



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)/Parastatal⁵⁶ 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 agencies⁵⁷ 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 74th 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 74 th 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 <i>paragraph 4.1.13</i> .
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.

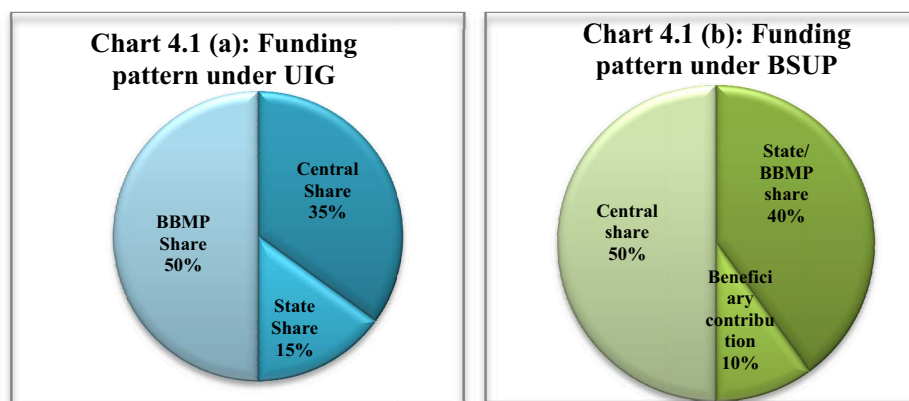
15	Revision of building bye-laws to make rainwater harvesting mandatory in all buildings	2008-09	Achieved.
16	Earmarking of at least 20-25 per cent of developed land in all housing projects (public and private) for economically weaker sections with a system of cross subsidisation	June 2010	Yet to be 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 II⁵⁸ 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 valleys⁵⁹ 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 lakh⁶⁰ 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

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 proceedings⁶¹. 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 rates⁶² 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

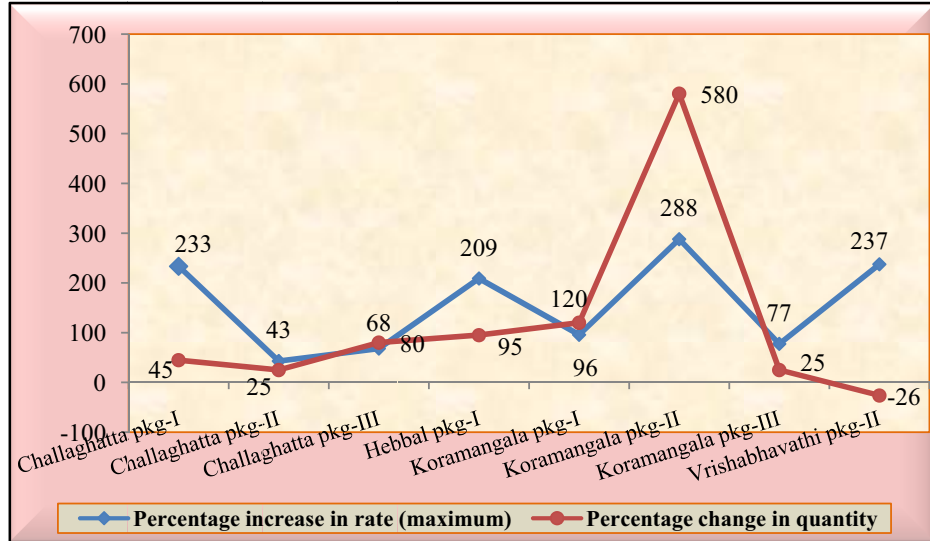
In package II of Koramangala, the estimated rate for earthwork excavation other than foundation was ₹40 per cum and the quoted rate was ₹49 per cum. The rate was negotiated and agreed at ₹190 per cum which was 288 *per cent* higher than the quoted rate. Against the estimated quantity of 39,805 cum, the 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

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:

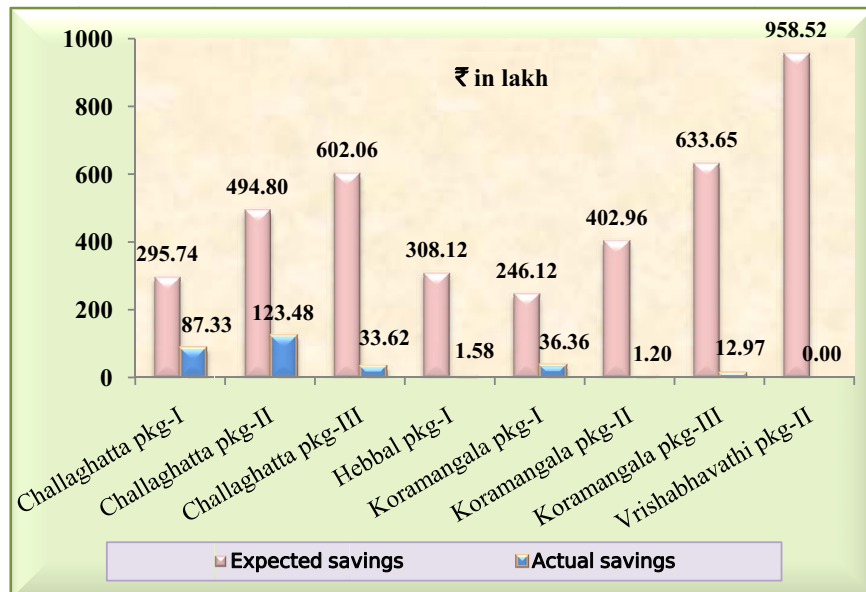
Chart 4.2: Chart showing increase in rates and change in quantities



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 Challoghatta 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 cum⁶³ 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 cum⁶⁴ 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 asphaltting works of MG Road, Koramangala and surrounding areas

The project of upgradation work of sidewalk and asphaltting 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 allotted⁶⁵ 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 ₹3.51 crore (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 asphaltting 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 turnkey⁶⁶ 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 Patras⁶⁷ 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 details⁶⁸ 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	

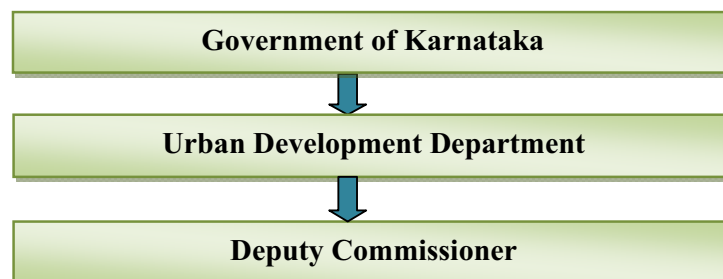
Source: Approved Action Plans

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 Ratio⁷⁰ (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 works⁷¹ 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 works⁷² (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 works⁷³ 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 eight⁷⁴ 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, four⁷⁵ ULBs were provided with (2004-06) Government land for landfill sites, and for the remaining four⁷⁶ 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 four⁷⁷ 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 fee⁷⁸ 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 = $T_R \times W_{LF}$: 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 crore⁷⁹.

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

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 houses⁸⁰ 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 houses⁸¹ 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

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 dates⁸². 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 7th 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
The

(D.J. BHADRA)
Principal Accountant General
(General and Social Sector Audit)

COUNTERSIGNED

NEW DELHI
The

(VINOD RAI)
Comptroller and Auditor General of India