from the KTPP Act was availed, eight works (four each) were commenced (between April 2006 and August 2006) after the due date for exemption i.e. March 2006 and completed between January 2009 and June 2009. This showed that the provisions of the Act were being subverted to avoid tender procedure.

The Special Commissioner, BBMP (March 2013) stated that the exemption from KTPP Act and direct entrustment was accorded by the State Government. The reply was not acceptable as the codal provisions were subverted as explained above.

- ***Appointment of Project Management Consultant***

The Scheme guidelines stipulated appointment of consultants for programming, managing and monitoring the road work projects approved by CSMC. Accordingly, the CE (Projects) accepted (March 2006) the quotations submitted by three pre-qualified bidders and consultancy works were allotted[65] to them. The Standing Committee approved the selection of Project Management Consultants (PMC) in July 2006, and work orders were issued on 21 October 2006 after entering into agreements. Payment of two *per cent* (1.5 *per cent* for the project management and 0.5 *per cent* for the quality control tests) was agreed upon.

Audit observed that the works pertaining to rehabilitation of IT/BT roads and sidewalks in MG Road, Koramangala, and surrounding areas were commenced much before the agreement with PMCs. It was not known as to how the works such as preparation of estimates, data rates, structural details, longitudinal and cross sectional designs were finalised when the works were already on-going and almost completed in some cases. Evidently, the payment made to the consultants was not based on the actual consultancy services rendered.

Further, as per the agreement clause entered into with KLAC, cost towards quality control was already included in the contract price. Therefore, payment of ₹39.03 lakh (0.5 *per cent* on ₹78.06 crore) to PMCs towards quality control was avoidable. Even the Expert Committee opined that consultants were not involved and payment made to the PMCs was superfluous.

The Special Commissioner, BBMP stated (March 2013) that the services of the consultants were availed of during the project implementation. The reply was not acceptable as some of the road works were completed even before award of consultancy services and the cost towards quality control was already included in the agreement entered into with KLAC.

- ***Undue benefit to the contractor***

The agreement between BBMP and KLAC stipulated that payment to KLAC for execution of works would be regulated on the basis of estimated rate derived from PWD SRs plus five *per cent* agency/service charges. The estimates prepared by KLAC considering SR items for the project works included the element of Value Added Tax (VAT). Over and above this, composite charges for works contract tax at the rate of four *per cent* were also added in the estimates and payment bills. This resulted in undue benefit of ₹3.51crore (four *per cent* on ₹87.77 crore) to KLAC.

The Special Commissioner, BBMP replied (March 2013) that the element of VAT had been included in the estimate as well as in the agreement and also paid accordingly. The reply was not acceptable as the items of SR included the element of VAT and further inclusion of VAT in the estimate and also consequent payment to KLAC was, therefore, irregular.

As per the orders (January 2007) of the State Government, the onus of payment of labour cess at the rate of one *per cent* lies with BBMP. BBMP should have deducted the cess amount and paid to the concerned department. Instead, BBMP added one *per cent* to the payment bills of KLAC thereby benefitting the contractor to the extent of ₹87.77 lakh.

[65] M/s. Concrete Structural Forensic Consultants (11 road works - ₹27.82 crore), M/s. Struct Geotech Research Laboratories Pvt. Ltd. (seven road works - ₹26.24 crore) and M/s. Manasa Consulting Engineers and Designers (11 road works – ₹24 crore)

The Special Commissioner, BBMP replied (March 2013) that the labour cess was not in force at the time of executing the agreement. The reply was not acceptable since the Government Order specified payment of labour cess even for works entrusted prior to November 2006.

- ***Excess payment due to execution of additional quantity of work components***

The DPR recommended overlays of 50 mm BM and another layer of 40 mm BC for both MG Road package works and Koramangala package works. Audit observed that in the details furnished along with the payment bills of these package works, the thickness adopted for BM and BC was more than what was recommended, resulting in avoidable excess payment of ₹4.34 crore. The Special Commissioner, BBMP stated (March 2013) that the excess quantity was laid as per site condition. The reply was not acceptable for the reason that these roads already existed and no documentary evidence was produced to Audit which indicated necessity for laying excess quantity of BM/BC against the recommended layers as per DPR.

- ***Excess payment due to adoption of higher rates***

The methodology of arriving at rates for items of BM and BC are contained in the respective SR. The general notes to the SRs stipulate that the prevailing market rates of cement, steel and bitumen shall be arrived at by the EE once in a quarter if the variation in price is more/less than 10 *per cent* over the previous quarter rate fixed.

Audit worked out the rates payable for BM and BC adopting the usual procedure practised in PWD/NH department and compared those to the rates arrived at by BBMP. Audit observed that the rates arrived at by BBMP were much higher leading to extra payment of ₹6.20 crore.

The Special Commissioner, BBMP stated (March 2013) that the rates had been adopted on the basis of recommendations of the Committee formed under the Chairmanship of Joint Commissioner (East), BBMP. The reply was not acceptable as the rates adopted were higher, as observed by Audit.

- ***Extra payment due to adoption of incorrect rate for BC/BM***

As per quality test report, four road works of MG Road and Koramangala road packages were certified as either completed by June 2006 or with the work of asphalting being under progress, during the period from April 2006 to May 2006. On scrutiny of the final bills, it was observed that the payment towards BM and BC was paid at a rate higher than the applicable rate which resulted in extra payment to KLAC to the tune of ₹17.88 lakh.

The Special Commissioner, BBMP stated (March 2013) that the rate prevailing at the time of execution was paid. However, this was contrary to the documentary evidence produced to Audit.

- ***Short-recovery of cost of released materials***

The cost of materials issued to the contractor for utilising the same in works was to be recovered from the payment bills of the contractor. On a review of payment bills and statement of cost of released material of Koramangala package works, it was observed that there was short-recovery of cost of released materials to the tune of ₹4.47 lakh which resulted in extending undue benefit to the contractor.

The Special Commissioner, BBMP replied (March 2013) that the works were entrusted to KLAC on entrustment basis and not on tender basis. The reply was not acceptable as in either case recovery needs to be effected.

4.1.12.2 Construction of underpass at CNR Rao Circle

The work of preparation of DPR for construction of underpass at CNR Rao Circle in front of Indian Institute of Science (IISc) was assigned to M/s. Manasa Consultants, Bangalore during September 2007. The DPR was submitted by SLEC (December 2007) and was approved by CSMC during January 2008 at a project cost of ₹22.61 crore on turnkey[66] basis. The administrative approval and technical sanction for the work was accorded (February 2008) by the CE (Projects). The work was awarded (May 2008) to M/s. Madhava Hytech – ECCI (Joint Venture- JV) at a tendered cost of ₹30.15 crore with a stipulation to complete the work within 10 months including monsoon.

However, the work could not be completed even as of December 2012. Audit observed that though the land belonging to key institutions like IISc, Bharat Heavy Electricals Limited (BHEL) and BWSSB were required to be acquired for the project, the BBMP consulted these institutions only during April-October 2008. The alignment of the proposed underpass was faulty to such an extent that it was designed to pass through important installations/buildings, due to which the institutions refused granting land. The delay was also due to dispute between the JV partners as attributed (July 2012) by EE (Road Infrastructure).

As per the progress report of SLNA for the month of December 2012, the physical and financial progress achieved was only 58 *per cent* and ₹15.42 crore, respectively and further work has to be taken up based on traffic diversion options.

The Special Commissioner, BBMP accepted (March 2013) the observation.

4.1.12.3 Construction of bridge at Gali Anjaneya Swamy junction

The main objective of this project was to connect Mysore Road and Chord Road by means of constructing a bridge over Vrishabhavathi SWD, to facilitate smooth traffic flow and to provide convenience to the public.

- ***Status of the project***

The State Government approved (February 2006) the project of construction of bridge over SWD near Gali Anjaneya Temple, Mysore Road, Bangalore at an estimated cost of ₹19.10 crore. BBMP had entered into an agreement with M/s. Stup Consultants during March 2006 for preparation of feasibility report and tendering assistance for the project. The scope of services included planning, engineering analysis, topographic survey, traffic surveys, soil investigations, preparation of designs and drawings, DPR, detailed estimates, *etc.* The work was awarded (October 2006) to M/s.National Projects

[66] Turnkey project is a lump sum project which is constructed by a developer and sold or turned over to a buyer in a ready to use condition.

Construction Corporation Ltd., for ₹20.83 crore with a stipulation to complete the project within 15 months including monsoon. However, Audit observed that the consultant had not submitted road work details, road approach drawings with detailed designs of all four junctions, *etc*. This, coupled with delay in land acquisition and shifting of utilities, change in design *etc.,* led to the progress of work being delayed inordinately. As of July 2012, the financial progress was ₹21.95 crore and physical progress was 85.17 *per cent*.

- ***Tendering process***

- In contravention of the codal provisions, the tenders were invited (November 2004) before according administrative approval (February 2006) and obtaining technical sanction (November 2006) from the competent authorities.

The Special Commissioner, BBMP stated (March 2013) that the tenders were invited under the impression that administrative approval and technical sanction would be obtained well before processing of tender. The reply was not acceptable as the codal provisions were not followed.

- As per the guidelines issued (December 2002) by the State Government, fresh tenders were to be invited when less than three tenders were received for a work. In this case, only one tender was received for the short term tender notification issued (November 2004) and the tender was awarded even though the tenderer did not meet the technical and financial pre-qualification criteria, as opined (March 2005) later by the consultant. This resulted in delay in execution of the work.

The Special Commissioner, BBMP agreed (March 2013) that there was violation of KTPP Act.

- ***Execution of project work***

- As per codal provisions, no work should be commenced unless land required for execution of work is made available to the contractor. It was observed that the delay in completion of work was mainly due to non-availability of required land for execution which necessitated extension of time. Escalation charges paid to the extent of ₹3.22 crore for the extended period of work after the stipulated date of completion was, thus, avoidable.

The Special Commissioner, BBMP stated (March 2013) that in addition to the delay in land acquisition, change in design from pile foundation to open foundation had also contributed to the delay in completion of work. However, the reason for change in foundation design was not explained to Audit.

- Despite the delay in submission of road work details, road approach drawings, *etc.*, by the consultant, BBMP entered into another agreement with the same consultant during January 2009 for project management and construction/supervision of the work for 15 months for a consolidated fee of ₹60 lakh and, thereafter, at the rate of ₹1.10 lakh per month for construction engineering services. Audit observed that a sum of ₹1.26 crore was paid against ₹86.40 lakh payable as of April 2012 (₹60 lakh for 15 months and thereafter at the rate of ₹1.10

lakh per month) resulting in excess payment of ₹39.60 lakh. As the work is abnormally delayed, BBMP is constrained to pay monthly consultancy charges till its completion and therefore such terms of agreement tantamount to unduly favouring the consultant.

- The agreement entered into with the contractor stipulated that the rates for items such as shoring, construction of coffer dam channels for diverting water were included in the items specified for foundation work. Audit observed that in contravention of the contractual obligation, the contractor was paid ₹78.29 lakh towards construction of coffer dam for diversion of water course and for laying sand bags alongside the diverted water course, as an extra item.

The Special Commissioner, BBMP replied (March 2013) that during monsoon the SWD overflowed, hence construction of coffer dam was considered as an extra item. The reply was not acceptable as payment for construction of coffer dam as an extra item was contrary to the contractual clause.

- The item of earth work excavation in ordinary soil for foundation of structures includes refilling with surplus soil excavated from foundation. Audit observed that the estimate prepared included a separate item towards backfilling of earth for foundation, leading to additional payment of ₹40.16 lakh as of August 2012.

The Special Commissioner, BBMP replied (March 2013) that the available earth was useless and earth was brought from burrow areas. However, there was no documentary evidence on record to prove that the earth was brought from burrow areas.

4.1.13 Implementation of housing projects under BSUP

The growing urban population has given rise to increase in the number of urban poor and as per Census 2001, the urban slum population in Bangalore was estimated to be 2.17 lakh. As per the progress report of December 2012, BBMP was implementing 14 housing projects with 19,784 DUs at an approved total cost of ₹584.83 crore. Of the 14 housing projects, Audit test-checked the project of 'redevelopment of 13 slums', taken up under Phase-I/Package-I, emphasising rehabilitation of 1,411 households covering 13 slums based on in–situ development with 7,170 beneficiaries.

The audit findings in respect of the implementation of the project are discussed in the succeeding paragraphs:

4.1.13.1 Status of the Project

BBMP had proposed (2006-07) the project of redevelopment of 13 slums in Bangalore through construction of 1,524 DUs at an estimated cost of ₹69.03 crore. CSMC had approved the project in May 2007 for an approved project cost of ₹50.88 crore.

BBMP entrusted the project to the KSPHCL in March 2008. However, KSPHCL took up only five slums with 124 DUs for construction. Thereafter in March 2010, the balance 1,400 DUs (eight slums) at an estimated cost of ₹46.29 crore were entrusted to KSDB. The slums identified for redevelopment were replaced with 11 slums, attributing unwillingness of the beneficiaries for G+3 buildings, in the originally proposed eight slums. KSDB further delayed the project and tenders were called for construction during June 2011 for 10 out of 11 localities and finalised during September 2011.

Out of ₹15.62 crore released by BBMP for the project, KSPHCL incurred an expenditure of ₹7.59 crore and refunded an amount of ₹4.50 crore to BBMP.

