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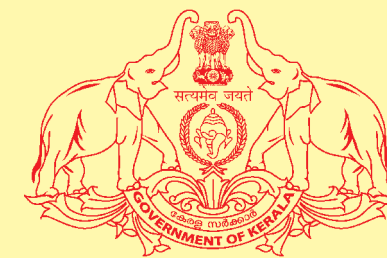
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Government of Kerala - Report No. 3 of the year 2015



**Report of the
Comptroller and Auditor General of India
on
Local Self-Government Institutions
for the year ended March 2014**



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Report No.3 of the year 2015**

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PREFACE

This Report for the year ended March 2014 has been prepared for submission to the Governor of Kerala under Article 151 of the Constitution of India for laying before the Kerala Legislature.

The Report contains significant results of the performance audit and compliance audit of Local Self-Government Institutions, viz., District Panchayats, Block Panchayats, Grama Panchayats, Municipal Corporations and Municipalities.

The instances mentioned in this Report are those which came to notice in the course of test audit for the period 2013-14 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports; instances relating to the period subsequent to 2013-14 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.



OVERVIEW

OVERVIEW

This Report comprises of four chapters of which Chapters I and II contain an overview of structure, accountability, finances and financial reporting issues of Local Self-Government Institutions (LSGIs) and comments arising from supplementary audit under the scheme of providing Technical Guidance and Supervision (TGS) arrangement by the Comptroller and Auditor General of India. Chapters III and IV contain four performance/compliance audits and six transaction audit paragraphs. Copies of draft performance and compliance audits and transaction audit paragraphs were forwarded to the Government and replies wherever received have been duly incorporated.

Accountability framework, finances and financial reporting issues of LSGIs

During the five year period 2009-14, the increase in total receipts of the LSGIs was 109 *per cent*. Of the total receipts during the five year period the percentage share of State, Central and Own revenue was 63, 22 and 13 respectively. The amount spent for Productive sector accounted for only 7.54 *per cent* of the total Development Expenditure during 2013-14 and 11.32 *per cent* during the last five years 2009-10 to 2013-14, indicating that the LSGIs had given low priority to Productive Sector like Agriculture, Animal Husbandry, Fishing, Industries, etc. Audit examination of the plan formulation process and implementation during 2012-13 and 2013-14 in Kollam Corporation and Paravur Municipality revealed shortcomings in the constitution of Ward Committees, their functioning and implementation of projects. With reference to the cost of projects formulated, the percentage utilisation of funds in the LSGIs was only 57.01. There were shortcomings in the preparation of budget, submission in the Monthly Progress Reports and Preparation of Monthly Accounts.

(Chapters I & II)

Receipts of Local Self-Government Institutions

The State Government and Central Government provide substantial financial assistance to the LSGIs for taking up the various activities in their jurisdictional areas. The Kerala Municipality Act, 1994 and the Kerala Panchayat Raj Act, 1994 empower the LSGIs to levy and collect local taxes like Property tax, Profession tax, Entertainment tax, Advertisement tax, etc. and fees like licence fee on business establishments and permit fee on construction of buildings from individuals and institutions located within their jurisdictional area.

As of March 2014, ₹25.38 crore was pending collection towards tax revenue in the test-checked LSGIs. Property tax collection efficiency of LSGIs test-checked was not encouraging. The LSGIs did not have an appropriate system

to identify and list all buildings liable for Property tax assessment. There was delay in revision of Property tax assessment. Though the new system of assessment based on plinth area was made applicable to existing assesseees from 2013 onwards, the assessment was pending in all the LSGIs test-checked, resulting in short levy of Property tax of ₹8.54 crore. The LSGIs were not maintaining complete details in respect of unauthorized constructions. Out of 1622 unauthorized constructions recorded by four LSGIs, complete details were available only in respect of 66 cases, for which Property tax leviable was ₹two crore. Though full Property tax was to be realised from BSNL buildings, the same was not realised by nine LSGIs resulting in short levy of Property tax of ₹81.32 lakh. Lack of comprehensive database relating to Profession tax has affected tax collection to a great extent. Various categories of assesseees, including professionals and traders, had escaped assessment resulting in leakage of revenue of ₹98.45 lakh. Failure of Athirappally GP to assess Entertainment tax under Category B of Entertainment tax slab resulted in short levy of Entertainment tax of ₹32.90 lakh. Due to relaxing the terms of contract in favour of the contractor without any genuine reason, Thrissur Corporation suffered a revenue loss of ₹50.09 lakh.

(Paragraph 3.1)

Implementation of Urban Infrastructure Development Scheme for Small and Medium Towns

Government of India launched Urban Infrastructure Development Scheme for Small and Medium Towns as a sub component of Jawaharlal Nehru National Urban Renewal Mission to improve infrastructural facilities in towns. Though SLSC prioritised six categories of projects for implementation in the State, implementation was confined to only two categories of projects defeating the main objective of integrated development of towns. Even after nine years of initiation of the projects and after the expiry of the scheme in 2014, only two projects were completed out of 25 projects undertaken. Delay in completion was mainly due to delay in issuing Administrative Sanction by the Government which has led to delay in implementation and cost escalation. The water treatment plant for Alappuzha Water Supply Scheme was idling for more than three years due to delay in completion of other related components, and distribution of unsafe drinking water was continuing. In Changanacherry Municipality, due to non-clearance of site, a solid waste treatment plant could not be established even after incurring an amount of ₹51.06 lakh. Slow progress in implementation resulted in loss of central assistance of ₹6.31 crore in four test-checked Municipalities.

(Paragraph 4.1)

Implementation of Basic Services to the Urban Poor

Though Basic Services to the Urban Poor aimed at the integrated development of slums by providing improved housing, basic services and social services to

the slum population, the implementation of the scheme was mostly confined to giving assistance for construction of houses at locations other than slums. The progress made in the construction of flats for the slum dwellers was not encouraging as achievement was only one per cent in Kochi and 39 per cent in Thiruvananthapuram. Most of the infrastructure facilities included in the Detailed Project Reports were also not attended. As the needs and aspirations of urban poor communities were not considered, many of the projects included in the DPRs remained unimplemented. There were lapses in the selection of beneficiaries and disbursement of assistance. There existed no system in the Corporations/State Level Nodal Agency to ensure that the projects were implemented within the stipulated time. 1782 beneficiaries who received assistance for construction of houses during January 2008 to February 2014 had not completed the construction even as of October 2014. Advances amounting to ₹16.03 lakh paid during September 2008 to May 2014 were remaining unadjusted till date, against accredited agencies. These advances related to works which were either stopped or abandoned.

(Paragraph 4.2)

Land Management by Panchayat Raj Institutions

Efficient land management is a vital part of a Panchayat to assure that the land in possession is put to optimum utilisation. The Panchayat Raj Institutions (PRIs) did not have any comprehensive database relating to the lands under their control. The Asset Registers maintained were not exhaustive and were deficient in many aspects. The PRIs did not possess the Title Deeds of all lands acquired by them. None of the test-checked PRIs had a Land Use Plan so as to utilise their land commensurate with the immediate and long term requirements, resulting in non-utilisation of land acquired for specific purposes. Failure of Panangad and Mulanthuruthy Grama Panchayats to mobilize the required resources for the projects resulted in the entire land remaining idle. Periodical verification of land was not being done to ensure that the land was maintained properly and free from encroachments.

(Paragraph 4.3)

Other Compliance Audit Observations

Audit of financial transactions subjected to test check in various LSGIs revealed instances of idle investment, loss of revenue, unfruitful expenditure, non-compliance with rules and provisions and other irregularities as mentioned below:

Failure of the Deputy Director (Finance) and Project Director of Kerala Sustainable Urban Development Project in exercising proper internal checks led to the misappropriation of ₹1.10 lakh.

(Paragraph 4.4)

Non-execution of agreement setting forth obligations for the operation of the Apparel Park by consortium of women garment making societies, women entrepreneurs and textile units with Manjeri Municipality, resulted in idling of buildings, machinery and equipment costing ₹37.21 lakh.

(Paragraph 4.5)

Failure of Anchal Block Panchayat to include the surplus quantity of earth, its cost and method of disposal as part of the estimate, resulted in loss of revenue of ₹21.22 lakh.

(Paragraph 4.6)

Failure of Manjeri Municipality in timely completion of the civil works and in addressing the issues relating to the functioning of the waste dumping yard led to inordinate delay in completion of the project for installation of an incinerator, thereby rendering an expenditure of ₹30.28 lakh unfruitful.

(Paragraph 4.7)

A drinking water supply project taken up by Ernakulam District Panchayat in February 2009 has not been commissioned due to defects in the formulation of the project.

(Paragraph 4.8)

Inadequate monitoring of the installation of a biogas plant by Suchitwa Mission as well as Krishnapuram Grama Panchayat led to defective construction of the plant and consequent closure of a slaughter house, in addition to idle investment of ₹16.63 lakh.

(Paragraph 4.9)

CHAPTER I

**Organisation, Devolution and
Accountability Framework of
Local Self-Government Institutions**

CHAPTER I

ORGANISATION, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF LOCAL SELF-GOVERNMENT INSTITUTIONS

1.1 Introduction

The Seventy-third and Seventy-fourth amendments of the Constitution of India giving constitutional status to Local Self-Government Institutions (LSGIs), established a system of uniform structure, regular elections and flow of funds. Consequent to these amendments, the State Legislature passed the Kerala Panchayat Raj Act, 1994 (KPR Act) and the Kerala Municipality Act, 1994 (KM Act) to enable LSGIs to work as third tier of the Government. The Government also identified and amended other related laws to empower LSGIs. As a follow-up, the Government entrusted LSGIs with such powers, functions and responsibilities so as to enable them to function as Institutions of Local Self-Government. In order to fulfill the mandate bestowed on them under the Constitution and the laws, LSGIs are required to prepare plans and implement schemes for economic development and social justice, including those included in the Eleventh and Twelfth Schedules of the Constitution.

1.1.1 Status of transfer of functions and functionaries

Under KPR Act and KM Act, it shall be the duty of LSGIs to meet the requirements of the area of their jurisdiction in respect of the matters enumerated in the respective Schedules of the Acts, and LSGIs shall have the exclusive power to administer the matters enumerated in Schedules and to prepare and implement schemes relating thereto for economic development and social justice.

The Acts envisaged transfer of functions of various Departments of the Government to LSGIs together with the staff to carry out the functions transferred. The transfer of functions to different tiers of LSGIs was to be done in such a way that none of the functions transferred to a particular tier overlapped with that of the other.

The Eleventh Schedule of the Constitution contains 29 functions pertaining to the Panchayat Raj Institutions (PRIs). As mandated by KPR Act, the Government had transferred (September 1995) 26 of these functions to PRIs. The functions relating to minor forest produce, distribution of electricity and implementation of land reforms are yet to be transferred to PRIs as the Government had not taken any decision in this regard. Likewise, the Twelfth Schedule of the Constitution contains 18 functions pertaining to Urban Local Bodies (ULBs). The Government has transferred 17 functions mandated under KM Act to ULBs and the function relating to fire service was yet to be transferred. In addition to the functions mandated under the Constitution and the State Local Bodies Acts, LSGIs also

undertake agency functions to implement development programmes like World Bank aided projects, Asian Development Bank aided projects, etc., on behalf of both Central and State Governments.

As part of administrative or functional decentralisation, Government have transferred public service delivery institutions such as schools, dispensaries, public health centres, hospitals, anganwadis, district farms, veterinary institutions etc., to the LSGIs. All poverty alleviation programmes and welfare pension schemes are implemented through local bodies.

For efficient discharge of functions, the LSGIs require availability of qualified and trained personnel. Against the required number of 1302 posts to be deployed, only 500 posts were deployed (February 2015) indicating lack of efforts on the part of the Government to fill vacant posts.

1.2 Profile of LSGIs

As on 31 March 2014, there were 1209 LSGIs in the State. The details of their area, population, etc., are presented in **Table 1.1**.

Table 1.1: Comparative position of LSGIs

Level of LSGIs	Number	Number of wards/divisions	Average area per LSGI (Sq.km.)	Average population per LSGI*
District Panchayats (DPs)	14	332	2651.70	1903357
Block Panchayats (BPs)	152	2095	244.24	175309
Grama Panchayats (GPs)	978	16680	37.16	26674
Municipal Corporations	5	359	95.60	491240
Municipalities	60	2216	23.65	51664
Total	1209	21682	-	-

Source: Panchayat Guide-2015 published by Local Self-Government Department

**Population figures- Census 2011*

1.3 Organisational set up

LSGIs constituted in rural and urban areas are referred to as PRIs and ULBs respectively. In the three-tier Panchayat Raj system in the State, each tier functions independently of the other. While the Constitution and the Acts confer autonomy and independent status to the LSGIs within the functional domain, the Government in Local Self-Government Department (LSGD) is empowered to issue general guidelines to LSGIs in accordance with the National and State policies.

The President/Chairperson/Mayor is the Chief Executive Head of LSGIs. Each LSGI has a Secretary who is the Chief Executive Officer. The members of each tier of PRIs elect the President, Vice-President and Chairpersons of the Standing Committees. Similarly, Councillors of the Municipality/Municipal Corporation

elect the Chairperson/Mayor, Vice- Chairperson/Deputy Mayor and Chairpersons of the Standing Committees.

1.3.1 Standing Committees

Standing Committees (SC) analyse issues and proposals before they are considered by the Panchayat Committees/Councils. There are four SCs for each GP and BP, five for each DP, six for each Municipality and eight for each Corporation. The SCs have the power to make resolutions in respect of their subjects. Every resolution passed by the SCs needs to be placed in the next meeting of the Panchayat Committee/Municipal Council of the LSGIs. The Committee/Council can modify resolutions, if considered necessary.

1.3.2 Steering Committee

Steering Committee coordinates and monitors the working of SCs. The Steering Committee consists of the President/Chairperson, Vice President/Deputy Chairperson of the LSGIs concerned and Chairpersons of the SCs.

1.4 Plan formulation process by LSGIs

Consequent on 73rd and 74th amendments to the Constitution and enactment of KPR and KM Acts in 1994, LSGIs have assumed an important role in the formulation and implementation of developmental programmes at the grassroots level which involve active participation of all sections of people in the form of Grama/Ward Sabha, Working Groups (WGs) constituted under SCs and Development Seminars for the formulation and implementation of programmes for the overall development of the LSGIs.

The LSGIs are to prepare every year a development plan for the succeeding year following the guidelines issued by the Government and submit to the District Planning Committee (DPC) before the date prescribed. The DPC scrutinizes and approves the plan prepared by the LSGIs.

In the decentralized planning set-up, WGs, Ward Sabhas/Ward Committees, SCs, DPCs, Implementing Officers are the institutions/Groups involved in the plan formulation process and implementation.

Audit examination of the plan formulation process and implementation during 2012-13 and 2013-14 by Kollam Municipal Corporation and Paravur Municipality revealed the following:

1.4.1 Functioning of Working Groups

Working Groups are the most important constituents of the decentralized planning and they have a creative role in the formulation of development plans of LSGIs. The WGs consisting of officials, elected members, experts and activists in specified development sectors are to be constituted by LSGIs every year. The vice-chairperson should be an expert in the concerned sector.

Audit scrutiny revealed that though the LSGIs had constituted the required number of WGs, none of the WGs in Kollam Corporation had an expert in the concerned sector as vice-chairperson. Except the implementing officer, none of the members were professionals in the field.