As of December 2012, the status of construction and completion of DUs was as given in **Table 4.3** below:

Table 4.3: Status of construction and completion of DUs

Implementing agency	Total number of slums and DUs to be constructed	Total number of slums and DUs constructed	Expenditure incurred (₹ in crore)
KSPHCL	05/124	05/63	7.59
KSDB	11/1400	Nil	Nil

Source: as furnished by the department

Thus, out of the proposed 1,524 houses, only 63 houses (for which tenders were called during 2008-09) have been completed and handed over to the BBMP.

The following deficiencies were observed during joint inspection (September-October 2012) of construction sites by Audit along with officers from executing agencies:

- ***Title deeds***

As per the DPR, the land on which these settlements were to be established belonged to BBMP and the beneficiaries had been consulted and informed about the redevelopment programme. No Hakku Patras[67] were issued to the occupants/beneficiaries. However, the statements made in DPR were not correct as it was seen that the title of the land was with the beneficiaries (Indira Gandhi slum), ownership of the land was with Bangalore Development Authority (BDA)/RK Mutt Slum and Hakku Patras had been issued to slum dwellers (Gangondanahalli).

- ***Identification of beneficiaries and non-issue of biometric cards***

KSDB/BBMP was required to conduct a socio-economy survey in the identified slum proposed for redevelopment and create a data base of the beneficiaries and their family members. On the basis of the data collected, an identity/biometric card was to be issued to each family with the photo of the beneficiary and the family members. Beneficiaries, who were issued with the identity cards, were to be considered for allotment of houses after redevelopment of slums. Audit observed that biometric cards were partly issued in one slum (264 of out of 288 beneficiaries) entrusted to KSDB and not yet issued in respect of other slums (December 2012).

The Special Commissioner, BBMP stated (March 2013) that biometric cards for the remaining beneficiaries would be issued by KSDB during evacuation of slum dwellers.

[67] Title deeds

➢ ***Ineligible beneficiaries***

The project guidelines envisaged integrated development of slums, which lacked infrastructural facilities, through upliftment of the living standards of those who lived in slums. However, it was seen that the KSDB proposed and included construction of 112 houses in Brindavan Nagar for Dhobis who were not slum dwellers and their inhabited details[68] were not on record. This was evident from the fact that the estimate for this work did not provide for the item of 'dismantling existing structures'. The selected beneficiaries were, thus, ineligible, and selection outside the ambit of project guidelines was, therefore, irregular.

Similarly, in Indira Gandhi slum, it was seen that the selected beneficiaries were in possession of title deeds for land instead of DUs, issued by BBMP. Audit observed that independent ground floor houses were being constructed in the slum for those beneficiaries contrary to ground plus three floors construction in other slums. Selection of such beneficiaries under the scheme was, therefore, irregular.

4.1.13.2 Project implementation

➢ ***Preparation of estimates***

On verification of estimates prepared by the KSDB for the works relating to development of 11 slums, the following irregularities were observed:

The item of dismantling of existing structure in the slums was to be adopted on the basis of measurements taken individually in houses/slums. According to DPR, the average size of housing unit surveyed for the 13 identified slums was around 80 sq ft. However, it was observed that the quantity had been adopted uniformly for all the estimates with measurement of 20x0.23x2.50 mtrs for each house, evidencing that the estimates were prepared without actually inspecting the sites/slums and taking proper measurements. This resulted in inflation of estimated cost and consequent extension of undue financial benefit to contractor.

In respect of the estimate relating to RK Mutt slum, though it was proposed to build only five blocks, each containing 24 houses, the item of earth work in surface excavation in ordinary soil had been adopted for 12 blocks, leading to inflation of quantity/cost in the estimate.

➢ ***Execution of works***

- KSDB was required to provide transit accommodation (transit sheds) for the slum dwellers during construction activities. However, it was seen that around 20 sheds have been constructed near Vyalikaval Dhobhighat slum as against the proposed 176 DUs.
- In respect of slum at NS Palya, executed by KSPHCL, no transit accommodation was provided to slum dwellers but they were irregularly paid a sum of ₹35,000/- each towards making their own arrangement. Thereafter, the whereabouts of those beneficiaries were not available on the records of KSPHCL. In the absence of

[68] Residential address, period of stay, caste, income, *etc*.

identification/communication address, it was not clear how the beneficiaries were informed of allotment on completion of the construction. The Special Commissioner, BBMP stated (March 2013) that due to non-availability of alternate site for construction of transit sheds, lump sum amount was paid to the beneficiaries. The reply was not acceptable as the whereabouts of those beneficiaries were not on record.

➢ ***Allotment of completed dwelling units***

- In the DPR, it was stated that the post construction activity would entail a period of 45 days for ensuring proper allotment, identification and documentation. It was, however, seen that there was delay of more than eight months in allotment of 58 completed houses and five completed houses had not been handed over to beneficiaries, even as of March 2013.

The Special Commissioner, BBMP stated (March 2013) that non-allotment of completed DUs was due to delay in water supply, sewerage and electricity connection. This evidently indicated lack of proper planning for development of slums.

- Out of the 27 DUs constructed for allotment in Vasanthanagar slum, only 25 DUs have been allotted during March 2011 to beneficiaries keeping two DUs vacant even as of August 2012 without any recorded reasons. Similarly, out of 36 DUs constructed in Muniyappa Garden slum, only 33 have been allotted keeping three houses vacant. Besides, on verification of list of allottees in respect of slum at Vasanthanagar, it was noticed that while houses were irregularly allotted to three persons whose names did not figure in the list of identified beneficiaries, five beneficiaries identified in the list enclosed to DPR have not been allotted houses.

The Special Commissioner, BBMP, while accepting non-allotment of DUs, stated (March 2013) that revenue divisions of BBMP were responsible for identifying the beneficiaries and allotment of DUs in the respective slums.

4.1.14 Monitoring of JNNURM projects

4.1.14.1 Monitoring at State Level

- The State Government constituted (January 2012) a Committee under the Chairmanship of Additional Chief Secretary, UDD to establish coordination among the concerned agencies involved in implementation of the SWDs to facilitate timely completion of projects as per the revised DPR. However, the Committee had not conducted any meeting as of July 2012 and as a result the progress of SWD projects was not assessed to facilitate timely completion.

- The work of Independent Review and Monitoring Agency (IRMA) starts from the date of project sanctioned by CSMC. Even though UIG Projects were approved by CSMC from the year 2006-07 onwards, the IRMA was appointed only in June 2009 for UIG projects.

- The Third Party Inspection and Monitoring Agency (TPIMA) was appointed only during February 2011. Out of 73 inspections conducted as of March 2012, only 30 reports were submitted to GOI due to delay in evaluation by SLNA.

4.1.14.2 Monitoring at BBMP level

- The guidelines stipulated the constitution of City Volunteer Technical Corps (CVTC) in all Mission cities to aid in the implementation of the Sub-mission projects. However, the BBMP Council was yet to approve (January 2013) the constitution of CVTC.
- BBMP did not constitute (January 2013) the City Level Review and Monitoring Committee (CLRMC) in order to review and monitor the progress of the projects under JNNURM though the State Government had issued orders during July 2010 itself.

Laxity in constitution of Committees to monitor JNNURM projects consequently resulted in absence of peoples' participation and resolving issues in implementation of reforms and projects.

4.1.15 Conclusion

The implementation of all the mandatory and optional reforms at the State and BBMP level was yet to be achieved. Financial discipline was poor as evidenced by diversion of funds for other purposes, non-maintenance of statutory records, non-reconciliation of balances, non-maintenance of revolving fund, *etc.* In the remodelling of primary and secondary SWDs, the contractors were benefitted by executing items for which abnormally high rates were negotiated. The items which were not executed or hardly executed were those whose rates had been brought down after negotiation and were subsequently re-awarded through additional and supplementary works. As a result, the works were executed in stretches where work fronts were available and the projects remained incomplete, thereby defeating the objective of remodelling of SWDs. While payment of excess rate was noticed in completed road infrastructure projects, non-availability of land was cited as the reason for delay in execution of other road projects. Implementation of housing projects under BSUP was a failure since only four *per cent* of the DUs proposed could be completed within the Mission period.

4.1.16 Recommendations

- Measures need to be taken to achieve the mandatory and optional reforms as agreed upon by the State Government and BBMP.
- Accountability needs to be fixed and enforced in order to inculcate financial discipline in handling project funds.
- Revenue survey should be expedited to assess the work fronts available and complete the project of remodelling the primary and secondary SWDs.
- Availability of land should be assessed before taking up road infrastructure projects.
- A clear strategy should be in place before implementation of housing projects to avoid inordinate delay in affording benefits to the poor and needy.

4.2 Chief Minister's Special Grant of ₹100 crore each to seven City Corporations

Executive summary

Government of Karnataka had approved (August 2008) release of ₹100 crore to each of the seven City Corporations over a period of two years during 2008-2009 and 2009-10 to promote these cities as emerging growth centres and to reduce the pressure on Bangalore city. Government approved (August 2010) release of another ₹100 crore to each of these seven City Corporations during 2011-14.

A Committee headed by the Minister-in-charge of the district was to prepare an Action Plan for implementing works designed to deliver important municipal services. As the Committees only reacted to the recommendations coming from the City Corporations, there was no clear articulated minimum threshold measure for the cities' growth expected to be achieved by works to be taken up. Road works dominated the Action Plans prepared by the Committees and these constituted 58 to 68 *per cent* of the works taken up. Several works like construction and improvement of parks and improvement of village roads had also been included in the Action Plans and executed, though not permissible.

Estimation for works had been prepared without proper investigation and also been split up to avoid sanction of higher authorities. The tendering process lacked transparency as controls prescribed for ensuring competitive bidding had been overridden and contracts had been awarded to ineligible agencies. The contract management was ineffective as many items of work had been executed in disregard of the Indian Roads Congress guidelines, without justification. Payments to contractors had been made in several instances without following due procedures.

Monitoring of the delivery of the intended outcomes by the individual works or the programme of works was absent as the works taken up had been disaggregated and lacked proper structuring.

4.2.1 Introduction

The Chief Minister (CM), in his budget speech for the year 2008-09, had announced a special package of ₹100 crore each to seven City Corporations (CCs)[69] to promote these cities as faster urban growth centres by diversifying manufacturing and service industries to these centres to reduce pressure on Bangalore city. The Government while approving (August 2008) release of ₹100 crore to each of these CCs during 2008-10, prescribed the guidelines for implementation of the developmental works.

During August 2010, the Government approved release of another ₹100 crore to each of these seven CCs for taking up additional developmental works during 2011-14.

[69] Belgaum, Bellary, Davanagere, Gulbarga, Hubli-Dharwad, Mangalore and Mysore

4.2.2 Audit objectives

The audit objectives of the performance audit were to ascertain whether:

- Planning had been carried out properly and the works executed as per the Action Plans;
- Funds had been efficiently utilised to meet the desired objectives;
- The designs and estimates had been firmed up on the basis of proper investigations;
- The works had been executed economically, efficiently, and effectively; and
- Internal control systems were adequate and functioning effectively.

4.2.3 Audit criteria

The audit criteria had been derived from the following sources:

- State Government orders, notifications, circulars and instructions issued from time to time;
- Karnataka Public Works Accounts Code and Departmental Code, Indian Roads Congress (IRC) guidelines and the guidelines issued by the engineering divisions of the CCs;
- Karnataka Transparency in Public Procurements Act, 1999 (KTPP Act) and Rules, 2000.

4.2.4 Audit scope and methodology

The performance audit of the utilisation of the special grant released to seven CCs during 2008-12 was conducted during April to July 2012. The CCs of Bellary, Davanagere and Hubli-Dharwad had been selected using simple random sampling method. Twenty *per cent* of the works aggregating 131 had been selected in sampled corporations covering an expenditure of ₹156.29 crore out of the total expenditure of ₹286.78 crore. The details of works selected, category-wise, are shown in **Table 4.4** below:

Table 4.4: Details of work selected, category-wise, in test-checked CCs

Category	Bellary	Davanagere	Hubli-Dharwad	Total	Expenditure (₹ in crore)
Roads	14	48	33	95	144.51
Storm water drains	-	12	1	13	4.39
Underground drains	-	16	1	17	4.55
Bridge	-	-	2	2	2.39
Market Development	-	-	3	3	0.36
Cultural Activities	-	-	1	1	0.09
Total:	**14**	**76**	**41**	**131**	**156.29**

Source: Progress reports of CCs (March 2012)

Audit was conducted on the basis of the examination of records maintained in the selected CCs and the office of the Commissioner, Municipal Administration. Information obtained from the office of the Principal Secretary, Urban Development Department (UDD) had also been utilised for this audit.

An Entry Conference was conducted with the Principal Secretary, UDD in June 2012 to explain the audit objectives, scope and methodology of the performance audit. The Exit Conference to discuss the audit findings was held with the Principal Secretary, UDD in November 2012. The State Government endorsed (February 2013) the replies of the Commissioner, Municipal Administration which have been incorporated suitably in the report.

Acknowledgement

Audit acknowledges the cooperation and assistance extended by the State Government, Commissioner, Municipal Administration, Deputy Commissioners (DCs) of concerned districts, Commissioners and staff of CCs in conducting the performance audit.

4.2.5 Organisational structure

The organisational structure with reference to CM's special grant is given below:

Authority	Responsibilities
Principal Secretary to Government of Karnataka, UDD	Overall supervision and release of special grants
Commissioner, Municipal Administration	Supervision and administration of the CCs in respect of special grants
Deputy Commissioner	Overall monitoring and fund management
Commissioner, City Corporation	Implementation of developmental works under CM's special grant

4.2.6 Audit findings

4.2.6.1 Planning

As per the guidelines, a Committee headed by the Minister in-charge of the district and Members of the Legislative Assembly, Members of Parliament, Mayor/Deputy Mayor, Commissioner of the CC and Commissioner of the local Urban Development Authority was to be constituted for each CC. This Committee was to select the works and prepare the action plan for utilising the special grant. The DC of the district was the Member Secretary of the Committee.