Though the WGs were required to function as monitoring committee during the implementation of the projects, there was no evidence to show that the WGs had monitored the implementation of the projects in both Kollam Corporation and Paravur Municipality. The WGs met only once in a year at the time of plan formulation.

1.4.2 Ward Committees/Ward Sabhas

Ward Sabhas, in the case of Municipalities where population is less than one lakh, and Ward Committees, where population exceeds one lakh, play an important role in the planning process. They decide the priorities in planning and select beneficiaries for the beneficiary oriented scheme. Ward Committees should comprise of at least 55 to 60 members from residents associations, neighbourhood groups, political parties, heads of educational institutions, professionals and commercial establishments, so as to broadly represent all categories of people in the ward. For Ward Committees, one-fifth of total members and for Ward Sabhas one tenth of total number of voters in the ward is the quorum prescribed for their meetings.

Audit noticed that out of 55 wards in Kollam Corporation, only 25 wards have constituted Ward Committees with members from various groups. The members in Ward Committees ranged between 28 and 50 only. Though the Corporation stated that the Ward Committees were functioning in the remaining 30 wards, Audit noticed that the committees were not constituted as stipulated in KM Act. There was no indication in the records that the members of the Ward Committee were from the Residents associations, neighbourhood groups, political parties, professionals, etc., as required in the KM Act.

In Paravur Municipality, ten Ward Sabha meetings in four wards were conducted without prescribed quorums, thus violating prescribed norms.

1.4.3 Prioritisation

The Plan formulation guidelines issued by the Government stipulate preparation of a Development Vision Document depicting the developing requirements of the area to facilitate advance planning. The guidelines further stipulated that every LSGI shall prepare a five year plan document comprising a shelf of projects. Audit noticed that though the two test-checked ULBs prepared development documents for the period 2012-17, plan documents containing shelf of projects were not prepared. Due to non-preparation of shelf of projects, various projects formulated in annual plan may not reflect felt needs at grassroots level visualized in Development Vision Document.

As per the above guidelines, LSGIs were required to designate a Plan Co-ordinator to help them in co-ordinating the planning activities, preparation of documents, timely completion of the planning process, etc. Audit noticed that the two ULBs test-checked had not appointed Plan Co-ordinators as stipulated in the guidelines. ULBs did not offer any specific reasons for not appointing Plan Co-ordinators. However, they replied that Plan Co-ordinators will be appointed in future.

1.4.4 Implementation of projects

1.4.4.1 Implementation of projects under Productive Sector

The LSGIs were required to formulate projects under three sectors *viz.*, Productive sector, Service sector and Infrastructure sector. Audit noticed that implementation of the projects formulated under productive sector was not encouraging as *75 per cent* and *40 per cent* of the projects formulated under Productive sector during 2012-13 in Kollam Corporation and Paravur Municipality respectively were not implemented. Further, Audit noticed that expenditure on projects under Productive sector was very low. It constituted less than *five per cent* of total development expenditure in the two ULBs test-checked.

The delay in finalisation of beneficiary lists by the ULBs was the main reason attributed to the poor implementation of projects under Productive sector. The beneficiary lists were prepared by the Ward Sabhas/Ward Committees in meetings held at the fag end of the financial year and then approved by council. Since the final beneficiary lists were delayed, the Implementing Officers were provided with lesser time for implementation of the projects.

1.4.4.2 Implementation of Women component plan

Under women component plan, *ten per cent* of development fund was to be provided for enhancing employment and income, housing for families headed by women, construction of toilets for girls in schools and for women in public places, etc.

Though Kollam Corporation earmarked *27 per cent* of the Development Fund for implementation of 11 projects for women during 2012-13, only two projects were implemented, spending *0.37 per cent* of Development Fund.

The ULB stated that the remaining projects were not implemented during 2012-13 as there was delay in finalization of beneficiary list.

In Paravur municipality, out of *13 per cent* of development fund allotted for seven projects, only *seven per cent* of development fund was spent. Delay in finalization of beneficiary list was the main reason for non/partial implementation of projects.

1.4.4.3 Implementation of projects for Scheduled Castes

There was slackness in the implementation of projects for Scheduled Castes. Out of 170 projects formulated by Kollam Corporation during 2012-13 and 2013-14 for

the welfare of Scheduled Castes, only 103 projects were implemented spending 30 *per cent* of total outlay.

In Paravur Municipality, out of 62 projects formulated, 50 projects only were implemented spending 60 *per cent* of the total outlay.

Lack of beneficiaries and delay in finalisation of beneficiary list were the reasons stated for non/partial implementation of projects for providing houses, drinking water, toilets, etc. In respect of other components in renovation of Scheduled Caste colonies, the reasons attributed for poor implementation of projects were shortage of contractors, litigation on land, delayed plan formulation, etc.

1.4.4.4 Projects for palliative care

It was a mandatory requirement for the LSGIs to provide five *per cent* of the Development fund for palliative care including projects for children, differently abled and senior citizens. Though the projects for palliative care were to be taken up from 2009-10 onwards, Kollam Corporation had not allocated any amount during 2012-13 for the purpose and amount allocated in 2013-14 was not spent.

For the implementation of palliative care projects, a survey was to be conducted to ascertain the requirements of bedridden or chronically ill patients and list of such patients was to be prepared for effective home care. Appointment of nurses for this purpose on honorarium basis was also envisaged. In Kollam Corporation, only one nurse was appointed in 2014-15 and survey for preparation of list was not completed till January 2015.

1.5 Vigilance mechanism

1.5.1 Ombudsman for LSGIs

As envisaged in KPR Act and KM Act, Government set up an Ombudsman for LSGIs in the State in the year 2000. The Ombudsman is a high powered quasi-judicial body which can conduct investigation and enquiries in respect of charges on any action involving corruption, maladministration or irregularities in discharge of administrative functions by LSGIs, officials and elected representatives of the LSGIs. Ombudsman can even register cases *suo motu* if instances of the above kind come to his notice. During the period 2013-14, out of 3555 cases (including 1413 old cases), 2221 cases (62 *per cent*) were disposed of by the Ombudsman.

1.5.2 Tribunal for LSGIs

As envisaged in Section 271 S of KPR Act and Section 509 of KM Act, a judicial tribunal for LSGIs was set up in the State in February 2004, consisting of one judicial officer having the rank of a District Judge. The duty of the Tribunal is to consider and settle appeals and revisions by the citizens against decisions of LSGIs taken in exercise of their functions like assessment, demand and collection of taxes or fees or cess, issue of licences, grant of permits, etc. During 2009 to 2014, 6224 cases (appeal & revision) were filed before the Tribunal, out of which 1118 cases were pending disposal. Of the pending cases, 1097 cases related to the years 2013 and 2014 (up to March 2014).

CHAPTER II

**Finances and Financial Reporting
Issues of
Local Self-Government Institutions**

CHAPTER II

FINANCES AND FINANCIAL REPORTING ISSUES OF LOCAL SELF-GOVERNMENT INSTITUTIONS

2.1 Financial Profile of LSGIs

2.1.1 Funds flow to LSGIs

The resources of LSGIs consist of funds devolved by State Government, Government of India (GOI), Own revenues of LSGIs and loans from financial institutions. During 2013-14, out of total funds devolved to LSGIs, State grants constituted 64 *per cent*, GOI grant 24 *per cent* and own funds including loans constituted 12 *per cent*.

2.1.1.1 Resources: Trends and Composition

The composition of resources¹ of LSGIs for the period 2009-10 to 2013-14 is given in Table 2.1.

Table 2.1: Time series data on resources of LSGIs

Resources	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Own Revenue:						
(i) Tax Revenue	450.76	952.97 ²	561.79	661.01	662.78	
(ii) Non -Tax revenue	377.43		376.69	599.60	640.43	
Total Own Revenue	828.19	952.97	938.48	1260.61	1303.21	5283.46
State Fund:						
(i) Traditional Functions	399.31	440.47	644.98	757.89	900.15	3142.80
(ii) Maintenance Expenditure (Road Assets and Non-Road Assets)	448.04	440.58	713.94	1039.45	1386.50	4028.51
(iii) Expansion and Development	1842.29	2277.72	2021.52	2062.61 ³	2701.75	10905.89
(iv) Funds for State Sponsored Schemes & State share of Centrally Sponsored Schemes	840.80	1358.24	1358.45	1865.73	2069.48	7492.70
Total State Fund	3530.44	4517.01	4738.89	5725.68	7057.88	25569.90
GOI grants:						
(i) Centrally Sponsored Schemes	832.49	1163.79	1280.72	1603.36	1607.00	6487.36
(ii) Development and expansion	622.84	979.41	993.94	2596.19
Total GOI grant	832.49	1163.79	1903.56	2582.77	2600.94	9083.55
Receipts from loans & other sources:						
Loans	72.35	812.36	39.16	10.27	17.52	951.66
Total Receipts	5263.47	7446.13	7620.09	9579.33	10979.55	40888.57

¹**Source:** Details of Own Revenue furnished by LSGIs, Finance Accounts of the State for the respective years, information from Commissioner of Rural Development, Information Kerala Mission (IKM), Kerala Urban and Rural Development Finance Corporation (KURDFC), Kerala Sustainable Urban Development Project (KSUDP) and Kudumbashree

² Break up of Tax & Non-tax revenue not provided by the LSGIs

³ Includes special advance of ₹4.29 crore released to Wayanad DP which will be recovered in 2013-14 & 2014-15

- During the five year period 2009-14, the increase in total receipts of the LSGIs was 109 *per cent*. Of the total receipts during the five year period, the percentage share of State, Central and Own revenue was 63, 22 and 13 respectively.
- The share of GOI grant to total receipts increased from 16 *per cent* in 2009-10 to 24 *per cent* in 2013-14.
- The share of State grant to the total receipts decreased from 67 *per cent* in 2009-10 to 64 *per cent* in 2013-14.

Surrender of funds for State Sponsored Schemes/Centrally Sponsored Schemes

Out of ₹2281.44 crore allotted by the State Government during 2013-14 under ten heads⁴, ₹387.67 crore was surrendered (**Appendix I**). The major surrender was noticed under the major heads 2217- Urban Development (91.95 *per cent*), and 2230 – Labour and Employment (67.93 *per cent*). More than 50 *per cent* of the allotment made under Urban Development was being surrendered continuously for the last four years.

Audit further noticed that the entire funds allotted under Urban Development for implementation of projects for solid waste management, sewerage, drinking water supply were surrendered.

2.1.1.2 Transfer of funds from the Government and associated audit issues

(i) The State Government provides three types of funds to LSGIs from the Consolidated Fund – grants, funds for State Sponsored Schemes and State share of Centrally Sponsored Schemes (CSSs). Appendix IV to the Detailed Budget Estimates of the Government gives the LSGI-wise allocation of funds. The Heads of Account in the Detailed Budget Estimates for drawal of funds from the Consolidated Fund, along with the releases made during 2013-14, are given in **Table 2.2**.

Table 2.2: Categories of funds and their release to LSGIs

Sl. No.	Category	Major Head of Account from which Budget Provision is released	Amount released during 2013-14 (₹ in crore)	Release mechanism
1	Grants, World Bank aided Performance grant under KLGSDP ⁵ , KSUDP, ADB ⁶ assistance, Thirteenth Finance Commission award	3604-Compensation and Assignments to Local Bodies and Panchayat Raj Institutions	5054.04	Routed through Public Account

⁴General Education, Medical and Public Health, Urban Development, Welfare of SC/ST, Labour and Employment, Social Security and Welfare, Crop Husbandry, Soil and Water Conservation, Special Programme for Rural Development, Village and Small Industries

⁵ Kerala Local Government Service Delivery Project

⁶ Asian Development Bank

Sl. No.	Category	Major Head of Account from which Budget Provision is released	Amount released during 2013-14 (₹ in crore)	Release mechanism
		3054-Roads and Bridges	928.30	
Total			5982.34	
2	State Sponsored Schemes	10 Major Heads	1893.77	Routed through State Level Nodal Agencies ⁷ / Poverty Alleviation Units
3	State share of CSSs	4 Major Heads	175.71	
Grand total			8051.82	

(ii) The funds are credited to the Public Account by Finance Department in monthly instalments to enable LSGIs to draw money from treasuries through Controlling Officers.

(iii) **Table 2.3** gives the details of funds released by the Government under various categories during 2013-14.

Table 2.3: Release of fund by Government under different categories during 2013-14

(₹ in crore)

Type of LSGIs	Development Expenditure Fund	Maintenance Expenditure Fund	General Purpose Fund	Total
Corporations	209.01	107.86	117.72	434.59
Municipalities	238.61	147.68	83.96	470.25
District Panchayats (DPs)	474.93	283.53	25.76	784.22
Block Panchayats (BPs)	478.92	48.94	36.48	564.34
Grama Panchayats (GPs)	1300.28	798.49	636.23	2735.00
Total	2701.75	1386.50	900.15	4988.40

Audit noticed the following points in the release of Government funds:

- **Funds not credited to Public accounts:** The Finance Department was required to transfer funds from the Consolidated Fund to Public Account on the first working day of the month. Audit noticed that ₹299.87 crore released in August 2013 as fifth instalment of Development Expenditure Fund was not credited in the Public Account.

Government stated that the amount was not credited due to oversight.

⁷ Kudumbashree, KSUDP, Suchitwa Mission

- **Delayed release of funds:** Monthly transfer credit of fund from Consolidated Fund to Public Account was devised as a means to ensure availability of fund for incurring expenditure by LSGIs. There was delay ranging from ten to 41 days in transferring funds, in nine out of 32 transfer credits⁸ made during 2013-14. Delayed transfer of funds has the effect of rush of expenditure at the fag end of the year/ non-utilisation of the entire fund during financial year itself.
 - **Delay in issuing Letters of Authority:** There were delays in issuing Letters of Authority to LSGIs by the Controlling Officers. Delays ranging from ten to 56 days were noticed in 72 out of 128 instalments of LSGI funds released during 2013-14. The delay in issuing Letter of Authority has an adverse impact on the implementation of projects formulated by LSGIs.
 - **Deduction from allocation due to short utilisation:** As per the Government Order, LSGIs were to utilise at least 60 *per cent* of the allocation for 2011-12 under Development Expenditure Fund and Maintenance Expenditure Fund, failing which the unspent amount would be deducted from the budget allocation for 2013-14. Audit noticed that ₹37.82 crore was deducted (Development Expenditure Fund: ₹10.24 crore; Maintenance Expenditure Fund: ₹27.58 crore) from budget allocation for 2013-14, due to short utilisation of fund during 2011-12.
 - **Lapse of Performance Grant:** Performance Grant is provided as untied fund to GPs and Municipalities as part of Kerala Local Government Service Delivery Project (KLGSDP) to enhance their development spending in areas of public services including maintenance of assets. The release of the grant requires the LSGIs to follow certain fiduciary and procedural norms. From 2013-14 onwards, the LSGIs were expected to meet a set of Minimum Mandatory Conditions (MMC) pertaining to planning, budgeting, accounting, financial reporting and accountability etc., assessed annually through a set of performance criteria. Audit noticed that 21 Municipalities and 80 GPs did not satisfy MMC, resulting in lapse of Performance Grant amounting to ₹40.95 crore out of ₹310.96 crore allocated.
- (iv) The funds released to LSGIs for implementation of annual plans along with the State Plan outlay for the period 2009-10 to 2013-14 are given in **Table 2.4**.