Based on the proposal received from the CCs, the Committee was to prepare the Action Plan for two years, i.e. 2008-09 and 2009-10 and send it to the Government. The following criteria were to guide the Committee while preparing the Action Plan:

(i) Only major works related to important municipal services should be taken up;

(ii) Works relating to supply of drinking water, underground drainage system, major storm water drains, trunk roads and works of urgent nature kept in abeyance due to paucity of funds, could be considered; and

(iii) minor works in different wards of the CCs should not be taken up.

The details of the works included in the approved Action Plans of sampled CCs are shown in **Table 4.5**:

Table 4.5: Details of works included in the Action Plans of sampled CCs

Category	Number of works				Estimated cost (₹ in crore)				Percentage of total estimated cost
	Bellary	Davanagere	Hubli-Dharwad	Total	Bellary	Davanagere	Hubli-Dharwad	Total	
Roads	18	309	73	400	91.68	49.52	68.16	209.36	69.05
Drains	-	61	10	71	0	25.02	6.83	31.85	10.50
Cultural activities (Parks, buildings, *etc*.)	-	95	8	103	0	10.94	16.15	27.09	8.93
Street light	13	23	-	36	8.40	2.57	0	10.97	3.61
Water supply	-	26	-	26	0	9.28	0	9.28	3.06
Lakes	-	1	4	5	0	0.20	6.00	6.20	2.04
Bridges	-	10	4	14	0	1.12	3.48	4.60	1.51
Rudrabhumis	-	2	7	9	0	0.50	2.09	2.59	0.85
Third party charges	-	-	1	1	0	0	1.25	1.25	0.41
Total	**31**	**527**	**107**	**665**	**100.08**	**99.15**	**103.96**	**303.19**	

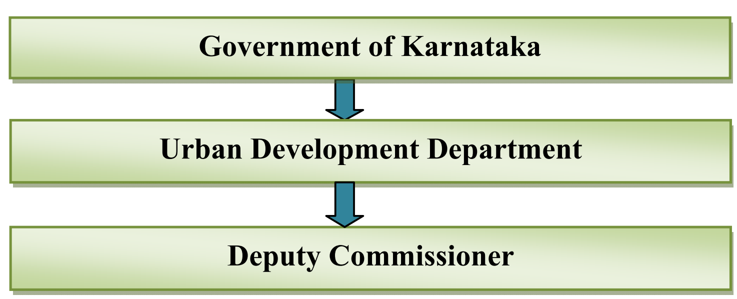
Source: Approved Action Plans

Although the range of works planned was capable of ensuring all round development of the selected cities, Audit failed to find any data which had been used to prioritise the works. There was no evidence of prioritisation of investments using relevant criteria, including work by work or sector by sector contribution to the cities' growth. As a result, the Action Plans failed to provide a structured and integrated programme of activity. Audit observed that road works received lop-sided priority over others while preparing the Action Plans. While the proportion of road works in the Action Plans of Davanagere and Hubli-Dharwad CCs was 59 *per cent* and 68 *per cent* respectively, it was 58 *per cent* in the case of Bellary CC. Planning and execution of a large number of road works, besides being inconsistent with the criteria laid down by Government for selection of works, had the effect of ignoring the need for creation of infrastructure for other equally important municipal services. Audit also found that improvement of parks (₹10.94 crore) and improvement of village roads (₹5.71 crore) had been included in the Action Plans of Davanagere CC and Hubli-Dharwad CC respectively, though not permitted by the criteria fixed by Government.

The State Government replied (February 2013) that the works were taken up after approval by the District Committee. However, the reply was not acceptable since prioritisation of works was missing while preparing Action Plan and road works accounted for major portion of the funds under this scheme.

4.2.7 Fund flow

Government released the grants to the DCs concerned through UDD. The DCs were to deposit the fund in a bank account and make payments for bills received from the CCs for developmental works. The fund flow of CM's special grant is given below:



The DCs were to monitor utilisation of the grants and furnish the utilisation certificates to Government. The details of works taken up and the expenditure incurred in seven CCs as of 31 March 2012 are shown in **Table 4.6** below:

Table 4.6: Details of works taken up and expenditure incurred in seven CCs

(₹ in crore)

Name of the Corporation	No. of works included in the Action Plan	No. of works taken up for execution	Grants released	Expenditure	No. of works completed	Percentage of utilisation of funds
Belgaum	365	365	80.00	72.37	319	90
Bellary	31	28	100.00	94.78	28	95
Davanagere	527	527	96.00	96.00	515	100
Gulbarga	42	40	100.00	95.00	26	95
Hubli-Dharwad	107	107	100.00	96.00	102	96
Mangalore	265	216	96.00	85.23	209	89
Mysore	137	137	71.00	70.15	129	99
Total	**1,474**	**1,420**	**643.00**	**609.53**	**1,328**	**95**

Source: Information furnished by Municipal Administration

City Municipal Council, Tumkur, which received ₹25 crore during March 2011, when it was upgraded (August 2010) to a CC, had not returned the funds (February 2013) though it was subsequently reverted back (June 2011) to a City Municipal Council.

4.2.8 Utilisation of interest for unauthorised purposes

In terms of instructions of the Municipal Administration, interest earned from temporary parking of the special grant in the form of deposit with bank was to be remitted to the Government and not to be utilised for any other purpose. However, DC, Davanagere utilised ₹43.25 lakh out of interest receipts aggregating ₹61.46 lakh, for unauthorised purposes. While ₹9.35 lakh had been released to Karnataka Rural Infrastructure Development Limited (KRIDL) for taking up the work of providing rain water harvesting system to Indoor Stadium Building at S.S. Layout in Davanagere, another ₹33.90 lakh had been spent towards publication of tender notifications, purchase of stationery, providing partition at DC office, purchase of computer table, purchase of flower plants and ornamental trees, purchase of multimedia projector, Photostat printers, furniture, *etc*. These items of work had not been included in the Action Plan.

The State Government, while accepting the fact, stated (February 2013) that ₹61.46 lakh earned by way of interest would be credited back to project account.

4.2.9 Temporary diversion of special grant

DC, Dharwad, released (March 2009) ₹35.15 lakh to Nirmithi Kendra, Hubli-Dharwad for construction of a compound wall to the garbage yard at Shivalli Grama, though this work had not been included in the Action Plan.

The State Government stated (February 2013) that the amount had been recouped during September 2010. The reply was not acceptable as the release contravened the guidelines.

4.2.10 Preparation of estimates

The responsibility for preparation of estimates for the works lies with the engineering divisions of the CCs. The engineering divisions prepared the estimates in Hubli-Dharwad and Davanagere, except where the works were entrusted to Nirmithi Kendra. In CC, Bellary, the preparation of estimates had been entrusted to M/s. Aakaar Abhinav Consultant in respect of all the 28 works executed.

Scrutiny of the estimates of the sampled works showed the following:

4.2.11 Non-availability of basic information in respect of road works executed

In the three sampled CCs, the Action Plans included various road works comprising widening and improvement of existing roads as well as construction of new roads. However, Audit observed that the Register prescribed under Paragraph 348 of Karnataka Public Works Departmental (KPWD) Code for each class of assets created and owned had not been maintained. Thus, the basic information regarding the number of roads and type of works required to upgrade these roads was not available. The road history register containing information such as base/sub-base, type of works done previously had not been updated. Though it was mandatory to enclose a copy of the road history to the estimates of road works, it had not been done. Thus, the basis for proposing the road works for the Action Plans was not transparent and could not be assessed in audit.

The State Government replied (February 2013) that the roads proposed in Davanagere and Hubli-Dharwad CCs had been taken up long back and compilation of road data had been completed. However, the reply was not acceptable as the basic data was not available with the CCs at the time of preparation of Action Plans and taking up road works.

4.2.12 Splitting up of works

Paragraph 167(2) (c) (1) of the KPWD Code prescribes that no work should be split up in such a way that it comes within the powers of sanction of the authority sanctioning it. The Executive Engineer (EE) is competent to sanction a work costing up to ₹50 lakh. Thereafter, the sanctioning authority is the Superintending Engineer (SE)/Chief Engineer (CE).

In 15 road works, amounting to ₹6.21 crore, sanction had been split up to bring each such work within the powers of sanction of the EE, Davanagere.

The State Government replied (February 2013) that in view of emergency and to provide basic amenities to public, works involving different nature were split for speedy implementation. The reply was not acceptable since it was against the codal provisions and there were delays in completion of these works.

4.2.13 Other deficiencies in preparation of estimates

As per IRC guidelines, in order to arrive at the thickness of pavement layers, Benkelman Beam Deflection (BBD) technique and traffic studies are to be conducted before the estimates are prepared. Further, the details of the existing condition of the road, age of the road, California Bearing Ratio[70] (CBR) to identify the strength of soil, status of the base/sub-base, *etc*., were to be recorded in the estimate. Audit observed that in none of the road works taken up by CCs, Davanagere and Hubli-Dharwad, the BBD tests, traffic studies, the CBR value had been appended to or referred to in the estimates.

In the absence of these, it was not possible to verify how the pavement design had been firmed up and whether the provisions made in the estimates were consistent with the requirement.

The State Government accepted (February 2013) that preliminary surveys and designs were not considered as the roads were formed long back. It was also stated that suitable provisions were made in the estimates which were adequate to cater to the future needs. Reply was not acceptable as the codal provisions were not followed.

4.2.14 Excess provision towards unforeseen and miscellaneous expenditure

As per the instructions issued by the Government, while preparing the estimates, the provision towards unforeseen and miscellaneous expenditure should not exceed three *per cent* of the estimated cost. However**,** in case of one work under CC, Hubli-Dharwad, and five works under package 14 in CC, Davanagere, the provision ranged from 4.21 *per cent* to as high as 37 *per cent***.** The amount provided in the estimate in respect of one work in CC, Hubli-Dharwad was ₹9.34 lakh against ₹6.66 lakh and ₹11.46 lakh against ₹1.50 lakh in respect of five works in CC, Davanagere. The EE/SE who approved the estimates for these works also did not scale down the provision to the prescribed level.

The State Government replied (February 2013) that care would be taken to adhere to the norms.

4.2.15 Award of works

The codal provisions envisage that no tenders should be invited before obtaining administrative approval and technical sanction. If the tender inviting authority issues a Notice Inviting Tender (NIT) for a short term tender, a minimum time of 30 days should be allowed between the date of publication of the NIT and the last date for submission of tenders where the value of tender is below ₹ two crore and 60 days, where the value of tender exceeds ₹ two crore. The KTPP Act stipulates that the NIT should be published in two widely circulated newspapers in the District/ State.

Audit scrutiny of tenders showed the following discrepancies and violation of codal provisions:

(i) CC, Bellary, had published the NIT for two works[71] estimated to cost ₹6.84 crore during February 2009. While technical sanction for these works had

[70] CBR is a measure of resistance to direct penetration of any soil or granular material which is expressed as a percentage of the load carrying capacity of a standard crushed rock specimen determined by a penetration test.

[71] Durgamma Temple to Royal Circle and Royal Circle to Kamela Cross

been given after publication of the NIT, administrative approval was obtained from the Government only in September 2009.

The State Government replied (February 2013) that tenders were called before obtaining technical sanction to avoid time consumption in tendering process. The reply was not acceptable as the codal provisions were not followed.

(ii) In respect of 194 packages constituting 80 *per cent* of the works taken up by CC, Davanagere, information in respect of opening of tenders was not available in the NIT. Further, the NIT for these works had been published only in two local newspapers instead of two widely circulated newspapers in the District/State. This evidently restricted competition.

The State Government replied (February 2013) that advertisement relating to tenders in Davanagere CC was made in one State level newspaper through marketing consultancy agency from April 2010 onwards. The reply was not acceptable as the NITs for these works were published during January/ February 2009.

(iii) In all the three test-checked CCs, the time allowed for receipt of tender forms ranged from 14 to 20 days, against the prescribed 30 days in respect of 304 works, all less than ₹ two crore. In six other works costing over ₹ two crore relating to CC, Bellary, the time allowed for submission of tender forms was only 30 days against 60 days. Restricted time allowed for submission of tenders meant that the CCs flouted the rules prescribed for obtaining competitive bids.

(iv) The Government had amended (September 2003) the provision in the KTPP Act for sale of tender documents. The amended provision stipulated issue of tender documents to the contractors till the date notified for submission of tenders. However, in 13 works valued at ₹8.40 crore tendered by CC, Bellary, the NIT for short term tender had been published on 18 February 2009 and the tender forms were issued only for a short duration of four days (27 February 2009 to 02 March 2009) and not till the notified date of submission (03 March 2009) of tenders.

The State Government replied (February 2013) that short term tenders were invited to avoid delay in main works and possibility of claims of machinery idle charges. The reply was not acceptable as it was against the provisions of KTPP Act.

4.2.16 Insufficient evaluation of contractors' eligibility

The KTPP Act and the conditions for inviting short term tender prescribe that only qualified contractors in terms of experience, class, *etc*., should participate in the tender process. However, tenders for 10 works (₹4.12 crore) in CC, Davanagere, had been finalised (February 2009) without obtaining the details of (i) turnover of the contractor, (ii) execution of similar works (iii) availability of machinery, and (iv) experience. Evidently, the tender evaluation was flawed and entrustment of works to ineligible contractors in these cases cannot be ruled out.

The State Government, while agreeing to follow the instructions in future, replied (February 2013) that the works were entrusted in view of the emergency and further stated that the works were completed satisfactorily under the supervision of third party. The reply was not acceptable as the works were not completed within the prescribed time and there were delays up to 11 months in completion of these works.

4.2.17 Irregular fixing of criteria in selection of contractors

Government modified (October 2008) the provisions in the standard tender documents and prescribed minimum annual turnover of ₹ two crore in the last five years as a condition for participation of contractors in the tendering process. Though this condition had formed part of the tender documents for 13 works (₹8.40 crore) in CC, Bellary, the condition was modified at the request of the contractor, by issuing a corrigendum (March 2009). The modified condition was 'minimum turnover for one package is ₹ two crore'. The corrigendum had not been published in widely circulated newspapers. Modification of the criteria prescribed for determining the eligibility of the contractor, in gross violation of the order of the Government, had been evidently done to direct the award of contracts to a predetermined agency. The matter, therefore, calls for detailed investigation.

The State Government stated (February 2013) that the modified tender conditions had not been received before invitation of tender. However, the reply was not acceptable since the tender notification was issued in March 2009, whereas the changes in technical criteria had been notified by the Government in October 2008.

4.2.18 Subversion of the spirit of competition

The KTPP Act also stipulates that when less than three tenders are received for a work, fresh tenders are to be invited. The Government issued instructions during August 2006**,** according to which a single tender received in response to the first and second calls should be rejected. In case of receipt of single tender during the third call also, negotiations should be conducted with the contractor before entrustment of the work. However, in the case of 34 works executed by two CCs (Davanagere and Hubli-Dharwad), single tenders received in the first call had been accepted for works costing ₹14.61 crore**.**

The State Government stated (February 2013) that the approval to single tenders in CC, Davanagere had been given in view of emergency and to provide basic amenities to public and further stated that instructions of Audit would be followed in future. In CC, Hubli-Dharwad, the district administration was directed to take action at its level. The reply was not acceptable since the Government did not follow its own guidelines while approving the tender and the possibility of bid rotation between the contractors, subverting the spirit of competition, could not be ruled out.

4.2.19 Routine price negotiations before award of contract

The KTPP Act discouraged conducting price negotiation even with the lowest tenderer in a routine manner as it defeated the very ethics of competitive bidding. This was to reduce the possibility of tenderers jacking up the prices in the original tender and reducing the prices marginally during negotiation. The first choice for the tender inviting authority was to reject the tenders and invite fresh tenders. However, in the case of 19 works (₹23.15 crore) by two CCs (Davanagere and Hubli-Dharwad), instead of rejecting the tenders invariably, the lowest tenderers were invited for negotiations. After negotiations, the contractors reduced their quoted rates ranging from 7.8 to 9 *per cent* of estimated cost in line with the decision taken by the Committee**.**

The State Government replied (February 2013) that the ₹100 crore programme was a time-bound project and negotiations were held to avoid cost and time over run. However, the reply was not acceptable as conducting negotiations was in contravention of the KTPP Act. Further, in most of the projects, there was time over run.

4.2.20 Tendering through e-procurement

The State Government had prescribed (March 2008 and April 2009) that all works costing ₹50 lakh and above (revised to ₹20 lakh and above during December 2010) were to be tendered only through e-procurement for obtaining better competitive bids. However, in two CCs (Bellary and Hubli-Dharwad), 77 works[72] (costing ₹166.58 crore) had been awarded without resorting to e-procurement.

The State Government replied (February 2013) that notification had been issued with regard to implementation of e-procurement in ULBs during July 2009, and tenders relating to phase-I works were called prior to the notification. It was also replied that tenders in CC, Bellary were invited during October 2008 and, at that stage, the CC, Bellary did not have ID, passwords, *etc*. Reply was not acceptable as the Government had issued order during March 2008, which should have been followed by the ULBs also.

Execution of works

4.2.21 Extra expenditure on Dense Bituminous Macadam

4.2.21.1 The work of 'Improvement of road from SP circle to Ambedkar circle' in CC Bellary was entrusted (November 2009) to a contractor for ₹10.22 crore with stipulation for completion by August 2010. The thickness of various layers of bituminous surfacing adopted for execution was at variance with those prescribed by the IRC guidelines as shown in **Table 4.7** below:

Table 4.7: Thickness of various layers recommended by IRC and those adopted for execution

Layer	As per IRC	As per execution
Bituminous Macadam (BM)	Nil	90 mm
Dense Bituminous Macadam (DBM)	140 mm	110 mm
Bituminous Concrete (BC)	50 mm	40 mm

Source: Specifications as given in IRC and Running Account bills

IRC guidelines provide that the DBM, a binder course, may be preceded by a BM layer. Where this is done, the thickness of DBM should be reduced on the basis of the formula 10 mm BM = 7 mm of DBM. However, in this case, though BM of 90 mm thickness had been introduced prior to the DBM layer, corresponding reduction in the thickness of DBM had not been made. While the thickness of DBM had been provided excessively to the tune of 33 mm, thickness of BC was reduced by 10 mm. These deviations had been ad-hoc and arbitrary and no justification had been given for these deviations. The

[72] Bellary- 22 works (costing ₹90.94 crore) and Hubli-Dharwad-55 works (₹75.64 crore)

excess expenditure on account of these deviations from the IRC guidelines aggregated ₹33.49 lakh.

The State Government stated (February 2013) that it was decided to provide 90 mm BM during execution as there was heavier traffic on the road. The reply was not acceptable as the bituminous layers of DBM and BC of 140 mm and 50 mm thickness respectively as per the IRC guidelines, had been designed for a cumulative traffic of 100 million standard axles (msa) while the cumulative traffic on this road assessed on the basis of traffic census was only 66.60 msa as per the project report. Thus, the provision of bituminous layers as envisaged in the IRC guidelines was capable of meeting additional traffic up to 33.40 msa. Further, the details of any census conducted during execution of the work necessitating provision of increased thickness of BM were not on record.

4.2.21.2 The work of widening and improvement of road from Tank Bund Junction (Ranga mandira) to first railway gate had been entrusted (November 2009) to a contractor by CC, Bellary at a cost of ₹7.65 crore with stipulation for completion by August 2010. The sanctioned estimate had provided for a pavement thickness of 615 mm corresponding to a cumulative traffic load of 6.56 msa and CBR of six *per cent*. Though the overall pavement thickness of 615 mm was consistent with the IRC guidelines, the thickness of individual layers of the pavement provided were at variance with those prescribed by IRC guidelines as shown in the **Table 4.8**:

Table 4.8: Thickness of different layers as per IRC and the execution

Different layer	As per IRC	As per execution
Granular Sub-base (GSB)	260 mm	250 mm
Wet Mix Macadam (WMM)	250 mm	200 mm
BM	65 mm	50 mm
DBM	-	75 mm
BC	40 mm	40 mm
Total	**615** mm	**615** mm

Source: Specifications as given in IRC and Running Account bills

As IRC is the standard setting body prescribing the design of pavement for all the categories of load carrying motorised vehicles, any deviation from these guidelines is to be justified. No justification had been recorded for deviating from the IRC guidelines and the deviations were arbitrary. These deviations resulted in extra expenditure of ₹36.03 lakh.

The State Government replied (February 2013) that there was a single line Railway over Bridge (ROB) on this road and the Railways had proposed to widen the ROB to double line. The crust thickness was, therefore, increased to meet expected increase in traffic. The reply was not acceptable as the crust thickness had not been increased beyond 615 mm and no justification was forthcoming for changing the thickness of the individual layers of the road contrary to IRC guidelines.

4.2.21.3 Extra expenditure towards providing Bituminous Concrete

As per IRC 37:2001 specifications, BC of 40 mm thickness is to be provided as a wearing course for a cumulative traffic of 10 msa and CBR value of two to eight. In six road works of CC, Bellary, the estimates had provided for 40 mm thickness of BC. However, while executing the work, the thickness of BC varied from 17 mm to 98 mm, resulting in provision of excess quantity of BC. Failure to restrict the executed quantity as per the estimate resulted in extra avoidable expenditure of ₹63.30 lakh.

The State Government stated (February 2013) that the thickness of BC as per actual execution ranged from 35 to 48 mm and average thickness worked out to 41 mm. It was further stated that the Ministry of Road Transport and Highways (MORTH) specifications allowed for a tolerance of +/- six mm and accordingly payment was restricted to thickness of 41 mm. The reply was not acceptable as thickness of BC recorded in the measurement books, based on which payments had been made to the contractors, was far above the tolerance limit of +/- six mm.

4.2.21.4 Defective execution of work

As per IRC specifications, BM of 50 mm thickness was to be provided for road works as binding course. In one test-checked work of 'improvement of road from Averegere to Basapur village' in CC, Davanagere, the estimate also provided for 50 mm thickness of BM. However, it was seen that BM of 30 mm thickness had been laid instead of 50 mm for a length of 220 metres.

Further, the total area over which BM was laid was 4,800 square metres (sqm), whereas the Semi-Dense Bituminous concrete (SDBC) laid over BM was for a lesser area, *i.e.*, 4,480 sqm. Therefore, 320 sqm of (4,800 - 4,480=320) SDBC had not been laid over BM. Evidently, execution of work was defective.

The State Government, while accepting (February 2013) that payment had been made only for 4,480 sqm of SDBC, stated that 320 sqm of SDBC was laid at the cost of the contractor. It was further stated that BM of 50 mm thickness had been relaid by the contractor over 220 metres. The reply was not acceptable as 320 sqm of SDBC purported to have been laid by the contractor at his cost had not been recorded in the measurement book. Similarly, the rectification of the BM layer had also not been recorded in the measurement book.

4.2.21.5 Extra expenditure on provision of Bituminous Macadam

As per IRC specification, BM of 50 mm thickness was to be provided for road works as binding course. Against this, BM of 75 mm thickness had been provided in two road works[73] pertaining to CC, Bellary. This resulted in extra expenditure of ₹54.90 lakh.

The State Government stated (February 2013) that higher thickness of 75 mm BM had been provided as per the requirement of pavement design, based on the traffic in msa and CBR value of the sub-grade and also for profile correction. The reply was not acceptable as the estimates provided for laying BM of only 50 mm thickness and these roads were newly laid roads not requiring profile correction.

[73] Durgamma temple to S.P. Circle and Indira Gandhi Circle to S.N.Pet Railway Gate

4.2.21.6 Incomplete road work

In Davanagere, the work of 'Asphalting of road from Kondagi Road to Kunduvada Village (via) Karur Village' had been entrusted (February 2009) to a contractor for a negotiated price of ₹43.59 lakh with stipulation to complete by May 2009. The contractor commenced the work in February 2009 and executed a part of the work of spreading and compacting stone aggregates. The contractor stopped the work after receiving a payment of ₹11.36 lakh in September 2009. Further scrutiny showed that the contractor had informed (January 2010) the Corporation through a legal notice that work had been stopped as there was a land problem.

However, the CC, Davanagere, issued a completion report for the work in April 2010 though it had remained incomplete and the balance work was proposed to be completed using the Corporation's own funds.

Thus, the CC irregularly issued the completion certificate to cover up its failure to provide clear work front to the contractor. The Corporation had also not taken effective steps to complete the work even after three years of its stoppage and the investment of ₹11.36 lakh had remained unfruitful.

The State Government accepted (February 2013) that there was a dispute regarding road width and the work would be completed after clearance of all disputes. The reply was not acceptable as the desired benefits could not be achieved even after a lapse of three years from the stipulated date of completion.

4.2.22 Internal controls

4.2.22.1 Irregularities in selection of third party consultancy

Government introduced (February 2005) third party inspection of all the works taken up under the Special Grants. The works were to be inspected by third party before payments were made to contractors.

While inviting (February 2009) short term tenders comprising technical and financial bids for third party consultancy, the CC, Bellary, prescribed that the third party consultant should have functioned as a project consultant/ independent engineer on a single work of similar type costing ₹150 crore. In the technical evaluations held in March 2009, M/s. Indian Register of Shipping (IRS) and M/s. Stup Consultants (P) Ltd. had been declared as technically qualified. Scrutiny, however, showed that IRS had failed to fulfill the condition of working on a single work of similar nature costing ₹150 crore. IRS had, nevertheless, been awarded (March 2009) the consultancy contract for ₹50.00 lakh as their offer was the lowest. Awarding the contract to IRS in total disregard of the benchmark prescribed for technical qualification meant that a level playing ground had been denied to the other bidders and IRS had been selected ahead of others to extend an unauthorised favour to the Company. Thus, award of contract to IRS lacked transparency and favoritism in the award of contract cannot be ruled out.

The State Government replied (February 2013) that IRS had fulfilled all criteria except the single work done criteria and the tender approving Committee decided to rebate this criterion for better competition so that

M/s. Stup Consultants might not be the only qualified bidder. Evidently, IRS, though not technically qualified, had been extended unauthorised favours.

4.2.22.2 Irregular entrustment of third party inspection

CC, Bellary, through a tendering process, had appointed (November 2008) M/s. Aakar Abhinav Consultants (P) Ltd, Navi Mumbai for consultancy services for preparation of Detailed Project Reports (DPR), designs, estimates, tender documents of various infrastructure projects including Project Management consisting of testing of the samples, checking of quality of material and works, review and approval of the test results/certificates of all construction materials. Even the technical supervision of the works to ensure their quality and conformity with the standards and specifications had been included in the contract, for a consultancy fee of 2.5 *per cent* of the total project cost.