⁸ Transfer of funds (Development Expenditure Fund in ten equal monthly instalments from May to February, Maintenance Expenditure Fund in ten equal monthly instalments from April to January and General Purpose Fund in twelve equal monthly instalments from April to March) from the Consolidated Fund to Public Account

Table 2.4: State Plan Outlay vis-à-vis Development Expenditure Fund of LSGIs

(₹ in crore)

Year	State Plan Outlay	Development Fund of LSGIs	Percentage of Development Fund of LSGIs to State Plan Outlay
2009-10	8920.00	1842.29	20.65
2010-11	10025.00	2277.72	22.72
2011-12	11030.00	2563.76	23.24
2012-13	14010.00	2942.02	21.00
2013-14	17000.00	3645.69	21.45
Total	60985.00	13271.48	21.76

Development Fund devolved to LSGIs constituted 21.45 *per cent* of the State Plan outlay for the year 2013-14 while it was 21 *per cent* during 2012-13.

2.1.1.3 Receipts from GOI

The category-wise release of fund by GOI during 2013-14 is given in **Table 2.5**.

Table 2.5: Category-wise release of GOI fund

Category	Amount (₹ in crore)
Thirteenth Finance Commission grant ⁹	673.93
Additional Central Assistance for Externally Aided projects for KLGSDP	270.01
ADB assisted KSUDP	50.00
Centrally Sponsored Schemes	1607.00
Total	2600.94

GOI grant for implementation of CSSs:

The GOI provided grants amounting to ₹1607 crore to LSGIs for implementation of nine flagship CSSs. The grants were provided to LSGIs through State Budget/ State Level Nodal Agencies (SLNAs)/ Poverty Alleviation Units (PAUs), etc. The details of GOI grants transferred to LSGIs for implementation of CSSs during 2013-14 are given in **Table 2.6**.

⁹Up to 2010-11, Grants to LSGIs by Central Finance Commission were subsumed in the Development Funds devolved by the State Government. From 2011-12 onwards the Central Finance Commission Grants are released in a separate stream *viz.*, General Basic Grant, General Performance Grant, General Performance Grant forfeited by non-performing States

Table 2.6: Release of GOI grant for CSSs during 2013-14

Sl. No.	Authority/Agency through which the grant was released	Details of Scheme	Amount (₹ in crore)
1	State Budget	Jawaharlal Nehru National Urban Renewal Mission –Urban Infrastructure and Governance (JNNURM)	00
		Basic Services to the Urban Poor (BSUP)	00
2	Directly to State Level Nodal Agencies	Integrated Housing and Slum Development Programme (IHSDP)	11.78
		National Rural Livelihood Mission (NRLM)	24.22
		National Resource Organisation (NRO)	3.01
		Swarna Jayanti Shahari Rozgar Yojana (SJSRY)	30.46
3	Directly to Poverty Alleviation Unit	Indira Awaas Yojana (IAY)	217.42
		Total Sanitation Campaign (TSC)	43.01
4	By online transfer to the Joint Bank Account of District Programme Co-ordinator and Joint Programme Co-ordinator	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	1277.10
Total			1607.00

The State Government provided ₹175.71 crore as its share for implementation of CSSs. Thus, the total fund for implementation of CSSs during 2013-14 was ₹1782.71 crore.

2.1.1.4 Own funds of LSGIs

Own funds consist of tax¹⁰ and non-tax revenue¹¹ collected by LSGIs as per provisions of Kerala Panchayat Raj Act, 1994 (KPR Act)/Kerala Municipality Act, 1994 (KM Act) and allied Acts. This category also includes income derived from assets of LSGIs, beneficiary contributions, Earnest Money Deposits, Retention money, etc. The details of own funds are not compiled and consolidated by the Government as envisaged in the Act. As per the details furnished by Information Kerala Mission, own revenue of 1209 LSGIs amounted to ₹1303.21 crore. Various shortcomings in assessment and collection have been included in paragraph 3.1 of this report.

¹⁰ Property tax, Profession tax, Entertainment tax, Advertisement tax, etc.

¹¹ Licence fee, Registration fee, etc.

2.1.1.5 Loans availed by LSGIs

As per provisions of Kerala Local Authorities Loans Act, 1963, LSGIs raise loans from KURDFC, Co-operative Banks, HUDCO¹² etc. **Table 2.7** gives the details of loans availed by LSGIs during 2013-14.

Table 2.7: Loans availed during 2013-14

Source of loan	Loan availed during 2013-14 (₹ in crore)
State Government	2.44
KURDFC	15.08
Total	17.52

2.1.1.6 Application of Resources: Trends and Composition

In terms of activities, total expenditure composed of expenditure on Productive Sector¹³, Infrastructure Sector¹⁴, Service Sector¹⁵ and other expenditure¹⁶. As per the details obtained from the LSGIs and the Controlling Officers/IKM, the total expenditure incurred by LSGIs during 2013-14 amounted to ₹8151.96 crore.

Table 2.8 below shows the composition of application of resources of LSGIs on these components for the period from 2009-10 to 2013-14.

Table 2.8: Application of resources

Sector	(₹ in crore)					
	2009-10	2010-11	2011-12	2012-13	2013-14	Total
Productive Sector	511.49	447.69	595.77	355.82	459.24	2370.01
Infrastructure Sector	656.11	936.05	1343.41	1528.58	2684.02	7148.17
Service Sector	1842.91	2139.26	2306.59	2182.48	2945.85	11417.09
Total Development Expenditure	3010.51	3523.00	4245.77	4066.88	6089.11	20935.27
Other Expenditure	2125.96	1798.26	2618.88	2638.35	2062.85	11244.30
Total Expenditure	5136.47	5321.26	6864.65	6705.23	8151.96	32179.57
Percentage of Development Expenditure to Total Expenditure	58.61	66.21	61.85	60.65	74.70	65.06

Source: Details furnished by IKM/LSGIs

Though there has been steady improvement in investments in infrastructure and service sector (except for 2012-13) the amount spent on Productive sector was not

¹² Housing and Urban Development Corporation Limited

¹³ Agriculture, Animal husbandry, Dairy Development, Fisheries, Minor Irrigation, etc

¹⁴ Buildings, bridges, roads and other infrastructure

¹⁵ Water supply, education, health, energy, etc.

¹⁶ Salaries and honorarium, contingency expenditure, other administrative expenditure, terminal benefits, etc.

encouraging. The amount spent for Productive sector accounted for only 7.54 *per cent* of the total Development Expenditure during 2013-14 and 11.32 *per cent* during the last five years 2009-10 to 2013-14, indicating that the LSGIs had given low priority to Productive sector like Agriculture, Animal Husbandry, Fishing, Industries, etc.

2.1.1.7 Public investment in social sector and rural development through major Centrally Sponsored Schemes

Public investment in social sector and rural development through major CSSs are made to LSGIs through agencies such as PAUs and SLNAs (*viz.*, Kudumbashree, KSUDP, Suchitwa Mission, etc.). The grants for CSSs enjoin upon sanctioning authorities in GOI the responsibility to ensure proper utilisation of grant money. This is to be achieved through receipt of progress reports, utilisation certificates and internal audit of scheme accounts in LSGIs.

Out of ₹2281.32 crore¹⁷ available for implementation of CSSs, substantial portion of the funds amounting to ₹352.33 crore was lying unspent with Kudumbashree (₹104.36 crore), PAU (₹181.52 crore), and KSUDP (₹66.45 crore), thereby defeating the purpose for which the funds were earmarked and released by GOI/State Government. Out of ₹1928.99 crore released, the expenditure incurred by LSGIs was ₹1364.24 crore (70.72 *per cent*). The balance amount of ₹564.75 crore remained unutilised with LSGIs. Thus, out of the total amount of ₹2281.32 crore available for utilisation under CSSs, ₹917.08 crore was remaining unutilised with various agencies. Unutilised fund mainly related to IAY (₹349.04 crore), JNNURM (₹160.29 crore), SJSRY (₹79.90 crore), UIDSSMT (₹71.80 crore), TSC (₹63.49 crore), BSUP (₹48.10 crore), IHSDP (₹36.81 crore), and NRLM (₹28.32 crore).

2.1.2 Implementation of projects by LSGIs

Under decentralised planning, LSGIs in the State formulated 208558 projects with a total outlay of ₹10681.25 crore during 2013-14. Of these, the LSGIs had taken up 164662 projects (78.95 *per cent*) for implementation and had spent ₹6089.11 crore on the projects. Of the projects taken up for implementation, only 141737 projects (86.08 *per cent*) were completed during 2013-14 at a cost of ₹4981.61 crore. The details are given in **Table 2.9**.

¹⁷The fund retained by the Nodal agencies in 2012-13 was not furnished as the OB during the year 2013-14.

Table 2.9: Details of projects taken up and expenditure incurred

Type of LSGI	Number of projects			Amount (₹ in crore)			Percentage of expenditure on projects taken up to total outlay of projects formulated
	Formulated	Taken up	Completed	Outlay on projects formulated	Expenditure on projects taken up	Expenditure on projects completed	
Grama Panchayat	163526	131270	115274	5703.69	3644.64	3084.33	63.90
Block Panchayat	12220	10367	9041	1634.22	701.20	616.28	42.91
District Panchayat	10936	6744	4544	1565.53	820.50	615.59	52.41
Municipality	15883	12404	10151	1022.46	569.78	419.60	55.73
Corporation	5993	3877	2727	755.35	352.99	245.81	46.73
Total	208558	164662	141737	10681.25	6089.11	4981.61	57.01

Source: Details furnished by IKM

With reference to the outlay of projects formulated, the percentage utilisation of funds was only 57.01. The shortfall in implementation of projects was noticed in BPs, followed by Corporations.

2.1.3 Misappropriation, loss, defalcation, etc.

The Kerala Financial Code stipulates that each Drawing and Disbursing Officer should report all cases of loss, theft or fraud to the Principal Accountant General and the Government. The Government is required to recover the loss, fix responsibility and remove systemic deficiency, if any. A consolidated statement of the details of misappropriations, losses, theft and fraud is not available with the Government.

Table 2.10 shows the details of misappropriation/defalcation reported to the Director of Urban Affairs, Commissioner of Rural Development, Project Director of KSUDP and Director of Panchayats.

Table 2.10: Misappropriation, loss, defalcation

Name of LSGIs	Amount (₹ in lakh)					Total
	(Number of cases in bracket)					
	2009-10	2010-11	2011-12	2012-13	2013-14	
Corporations	0.42(1)	0.59(1)	0.82(1)	1.52(3)	--	3.35 (6)
Municipalities	--	3.92(1)	--	--	1.29(2)	5.21 (3)
Block Panchayats	15.72(9)	16.58(5)	22.14(5)	92.36(1)	0.32(2)	147.12 (22)
Grama Panchayats	4.48(6)	0.90(2)	1.13(3)	1.57(3)	18.33(8)	26.41 (22)
KSUDP	--	--	13.78(2)	--	--	13.78 (2)
Total						195.87 (55)

2.2 Financial, Administrative and Reporting Issues

Financial reporting in LSGIs is a key element to ensure accountability of executives. The financial administration of LSGIs including budget preparation, maintenance of accounts, monitoring of expenditure, etc., is governed by the provisions of KPR Act, 1994, KM Act, 1994, Kerala Panchayats (Accounts) Rules, 1965, Kerala Municipal Accounts Manual, Kerala Financial Code, guidelines, standing orders and instructions. Shortcomings in the financial administration of LSGIs are mentioned below:

2.2.1 Budget

As per KPR Act and KM Act, the budget proposals containing detailed estimate of income and expenditure were to be placed by the Standing Committee for Finance before the LSGI not later than the first week of March.

Though the LSGIs passed the budget before the beginning of the year, there was delay in presentation of budget by 48 (35 GPs, seven BPs, four Municipalities, one DP and one Corporation) out of 117 LSGIs test-checked. The budget proposals were not discussed adequately and subjected to detailed deliberations, in the respective Panchayats/Councils. The budgets were passed on the day of its presentation. Further, the budget prepared by 45 LSGIs out of the 117 LSGIs test-checked (36 GPs, four BPs, two DPs and three Municipalities) were unrealistic as there were wide variations of estimated receipts and expenditure with the actuals.

2.2.2 Monthly Progress Reports

According to the guidelines issued (April 2006) by the Government for allocation and drawal of funds, each LSGI shall prepare a Monthly Progress Report (MPR) of Expenditure for obtaining funds for subsequent month. MPR is to indicate budget provision, up-to-date allotment and expenditure and percentage of expenditure to allotment. DPs and Corporations are required to forward their MPRs by the 10th of the succeeding month to the Secretary to Government, LSGD and to Secretary, Finance (Expenditure) Department. Funds for the subsequent months are not to be allotted to those LSGIs which fail to forward the MPRs.

Out of 228 MPRs due from DPs and Corporations and 36 consolidated MPRs from Director of Panchayats, DUA and CRD, LSGD received 63 MPRs/consolidated MPRs and Finance Department received six consolidated MPRs during 2013-14. Finance Department, however, continued to allot funds for the subsequent months to DPs and Corporations which did not forward the MPRs, in contravention of its own orders.

Laxity in furnishing MPRs by the LSGIs points to the fact that the funds sanctioning authority had not performed the responsibility entrusted to them.

2.3 Arrears in accounts

According to Kerala Local Fund Audit Act, 1994 (KLFA Act) it was mandatory for LSGIs to submit their accounts to Director of Local Fund Audit (DLFA) for audit by 31 July every year. Further, Rule 16 of KLFA Rules empowers DLFA to carry out proceedings in a Court of Law against the Secretaries of LSGIs who default in the submission of accounts. As on 31 July 2014, 81 accounts pertaining to the period from 1997-98 to 2013-14 were in arrears. Of this, 49 accounts relate to 2005-06 and earlier periods.

2.4 Arrears in audit and issue of audit reports

As per KLFA Act, DLFA is to complete the audit of accounts submitted by LSGIs within six months of receipt of accounts and issue Audit Report within three months from the date of completion of audit.

DLFA received 20568 accounts including 1532 accounts which were received before the deadline of 31 July 2014. Of these, Audit Reports were issued in respect of 17945 accounts (October 2014). As at the end of March 2014, 1091 (5.73 *per cent*) Audit Reports were not issued.

DLFA attributed the reasons for arrears to taking up special audit as directed by Government.

The KLFA Rules stipulate that the DLFA shall, not later than 30th September every year, send a consolidated report of the accounts audited by him to the Government during the previous financial year containing such particulars which he intends to bring to the notice of the Government. The Committee on Local Fund Accounts deliberates on this report. DLFA's office intimated that such reports had been submitted to the Government up to the year 2013-14 and reports up to the year 2012-13 were presented to State Legislature.

2.4.1 Surcharge and Charge imposed by the DLFA

Section 16(1) of KLFA Act, 1994, empowers the DLFA to disallow any illegal payment and surcharge the person making or authorizing such illegal payment. DLFA can also charge any person responsible for the loss or deficiency of any sum which ought to have been received.

During the period 2009-10 to 2013-14, DLFA had issued 83 charge certificates for ₹44.13 lakh and 527 surcharge certificates for ₹1.91 crore. Against the total charge/surcharge amount of ₹2.35 crore, only ₹13.29 lakh were realised (5.65 *per cent*).

2.5 Results of Supplementary Audit

The Comptroller and Auditor General of India conducted supplementary audits under Section 20(1) of the Comptroller and Auditor General of India's (Duties,

Powers and Conditions of Service) Act, 1971 in respect of the accounts of 81 GPs, 18 BPs, 13 Municipalities, two District Panchayats and three Corporations during the year 2013-14. The findings of such audit are given in subsequent paragraphs.