The Corporation again appointed (March 2009) another third party consultant, M/s. IRS for reviewing the test reports and witnessing the tests conducted by the contractor for a consideration of ₹50 lakh @ 0.50 *per cent* of the total project of ₹100 crore. Since the entire project management work had been entrusted already to M/s. Aakar Abhinav Consultancy, appointment of IRS again for reviewing the test report was irregular. The scope of the work entrusted to IRS stood included in the contract of M/s. Aakar Abhinav Consultant. The payment of ₹22.80 lakh made to IRS was, therefore, unwarranted and represented a favour to IRS.

Audit also observed that such overlapping consultancy contracts had not been awarded in other selected Corporations.

The State Government replied (February 2013) that IRS was appointed to maintain better quality work. The reply was not acceptable as the scope of the work entrusted to IRS stood included in the contract of M/s. Aakar Abhinav Consultants and appointment of IRS again for reviewing the test report was irregular.

4.2.23 Irregular refund of security deposit

As per contract conditions, the security deposit deducted from the works bill of a contractor was to be refunded after the completion of the defect liability period, which was two years from the date of completion of works, subject to the Engineer concerned certifying that the contractor had rectified all the defects during the defect liability period. However, CC, Hubli-Dharwad, irregularly refunded the security deposit in seven works before completion of the defect liability period, thereby exposing itself to the risk of rectifying defects, if any, at its cost.

The State Government replied (February 2013) that as per tender conditions, defects liability period for Phase-I project was one year. Accordingly, security deposit was released after completion of maintenance period *i.e.* one year from the date of completion. The reply was not acceptable as defects liability period was two years and security deposits were refunded before its completion. It was also seen that the contract clause was tampered with and the defects liability period was made as one year to justify the reply.

4.2.24 Short recovery of royalty

As per the contract agreements for works, royalty is to be recovered at the prevailing rates. If the contractor produced proof/certificate from the competent authority for having paid the royalty charges already to the Government in respect of the materials used on the work, the amount so recovered is to be refunded. However, in 36 works executed during 2008-2011 by Bellary, Davanagere and Hubli-Dharwad CCs, royalty had been short recovered to the tune of ₹93.86 lakh due to adoption of wrong quantities and rates. This resulted in extending undue benefits to the contractors and loss of revenue to the Government.

The State Government replied (February 2013) that the recoveries of royalty vide order dated 15 July 2011 was under process in CC, Hubli-Dharwad and CC, Davanagere had recovered ₹3.06 lakh out of ₹3.48 lakh. The reply was not acceptable as the recovery should be made with respect to earlier rates as these works had been completed before July 2011.

4.2.25 Absence of measurements and prescribed checks

Paragraphs 208 and 209 of KPWD Code provides that Measurement Book is the basis of all accounts of quantities of work done, whether by daily labour or by piece work or by contract and a detailed measurement should be recorded by the Assistant Engineer. Each set of measurements should commence with entries stating the full name of the work, number and date of agreement, date of order issued to commence the work, date of measurement, *etc*. However, it was seen in CC, Bellary that the detailed measurement of all the works, the quantities of works done and date of recording had not been recorded. Only the abstract of the quantity of items had been recorded.

Codal provisions further require the EE to check-measure 25 *per cent* of the work done/items executed. However, the sampled works had not been check-measured. As check measurement is an internal compliance control to provide quality assurance, non-functioning of this important control resulted in absence of quality assurance of the works executed.

The State Government replied (February 2013) that the quantum of data was high and it could not be recorded in small measurement book. The measurement value, based on levels and cumulative quantities, were worked out separately in excel worksheet and only bill of quantity was recorded in measurement book to show bill-wise expenditure. The reply was not acceptable as measurement book is a very important initial record and entries should be recorded at the work spot. Moreover, the other two CCs (Davanagere and Hubli-Dharwad) had recorded detailed measurements in respect of similar works in measurement books.

4.2.26 Non-deduction of shrinkage

Government Order of May 1977 stipulates that in the case of earthen embankments, all measurements/payments should be made subject to deduction of shrinkage in the quantity of embankment actually constructed at the rate of 2.5 *per cent*.

In 43 road works in all the three test-checked CCs, the deduction towards shrinkage in earthen embankment was not done, resulting in excess payment of ₹4.46 lakh.

The State Government replied (February 2013) that the shoulders of these road works were of smaller heights and were compacted. Discrepancies, if any, were rectified by the contractors during the maintenance period. The reply was not acceptable as the embankment, however well compacted, will keep on settling for some years due to rainfall and its own weight and deductions have to be made towards this as per the order mentioned above.

4.2.27 Payments without the approval of the competent authority

4.2.27.1 Paragraph 323 of KPWD Code prescribes that the EE is to report to the SE the fact of possible excess over the estimated quantity. Further, Para 286 of KPWD Code prescribes that the EE is to prepare work slip in Form PWG 45 and submit to the SE, describing the nature and cause of the probable excess. After the approval from the SE, the payment for the excess quantity is to be made to the contractor. Though the quantity of work exceeded the Bill of Quantity under 40 items in five works of CC, Bellary, and nine works of CC, Hubli-Dharwad, payment of ₹5.37 crore had been made to contractors without approval of the work slips, which was irregular.

The State Government replied (February 2013) that the approvals of the DC/Government were obtained. The reply was not acceptable as this was against the codal provisions.

4.2.27.2 Clause 34 of the conditions of contract stipulates that variations shall not be made by the contractor without an order in writing by the EE. Further, as per Para 195 of KPWD Code, no extra item should be ordered by the EE without obtaining the approval of the SE to the Extra-item-rate list (EIRL) and contractors' consent. Further, the contractor should execute a supplementary agreement on a stamped paper with suitable modifications by the EE in token of his acceptance of the EIRL. It was seen that ₹2.51 crore had been paid to contractors for extra items in respect of 16 works by the CC, Bellary, without the approval of the SE. Evidently, the checks and balances provided for executing extra items were not functioning in the CC.

The State Government replied (February 2013) that the changes made to the quantity of existing items were approved by the Empowered Committee. The reply was not acceptable as this was against the codal provisions which stipulated approval from superior technical authority in such cases.

4.2.28 Non-levy of liquidated damages

The agreements entered into by the sampled CCs with the various contractors contained a penalty clause for delay in completion of work. The penalty ranged from 0.1 to 10 *per cent* of the contract price depending on number of days of delay. Though there were delays in completion of works ranging from five months to almost two years, penalty as per the agreement had not been levied. The delays in completion of 59 works ranged from 157 to 720 days, for reasons not attributable to the CCs. No proposals in these cases had been submitted by the contractors seeking extension of time. As delay in completion of works was attributable to the contractors, liquidated damages amounting to ₹7.44 crore should have been levied and recovered. Non-levy of penalty evidently resulted in extending undue benefits to the contractors.

The State Government replied (February 2013) that Hubli-Dharwad CC had levied penalty of ₹0.22 lakh. In Davanagere CC, there was huge shortage of men and material due to execution of other major works and, considering the facts, the Committee had decided to impose nominal penalty. The reply was not acceptable as the contractors were responsible to ensure completion of works within the stipulated dates, failing which liquidated damages at prescribed rates were leviable.

4.2.29 Monitoring and evaluation

As the works taken up by the CCs had been disaggregated and had not been structured into integrated programme to deliver the intended outcomes, assessment of the benefits from the individual works or programme of works was not feasible. Further, monitoring of the implementation of the works was very weak, as evidenced by several irregularities noticed during audit and as a result, no remedial measures had been taken either in the short or long term.

The State Government replied (February 2013) that consultants and third party agencies had been employed for monitoring and evaluation of works. The reply was not acceptable as the third parties had failed to supervise the works as evidenced by execution of works in disregard of prescribed norms, deficiencies in estimates, instances of extra expenditure, *etc*. and there was irregularity in selection of third party consultancy in CC, Bellary. Moreover, there was no clear articulated minimum threshold measure for cities' growth expected to be achieved by works to be taken up.

4.2.30 Conclusion

Though the special grants released to the CCs were to facilitate better delivery of municipal services in the cities, planning the development of the cities was deficient as the Action Plans failed to provide a structured and integrated programme of activity. Only road works dominated the Action Plans and the need analysis failed to factor in all round development of the cities. The works taken up had been disaggregated and lacked proper structuring to promote these cities as emerging growth centres and to reduce pressure on Bangalore city. The estimate preparation was flawed as many estimates had been sanctioned without adequate investigation and basic information. Estimates had also been split up to avoid higher sanction. The tendering process lacked transparency as the checks and balances prescribed for ensuring competitive bidding had been bypassed in several instances and the tender evaluation disregarded the benchmarks prescribed for determining the responsiveness of tenders. The contract management was ineffective as many items of works had been executed in disregard of the standards prescribed. The internal controls were rendered non-functional, resulting in irregular payments, non-recovery of dues, *etc*.

4.2.31 Recommendations

The State Government/ULBs should ensure that

- Planning is strengthened for all-round development of the cities by engaging the stakeholders and prioritising the works;
- The items of work proposed in estimates are as per norms and based on adequate initial investigation; and
- Monitoring of the execution of works is scaled up to guard against execution of unnecessary items of work.

SECTION 'B' – PARAGRAPHS

URBAN DEVELOPMENT DEPARTMENT

4.3 Solid waste management in urban local bodies of Belgaum district

Solid waste management in Belgaum district was inadequate as evidenced by non-segregation of municipal solid waste and non-declaration of buffer zone. Belgaum City Corporation made irregular payment on inert waste for tipping fees.

Belgaum district comprises 17 Urban Local Bodies (ULBs) which include Belgaum City Corporation (CC), two City Municipal Councils (CMCs), seven Town Municipal Councils (TMCs), six Town Panchayats (TPs) and one Notified Area Committee (Gokak falls). These ULBs are, *inter alia*, responsible for collection of municipal tax and other revenues and providing civic amenities to the population under their respective jurisdiction. Audit analysed the functioning of Solid Waste Management (SWM) through test-check of records of eight[74] ULBs in the district covering the period from 2007-08 to 2011-12.

The financial position of the selected ULBs for the period 2007-12 is detailed in **Table 4.9** below:

Table 4.9: Receipts and expenditure for the period 2007-12 in test-checked ULBs

(₹ in crore)

ULB	Receipts	Expenditure	Percentage
Belgaum CC	358.15	285.79	80
Nippani CMC	64.38	57.41	89
Chikkodi TMC	42.19	39.47	94
Sankeshwar TMC	38.42	34.36	89
Bailhongal TMC	44.64	38.88	87
Hukkeri TP	26.68	25.85	97
Khanapur TP	25.37	23.30	92
Sadalaga TP	19.63	23.44	119

Source: As furnished by ULBs

As could be seen from the table, the expenditure ranged from 80 *per cent* to 97 *per cent* except in TP, Sadalaga wherein the expenditure exceeded the receipt by 19 *per cent*.

4.3.1 Solid Waste Management

4.3.1.1 SWM is an important function of the ULBs as per the provisions of Rule 4 (i) of the Municipal Solid Waste (Management and Handling) Rules, 2000 (MSW Rules). Municipal authorities are responsible for collection, storage, segregation, transportation, processing and disposal of municipal solid waste (MSW).

As per the information furnished by the District Municipal Administration, the total waste generated by all the ULBs in the district was 339 metric tonnes

[74] Bailhongal, Belgaum, Chikkodi, Hukkeri, Khanapur, Nippani, Sadalaga and Sankeshwar

(MTs) per day and the waste generated by eight selected ULBs was 263.20 MTs per day. Of the eight selected ULBs, four[75] ULBs were provided with (2004-06) Government land for landfill sites, and for the remaining four[76] ULBs, land was purchased (2004 and 2007) from private parties, incurring an expenditure of ₹28.26 lakh.

The following points were noticed during audit:

4.3.1.2 Non-utilisation of Finance Commission grants

The 12th and 13th Finance Commissions provided funds for the activities relating to purchase, development of landfill site and tools and equipment. The remaining activities such as collection of waste, street sweeping, transportation to the landfill site were to be funded by the ULBs from their own revenue.

Against a total release of ₹10.05 crore under Finance Commission grants to selected ULBs during the period 2007-12, only an expenditure of ₹7.13 crore was incurred resulting in unutilised balance of ₹2.92 crore with the ULBs. The ULBs attributed it to non-finalisation of tender process.

4.3.1.3 Non-declaration of no development area/buffer zone

As per the provisions of MSW Rules the ULBs were required to declare 'no development area (buffer zone)' around the landfill sites and the same was required to be notified by the Town Planning Authorities in order to avoid adverse consequences. Audit observed that none of the selected ULBs had declared the surrounding areas of landfill sites as 'no development area' even as of August 2012. Incidentally, it was observed in CMC, Nippani, that the lands adjacent to landfill sites were being cultivated by the farmers when the landfill site had been taken over by the local body (November 2004). Evidently, non-compliance with the norms by ULB authorities could expose the people in the lands adjoining the landfill sites to health hazards.