2.5.1 Quality of Annual Financial Statements

The KPR Act, 1994 read with the Kerala Panchayat Raj (Manner of Inspection and Audit System) Rules, 1997 and the KM Act, 1994 read with Kerala Municipality (Manner of Inspection and Audit System) Rules, 1997 stipulate that the PRIs/ULBs shall prepare Annual Financial Statements (AFS) and forward them to DLFA after approval by the Panchayat/Municipal Council/Corporation Council not later than 31 July/31 May/31 May respectively of the succeeding year. Audit noticed that in one BP, one DP, four Municipalities and one Corporation, there was delay ranging from one to 16 months in forwarding the AFS to DLFA (**Appendix II**). Deficiencies noticed in the AFS submitted to DLFA are mentioned below.

Demand Collection Balance statements of 15 GPs, one BP and one Municipality were incorrect/incomplete.

The AFS of 32 GPs, seven BPs, one DP, three Municipalities and two Corporations did not contain all transactions.

2.5.2 Preparation of Monthly Accounts

As per Government order about the maintenance of Panchayat/ULB accounts, every Panchayat/ULB shall prepare monthly accounts for every month and place the same before the Panchayat Committee/Council at its first meeting held after the 10th day of the succeeding month. Monthly Accounts were not prepared in 24 GPs, five BPs, one DP and two Municipalities.

2.5.3 Stock verification

Physical verification of stock was not done by 16 GPs, two BPs, one Municipality and one Corporation.

2.5.4 Maintenance of primary financial records

(a) Cash Book

Guidelines about maintenance of Panchayat accounts and Municipal Accounting Manual issued by the Government stipulate that all moneys received and payments made should be entered in the cash book and it should be closed every day. Monthly closing of cash book with physical verification of cash and reconciliation of cash book balance with bank pass book balance under proper authentication was to be made. Supplementary audit revealed the following deficiencies in the maintenance of cash book by the LSGIs listed in **Appendix III**.

- Cash book is the primary accounting record and over-writing is not permitted. Erasure and over-writing were noticed in cash books maintained by 17 GPs, seven BPs, one DP and one Municipality. Erasure and overwriting were not certified in one DP, five BPs, three Municipalities and 17 GPs.
- The daily closing of cash book was not certified in 19 GPs, three BPs, six Municipalities and one Corporation.
- Monthly closing of cash book was not carried out by seven GPs, four BPs and three Municipalities.
- 10 GPs, two BPs, one DP and four Municipalities did not certify the monthly closing of the cash book.
- 13 GPs, three BPs, one DP, three Municipalities and one Corporation did not reconcile the cash book balance with pass book balance.
- Physical verification of cash was not done in 24 GPs, six BPs, one DP, five Municipalities and one Corporation.
- A monthly abstract was to be prepared on the last working day of the month showing the details of closing balance of cash, treasury and bank account during the month. Two BPs did not prepare such monthly abstract.
- In 17 GPs, four BPs, two Municipalities and one DP, the functional classifications of receipt and expenditure were not recorded in the cash book.

(b) Register of Advances

Guidelines about maintenance of Panchayat accounts stipulate that all advances paid are to be recorded in the Register of Advances. Five GPs, two BPs and one DP did not maintain Register of Advances. In six GPs and one Municipality, the advance register maintained was incomplete. Non-maintenance/improper maintenance of Advance Register could lead to deficient monitoring and adjustment of advances.

(c) Deposit Register

As per paragraph 3.37 of the Government order of June 2003 which prescribed the Accounting Format of Panchayats, each institution has to maintain Deposit Register to watch the receipts as well as adjustment of deposits. The procedures prescribed for the maintenance of Advance Registers were to be followed in the maintenance of Deposit Register. One GP, two BPs, two DPs and one Municipality did not maintain Deposit Register. Maintenance of Deposit Register was incomplete in seven GPs and one Municipality.

(d) Asset Register

Kerala Panchayat (Accounts) Rules, 1965, Kerala Municipal Accounts Manuals and Government Order (December 2005) stipulate that each LSGI should maintain records of assets owned by it. Two GPs and one Municipality did not maintain Asset Register. The Asset Register maintained by 16 GPs, four BPs and one Municipality was incomplete. Non-maintenance/improper maintenance of Asset Register would have adverse impact on physical verification and proper inventorisation of the assets.

2.6 Conclusion

During the five year period 2009-14, there was 109 *per cent* increase in total receipts of the LSGIs. Of the total receipts during the five year period, the percentage share of State, Central, Own revenue was 63, 22 and 13 respectively. The amount spent on Productive sector accounted for only 7.54 *per cent* of the total Development Expenditure during 2013-14 and 11.32 *per cent* during the last five years 2009-10 to 2013-14, indicating that the LSGIs had given low priority to Productive Sector like Agriculture, Animal Husbandry, Fishing, Industries etc. With reference to the cost of projects formulated, the percentage utilisation of funds in the LSGIs was only 57.01. There were shortcomings in the preparation of budget, submission of the Monthly Progress Reports and Preparation of Monthly Accounts.



CHAPTER III

Performance Audit

CHAPTER III

PERFORMANCE AUDIT

3.1 RECEIPTS OF LOCAL SELF-GOVERNMENT INSTITUTIONS

Highlights

The State Government and Central Government provide financial assistance to the Local Self-Government Institutions (LSGIs) for taking up the various activities in their jurisdictional areas. The Kerala Municipality Act, 1994 and the Kerala Panchayat Raj Act, 1994 empower the LSGIs to levy and collect local taxes like Property tax, Profession tax, Entertainment tax, Advertisement tax, etc. and fees like licence fee on business establishments and permit fee on construction of buildings from individuals and institutions located within their jurisdictional areas.

The important findings of the Performance Audit are mentioned below:

As of March 2014, ₹25.38 crore was pending collection towards tax revenue. Property tax collection efficiency of LSGIs test-checked was not encouraging.

(Paragraph 3.1.7.1)

The LSGIs did not have an appropriate system to identify and list all buildings liable for Property tax assessment.

(Paragraph 3.1.8.1(i))

There was delay in revision of Property tax assessment. Though the new system of assessment based on plinth area was made applicable to existing assesseees from 2013 onwards, the assessment was pending in all the LSGIs test-checked, resulting in short levy of Property tax of ₹8.54 crore.

(Paragraph 3.1.8.1(ii))

The LSGIs were not maintaining complete details in respect of unauthorized constructions. Out of 1622 unauthorized constructions recorded by four LSGIs, complete details were available only in respect of 66 cases, for which Property tax leviable was ₹two crore.

(Paragraph 3.1.8.1(iii))

Though full Property tax was to be realised from BSNL buildings, the same was not realised by nine LSGIs resulting in short levy of Property tax of ₹81.32 lakh.

(Paragraph 3.1.8.1(iv))

Lack of comprehensive database relating to Profession tax has affected tax collection to a great extent. Various categories of assesseees, including professionals and traders, had escaped assessment resulting in leakage of revenue of ₹98.45 lakh.

(Paragraph 3.1.9.1)

Failure of Athirappally GP to assess Entertainment tax under Category B of Entertainment tax slab resulted in short levy of Entertainment tax of ₹32.90 lakh.

(Paragraph 3.1.10.1(i))

Action of Nedumbassery GP in revising the demand for compounding fee in respect of the building constructed by the Cochin International Airport Authority Limited based on Kerala Panchayat Raj Building Rules, 2011 instead of Kerala Municipality Rules resulted in short levy of ₹53.74 lakh.

(Paragraph 3.1.12.1(i))

Loss of revenue on account of non-realisation of rent in respect of 145 shop rooms owned by seven LSGIs amounted to ₹1.29 crore.

(Paragraph 3.1.12.2(i))

Due to relaxation in the terms of contract in favour of the contractor without any genuine reason, Thrissur Corporation suffered a revenue loss of ₹50.09 lakh.

(Paragraph 3.1.12.2(iv))

3.1.1 Introduction

The Local Self-Government Institutions (LSGIs) are entrusted with public resources to deliver the programmes and services to the local people as per their needs. The State Government and Central Government provide financial assistance to the LSGIs for taking up various activities in their jurisdictional areas. As per Section 230 of the Kerala Municipality (KM) Act, 1994 and Section 200 of Kerala Panchayat Raj (KPR) Act, 1994, the LSGIs are empowered to levy and collect local taxes like Property tax, Profession tax, Entertainment tax, Advertisement tax, etc., and fees like licence fee on business establishments and permit fee on construction of buildings from individuals and institutions located within their jurisdictional area. The revenue receipts, which constitute a substantial portion of its resources, are utilised for various developmental and maintenance activities.

3.1.2 Organisational set up

The Secretary is the administrative head of the LSGI. Levy and collection of tax and other revenues is administered by the Secretary through the Revenue Officer (in Corporation)/Revenue Superintendent (in Municipality)/Junior Superintendent or Head Clerk (in Panchayat), who is assisted by Revenue Inspectors/Bill Collectors and other administrative staff. The working of the Revenue Section is supervised by the Deputy Secretary in Corporation.

The Local Self-Government Department (LSGD) exercises overall control of LSGIs through the Director of Panchayats, Commissioner of Rural Development (CRD) and Director of Urban Affairs.

3.1.3 Audit objectives

The audit objectives were to assess whether:

- the system existing in LSGIs was adequate to ensure that the entire revenue realizable has been demanded, collected and accounted for properly; and
- the control mechanism was in place and necessary efforts were made to minimize the risk of tax evasion and revenue leakage.

3.1.4 Audit criteria

The audit criteria were derived from the following sources:

- Kerala Panchayat Raj Act, 1994 and Rules made there under;
- Kerala Municipality Act, 1994 and Rules made there under;
- Kerala Financial Code, 1963;
- Budget Documents, State Finance Commission Reports, Government Orders and Circulars.

3.1.5 Scope and methodology of audit

The performance audit covering the period 2009-10 to 2013-14 commenced with an entry conference (1 August 2014) and completed with an exit conference (25 March 2015) with the State Performance Audit Officer. Audit methodology included scrutiny of basic records, registers and files maintained in the offices selected, collecting information from LSGD, Directorate of Panchayats, Directorate of Urban Affairs, issue of audit enquiries, obtaining replies, interaction with officials, conducting site inspections, etc.

District Panchayats and Block Panchayats were excluded as they do not collect taxes and their own revenue was negligible. Simple Random Sampling was used for the selection of Grama Panchayats (GPs), Municipalities and Corporation. Accordingly, five districts (out of 14), 40 GPs (from the selected districts), 20 Municipalities (out of 60) and one Municipal Corporation (out of five) were selected *vide* **Appendix IV**.

Audit findings

The audit findings are organized into the following sections:

Tax Revenue	Non-tax revenue
<ul style="list-style-type: none"> • Property Tax • Profession Tax • Entertainment Tax • Advertisement Tax 	<ul style="list-style-type: none"> • Permit fee for building construction • Permit fee for laying cables • User fee realised in respect of facilities provided by local bodies • Rental income from properties of LSGIs • Fee for issuing licences • Permit fee for removal of river sand

3.1.6 Trend in revenue collection

Own revenue of the LSGIs constitute both tax and non-tax revenue. Details regarding demand and collection of Own revenues by 61 selected LSGIs (out of 1043¹), for the period 2009-10 to 2013-14 were as follows:

Table 3.1: Own revenue of test-checked LSGIs

(₹ in lakh)

Year	GPs						ULBs					
	Tax		Non-Tax		Total Own fund collected	Growth (Per cent)	Tax		Non-Tax		Total Own fund collected	Growth (Per cent)
	Demand	Collection	Demand	Collection			Demand	Collection	Demand	Collection		
2009-10	1193.97	995.94	901.03	888.83	1884.77	-	5660.23	4573.73	3137.65	2870.45	7444.18	-
2010-11	1413.89	1147.49	993.88	976.77	2124.26	12.71	6853.64	5097.21	4397.05	4075.84	9173.05	23.22
2011-12	1593.13	1389.26	1248.05	1226.10	2615.36	23.12	8177.34	6176.64	4493.02	3981.57	10158.21	10.74
2012-13	1787.04	1534.09	1275.28	1255.26	2789.35	6.65	8797.50	6761.29	5105.44	4357.04	11118.33	9.45
2013-14	2109.03	1767.34	918.17	896.51	2663.85	(-4.50)	9892.18	7695.69	5295.01	4412.40	12108.09	8.90

During the period 2009-10 to 2013-14, the growth in collection of Own revenue was uneven both in the case of GPs and ULBs. In the case of GPs, the growth in collection of Own revenue was highest during 2011-12 when it rose by 23.12 per cent from the previous year's collection, while during 2013-14, the growth was negative. This was mainly due to low collection of Non-tax revenue such as user fee, building permit fee, rent, etc., and decreased income from sale of sand. LSGIs stated that the fall in collection was due to shortage of staff to demand the dues in time and increase in the number of court cases. The reply was not tenable as it is the duty of LSGIs to ensure collection of realizable revenue.

3.1.7 Tax revenue

Tax revenue of LSGIs consists of Property tax, Profession tax, Entertainment tax and Advertisement tax. Details of collection in respect of the above four taxes by the LSGIs test-checked are shown in Table 3.2.

Table 3.2: Collection of taxes in test-checked LSGIs

(₹ in lakh)

Year	Property tax		Profession tax		Entertainment tax		Advertisement tax		Total tax revenue	
	GPs	ULBs	GPs	ULBs	GPs	ULBs	GPs	ULBs	GPs	ULBs
2009-10	554.12	2472.65	414.36	1622.40	19.77	445.99	7.69	32.69	995.94	4573.73
2010-11	647.07	2662.92	474.74	1906.90	20.23	476.53	5.45	50.86	1147.49	5097.21
2011-12	771.91	3116.17	585.99	2425.24	25.40	575.20	5.96	60.03	1389.26	6176.64
2012-13	834.22	3471.55	659.55	2542.20	28.58	695.59	11.74	51.95	1534.09	6761.29
2013-14	956.90	3845.83	752.83	2967.64	30.57	815.31	27.04	66.91	1767.34	7695.69

¹ 978 GPs, 60 Municipalities and 5 Corporations (excluding Block Panchayats and District Panchayats)

3.1.7.1 Tax collection efficiency

Collection efficiency of various taxes during 2013-14 is given in **Table 3.3**.

Table 3.3: Tax collection efficiency of test-checked LSGIs during 2013-14

(₹ in lakh)

Tax Revenue	GPs				ULBs			
	Demand	Collection	Balance	Collection efficiency (per cent)	Demand	Collection	Balance	Collection efficiency (per cent)
Property tax	1293.64	956.90	336.74	73.97	5594.74	3845.84	1748.90	68.74
Profession tax	757.35	752.83	4.52	99.40	3403.93	2967.64	436.29	87.18
Entertainment tax	30.57	30.57	0	100.00	815.48	815.31	0.17	99.98
Advertisement tax	27.48	27.04	0.44	98.40	78.04	66.91	11.13	85.74
Total	2109.04	1767.34	341.70	83.80	9892.19	7695.70	2196.49	77.80

The collection efficiency of Property tax, which was the major constituent in the revenue of the LSGIs, was not encouraging. The average collection efficiency ranged between 50 and 60 *per cent* in six GPs (Parassala, Vallathol Nagar, Keezhmadu, Koovappady, Paipra, Tholicode) and three ULBs (Thrissur, Koothuparamba, Ottappalam), and between 60 and 70 *per cent* in five GPs (Chirayinkeezhu, Kallara, Pothencode, Thirupuram, Feroke) and four ULBs (Nileshwaram, Punalur, Thrikkakkara, Varkala).