4.3.1.4 Short coverage of door to door collection of wastes

As per MSW Rules in order to stop littering of MSW in urban cities, towns and in urban areas, ULBs should, *inter alia*, organise and achieve door to door collection of wastes by involving either self help groups or private operators or through their own staff (Pourakarmikas). For this purpose, ULBs were authorised to levy and collect user charges at nominal rates from households and commercial establishments including hotels, choultries and community halls. While the door to door collection of waste in CC, Belgaum, was 90 *per cent*, Khanapur and Sadalaga TPs could achieve only 50 *per cent* coverage. ULBs attributed (March 2013) the short coverage to inadequacy of manpower, funds and non-cooperation of public.

4.3.1.5 Non-segregation of Municipal Solid Waste

MSW Rules provided for segregation of waste into organic, inorganic, recyclables and hazardous wastes. Though awareness programmes are conducted for segregation of wastes and to promote recycling or reuse of segregated materials, waste had been segregated at source only in five out of

[75] Belgaum, Khanapur, Sadalaga and Sankeshwar
[76] Bailhongal, Chikkodi, Hukkeri and Nippani

58 wards of CC, Belgaum. In the other test-checked ULBs, the same was not done. Similarly, segregation of waste at landfill site was being done only in four[77] ULBs.

Non-segregation of recyclable and bio-degradable waste from MSW resulted in increased dumping of mixed waste in the landfills as against the norm of lessening the burden on landfills with only residual inert waste.

4.3.1.6 Irregular payment on inert waste

CC, Belgaum had entered into an agreement with M/s. Ramky Enviro Engineers Limited (operator) during June 2007 to dispose of solid waste on a scientific basis and agreed to pay initial tipping fee[78] at ₹693 per MT. The tipping fee was to be enhanced every three years as per the rates given in the agreement for a period of 20 years (2007-2027) to a maximum of ₹1,227 per MT. An amount of ₹6.53 crore was paid as tipping fee to the operator for the period from July 2009 to March 2012.

As per the agreement, tipping fee should be paid on the residual inert matter measured in MTs, which should be a maximum of 50 *per cent* of the total quantity of MSW supplied. The operator was free to sell or otherwise dispose of the compost or organic manure produced and the recyclables and other material recovered from the MSW, without landfilling them. It was observed that the operator claimed inert matter at 50 *per cent* of MSW as a matter of routine which was paid by the Corporation. The scrutiny of MSW characterisation reports submitted by the operator to the Corporation which were made available to Audit (three reports), however, showed that out of 3,093 kg of MSW characterised, the bio-degradable waste accounted for 1,939 kg (63 *per cent*) and the recyclable waste aggregated to 838 kg (27 *per cent*). Thus, the inert waste to be disposed in landfill worked out to 316 kg (10 *per cent*) only. This resulted in irregular payment of ₹5.22 crore due to considering the bio-degradable and recyclable waste as inert.

The Corporation replied (April 2013) that efforts to get less inert material were not successful due to insufficient segregation and also referred to a study done recently (February 2013) wherein inert material was found to be more than 50 *per cent*. Therefore, the payments were made as per the agreement considering maximum of 50 *per cent* of inert material. The reply was not acceptable as the assessment of inert waste available with CC, Belgaum at the time of making payments was the earlier MSW characterisation reports which showed that inert material worked out to 10 *per cent* only. Hence payment made in a routine manner by invariably considering inert material to be 50 *per cent* was not justifiable.

Further, the tipping fee rate of ₹693 per MT allowed by CC, Belgaum and finalised by the Government, was found to be on a much higher side comparing the tipping fee of ₹198 per MT allowed by Bruhat Bangalore Mahanagara Palike to the same operator for the same period of disposal. The differential rates ranged between ₹475 and ₹544 per MT. The excess outflow of funds on permissible quantity of residual inert waste during the period July

[77] Belgaum, Chikkodi, Sadalaga and Sankeshwar

[78] Tipping Fee = T_R x W_{LF} : T_R is the tipping fee rate , W_{LF} is the quantity of residual inert matter landfilled, in MTs

2009 to March 2012 aggregated ₹0.93 crore (17,527 MTs). Moreover, this will be a recurring liability till the agreement period of 20 years.

Had the Government/Corporation considered all the agreements entered into with the same/ different agencies applicable for the same period for disposal of waste of similar nature (inert), the huge rate difference incorporated for a 20 year period could have been avoided.

During joint physical verification (July 2012) of landfill site by Audit and environmental engineers of the Health department, it was seen that the operator had failed to provide good quality motorable roads within the site and also had not constructed boundary wall, even though it was specified in the agreement. No proper arrangements were made to control odour, flies, birds, dog menace, *etc.,* at the landfill site. The Corporation replied (July 2012) that a notice had been issued by the Health department to the operator to attend to the omissions.

4.3.1.7 Non-collection of solid waste management cess

As per provisions of Karnataka Municipal Corporations Act, 1976, SWM cess was to be levied on buildings situated within the limits of Corporation at prescribed rates on monthly basis. The CC, Belgaum had not collected the cess during the period 2007-12 which worked out ₹7.17 crore[79].

During the meeting (January 2013) of Audit with the Belgaum authorities, Deputy Commissioner, Belgaum stated that the Council had passed (May 2012) the resolution to collect cess and the same would be collected along with arrears.

Moreover, there was no provision under Karnataka Municipalities Act, 1964 (KM Act) to levy SWM cess (as being levied in CCs) which hampered the resource mobilisation of other 16 ULBs (CMCs, TMCs and TPs) towards SWM activities.

4.4 Wasteful expenditure on incomplete houses

City Corporation, Gulbarga incurred wasteful expenditure of ₹1.05 crore under Urban Ashraya Housing Scheme, besides denial of housing facilities to identified beneficiaries belonging to Economically Weaker Section.

In order to provide housing facilities to Economically Weaker Sections (EWS) in urban areas, the Urban Ashraya Housing Scheme (Scheme) is being implemented through Rajiv Gandhi Rural Housing Corporation Limited (RGRHCL). The Scheme provided for financial assistance to the extent of ₹25,000/- in the form of loan. Beneficiaries were required to contribute the balance amount. The Scheme guidelines also stipulated submission of monthly/annual reports regarding successful implementation of the Scheme in prescribed proforma by the concerned Commissioner of City Corporation/ Deputy Commissioner (DC) of the district to ensure timely realisation of intended benefits.

Scrutiny of records (March 2011 and July 2012) showed that the Commissioner, City Corporation, Gulbarga (Commissioner) had entrusted

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[79] Calculated at the lowest rate : Residential buildings - ₹10, Commercial building -₹50 and Industrial buildings -₹100 per month

(October 2006) the work of construction of 794 houses[80] to Nirmithi Kendra, Gulbarga (Agency) with the stipulation to complete the houses by July 2007. The DC, Gulbarga and Commissioner had released (February 2007) a sum of ₹2.03 crore to the agency for this purpose. As of March 2010, though the agency had incurred an expenditure of ₹1.05 crore, none of the houses were completed except the four model houses. The remaining 790 houses[81] were reported to be in different stages of construction.

The abnormal delay of more than five years was attributed to protracted correspondence regarding rising cost of houses, release of additional funds, deteriorating condition of incomplete houses, pilferage of material, *etc.*, amongst the concerned authorities, *viz.*, the Agency, Commissioner, DC and RGRHCL. The Commissioner and DC, Gulbarga had repeatedly requested (October 2007 - May 2011) RGRHCL to increase the unit cost and release additional funds. The Agency had also expressed (March 2011) its inability to appoint watchmen as the area was vast. However, no action was taken (July 2012). The balance amount of ₹98.83 lakh kept idle with the Agency was returned (January 2012) to City Corporation, Gulbarga with interest only after Audit reported the matter to the Government (June 2011).

On physical verification of both the sites, it was observed (July 2012) that all the houses which were at different stages were completely destroyed and there were no traces of partially constructed houses.

Status of houses at S. M. Krishna colony

as in November 2007

as in July 2012

Evidently, the protracted correspondence for five years without any conclusive decisions at various levels resulted in wasteful expenditure of ₹1.05 crore. Even the beneficiaries' contribution amounting to ₹54.86 lakh, collected by the Commissioner, had not been refunded (July 2012) to the beneficiaries on having failed to provide housing facilities.

The Commissioner, Municipal Administration, Bangalore replied (February 2013) that disciplinary action would be initiated against the erring officers in the light of audit observations. The reply also stated that incomplete houses would be taken up under Vajpayee Urban Housing Scheme (VUHS) and amount already released to DC, Gulbarga by RGRHCL would be treated as subsidy under VUHS. However, the fact remains that delay in action had rendered the expenditure of ₹1.05 crore wasteful. Even the unit cost had increased from ₹25,000 to ₹75,000. The beneficiaries have not only been

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[80] 196 houses at Survey numbers 75 and 76 of S.M Krishna Colony and 598 houses at Survey numbers 27 and 28 of Kesaratagi village near Green City

[81] Base level- 226; Lintel level- 168; Ceiling level- 200; and Final stage- 196

denied the housing facilities but are also burdened as the beneficiary's contribution had increased from ₹8,000 to ₹32,000.

4.5 Tampering of records resulting in irregular payment

Undue haste in awarding and execution of a work by Mangalore City Corporation coupled with fictitious recordings in Measurement Book resulted in payment of ₹90.45 lakh before completion of work.

The Superintending Engineer, Directorate of Municipal Administration, Bangalore (SE) accorded (10 February 2010) technical approval for construction of a concrete bed at Pachchanadi Solid Waste Management (SWM) unit under Twelfth Finance Commission Grants by the Mangalore City Corporation (MCC) at an estimated cost of ₹95 lakh subject to obtaining administrative approval of the Deputy Commissioner (DC).

The MCC entrusted (4 March 2010) the work to a contractor (Shri. M.G. Hussain) at the tendered cost of ₹80.02 lakh which was increased to ₹90.45 lakh due to execution of excess quantity in six items varying from 8 to 25 *per cent*. The work was reportedly completed on 30 March 2010 in 26 days as per the completion report of the Assistant Executive Engineer, MCC and both the bills of the contractor amounting to ₹90.45 lakh were admitted and paid on 31 March 2010.

Test-check of records of MCC (September 2011) showed the following inconsistencies in execution of work:

(1) The notification inviting tender (NIT) for the work was published in newspapers on 05 January 2010 even before the technical approval (February 2010), approval of draft tender schedule (18 February 2010) and action plan (8 April 2010) and also without obtaining the administrative approval of the DC, thereby flouting the instructions of approving authority in taking up this work.

(2) The contractor had commenced the work on 04 March 2010 and the work was measured for the first time on 27 March 2010 as evidenced by the Third Party Inspection Agency (TPIA) Report dated 30 March 2010. This report clearly mentioned that 'as of 29 March 2010 the work of earth excavation and spreading of stone aggregates over an area of 90 x 55 square metre has been executed'. However, the date of measurement was tampered with and shown as 08 March 2010. Nevertheless, the first and part bill of the contractor, submitted on 30 March 2010 for an amount of ₹13.12 lakh, was admitted and paid on 31 March 2010.

(3) The second bill amounting ₹77.33 lakh was submitted on 21 May 2010 but the payment had already been made on 31 March 2010.

(4) The TPIA report, as available at the time of audit, was also changed. Two different TPIA reports, having visited the work spot on 20 March 2010 and 29 March 2010 respectively, were produced to justify the claim that the work was completed by 30 March 2010.

(5) The completion report recorded 30 March 2010 as the date when the work was completed by recording measurements in the Measurement Book (MB). As per technical norms, a minimum curing period of seven days is required for any RCC structure to be of requisite quality and sustainability. The completion of a concrete work which involved laying of different

layers of PCC/RCC, providing and removing centering, *etc.*, within two days from completion of earth work was, therefore, not possible.

(6) The dates in MB should be in chronological order. However, the first check measurement by Assistant Executive Engineer (AEE) was recorded on 27 March 2010 (page 74 of MB) whereas the subsequent works were recorded to have been check-measured on earlier dates[82]. Evidently, the recordings in MB were fictitious.

On this irregularity being pointed out, the Government endorsed (September 2012 and January 2013) the reply of MCC which stated that the work was completed as per the instructions of the SE to complete the work within March 2010 and tenders were called for in anticipation of approval as the work was urgent. The MCC did not give a convincing reply regarding change of TPIA reports and attributed the confusion to single-file system.

The reply was not acceptable for the following reasons:

- No such instructions of SE were on record or had been provided to Audit.
- Completing a work which involved earth work excavation, RCC works with centering, roof slab, *etc.*, within 26 days of entrustment is impractical and doubtful.
- The subsequent TPIA report claiming that the work was completed on 29 March 2010 was not supported by any test results, whereas the work was measured/check measured by AEE on 30 March 2010.
- Single-file system is unlikely to result in confusion as all the relevant records and correspondence are watched through a single file.

Evidently, the MCC entrusted the work without requisite approvals and then tampered with the records to justify the payment of ₹90.45 lakh before the completion of work, which was irregular.

4.6 Non-recovery of Income Tax resulting in undue benefits to contractors

Failure of City Municipal Council, Shimoga to deduct Income Tax at source resulted in undue benefits to the contractors and avoidable payment of interest besides irregular diversion of State Finance Commission grants.

The Income Tax (IT) Act, 1961, provides for mandatory deduction of income tax at source (TDS) by any person including a local authority while making payments to contractors, fees for professional services to professionals for carrying out any work and payment of salaries to the employees at the prescribed rates. Further, as per the Act, any person who does not deduct, or does not pay, or after so deducting, fails to pay the whole or any part of the tax, shall be deemed to be an 'assessee in default' in respect of such tax and shall be liable to pay interest at the rates prescribed under the Act.