As on 31 March 2014, ₹25.38 crore was pending collection towards tax revenue in the test-checked LSGIs. Even though the Acts provide for stringent action like levy of penalty, initiation of revenue recovery procedures, prosecution, etc., for realising arrears, the LSGIs had not resorted to such measures which was a lapse on the part of LSGIs.

3.1.8 Property tax

Property tax is a recurring tax levied by GPs and ULBs on buildings and land attached to it. It constituted 54.14 to 56.39 *per cent* of the total tax revenue of the GPs and 49.97 to 54.06 *per cent* of the total tax revenue of ULBs test-checked.

Up to 6 October 2009, Property tax was leviable based on the Annual Value of buildings (probable rent that the building may fetch, if let out annually). From 14 January 2011² onwards, Property tax was leviable based on plinth area of buildings. The annual tax, once assessed is payable in half yearly instalments as provided in the Act, until it is further revised. Before introducing plinth area based assessment, the revision of Property tax in ULBs was not effected after 1998. In respect of GPs, Property tax was not revised since 1993.

²Though the Act was amended with effect from October 2009 to levy Property tax based on plinth area of building, the amendment was not brought into effect till 13 January 2011 in the absence of rules to levy and collect Property tax based on plinth area.

3.1.8.1 Raising of demand

(i) Absence of database of all assessable public and private properties

Complete and accurate database of all properties such as residential and non-residential properties, Central/State Government properties, properties of autonomous bodies is a pre-requisite for raising demands and collection of Property tax. Audit observed that the test-checked LSGIs did not have comprehensive database of all assessable properties. In this connection, Audit noticed as under:

(a) Kerala Panchayat Raj (Taxation, Levy and Appeal) Rules, 1996 and Kerala Municipality (Property tax and Service tax) Rules, 2011 stipulate that the Secretary of the LSGI is responsible for the proper maintenance of basic records like Building Application Register, Property tax Assessment Register, Demand Register, etc. Audit noticed that Demand Register/Arrear Demand Register maintained by the LSGIs was not up-to-date and complete. Year-wise details of arrears or arrears of individual assesseees were not available. The LSGIs replied that updating of Demand Register/Arrear Demand Register was in progress.

(b) As part of implementing total e-Governance in LSGIs, Government decided (May 2011) to create a database in respect of Property tax, Profession tax, Entertainment tax, D&O licence, rent on land and building, etc. In September 2013, Government accorded sanction for computerizing and digitalizing the revenue database of Property tax and for introducing e-payment/electronic disbursement facilities in LSGIs, in collaboration with Information Kerala Mission (IKM). Digitalization of database and implementation of e-payment/electronic disbursement facilities had not been completed as there was delay in transferring the data by the LSGIs to IKM and delay in processing the data by IKM as well. The LSGIs replied that the preparation of database was in progress.

(c) The Fourth State Finance Commission had recommended (January 2011) creation of database of properties in LSGIs utilising GIS mapping to provide additional information which would help to streamline the assessment procedure. Though Government accepted the recommendation, its implementation was kept in abeyance on the ground that Government of India (GOI) had undertaken a project for Panchayat-wise mapping of properties adopting GIS. Government had instructed the LSGIs not to formulate any project on GIS mapping till the completion of GOI project or till an integrated policy decision was taken by the various departments of the Government. Thus, no progress was made to implement the GIS mapping.

(ii) Delay in revision of Property tax

Both KM Act and KPR Act were amended in October 2009 to levy Property tax based on plinth area of buildings and detailed order specifying the modalities of assessment were issued by the Government in January 2011. The above order was, however, kept in abeyance for more than two years due to public protest and the

modified order was issued in March 2013. As per the modified order, the new system of assessment based on plinth area was made applicable to new assesseees from 14 January 2011 and to existing assesseees from 01 April 2013. The reason for adopting two dates for implementing the new system was not specified by the Government in the relevant order. It was stipulated that minimum 25 per cent hike was to be ensured in the case of existing assesseees. Audit noticed that only 14 LSGIs³ had started assessment of new buildings under the new system. In the case of old buildings, revision of Property tax was pending in all the LSGIs test-checked. Assuming minimum 25 per cent hike in the case of old buildings, the annual Property tax leviable worked out to ₹8.54 crore⁴.

(iii) Non-assessment of Property tax

Unaided Educational Institutions

With the amendment of KPR Act and KM Act in October 2009, unaided recognized educational institutions were not eligible for exemption from payment of Property tax. But in the absence of rules or norms applicable for their assessment, these buildings were not assessed to Property tax. In April 2012, Government issued directions to all local bodies that Property tax needs to be levied on buildings of unaided educational institutions from 14 January 2011 onwards. KPR Act and KM Act were amended again as per Act 23 of 2013 and Act 8 of 2014 respectively, by which buildings relating to recognized educational institutions up to higher secondary level were exempted from payment of Property tax with effect from 25 November 2012.

From the above, it could be seen that buildings of all recognized unaided educational institutions up to higher secondary level were liable to be assessed to Property tax from 14 January 2011 to 24 November 2012. Test check of records by Audit revealed that in 11 LSGIs, Property tax was not assessed in respect of 53 out of 94 recognized unaided schools for the period January 2011 to November 2012 resulting in loss of revenue of ₹31.38 lakh.

Kerala Health Research and Welfare Society Pay Wards

The Kerala Health Research and Welfare Society (KHRWS)⁵ has several pay wards attached to government hospitals in the State. However, LSGIs were not collecting Property tax in respect of these buildings though they were not exempted from payment of Property tax.

³Chittur-Thathamangalam, Kottakkal, Koothuparamba, Neeleshwaram, Adat, Thiruvambadi, Kattur, Koovappady, Thikkodi, Chirayinkeezhu, Pariyaram, Peringalam, Kallara, Thirupuram

⁴The annual demand of Property tax relating to the existing (old) buildings as on 31 March 2011 was ₹34.18 crore in test-checked LSGIs. Considering a minimum increase of 25 per cent in Property tax collection, the loss in Property tax revenue for the period 2013-14 worked out to ₹8.54 crore.

⁵A society registered under the Travancore-Cochin Literary, Scientific and Charitable Societies Registration Act

In Manjeri Municipality, KHRWS has 40 rooms, attached to the government hospital. Though the building was assessed to Property tax during 1996 for ₹18652, no tax was remitted by the assessee so far (January 2015). The Municipality had not taken any action for demanding and collecting the Property tax on the pretext that tax need not be realised in this case since the society was functioning on no profit no loss basis. Total tax due for the period 1996 to 2013-14 worked out to ₹3.35 lakh. As per section 539 of KM Act, demands for tax claims cannot be made three years after it has fallen due. Thus, tax dues beyond 2010-11 amounting ₹2.80 lakh had become time-barred. The Government accepted the observation made by Audit. The LSGIs stated that action would be taken to realise the tax.

Mobile towers

Government directed in March 2014, that Property tax should be levied on mobile towers from 2009 onwards at the rates prevailing before 2009 on annual value basis. Audit noticed that there were 110 mobile towers in nine test-checked LSGIs. Out of these, 25 mobile towers were not assessed to Property tax even as of January 2015, resulting in non-realisation of Property tax amounting to ₹6.39 lakh for the period 2009-10 to 2013-14. LSGIs stated that they did not collect tax as the towers belong to BSNL. Government stated that action would be taken to realise Property tax due on mobile tower owners.

Buildings of Development Authorities

The Government issued orders in April 2007, merging the Development Authorities with the Corporations. Accordingly, Thrissur Urban Development Authority (TUDA) and Calicut Development Authority (CDA) were merged with Thrissur Corporation and Kozhikode Corporation respectively. As per Section 235 of KM Act/Section 207 of KPR Act, buildings and lands belonging to the Municipality/Panchayat are exempted from payment of Property tax. By virtue of this provision, buildings of the two Development Authorities were not assessed to tax. In October 2012, Government reconstituted the Development Authorities. Consequently, the buildings of the Development Authorities ceased to be the properties of the Corporations and the Development Authorities were liable to pay Property tax from October 2012. But Thrissur Corporation and Feroke GP (properties of CDA were situated in Feroke GP) had not demanded Property tax in respect of the buildings of the two Development Authorities from October 2012. The loss of revenue on this account amounted to ₹4.24 lakh⁶ for the period October 2012 to March 2014. Thrissur Corporation stated that action would be taken to collect Property tax from the Development Authorities.

⁶ Plinth area of TUDA: 2926.91 sq. m., Rate: ₹80, Tax for 1½ years: ₹3,51,229
Plinth area of CDA: 803.15 sq. m., Rate: ₹60, Tax for 1½ years: ₹72,284
Total tax: ₹4,23,513, i.e. ₹4.24 lakh

Unauthorized constructions

As per Rules 4 and 20 of the Kerala Municipality Building Rules 1999 (KMBR), and Rule 4 of Kerala Panchayat Raj Building Rules, 2011 (KPBR 2011), no person shall construct any building in the municipal/panchayat area without obtaining permission and the construction shall be done only in accordance with the permission given. Construction made without permission or deviation from the approved plan or in violation of any provision of the Act or Rules shall be treated as unauthorized constructions.

As per Section 242 of KM Act and Section 235 (AA) of KPR Act, in the case of unauthorized constructions, tax shall be assessed from the date of completion or occupation of the building, whichever is earlier, till the date of demolition of that building. The assessee is liable to pay thrice⁷ the amount of normal Property tax for those buildings till regularisation/demolition of the construction/building.

The LSGIs maintain Unauthorized Assessment (UA) Register to record the details of assessments in respect of unauthorized constructions. Audit noticed that out of 1622 unauthorized constructions recorded in the UA register of four ULBs⁸ in 66 cases, the LSGIs failed to levy Property tax as stipulated in the Act, resulting in short levy of ₹two crore. These included two major cases of Thrissur Corporation – one in respect of Metropolitan (Hospital) Health Care (Pvt) Ltd, Thrissur (₹54.54 lakh) and the other related to Thrissur District Co-operative Bank (₹40.58 lakh). Thrissur Corporation stated that these cases had been referred to Government for further action. Audit could not quantify the short levy in respect of the remaining 1556 cases as requisite details were not available in the UA Register. These buildings were neither regularized nor demolished, as per the provisions of the rules.

Buildings of Professional Education Society

Ideal Educational Society (IES), a self-financing professional educational institution, had constructed a number of buildings in Adat Grama Panchayat (Thrissur District). Audit noticed that IES had constructed buildings (residential: 9734 m² and non-residential: 49468 m²) without obtaining permit from the GP. Being unauthorized constructions, three times of the normal Property tax was payable on these buildings as per section 235AA of KPR Act, until they are regularized. The GP had, however, not collected any amount towards Property tax. The Property tax due on these buildings from January 2011 to March 2014 worked out to ₹75.81 lakh. Apart from some minor cases, IES was the only major case which figured in the UA register of Adat GP. The Government stated that the matter will be examined.

⁷ From 7 October 2009 (up to 6 October 2009, only normal Property tax was payable)

⁸ Thrissur, Guruvayur, Karunagappally and Vatakara

Non- levy of Service tax

Kerala Municipality Act, 1994 and Kerala Panchayat Raj Act, 1994 stipulate that the LSGIs can levy Service tax for providing various services such as water supply, drainage, sanitation etc., in addition to Property tax. Government order (January 2011) that the LSGIs may levy Service tax not less than 10 *per cent* of the amount of normal Property tax. Audit noticed that most of the LSGIs were not collecting Service tax since decisions were not taken by the Panchayat Committees in this regard. Loss of revenue sustained by 23 LSGIs in this regard worked out to ₹7.66 crore.

(iv) Irregular exemptions allowed

Government of India buildings

By virtue of Article 285(1) of the Constitution of India, Property tax is not leviable on GOI buildings. As per Rule 30 of KM (Property Tax and Service Tax) Rules, 2011/Section 30 of KPR (Property Tax and Service Tax) Rules 2011, LSGIs can levy Service Charge on sanitation, water supply, street light, drainage etc., provided to GOI buildings by local bodies. GOI had specified Service Charge at 33.33 *per cent*/50 *per cent*/75 *per cent* of normal Property tax on buildings of GOI, depending on the quantum of service availed by them. Orders issued by the Government in January 2011 also specified that Service Charge at the above rates was to be realised from GOI buildings. Since GOI buildings enjoy all facilities provided by the local bodies as in the case of other buildings, Service Charge at 75 *per cent* of normal Property tax was realisable from them. Audit observed that, Service Charge was not realised from GOI buildings. Audit could not quantify the Service Charge due from all the GOI buildings in the test-checked LSGIs for want of requisite data of the GOI buildings. Service Charge based on plinth area of 11 GOI buildings during January 2011 to March 2014 worked out to ₹13.11 lakh. The Government stated that GOI buildings were liable to pay service charge and action would be taken to collect the same.

BSNL buildings

Exemption from payment of Property tax provided to GOI buildings under Article 285(1) of Constitution is not available to buildings of BSNL which started functioning as a company from October 2000. Government issued (December 2004) directions to all local bodies to realise full Property tax in respect of BSNL buildings. As per information furnished by nine test-checked LSGIs, 11 buildings owned by BSNL in five LSGIs were not assessed for Property tax. The Property tax due from BSNL in respect of these buildings for the period January 2011 to March 2014 on plinth area basis worked out to ₹81.32 lakh (The Property tax for the prior period was not calculated for want of requisite details for arriving at the Annual Value). Non-assessment and non-collection of tax is a lapse on the part of the LSGIs. Some of the LSGIs stated that they had issued notices for collection of Property tax.

3.1.9 Profession tax

As per Section 245 of KM Act/Section 204 of KPR Act, local bodies levy Profession tax on institutions, professionals and individuals transacting business, engaged in self employment or performing duty in the municipal/panchayat area for not less than 60 days in aggregate during a half year. As per Kerala Municipality (Profession tax) Rules, 2005, and Kerala Panchayat Raj (Profession tax) Rules, 1996, Profession tax is payable by employees if their half yearly income from salary/wages is not less than ₹12000. Government prescribed slab rates ranging from ₹120 to ₹1250 per half year in respect of the employees based on their half yearly income, and ₹450 to ₹1250 per half year in respect of various categories of traders/professionals/institutions. Every head of office or employer or self drawing officer is bound to recover Profession tax and remit it along with details of income.

3.1.9.1 Raising of demand

Assessees escaping assessment

Section 257 of KM Act/ Section 205 (1) of KPR Act stipulate that the Secretary shall maintain a Ward-wise Demand Register by providing independent pages for each institution. The Secretary was also to maintain a traders list. The Fourth State Finance Commission had recommended (March 2011) enumeration of all professionals and institutions for Profession tax assessment utilizing the data available with commercial tax offices, labour/factories and boilers departments, plantation, business and other industries, and the Government accepted the recommendation. Audit observed that Ward-wise Demand Registers and the traders lists maintained in the LSGIs were incomplete and not being updated periodically.

Test check of records revealed that under the following categories, assessee's name did not figure in the records of the LSGIs and had thus escaped assessment as shown in **Table 3.4**.

Table 3.4: Categories of assessee's escaped assessment of Profession tax

Sl. No	Category	Total no. of persons	No. of persons escaped assessment	Loss of revenue (₹ in lakh)	Period of short levy	Basis for arriving the number of assessee's who escaped assessment
1	Contractors	1971	1971	49.27	2009-10 to 2013-14	By comparing the list of contractors registered in 14 GPs, 12 Municipalities and one Municipal Corporation (Appendix V) with the Profession tax assessment records of those LSGIs.
2	Advocates	819	801	20.02	2013-14	Based on the list of advocates enrolled in the Bar council, as furnished by eight Municipalities and one Municipal Corporation (Appendix V).
3	Traders	1725	1399	23.74	2013-14	By comparing the information collected from Commercial Tax Offices, with the profession

Sl. No	Category	Total no. of persons	No. of persons escaped assessment	Loss of revenue (₹ in lakh)	Period of short levy	Basis for arriving the number of assessees who escaped assessment
						tax assessment records of three Municipalities (Appendix V).
4	Doctors	342	217	5.42	2013-14	By comparing the data available in the web sites of three hospitals in three LSGIs with the returns filed by those hospitals in the LSGIs. (Appendix V).

Thus, due to improper maintenance of records/incomplete database, the LSGIs could not collect the entire tax from the above categories of assessees. The LSGIs stated that action would be taken to collect the dues.

3.1.10 Entertainment tax

As per Kerala Local Authorities Entertainment Tax Act, 1961, local bodies levy Entertainment tax on entertainments including cinemas, exhibitions, amusements, sports, games, etc. In the LSGIs test-checked, Entertainment tax was being collected by 15 GPs and 19 ULBs during 2009-10 to 2013-14. Entertainment tax constituted approximately two *per cent* of the total tax revenue of the GPs and 10 *per cent* of the ULBs.

3.1.10.1 Raising of demand

(i) Short levy of Entertainment tax

As per Section 3B of the Kerala Local Authorities Entertainment tax (Amendment) Act, 2005, amusement parks are classified under five categories (A to E), depending on the investment made and the area utilised for the park, for levying Entertainment tax. As per Explanation 2 under Section 3B, if both the investment and area of land together do not come under any of the above specified categories (A to E), but either the investment or area comes under any of the categories, the park shall be assessed in the category to which the higher rate of tax is applicable.

Silver Storm Amusement Park (the Park) in Athirappally GP is built in an area of 8.14 acres of land (land utilised: 3.77 acres). The GP classified the Park under Category A and levied Entertainment tax at the rate of ₹three lakh per annum (from 2004-05 onwards) with annual increase of 10 *per cent*, based on the statement of the assessee that the total investment was ₹2.61 crore only. However, as per the Balance Sheet and connected Schedules of the Park, the total investment was between ₹7.19 crore and ₹8.77 crore during 2009-10 to 2013-14. As such, the Park was to be classified under Category B since 2009-10. Calculated at the minimum applicable rate under Category B (₹10 lakh per annum), the Entertainment tax due to be collected for the period 2009-10 to 2013-14 was ₹50 lakh against which the GP demanded only ₹17.10 lakh, resulting in short levy of ₹32.90 lakh. Out of ₹17.10 lakh demanded, the party had remitted only ₹10.50 lakh.

The GP stated (December 2014) that necessary action would be initiated for realisation of the amount of tax.

(ii) Entertainments outside tax net

The Forest and Tourism Departments collect Entry fee in many tourist centres like Periyar Tiger Reserve, Periyar Lake, Edakkal caves, Athirappally/Vazhachal Waterfalls, etc. Forest Department was collecting Gate fee (₹30 per adult) in Athirappally/Vazhachal tourist area. Though the GPs/Municipalities provided various facilities such as water supply, lighting, waste disposal etc, in such places, the local bodies were not deriving any income in the form of Entertainment tax from such tourist spots. During 2009-10 to 2013-14, the Forest department had collected ₹16.29 crore from Athirappally and Vazhachal picnic spots. Considering the sums collected from such picnic spots, the Fourth State Finance Commission had recommended (January 2011) that these entertainments may be brought under Entertainment tax Act. Though the Government had accepted this recommendation in March 2012, no further action has been taken in this regard by the Government to include such spots for levy of Entertainment tax. On this being pointed out by Audit, Government agreed to bring these entertainments under the Entertainment Tax Act.

3.1.11 Advertisement tax

Section 271 of KM Act and Section 209 of KPR Act empower LSGIs to levy tax on advertisements displayed over any land, building, wall, hoarding or structure in its area. The rates applicable to various types of advertisements are to be fixed by local bodies subject to the limits prescribed by Government. The share of Advertisement tax in the total tax revenue of test-checked LSGIs was roughly one *per cent*. Out of the 40 GPs test-checked, 26 GPs had not collected Advertisement tax.

Sections 209 and 256 of KPR Act and Section 567 of KM Act provide that each local body shall formulate Bye-laws stipulating the rates of various categories of Advertisement tax and the manner of realizing it. The LSGIs can levy Advertisement tax in accordance with the Bye-laws formulated. Audit noticed that out of the 61 test-checked LSGIs, 30 LSGIs had not formulated any Bye-laws in this regard. Some of the LSGIs replied that they had taken action to formulate the Bye-laws.

3.1.12 Non-tax Revenue

The non-tax revenue of LSGIs consists of rental income from properties of LSGIs, permit fee for building construction, fee for laying cables, revenue from sale of river sand etc., user fee realised in respect of facilities provided by local bodies, *viz.*, markets, toilets, burial grounds, parking lots, etc., fee for issuing licences to traders, private markets, private parking lots, slaughter houses, factories, workshops etc., registration fee realised from tutorial institutions, private hospitals and paramedical institutions, interest on deposits, subsidies, contributions etc., sale

of old vehicles, scrap, tender forms etc., fines, penalties and other miscellaneous receipts, etc.

The fee for issuing various licences, permit fee realised for building construction and other activities, user fee realised from markets, bus stand, etc., and rent realised from buildings constitute the main components of Non-tax revenue of LSGIs. Revenue realised by the selected LSGIs in respect of the above components during the years 2009-10 to 2013-14 is shown in **Table 3.5**.

Table 3.5: Non-tax revenue of the LSGIs test-checked

(₹ in lakh)

Year	Licence fee		Market/Bus stand/User fee etc		Fee for Construction/ Permit		Rent		Others		Total Non-Tax Revenue	
	GPs (40)	ULBs (21)	GPs (40)	ULBs (21)	GPs (40)	ULBs (21)	GPs (40)	ULBs (21)	GPs (40)	ULBs (21)	GPs (40)	ULBs (21)
2009-10	33.14	81.02	42.74	237.63	104.55	707.83	117.19	1124.84	591.21	719.13	888.83	2870.45
2010-11	35.84	126.52	52.22	170.73	138.20	1203.38	121.22	1237.58	629.29	1337.63	976.77	4075.84
2011-12	39.28	148.74	52.83	262.67	98.08	1355.49	138.61	1389.28	897.30	825.39	1226.10	3981.57
2012-13	41.16	195.26	83.20	394.65	65.69	1349.19	159.24	1394.56	905.97	1023.38	1255.26	4357.04
2013-14	49.53	195.82	71.07	408.42	68.15	637.37	173.00	1574.02	534.76	1596.77	896.51	4412.40

Rent of buildings, a major component of Non-tax revenue, constituted 19 *per cent* and 36 *per cent* of Non-tax revenue of GPs and ULBs respectively during 2013-14. Permit fee for building construction was also a main component which constituted 25 *per cent* to 34 *per cent* of Non-tax revenue of ULBs during 2009-10 to 2012-13. However, it declined to 14 *per cent* during 2013-14. The fall in the collection of permit fee was significant in Thrissur Corporation. Due to the restrictions imposed by Government on FAR of buildings, there was decrease in the number of high-rise buildings which was a major cause for decrease in Permit fee. Audit noticed that the LSGIs were neither tapping all potential sources of Non-tax revenue permissible as per KM Act/KPR Act, nor effectively collecting the entire revenue from the sources already identified by them, as stated below:

3.1.12.1 Raising of demand

(i) Short levy of compounding fee

Till February 2011, the provisions of KMBR were applicable to buildings constructed in Panchayat area, *vide* Government order issued in June 2007. Thus, building permits were to be obtained in respect of all constructions in Panchayat area also. The Cochin International Airport Authority Limited (CIAL) constructed a Golf and Country Club in Nedumbassery GP, without obtaining permit from the Panchayat. The CIAL applied for regularization of the construction/land development in August 2009. The GP demanded ₹80.62 lakh as regularisation fee as per provisions of KMBR, against which CIAL remitted (July 2010) only ₹0.54 lakh. In 2011, Kerala Panchayat Building Rules, 2011 (KPBR, 2011) came into force according to which the permit fee realizable for construction/land development was less in Panchayats compared to Municipalities. The GP revised

the demand of CIAL to ₹26.34 lakh in June 2012 based on the provisions of KPBR. The action of the GP in revising its earlier demand was not warranted, as the land conversion and constructions were made in 2009 when the KMBR was in force. The short levy on this account amounted to ₹53.74 lakh. On this being pointed out by Audit, the LSGI stated that CIAL approached the High Court against the levy of permit fee and the case was pending. The action in the case by the GP with respect to court case would be awaited.

(ii) Utility charge from Telecom Companies

As per Sections 368 (3) & 369 of KM Act, the Municipalities may lease the sides of roads vested with it or grant licence for occupying those places for definite purposes. In the orders issued (August 2012) by Government, it was specified that LSGIs shall charge rent/user fee from Telecom operators for laying cables by the side of roads vested with them. The panchayat committees/municipal councils need to fix rates for laying cables and have to enter into agreement with the licensee in this regard. Audit noticed that private telecom operators were utilizing sides of roads vested with local bodies, for erecting poles and laying underground/overhead telecom cables without the permission of the LSGIs. Out of the LSGIs test-checked, in 46 LSGIs, the committees/councils had not fixed any rates and they were not having details about laying of cables. Therefore, these Panchayats/Municipalities were not realising any licence fee on this account.

Of the 61 LSGIs test-checked, Thrissur Corporation and Vadakara Municipality maintained records relating to laying of telecom cables. In Vadakara Municipality, though Reliance Jio Infocom laid underground cables of 8.77 km length on the sides of roads vested with it, the Municipality had neither realised any amount nor raised any demand towards licence fee so far (January 2015). Audit could not quantify the loss as the Council had not fixed any rate for levying the rent/user fee. The Assistant Engineer of the Municipality stated (February 2015) that the matter would be placed before the Council for fixing the rates for the purpose.

(iii) Rent due from Cable Television Operators

Thrissur Corporation allowed Cable Television operators to draw cables through electric poles with effect from 2011 at an annual rent of ₹250 per pole in urban/semi urban areas and ₹125 per pole in rural areas with an annual increase of five *per cent*. As per the Council decision, the Corporation had to execute an agreement with the cable operators and the cable operators were to remit the annual rent in advance. Audit noticed that the above Council decision was not enforced. Though an amount of ₹14.32 lakh pertaining to the period 2005-06 to 2013-14 was due from cable operators, the licences were being renewed periodically without clearing the entire arrears. On this being pointed out by Audit, the Corporation stated (December 2014) that demand notices would be issued to the parties concerned.

(iv) Sanitary charge from Guruvayur Devaswom

As per Section 333 of KM Act, if any religious place situated within a municipal area is used for holding fairs, festivals or similar activities which attract a large number of people, requiring special arrangements for public health, safety or convenience, the Municipality may require the trustee or other person having control over such place to make such recurring or non-recurring contributions to the funds of that Municipality as determined by Government based on the additional expenditure incurred by the Municipality in this regard.

Guruvayur Sree Krishna temple attracts a large number of devotees throughout the year, and the Municipality has to make special arrangements for public health, safety and convenience of the pilgrims. Government directed (January 2012) Guruvayur Devaswom to pay an amount of ₹85 lakh (₹five lakh per year) to Guruvayur Municipality towards centage charges (for waste disposal) for the period 1995-96 to 2011-12, and thereafter the amount was to be determined by mutual discussion between the Municipality and Guruvayur Devaswom. Though Guruvayur Devaswom Commissioner sanctioned (January 2012) the payment of the above amount, the same was not paid till date (November 2014). Audit observed that it was a lapse on the part of the Municipality not to make any efforts to realise the amount, even after three years from the date of sanction. On this being pointed out by Audit, the Municipality stated (November 2014) that action would be taken to realise the amount.

3.1.12.2 Collection and Accounting

(i) Non-receipt of rent from buildings

Most of the LSGIs in the State had constructed shopping complexes and other buildings by availing loans from financial institutions, with the intention of deriving additional income by way of rent. Since the loans were to be repaid with interest, it should be ensured that these buildings were let out or utilised properly by the LSGIs to derive additional revenue. Audit noticed that in seven test-checked LSGIs⁹, 145 shop rooms in the shopping complexes were not let out due to lack of demand for the rooms, resulting in loss of revenue of ₹1.29 crore¹⁰ (**Appendix VI**). It was further observed that in the test-checked LSGIs ₹8.83 crore was pending collection as of March 2014 towards rent of shop rooms and other buildings already let out. In majority of cases, the rooms were remaining idle since the buildings were constructed on locations not having adequate commercial potential. The LSGIs were not rigorously pursuing the realisation of dues.

(ii) Loss of rent due to non-observance of prescribed procedures

Before letting out a property, it was necessary to enter into an agreement with the lessee stipulating the period of lease and modalities of payment of rent. Vaikom Municipality leased out (September 2009) the Town Hall and Rest House owned

⁹ Ottappalam, Vaikom, Manjeri, Koothuparamba, Mukkam, Chalakkudy, Vallathol Nagar

¹⁰ Loss worked out based on the rent fixed by the Panchayat Committee/Council

by it to a private individual for two and a half years. Relevant agreement was not available. As per records, the lease rent was ₹3.50 lakh per annum for the Town Hall and ₹5.35 lakh per annum for the Rest House. Though the lessee did not pay any amount towards rent of the buildings, the lease period was further extended to another period of three years for the same rent even before the expiry of initial period of the lease, as decided by the Municipal Council in June 2010. The lessee did not pay the rent on the contention that rent fixed was for two and a half years and not for one year, and obtained an interim stay from the High Court in March 2012. Later, the Municipality came to a settlement (March 2014) with the party, based on which the party withdrew the case pending in High Court and vacated (March 2014) the building. In return, the Municipality exempted the party from payment of rent.

Audit noticed that the Municipality leased out the above buildings without inviting competitive tenders. The Municipality could not produce the agreement with the lessee before the High Court which made it difficult to defend the case. The settlement arrived at by the Municipality to waive the entire rent from the lessee without defending the case in the High Court with proper documents was against the financial interest of the Municipality. The loss of rent for the period September 2009 to March 2014 worked out to ₹39.62 lakh. The Municipality stated in reply that action would be initiated to recover the amount.

A Munsiff court was functioning in the Town Hall building from August 2014. The Municipality stated that action was being taken to let out the rest house through auction.

(iii) Loss of licence fee

After entering into agreement with contractors for providing services, it is the responsibility of the LSGIs to see that the terms and conditions set forth in the agreement are complied with, and in case of default on the part of the contractors, to ensure that timely action including invoking of penal provisions was taken to safeguard the interest of LSGIs. Vaikom Municipality entrusted the right to conduct a Jhankar Ferry Service for three years from September 2011 to a Contractor for a licence fee of ₹10.30 lakh per annum and executed (September 2011) an agreement after collecting security deposit of ₹3.44 lakh. However, after operating the service for a period of nine months, the Contractor abandoned (June 2012) the ferry service. As per the agreement, the rent was to be remitted in twelve equal monthly instalments. If the rent was not paid consecutively for two months, the licence shall be cancelled and loss sustained by the Municipality was to be adjusted against the security deposit. But the lessee had not paid any rent. Loss sustained to the Municipality after adjusting the security deposit amounted to ₹27.46 lakh. The Municipality initiated Revenue Recovery proceedings in September 2014, i.e., after a delay of two years, against which the contractor obtained a stay order from the High Court. The Municipality had not taken any action for retendering the Jhankar Ferry Service even after lapse of two and a half

years from the date of discontinuance of the Ferry Service. If the Municipality had taken timely action to retender the Ferry Service, the loss could have been avoided. It was stated in reply that the Council referred the case for a detailed study.