The Karnataka Municipal Accounting Manual stipulates that the Accounts Department shall verify all the recoveries which have to be made from the

[82] 10 March 2010-page 77; 13 March.2010-page 79 and 20 March.2010-page 82 of MB

bills of contractors as per statutory requirements. Also, the provisions of Karnataka Municipal Accounting and Budgeting (KMAB) Rules, 2006 provides that the income tax deducted at source shall be credited to the Government under relevant head of account before 7^{th} of next month unless specified otherwise in the concerned laws.

During test-check of records of City Municipal Council (CMC), Shimoga (June 2011), it was observed that the CMC had paid ₹7.54 crore towards contract payments/professional charges and ₹46.29 lakh towards salaries during 2007-08 to 2009-10. However, the CMC failed to deduct income tax of ₹14.88 lakh from the contractors/employees and remit the same to the Income Tax Department. Consequently, the Income Tax Officer (ITO), TDS Ward, Davanagere issued a notice (December 2009) to the CMC treating it as an 'assessee in default' and directed to pay income tax of ₹14.88 lakh along with interest of ₹4.47 lakh, which was paid by the CMC by diverting the State Finance Commission (SFC) grants.

Thus, the failure of the CMC, Shimoga to deduct income tax at source resulted in undue benefits to the contractors and avoidable payment of ₹19.35 lakh, besides irregular diversion of SFC grants.

The Municipal Commissioner, CMC, Shimoga replied (January 2012) that notices had been issued to the concerned to remit the amounts to SFC account, as a result of which a sum of ₹0.12 lakh had already been remitted. The Commissioner also stated that on the basis of a clarification issued by the Chief Commissioner of Income Tax, Bangalore (September 1996) that TDS should not be made in cases of contracts of sale of goods/supply of materials, the CMC had addressed (January 2012) a letter to the ITO, Davanagere to remit back ₹15.11 lakh (pertaining to tax and interest on contract payments paid by CMC) to SFC account.

The reply was not acceptable as CMC neither challenged the notices issued by the ITO nor filed an appeal against the order.

The matter was reported to the State Government (November 2011 and August 2012); reply has not been received (February 2013).

BANGALORE **(D.J. BHADRA)**
The **Principal Accountant General**
(General and Social Sector Audit)

COUNTERSIGNED

NEW DELHI **(VINOD RAI)**
The **Comptroller and Auditor General of India**

APPENDICES

Appendix 1.1

Details of major State and district sector schemes implemented by PRIs

(Reference: Paragraph 1.4.6/ Page 6)

(₹ in crore)

Scheme	Project Details of the Scheme/Project	Opening balance	Allocation	Total	Expenditure
Grama Swaraj Yojane	The Scheme was introduced to give special emphasis to improve the service delivery by the Grama Panchayats	--	88.00	88.00	66.31
Suvarna Gramodaya yojane	Aims at developing vibrant village communities by adopting an intensive and integrated approach to rural development in thousand villages every year	81.85	700.00	781.85	445.31
Mukhya Mantri Grameena Raste Abhivrudhi Yojana	The Scheme under National Bank for Agriculture and Rural Development assisted Rural Infrastructure Development Fund was implemented for rural roads improvement and road connectivity	14.60	148.27	162.87	132.83

Source: Annual Report of RDPR and Scheme guidelines

Appendix 1.2

Statement showing balances under Major heads of account 8670 and 8782 for the year 2011-12

(Reference: Paragraph 1.10.6/Page 14)

(₹ in crore)

Sl. No.	Name of the District	Balances under 8782 cash remittances and adjustments between officers rendering accounts to the same accounts officers		Balances under 8670 cheques and bills -103 Departmental cheques	
		102 - Public works Remittance II - cheques	103 - Forest Remittance II- cheques	Social Welfare Cheques	Backward classes and Minorities
1.	Bagalkot	12.02	0.05	(-) 8.81	0.00
2.	Bangalore (Rural)	(-) 7.05	(-) 0.42	(-) 1.58	(-) 0.74
3.	Bangalore (Urban)	5.12	0.04	5.03	(-) 0.34
4.	Belgaum	17.38	0.79	0.00	0.00
5.	Bellary	9.81	(-) 0.66	(-) 1.38	(-) 3.99
6.	Bidar	(-) 0.54	0.25	0.30	0.00
7.	Bijapur	6.82	0.00	0.01	0.00
8.	Chamarajanagar	2.49	0.00	0.11	0.05
9.	Chitradurga	0.00	0.01	0.00	0.00
10.	Haveri	0.02	0.00	0.78	0.26
11.	Kodagu	(-) 13.03	2.64	0.04	0.03
12.	Kolar	2.71	0.90	(-) 8.58	(-) 0.08
13.	Koppal	(-) 0.69	0.18	(-) 0.09	0.05
14.	Mandya	1.98	0.00	0.08	0.00
15.	Mysore	21.67	3.30	0.69	(-) 0.41
16.	Raichur	(-) 25.19	0.20	1.96	0.15
17.	Tumkur	26.02	6.34	(-) 0.90	4.48
18.	Udupi	0.03	0.00	0.00	0.00
19.	Uttara Kannada	(-) 10.15	(-) 2.55	0.12	2.83

Source: SARs of ZPs

Appendix 1.3

Statement showing balances under Taluk Panchayat and Gram Panchayat Suspense for the year 2011-12

(Reference: Paragraph 1.10.6/Page 14)

(₹ in crore)

Sl. No.	Name of the ZP	TP Suspense	GP Suspense
1	Bangalore (Rural)	19.50	(-)7.05
2	Bangalore (Urban)	11.36	(-)0.67
3	Bidar	4.86	1.27
4	Chamarajanagar	(-)20.78	0.25
5	Davanagere	0.84	0
6	Dharwad	1.04	1.34
7	Gadag	5.23	2.28
8	Hassan	9.18	0.03
9	Haveri	37.31	1.19
10	Kodagu	0	0.33
11	Kolar	(-)0.22	0
12	Koppal	59.83	0
13	Mandya	1.99	(-)7.22
14	Mysore	5.07	0
15	Raichur	(-)79.70	0.01
16	Tumkur	0.04	0

Source: Annual accounts of ZPs

Appendix 1.4

Statement of outstanding IRs and Paragraphs as at the end of March 2012

(Reference: Paragraph 1.13/Page 17)

ZP	More than 10 years (till 2001-02)		05 years to 10 years (upto 2002-07		03 to 05 years (2007-2009)		2009-10		2010-11		2011-12		Total	
	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras	IRs	Paras
Bagalkot	12	25	11	21	15	39	5	46	8	80	0	0	51	211
Bangalore (Urban)	39	48	67	85	67	149	94	337	22	144	0	0	289	763
Bangalore (Rural)	3	4	12	17	19	47	15	55	6	32	0	0	55	155
Belgaum	147	409	57	202	19	65	23	184	13	130	1	6	260	996
Bellary	67	142	34	120	23	164	7	57	10	100	0	0	141	583
Bidar	39	100	24	87	14	127	7	81	5	35	0	0	89	430
Bijapur	77	171	31	89	22	80	4	25	5	25	0	0	139	390
Chamaraja Nagar	2	2	11	31	28	96	12	48	5	29	0	0	58	206
Chickmagalur	18	21	21	40	18	47	24	143	16	93	0	0	97	344
Chikkaballapur	21	40	23	86	22	98	13	75	18	128	0	0	97	427
Chitradurga	9	13	4	22	6	14	22	128	12	117	0	0	53	294
Dakshina Kannada	14	20	12	28	11	29	5	26	7	40	0	0	49	143
Davanagere	28	48	23	45	19	52	9	27	12	60	0	0	91	232
Dharwad	50	100	51	116	45	125	16	93	22	158	2	11	186	603
Gadag	62	154	35	104	19	109	8	35	9	96	0	0	133	498
Gulbarga	65	170	31	98	16	55	7	40	10	74	0	0	129	437
Hassan	28	47	32	55	19	87	17	89	12	85	0	0	108	363
Haveri	21	37	21	34	24	66	13	80	17	148	0	0	96	365
Kodagu	11	16	9	20	10	50	7	58	8	54	0	0	45	198
Kolar	51	98	47	181	21	90	23	147	15	65	0	0	157	581
Koppal	12	26	15	46	18	104	10	62	8	70	7	38	70	346
Mandya	46	66	35	117	21	58	8	31	12	99	0	0	122	371
Mysore	3	8	7	28	36	131	16	91	16	99	0	0	78	357
Raichur	50	132	23	94	15	133	8	66	5	46	1	14	102	485
Ramanagara	31	68	24	60	14	29	19	73	6	38	0	0	94	268
Shimoga	23	32	22	57	16	41	6	27	13	98	0	0	80	255
Tumkur	29	39	40	70	33	140	41	193	19	100	7	66	169	608
Udupi	5	8	4	17	13	47	10	43	8	55	0	0	40	170
Uttara Kannada	92	252	26	81	25	101	11	80	13	84	1	7	168	605
Yadgir	31	113	15	79	5	40	2	17	2	16	0	0	55	265
Total	**1,086**	**2,409**	**767**	**2,130**	**633**	**2,413**	**462**	**2,457**	**334**	**2,398**	**19**	**142**	**3,301**	**11,949**

Source: Progress Reports of Inspection Reports

Appendix 2.1
Statement showing the extra expenditure incurred on surface dressing
(Reference: Paragraph 2.3/Page 44)

(₹ in lakh)

Sl. No.	Name of the work	District	Expenditure on surface dressing
1.	Improvements to road from Mudhol Taluk package (seven works)	Bagalkot	33.92
2.	Improvements to road from Bommanagi NH13 approach road (2.00 to 9.50 kms)	Bagalkot	5.93
3.	Improvements to road from Hungund Thimmapura road (1.00 to 6.00 kms)	Bagalkot	8.62
4.	Improvements to road from Hungund Taluk package (three works)	Bagalkot	19.08
5.	Improvements to road from Jamakhandi package (two works)	Bagalkot	9.33
6.	Improvements to road from Mantur-Konnur road in Mudhol Taluk	Bagalkot	7.02
7.	Improvements to road from Ramanayakanahalli to Haralu village in Kudligi Taluk	Bellary	3.42
8.	Improvements to road from Sogi to Kenchammanahalli in Hadagalli Taluk	Bellary	6.52
9.	Improvements to road from Mallenahalli, Sollapura, Southanahalli, Chinnapura, Asandi road in Tarikere Taluk	Chickmagalur	6.85
10.	Improvements to road from Nagenahalli Phalaharaswamy Mutt via Muthinapura in Chickmagalur Taluk	Chickmagalur	7.87
11.	Improvements to road from Humnabad main road to Sonth village (1.50 to 3.50 kms)	Gulbarga	3.68
12.	Improvements to road from Gobbur (B) to Awralli village in Afzalpur Taluk	Gulbarga	6.25
13.	Improvements to Link road from Malkhed to Bijanalli village in Sedam Taluk	Gulbarga	7.20
14.	Improvements to road from Bidar Srirangapattan main road to Seethanoor approach road (0.00 to 2.40 kms)	Gulbarga	4.41
15.	Improvements to road from Bhimalli to Gola village	Gulbarga	6.98
16.	Improvements to road from Kodihalli-Hunasanahalli main road to Bandedoddi road (0.00 to 1.50 kms)	Ramanagara	2.54
17.	Improvements to road from Hunasanakodihalli road to Hunasanahalli road (0.00 to 1.50 Kms)	Ramanagara	2.79
Total			**142.41**

Source- Running Account (RA) bills

Appendix 3.1

Details of Tax & Non-Tax revenue of selected ULBs

(Reference: Paragraph 3.3.5.2/Page 54)

(₹ in lakh)