(iv) Revenue loss on account of giving undue relaxation in terms of contract

Thrissur Corporation awarded (November 2013) the right to display advertisements on electric posts within its area to M/s Star Communications for an amount of ₹66.78 lakh. The contract was for one year from 15 November 2013 to 14 November 2014. As per the conditions of the contract, the firm had to make full payment on the date of contract. However, based on the request made by the contractor, the Mayor allowed the firm to make initial payment of ₹16.69 lakh and the balance amount in five equal instalments. Reasons for allowing relaxation in the payment schedule were not recorded. Though the firm made the initial payment of ₹16.69 lakh in December 2013, it did not pay the balance amount of ₹50.09 lakh. Corporation stated that Revenue Recovery proceedings had been initiated to collect the arrears. Thus, undue relaxation in the terms of the contract in favour of the contractor resulted in non-realisation of ₹50.09 lakh.

(v) Revenue loss relating to sale of sand

In Kozhikode District, online sale of river sand and collection of sale value are done by the District Collector. After deducting the River Management fund, the District Collector remits the balance amount in the bank account of the concerned local body. On a comparison of the sand sale statement provided by the District Collector with the relevant bank account maintained by Feroke GP, Audit noticed that the GP had not received ₹20.05 lakh relating to sale of sand on certain days during 3 October 2012 to 22 November 2013. There was lapse on the part of the Panchayat in reconciling the amounts credited in bank account with the sand sale statement provided by the District Collector. On this being pointed out, the Secretary stated (October 2014) that the matter would be brought to the notice of the District Collector for further appropriate action.

(vi) Non-realisation of collection charges of Cess

As per Building and Other Construction Worker's Welfare Cess Act, 1996, cess not exceeding two *per cent* of the construction cost was to be collected from the employer and remitted to Kerala State Building and Other Construction Workers Welfare Fund Board, by the LSGIs. The LSGIs are entitled to realise collection charge not exceeding one *per cent* of the amount collected. Audit noticed that though the LSGIs collected cess amount from contractors, and remitted the same to the Welfare Board, they did not realise the collection charges. Non-realisation of collection charges of cess by 32 LSGIs amounted to ₹2.60 lakh.

3.1.13 Conclusion

LSGIs failed to secure its financial interest by ensuring compliance of Government directives and application of relevant rules/Acts for improving collection of taxes

and non-taxes, resulting in short levy/collection of revenue. Property tax assessment based on plinth area was not revised timely. LSGIs were not collecting Service Charges from GOI buildings and Property tax from BSNL buildings. Non-implementation of accepted recommendations of Finance Commissions coupled with non-maintenance of requisite records and laxity in pursuance of recovery of legitimate dues also resulted in loss of Entertainment tax, Profession tax, Advertisement tax, etc.

3.1.14 Recommendations

- LSGIs should maintain a comprehensive database of all properties in their area with the help of GIS mapping to ensure that no properties escape assessment.
- Local Bodies should prepare a database of professionals/institutions for Profession tax assessment utilising the data available with commercial tax offices, Bar Council, Hospitals, Labour/Factories and Boilers Departments, plantation business etc.
- Kerala Local Authorities Entertainment tax Act/Rules need to be amended to bring tourist spots under tax net.



CHAPTER IV

Compliance Audit

CHAPTER IV

COMPLIANCE AUDIT

AUDIT OF SELECTED TOPICS

4.1 IMPLEMENTATION OF URBAN INFRASTRUCTURE DEVELOPMENT SCHEME FOR SMALL AND MEDIUM TOWNS

4.1.1 Introduction

Government of India (GOI) launched (December 2005) ‘Urban Infrastructure Development Scheme for Small and Medium Towns’ (UIDSSMT) as a sub component of Jawaharlal Nehru National Urban Renewal Mission (JNNURM) to improve infrastructural facilities in towns. The objectives of UIDSSMT were to:

- improve infrastructural facilities and help create durable public assets and quality oriented services in cities and towns;
- enhance public-private-partnership in infrastructural development and
- promote planned integrated development of cities and towns.

The duration of the scheme was seven years from 2005-06 to 2011-12 which was subsequently extended up to 2013-14. The components for assistance under the scheme included urban infrastructure development projects such as redevelopment of inner city areas, water supply, sanitation, sewerage and solid waste management, construction and improvement of drains, roads, parking lots, etc. The financing of the projects under the scheme by GOI, the State and Urban Local Body (ULB) was in the ratio of 80:10:10.

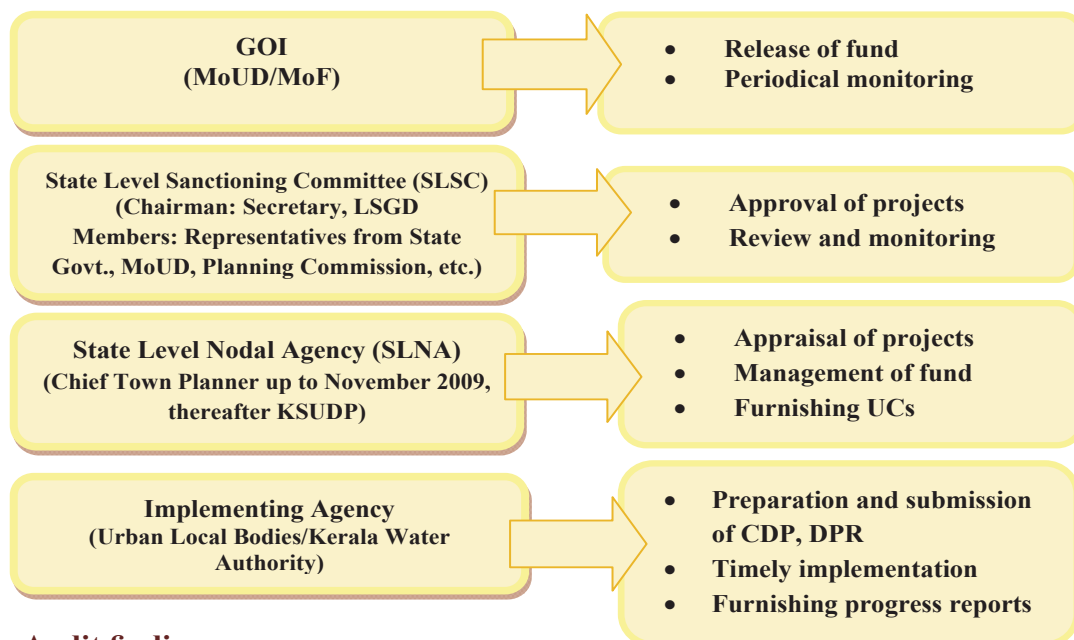
We conducted an assessment of the different aspects of implementation of the scheme, covering the period from 2005-06 to 2013-14. Out of 25 projects in 22 Municipalities sanctioned in the State, eight projects (water supply schemes: four; solid waste management projects: four) in seven¹ Municipalities were selected through Probability Proportional to Size with Replacement method of statistical sampling. Audit methodology included scrutiny of basic records, registers, files, issue of audit enquiries, site inspection etc.

4.1.2 Role of major stakeholders

Role of various entities in planning, execution and monitoring of the scheme are summarised in **Chart 4.1**.

¹ Punalur, Alappuzha, Changanacherry, Perinthalmanna, Chavakkad, Guruvayur & North Paravur

Chart 4.1: Organisational structure



Audit findings

4.1.3 Planning

The State Level Sanctioning Committee (SLSC), in its meeting (December 2006), had directed the Municipalities to prepare City Development Plan (CDP) to facilitate advance planning and provide a developmental perspective to towns in order to achieve the important objective of the scheme, *i.e.*, integrated development of towns, and thereafter, a Detailed Project Report (DPR) for obtaining the approval of projects. The Municipalities, however, prepared the DPR without finalizing CDP.

Preparation of DPR without CDP had the risk of exclusion of thrust areas for integrated development of towns as envisaged in the scheme. We noticed following deficiencies in the DPR approved by the SLSC in the test-checked Municipalities.

(i) Though SLSC had prioritised (December 2006) six categories² of projects for implementation in the State, approval was given only to three categories of projects, namely, Solid Waste Management (SWM), Water Supply Schemes (WSS) and Sewerage. The reason for omitting the other prioritised categories was not available on record. Finalisation of DPR with only three categories of projects limited the scope of integrated development of towns.

(ii) The safe disposal of biomedical waste was the responsibility of the waste

² Water supply, Solid Waste Management, Sewerage and sanitation, Construction and improvement of drains/ storm water drains, Social infrastructure like slaughter houses, markets and crematoria and Construction /upgradation of roads/highways/expressways.

generator as stipulated in the Biomedical Waste (Management and Handling) Rules 1998. Perinthalmanna Municipality, however, made a provision of ₹91 lakh in the DPR for construction of a biomedical waste treatment plant. After receiving the first instalment of assistance of ₹40.95 lakh, the Municipality dropped the project on the ground that the disposal of biomedical waste was being done satisfactorily by IMAGE³ for the State as a whole. In the circumstances, there was no necessity for the Municipality to include a component for construction of biomedical waste treatment plant in the DPR. Inclusion of this component in the DPR was a lapse on the part of Municipality. The Municipal Secretary stated (July 2014) that the amount received would be refunded.

(iii) The DPR for augmentation of a WSS to Guruvayur and Chavakkad Municipal towns approved (January 2008) by the SLSC, included a provision for construction of a Water Treatment Plant at Vellani, though it was already in the completion stage (started in August 2006, before launching UIDSSMT) under the financial aid of Life Insurance Corporation of India (LIC). The expenditure of ₹1.69 crore incurred on the component was incorporated in the DPR against which ₹1.52 crore was received as Central and State shares. The water treatment plant was completed in May 2008 utilizing LIC fund. The amount of ₹1.52 crore received under UIDSSMT was retained in the scheme account.

As assistance under UIDSSMT was given for creation of assets, inclusion of assets already created in the DPR was violative of stipulations in the guidelines.

The Project Director, KSUDP stated that the funds received would be refunded.

4.1.4 Project Implementation

4.1.4.1 Status of projects

GOI sanctioned 25 projects with an outlay of ₹427.79 crore in 22 Municipalities during 2006-07 (nine projects) and 2007-08 (16 projects) with completion schedule of two years from the date of sanction. The status of projects sanctioned and implemented under UIDSSMT is detailed in **Appendix VII**. Of the 25 projects, only two were completed, two were dropped due to public protest and court stay on land acquisition and 21 projects were at various stages of implementation even after the expiry of extended period of the scheme.

Audit observations on the implementation of projects are given in the following paragraphs:

4.1.4.2 Time taken for issuing Administrative Sanction

SLSC provided a completion schedule of project as two years from the date of approval of the DPR. Time frame for issue of Administrative Sanction (AS) was not fixed. In the absence of such limit, the time taken for issue of AS by the

³ Indian Medical Association Goes Eco-friendly, a state-of-the-art Common Biomedical Waste Treatment and Disposal Facility established by Indian Medical Association, Kerala State Branch at Palakkad

Government became flexible and open-ended. The delays in issue of AS ranged from six to 21 months (six months: eight projects, 18 months: one project, 21 months: 16 projects).

Time taken for issuing AS was more than one and half years in majority of cases (68 per cent). There was no justification for the undue delay in issuing AS for the projects which were targeted to be completed within a period of two years.

4.1.4.3 Time taken for tendering works

Table 4.1 shows the time taken for tendering various components of the four test-checked water supply projects after the issue of AS. The delays ranged from 11 to 76 months.

Table 4.1: Delay in tendering the works

Details of projects	Month & Year of AS	Period of tender	Time taken for tendering (months)
Augmentation of WSS to Changanacherry Municipality Project cost : ₹3.92 crore No. of works : 8	November 2009	Between January 2011 & November 2013	15 to 49
Augmentation of urban WSS to Alappuzha Municipality Project cost : ₹91.94 crore No. of works : 11	September 2007	Between December 2008 & December 2013	16 to 76
WSS to Guruvayur/Chavakkad Municipalities Project cost : ₹50.45 crore No. of works : 10	November 2009	Between September 2010 & January 2014	11 to 51

The WSSs were taken up to mitigate the deficiencies such as poor quality, inadequate coverage, intermittent supply etc., in the existing WSSs in the towns. The beneficiaries could not derive the intended benefits so far due to delay in completion of these WSSs. In the case of Alappuzha Municipality, the Kerala Water Authority (KWA)⁴ stated (October 2014) that being a combined project under UIDSSMT and Accelerated Rural Water Supply Project (ARWSP), the work was tendered only after getting approval for both the schemes. It was, however, noticed that approval for ARWSP was accorded in February 2008 and, therefore, the reply furnished was not justified for the inordinate delay in tendering. In respect of Guruvayur, Chavakkad Municipalities, KWA stated (September 2014) that tendering processes were delayed due to Assembly Election (2011) and Parliament Election (2014). The reply of KWA was not tenable because the Project had been approved as early as in January 2008 and targeted to be completed within two years (i.e. at the latest by end of 2010).

We also observed that due to time over run, there was an estimated cost escalation of ₹51.91 crore as discussed below:

⁴ implementing agency

(i) In Changanacherry Municipality, the estimated cost increased from ₹3.92 crore to ₹6.44 crore and in Alappuzha Municipality from ₹91.94 crore to ₹128.04 crore.

As per the stipulations of SLSC, in the event of cost escalation due to delay in implementing projects, the excess cost was to be met by the Municipality/State Government. As Changanacherry Municipality could not raise funds to meet the cost escalation, one component, viz, the work of laying distribution line (15 km), though tendered in September 2013 (quoted amount: ₹1.27 crore), the contract agreement was not signed even as of October 2014. The request (August 2014) of Municipality for allotment of a substantial additional fund of ₹3.50 crore was pending with Government.

(ii) In Chavakkad and Guruvayur Municipalities, though there was estimated cost escalation of ₹13.29 crore for the project as a whole, a component, viz, laying of distribution line was limited to 7.56 km instead of 119 km as envisaged in the approved DPR, to cover up the cost escalation. It was noticed that there was fourfold increase in the cost of laying distribution line (as per original estimate, cost per km pipe: ₹9.94 lakh; as per revised estimate cost per km pipe: ₹39.29 lakh). The estimated cost escalation for laying 7.56 km alone worked out to ₹2.22 crore.

4.1.4.4 Augmentation of water supply scheme to Alappuzha and eight adjoining panchayats - Unfruitful expenditure on the water treatment plant

The existing drinking water supply facility in Alappuzha Municipal Town maintained by KWA was inadequate and unsafe due to high concentration of chloride, fluoride and iron. Fifty five *per cent* of the school children were affected by dental fluorosis and the district was declared as endemic area of fluoride menace. In order to mitigate the drinking water problem, the Municipality had drawn up (March 2007) a DPR with an outlay of ₹91.94 crore and SLSC approved the DPR in March 2007 stipulating the period of completion as two years. The project consisted of six packages which were intended to be implemented on war footing.