Name of the ULBs	2007-08			2008-09			2009-10			2010-11			2011-12			Grand Total
	Tax revenue	Non-tax revenue	Total	Tax revenue	Non-tax revenue	Total	Tax revenue	Non-tax revenue	Total	Tax revenue	Non-tax revenue	Total	Tax revenue	Non-tax revenue	Total	
Aurad TP	5.99	NA	**5.99**	7.25	NA	**7.25**	10.56	14.95	**25.51**	10.72	15.31	**26.03**	15.67	27.78	**43.45**	**108.23**
Bantwal TMC	45.06	109.79	**154.85**	62.99	114.24	**177.23**	68.13	365.55	**433.68**	79.21	310.24	**389.45**	95.82	467.38	**563.20**	**1,718.41**
Basavakalyana CMC	41.67	32.00	**73.67**	33.17	36.00	**69.17**	25.55	35.00	**60.55**	29.52	33.04	**62.56**	41.58	48.41	**89.99**	**355.94**
Belthangadi TP	14.18	16.47	**30.65**	16.22	21.10	**37.32**	21.21	78.93	**100.14**	27.36	101.44	**128.80**	32.35	72.18	**104.53**	**401.44**
Bhalki TMC	14.59	9.22	**23.81**	17.09	9.56	**26.65**	23.27	6.39	**29.66**	26.84	26.07	**52.91**	29.83	28.51	**58.34**	**191.37**
Bidar CMC	141.38	130.05	**271.43**	227.14	118.55	**345.69**	297.46	138.48	**435.94**	274.90	192.09	**466.99**	270.38	203.64	**474.02**	**1,994.07**
Chittaguppa TMC	3.73	14.37	**18.10**	4.64	11.92	**16.56**	5.01	7.20	**12.21**	6.23	11.04	**17.27**	9.99	21.91	**31.90**	**96.04**
Hassan CMC	423.32	94.88	**518.20**	426.32	112.09	**538.41**	526.14	130.99	**657.13**	732.95	100.66	**833.61**	523.54	143.09	**666.63**	**3,213.98**
Humnabad TMC	18.57	21.88	**40.45**	30.90	16.19	**47.09**	33.56	38.43	**71.99**	27.76	22.83	**50.59**	29.62	28.18	**57.80**	**267.92**
Mangalore CC	746.18	2,495.56	**3,241.74**	768.46	3,393.11	**4,161.57**	2,367.62	2,826.09	**5,193.71**	2,374.18	3,585.87	**5,960.05**	2,337.61	5,122.36	**7,459.97**	**26,017.04**
Moodbidri TMC	55.93	125.69	**181.62**	67.93	109.90	**177.83**	86.23	161.06	**247.29**	120.68	184.21	**304.89**	131.43	188.96	**320.39**	**1,232.02**
Mulki TP	14.54	38.56	**53.10**	18.84	43.33	**62.17**	21.00	27.00	**48.00**	21.50	40.00	**61.50**	23.00	37.50	**60.50**	**285.27**
Puttur TMC	116.93	128.86	**245.79**	140.51	175.40	**315.91**	189.22	177.50	**366.72**	206.86	263.14	**470.00**	247.36	186.05	**433.41**	**1,831.83**
Sullia TP	43.20	49.46	**92.66**	53.49	102.00	**155.49**	63.72	101.14	**164.86**	70.47	223.44	**293.91**	69.64	254.05	**323.69**	**1,030.61**
Ullal TMC	35.05	154.39	**189.44**	43.05	156.57	**199.62**	46.30	289.00	**335.30**	49.48	922.21	**971.69**	70.72	100.19	**170.91**	**1,866.96**
Total	**1,720.32**	**3,421.18**	**5,141.50**	**1,918.00**	**4,419.96**	**6,337.96**	**3,784.98**	**4,397.71**	**8,182.69**	**4,058.66**	**6,031.59**	**10,090.25**	**3,928.54**	**6,930.19**	**10,858.73**	**40,611.13**

Source: as furnished by ULBs NA: Not available

Appendix 3.2

Role of the State Government with respect to ULBs

(Reference: Paragraph 3.6.1/Page 57)

Power	Nature of power and conditionality attached to its exercise
Power to frame Rules	The State Government may by notification in Gazette, frame rules for the KMC/KM Acts after approval by the State Legislature. (Section 421 of KMB Act and Section 323 of KM Act)
Power to dissolve ULBs	The State Government shall, by notification in the Gazette, dissolve the ULBs, if the ULBs fail to perform or default in the performance of any of the duties imposed on them, after giving reasonable opportunity. The order of dissolution of the ULBs shall be laid before both the houses of State Legislature with a statement of the reasons therefor. The State Government may appoint the Administrator during the period of dissolution of the ULBs. (Section 99 and 100 of KMC Act, Section 315 and 316 of KM Act)
Power to cancel and suspend a resolution or decision taken by ULBs	The State Government may cancel a resolution or decision taken by ULBs, if the State Government is of the opinion that it is not legally passed or in excess of the power conferred by KMC and KM Acts, any other law or likely to endanger human life, health, public safety or communal harmony or in violation of directions issued by Government (Section 98 of KMC Act and Section 306 of KM Act)
Power of appointment, cadre control and transfer	The Commissioners and Chief Officers of ULBs are Government Servants and other staff members in the ULBs are municipal employees. The State Government regulates the classification, method of recruitment, conditions of service, pay and allowance, discipline and conduct of staff and officers of ULBs. The State Government may at any time transfer the Officers from a ULB. The State Government shall lend the services of the Government officers and employees to ULBs as may be necessary for the implementation of any schemes, project or plan assigned to the ULBs. An appeal against any order of the ULBs imposing penalty on any officer or employee shall lie with the State Government.

Source: KMC Act and KM Act

Appendix 4.1

Financial position for the test-checked projects implemented by BBMP as of March 2012

(Reference: Paragraph 4.1.9.1/ Page 73)

(₹ in crore)

Project	Original project cost	Revised Project Cost	Share (Based on original project cost)			Releases			Expenditure	Release of GOI & GOK share by SLNA
			GOI	GOK	BBMP	GOI	GOK	BBMP		
Vrishabhavathi valley	228.26	420.89	79.89	34.24	114.13	59.92	25.68	72.21	186.51	85.60
Hebbal valley	184.74	269.98	64.66	27.71	92.37	48.49	20.78	49.64	122.87	69.28
Koramangala valley	111.49	128.58	39.02	16.72	55.75	29.27	12.54	20.80	72.70	41.81
Challaghatta valley	118.57	105.93	41.50	17.79	59.28	20.75	8.89	13.11	49.78	29.64
Underpass at Malleshwaram	12.45	12.45	4.36	1.87	6.22	3.92	2.30	11.45	15.74	6.23
Underpass at CNR Rao Road	22.61	22.61	7.91	3.39	11.31	3.16	2.49	8.49	11.49	5.65
Bridge over SWD at Gali Anjaneyaswamy temple	31.93	30.08	11.18	4.79	15.96	7.26	3.60	12.47	25.31	10.86
Upgradation work of sidewalk and asphalting works of road surrounding MG Road	43.61	43.61	15.26	6.54	21.81	13.74	6.55	8.60	45.61	18.99
Redevelopment of 13 slums – 1524 DUs	50.88	52.86	22.98	27.90 (GOK & BBMP)		5.75	4.52	6.00	7.59 Ω	10.26
Upgradation work of sidewalk and asphalting works of roads surrounding Koramangala	50.45	50.45	17.66	7.57	25.22	15.89	9.33	1.33	42.16	25.22
Total	**854.99**	**1,137.44**	**304.42**	**148.52**	**402.05**	**208.15**	**96.68**	**204.10**	**579.76**	**303.54**

Source: As per BBMP's records and status report of SLNA Ω As of December 2012

Appendix 4.2

Details of 15 package works on remodelling of primary and secondary SWDs

(Reference: Paragraph 4.1.11.1/Page 77)

(₹ in crore)

Name of the Work	Packages	Estimate/ Tendered Amount	Administrative/ Technical Sanction	Work order/Stipulated month of completion	Expenditure	Payment due to the Contractor of March 2012
Remodelling of primary and secondary drains of Vrishabhavathi valley	Vrishabhavathi Package I	31.62/ 42.41	10.03.06	30.03.06/ September 2007	8.66	2.49
	Vrishabhavathi Package II	23.15/ 28.92	10.03.06	22.04.06/ October 2007	8.99	1.19
	Vrishabhavathi Package III	24.67/ 31.62	10.03.06	30.03.06/ September 2007	25.00	3.28
	Vrishabhavathi Package IV	23.31/ 30.54	10.03.06	01.04.06/ September 2007	16.96	8.42
	Vrishabhavathi Package V	34.20/ 45.83	10.03.06	30.03.06/ November 2007	17.59	1.25
Remodelling of primary and secondary drains of Koramangala valley	Koramangala Package I	20.81/ 24.14	17.07.04/ 04.05.05	20.04.05/ September 2006	7.34	0.61
	Koramangala Package II	17.49/ 20.29	27.12.05/ 21.12.05	16.05.05/ November 2006	7.92	(-)1.67
	Koramangala Package III	29.48/ 34.20	11.07.05	10.06.05/ November 2006	8.31	0.45
Remodelling of primary and secondary drains of Challaghatta valley	Challaghatta Package I	15.33/ 19.16	26.12.05/ 19.11.05	01.07.05/ December 2006	6.89	0.29
	Challaghatta Package II	36.15/ 45.19	02.08.06	26.08.06/ December 2006	7.09	0.68
	Challaghatta Package III	19.50/ 24.38	21.12.05	21.01.06/ June 2007	7.54	0.58
Remodelling of primary and secondary drains of Hebbal valley	Hebbal Package I	19.02/ 24.35	10.03.06	30.03.06/ September 2007	3.35	0.24
	Hebbal Package II	37.15/ 60.77	10.03.06	30.03.06/ September 2007	37.72	2.09
	Hebbal Package III	26.55/ 39.68	10.03.06	23.03.06/ September 2007	12.74	0.65
	Hebbal Package IV	21.00/ 25.42	10.03.06	08.05.06/ November 2007	10.42	0.08
Total					**186.52**	**20.63**

Appendix 4.3

Works exempted under KTPP Act

(Reference: Paragraph 4.1.11.2/Page 79)

Sl. No.	Name of the Work	Estimated cost (₹ in lakh)	Date of seeking exemption/ Date of issue of exemption order	Period of exemption/ Date of Commence ment/Work Order	Stipulated/ actual date of Completion	Delay in months
1	Construction of Bye-pass Storm water drain for primary drain K-200 of Koramangala valley upstream of Central Silk Board junction.	307.60	28.08.2007/ 26.06.2008	25.08.2007-31.03.2008/ 26.06.2008	25.09.2008/ 17.09.2010	24
2	Construction of secondary storm water drain K-103 by providing pre-cast segment at Residency Road of Koramangala valley in Bangalore City.	39.15	23.12.2008/ 24.02.2009	Up to 30.11.2008/ 28.02.2009	28.04.2009/ 05.06.2009	2
3	Construction of Size stone masonry work in SWD (missing bits) on either side of railway bridge near Banaswadi railway station from Lingarajapuram to Kanakadasa layout in Hebbal Valley package III.	96.00	26.09.2008/ 31.10.2008	Up to 30.11.2008/ 02.12.2008	02.02.2009/ 29.08.2009	6
4	Construction of Bridge at Chainage 1965 in H-300 HBR layout near Chandrika Soap factory.	81.75	23.12.2008/ 24.02.2009	Upto 30.11.2008/ 03.12.2008	03.03.2009/ 19.08.2009	5
5	Reconstruction of damaged /dilapidated SSM retaining wall for primary drain H-300 from Chainage 2500 to 5000 meters (HBR layout to Outer Ring Road) in Hebbal package III.	91.00	26.09.2008/ 31.10.2008	Up to 30.11.2008/ 28.02.2009	27.04.2009/ 02.06.2009	2
6	Construction of RCC Box culvert to secondary drain H – 201 at Chainage 1585 mtrs for ISRO Main Road.	90.00	23.12.2008/ 24.02.2009	Up to 30.11.2008/ 23.11.2009	22.03.2010/ 17.06.2010	3
7	Construction of RCC retaining wall in Vrishabhavathi valley from Chainage 13230 to 13385 mtrs left side of the drain up to University junction.	99.50	23.12.2008/ 24.02.2009	Up to 30.11.2008/ 08.12.2009	07.03.2010/ 09.02.2010	Nil
8	Remodelling of side drain by the side of P&T office and Basaveshwara Choultry and hostel joining V – 116 secondary drain in Vrishabhavathi valley.	38.00	23.12.2008/ 24.02.2009	Up to 30.11.2008/ 28.02.2009	27.04.2010/ 25.04.2009	Nil
9	Reconstruction of RCC bridge across SWD V. Valley – 305 – Kakathiyanagar (Ittimadu).	60.00	26.09.2008/ 31.10.2008	Up to 30.11.2008/ 02.06.2009	01.09.2009/ July 2010	10

Appendix 4.4

Statement showing the benefit accrued to the contractors due to fore closure of SWD package works

(Reference: Paragraph 4.1.11.3/Page 82)

Valley/Package Numbers	Overall estimated cost (Rupees in crore)	Overall tendered/ negotiated amount (Rupees in crore)	Percentage of overall tender premium(Col.3 - Col. 2)/Col.2*100	Estimated cost of the executed items (Rupees in crore)	Tender amount of executed items (Rupees in crore)	Tender premium in respect of executed items (Col. 6-Col. 5)/Col. 5*100	Increase in *per centage* of tender premium compared to items executed(Col.7-Col.4)	Benefit accrued to the contractor due to fore closure{col 5 *col 8}/100 (Rupees in crore)
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**
Vrishabhavathi Valley I	31.62	42.41	34.12	6.55	9.81	49.77	15.65	1.02
Vrishabhavathi Valley II	23.15	28.92	24.92	3.64	8.67	138.19	113.27	4.12
Vrishabhavathi Valley III	24.67	31.62	28.17	14.01	22.23	58.67	30.50	4.27
Vrishabhavathi Valley IV	23.31	30.54	31.02	8.29	13.13	58.38	27.36	2.27
Vrishabhavathi Valley V	34.20	45.83	34.01	13.27	18.19	37.08	3.07	0.41
Hebbal Valley I	19.02	24.35	28.02	0.80	1.62	102.05	74.03	0.59
Hebbal Valley II	37.15	60.77	63.58	17.98	33.21	84.71	21.13	3.80
Hebbal Valley III	26.55	39.68	49.45	5.25	12.91	145.90	96.45	5.06
Hebbal Valley IV	21.00	25.42	21.05	5.74	9.75	69.86	48.81	2.80
Challaghatta Valley I	15.33	19.16	24.98	3.49	4.97	42.41	17.43	0.61
Challaghatta Valley II	36.15	45.19	25.01	8.14	10.95	34.52	9.51	0.77
Challaghatta Valley III	19.50	24.38	25.03	2.86	4.77	66.78	41.75	1.19
Koramangala Valley I	20.81	24.14	16.00	5.00	6.99	39.80	23.80	1.19
Koramangala Valley II	17.49	20.29	16.01	4.55	10.15	123.08	107.07	4.87
Koramangala Valley III	29.48	34.20	16.01	3.64	7.19	97.53	81.52	2.97
Total								**35.94**