Completed water treatment plant remaining unutilised

Though the work of water treatment plant was awarded in March 2009 and completed in May 2011 at a cost of ₹20.64 crore, the work relating to remaining

packages such as intake well, supplying and laying of pumping main etc., were awarded much later (between August 2011 and January 2014). The scheduled dates of completion were between October 2012 and May 2014, but the remaining packages had still (January 2015) not been completed.

Thus, failure in awarding the work of related components simultaneously with the treatment plant resulted in idling of treatment plant for nearly four years. Non-completion of projects deprived the benefit of the scheme of providing safe drinking water to citizens. The KWA attributed the reasons for the delay in completion of project to public protest, local labour problems, adverse climatic conditions, etc. It was, however, observed that the problems quoted by KWA for delays are the ones which are routine in nature which should have been taken care of by the management as part of its planning process and due diligence exercise. The reply was silent on the delay in awarding the works, which was much later than the award of work of treatment plant.

4.1.4.5 Water Supply Scheme to Guruvayur and Chavakkad Municipalities

The existing WSS to Guruvayur and Chavakkad Municipal towns provide only four MLD⁵ drinking water against the demand of 8.44 MLD. With a view to meet the current as well as the projected demand up to 2035, a combined project with a capacity of 13 MLD at an estimated cost of ₹50.45 crore (cost share between Guruvayur and Chavakkad Municipalities being ₹31.44 crore and ₹19.01 crore respectively) was envisaged, containing works such as digging an open well, raw water pumping main, clear water gravity/pumping main, distribution lines, electrical works, etc.

All the works were awarded in seven packages between February 2011 and July 2014 at a total PAC⁶ of ₹42.13 crore with the stipulation to complete the project between January 2012 and July 2014. The works relating to four packages (clear water gravity main, pumping main, distribution line, electrical work) were, however, yet to be completed. We observed as under:

Delay in getting permission for road cutting

The work for supplying and laying 16.32 km pipe line including 6.6 km along National Highway (NH), was awarded (May 2012) to a contractor at a PAC of ₹12.90 crore with stipulated date of completion as May 2013. However, KWA sought permission from NH Authority for road cutting only during July 2013, i.e., after a lapse of 14 months from the date of award of work and even after the stipulated date of completion of work and obtained permission from NH Authority in January 2014. Delay in obtaining permission for road cutting from NH authority affected timely completion of the work. The work was yet to be completed (December 2014). Arguing that the time overrun had adversely affected contractor's fund investment plan, the contracting company put forth (January

⁵ Million litres per day

⁶ Probable amount of contract

2014) a proposal to KWA for making direct payment to the supplier against their pending purchase order of July 2012. The delay in obtaining permission from NH authorities facilitated the contractor to put forth fresh demand not contemplated in contract which was not acceptable to KWA. The execution of work was stopped affecting the timely completion of the project.

Curtailment of distribution line

The approved DPR envisaged strengthening of distribution system for a length of 119 km by laying various sizes of pipes at a cost of ₹11.83 crore. At the instance of Technical Advisory Group (November 2010), a detailed survey was conducted and the length of distribution line was fixed at 91.03 km. The Municipality, however, tendered and awarded (May 2013) the work for supplying and laying of only 7.56 km distribution line at an agreed PAC of ₹2.97 crore with the stipulation to complete the work by March 2014 which was yet to be completed (August 2014). By limiting the distribution line to 7.56 km instead of 91.03 km, residents of the town would remain deprived of their water requirements.

Further, assistance (Central and State share) of ₹10.65 crore was released for laying distribution line of 119 km as specified in the DPR. Since the Municipality had taken up only 7.56 km of distribution line out of assistance of ₹10.65 crore received, ₹8.86 crore which represented proportionate ACA for the curtailed portion of distribution line, was in excess. Retention of excess ACA for utilisation in other components of the projects without approval of SLSC was wrong.

4.1.5 Solid Waste Management Projects

As per the Municipal Solid Waste (Management and Handling) Rule 2000, the prime responsibility of providing solid waste management in municipal area is vested with municipalities. As per rule, the Municipalities are responsible for collection, segregation, storage, transportation, processing and disposal of solid waste.

In the Municipalities test-checked, SWM projects approved by SLSC in March 2007/January 2008 and scheduled to be completed between May 2008 and April 2011, had not been completed even after a lapse of seven years (December 2014). The status of implementation of the projects is mentioned in **Table 4.2**.

Table 4.2: Status of implementation of SWM projects

Municipality	Status	Remarks
Punalur	Secondary storage, intermediate landfills, remediation were not taken up. Remaining components partially done.	Implementation was delayed due to non-mobilisation of fund to meet tender excess.

Municipality	Status	Remarks
Perinthalmanna	Secondary storage, intermediate landfill and bio-medical waste treatment plant were not taken up. Remaining components partially implemented.	No specific reasons were furnished for delay in implementation.
North Paravur	Segregated storage, treatment plant, secondary storage, biogas plant at slaughter house and SLF were not taken up. Three components were partially implemented.	Non-removal of dumped waste at plant site due to public protest and non-acquisition of land for SLF were reasons for non-completion.
Changanacherry	SLF and secondary storage were not taken up. Other components were partially implemented.	The proposed land for SLF could not be utilised due to public protest.

We noticed the following:

- Though sanitary land filling (SLF) is an important stage of waste disposal, the same was not established resulting in accumulation of waste in the processing yard causing environmental issues. There was no concerted effort on the part of Municipalities to make use of even the facilities created for the management of solid waste.
- In Punalur Municipality, though a facility for processing waste was established at a cost of ₹31.46 lakh during June 2011, it was not operationalised due to non-deployment of workers.
- In Changanacherry and North Paravur Municipalities, seven vehicles procured between August 2008 and August 2010, at a cost of ₹24.54 lakh, were remaining idle for the period ranging from 12 to 48 months for want of repairs. Municipalities had not taken any action to get them repaired.

We also noticed following deficiencies in the establishment of SWM projects in Changanacherry and Perinthalmanna Municipalities:

Recurring financial burden for removal of waste due to non-establishment of Treatment Plant

Changanacherry Municipality made a provision of ₹6.53 lakh in the DPR for removal of about 1000 tons of accumulated waste (as of 2007) at the processing yard to facilitate the establishment of the treatment plant. The Municipality entrusted the work of the



Waste heap at proposed SWM Plant site

removal of waste to contractors on three occasions between October 2009 and May 2013. As there was no arrangement to avoid fresh dumping in the processing yard, the site was not completely cleared to establish the plant. Total expenditure incurred by the Municipality for partial removal of accumulated waste (9016 M³) amounted to ₹51.06 lakh. After the removal of waste on third occasion (May 2013), 2799 M³ of waste was still remaining in the processing yard.

Thus, the treatment plant was not completed due to non-clearance of site. Timely action could have avoided recurring expenditure on removal of daily waste.

Owing to accumulation of waste at processing yard, daily waste collection from houses, shops etc., was stopped (June 2011). Audit noticed that bins (18,407 numbers) purchased by Changanacherry Municipality at a cost of ₹20.07 lakh during November 2009 for segregated collection of solid waste were idling and the bins were in unusable condition, due to prolonged storage.

Unfruitful expenditure on construction of biogas plants

Perinthalmanna Municipality had entered into two agreements (February 2009/ March 2010) with M/s Kerala Agro Industries Corporation Ltd (KAICO) for the construction of two biogas plants, one at SWM site (estimated cost: ₹19.80 lakh) and another at Taluk Hospital premises (estimated cost: ₹13.95 lakh) to be completed within three months and one year respectively from the date of agreement. As per the agreements, KAICO was to complete the construction, install machinery and commission the plant and conduct trial run for a period of three months within the stipulated period of completion. Municipality effected a total payment of ₹31.83 lakh (plant at SWM site: ₹17.88 lakh; plant at hospital: ₹13.95 lakh). Though the plant at hospital premises was completed in May 2012, it was not put into operation due to non-laying of sewage line, as there was no provision for sewage line in the estimate submitted by KAICO.

In respect of plant at SWM site, supply and installation of pulveriser, pressure release valve, gas pipe line, etc. had not been completed (October 2014).

Thus, the biogas plants stipulated to complete within three months/one year had not been completed even after the lapse of five/three years and the expenditure of ₹31.83 lakh spent on the construction of the plants was remaining unfruitful. Audit observed that as KAICO did not have the expertise to execute public engineering works under Local Self-Government Department, the State Government had cancelled their accreditation in January 2010. Thus, entrustment of the work of biogas plant to an agency not having expertise in the relevant field led to failure in completion of the plant.

4.1.6 Receipt and utilisation of fund

Details of project costs, funds received and expenditure incurred in respect of eight projects test-checked as of September 2014 are given in **Table 4.3**.

Table 4.3: Receipt and utilisation of fund

(₹ in lakh)

Name of ULB/Projects	Approved Project cost (Revised PAC in brackets)	Fund received				Total	Expenditure	Percentage of utilisation
		Central Share	State Share	ULB Share	Incentive for DPR preparation			
Alappuzha -WSS	9194.00 (12804.00)	7355.20	2065.33	233.95	137.91	9792.39	8900.58	90.89 (69.51)
Changanacherry-WSS	391.90 (643.65)	313.52	39.19	39.19	--	391.90	318.30	81.22 (49.45)
Chavakkad-WSS	1900.67 (1900.67)	1520.53	190.07	190.00	--	1900.60	3583.70	72.16 (71.03)
Guruvayur-WSS	3144.33 (3144.33)	2515.46	314.43	235.80	--	3065.69		
North Paravur-SWM	183.00 (183.00)	73.20	9.15	18.30	--	100.65	80.03	79.51 (43.73)
Changanacherry-SWM	390.00 (390.00)	156.00	19.50	39.00	5.85	220.35	134.16	60.88 (34.40)
Perinthalmanna-SWM	522.00 (522.00)	208.80	26.10	45.05	7.83	287.78	252.00	87.57 (48.28)
Punalur-SWM	481.70 (481.70)	192.80	24.10	36.15	7.23	260.28	157.54	60.53 (32.71)

In respect of WSS, though utilisation against funds received was 91 per cent in Alappuzha and 81 per cent in Changanacherry, percentage of expenditure against revised PAC, was only 70 and 49 respectively. Percentage of expenditure against project cost was 71 per cent in Chavakkad-Guruvayur Municipalities due to non-execution of distribution line as envisaged in the approved DPR (mentioned in paragraph 4.1.4.5). At the end of September 2014, percentage of expenditure against funds received in respect of four SWM projects ranged from 61 to 87, whereas the percentage of expenditure against the project cost ranged from 33 to 48 per cent. In the case of SWM projects, the implementation was hampered mainly due to public protest as pointed out in preceding paragraph.

4.1.6.1 Delay in release of Additional Central Assistance and State share by Government

Additional Central Assistance (ACA) together with State share was to be released to SLNA by State Government immediately on receipt of Central share. Audit observed delay ranging from 10 to 19 months in releasing ACA to SLNA. Out of ACA amounting to ₹307.04 crore released by GOI during 2007 to 2014, for implementation of 25 projects in the State, ₹27.31 crore was yet to be released by the State Government. Corresponding state share to be released amounted to ₹3.41 crore. SLNA stated that State Government released funds according to the progress of implementation of projects by ULBs. The fact, however, remains that the guidelines do not permit the State Government to retain ACA released by GOI.

Thus, due to slow progress in implementation of projects, ACA of ₹27.31 crore received from the GOI was retained by the State Government contrary to the directions of GOI.

4.1.6.2 Non-payment of ULB share

ULBs were required to remit their share (10 *per cent* of project cost) in advance to the scheme account maintained by Municipalities in the Nationalised Bank, prior to release of Central/State share by SLNA. Out of ₹12.34 crore to be remitted for implementation of WSSs, Alappuzha and Guruvayur Municipalities remitted only ₹4.70 crore, leaving a balance of ₹7.64 crore⁷ even after the release of Central/State share. Guruvayur Municipality stated (September 2014) that Guruvayur Devaswom Board, which had agreed to contribute 50 *per cent* share of Municipality (₹1.57 crore), had not fully remitted the amount so far. Reply of the Municipality needs to be viewed in the light of the fact that remittance of ULB share was a pre-requisite condition for release of Government assistance. The SLNA also did not ensure the fulfillment of the pre-requisite condition of remitting the ULB share to the project account prior to release of Central/State shares. Alappuzha Municipality had not furnished any reason for non-payment of its share.

4.1.6.3 Loss of central assistance

(i) Loss due to non implementation of alternative projects

A SWM project (estimated cost: ₹1.85 crore) at Aluva Municipality and Sewerage projects (estimated cost: ₹49.78 crore) at Chalakkudy Municipality included in the scheme were not started due to public protest against land acquisition. Though, the State Government proposed (March 2012) nine alternative projects (estimated cost: ₹51.63 crore) in different municipalities, those were not approved by GOI as the State Government did not furnish the undertaking that the projects would be completed by March 2014, i.e, extended period of the scheme. Thus, due to failure to comply with GOI's requirements, ACA amounting to ₹41.30 crore (80 *per cent*) was not released by GOI due to which the State was deprived of the intended benefits.

(ii) Loss due to short utilisation

As per the guidelines, first instalment would be released on signing the Memorandum of Agreement and the second instalment on submission of UC in respect of 70 *per cent* of the first instalment. In test checked Municipalities, expenditure relating to SWM projects was less than 70 *per cent* of the first instalment received due to slow progress in implementation of Scheme resulting in non-release of second instalment of ₹6.31 crore⁸. As the extended period of the Scheme was already over (March 2014), possibility of getting the amount was doubtful.

⁷ Alappuzha : ₹ 6.85 crore and Guruvayur : ₹ 0.79 crore

⁸Punalur: ₹1.93 crore, North Paravur: ₹0.73 crore, Perinthalmanna: ₹2.09 crore, Changanacherry: ₹1.56 crore

4.1.6.4 Diversion of funds for purposes other than that envisaged in the DPR

Utilisation of funds for purposes other than those included in the sanctioned DPR was not permitted. However, Audit observed that three municipalities (Punalur, Changanacherry and North Paravur) utilised the scheme (implementation of SWM projects) funds for purchase of five vehicles at a cost of ₹25.58 lakh not included in the DPR. These vehicles were utilised for purposes not related to the project, such as mobile stationery store, office use, drinking water supply etc. ULBs stated that vehicles were purchased based on the decision of the Municipal Council. The fact, however, remains that the Municipal Council has no authority to divert the funds for the purpose other than those envisaged in the approved DPR.

Audit also noticed that Alappuzha Municipality had diverted ₹41.11 lakh on two occasions for disbursing salary (₹20 lakh in February 2010) and pension (₹21.11 lakh in May 2012) to the staff. Municipality did not furnish any reason for diverting the Scheme funds violating the guidelines.

4.1.6.5 Non-realisation of interest from the Bank

Guruvayur Municipality was operating a Savings Bank Account in the Guruvayur Branch of Canara Bank for the transactions of UIDSSMT funds in which ₹30.66 crore was deposited during April 2009 to February 2014. Audit scrutiny revealed that though a total amount of ₹55.44 lakh towards interest was initially credited to the account on eight occasions during July 2009 to January 2013, the same was subsequently reversed by the Bank. The Bank started paying interest only from February 2013 onwards. When pointed out by Audit (August 2014), Municipality stated that the matter would be taken up with the bank.

4.1.7 Conclusion

Though SLSC prioritised six categories of projects for implementation in the State, implementation was confined to only two categories of projects defeating the main objective of integrated development of towns. Even after nine years of initiation of the projects and after the expiry of the scheme in 2014, only two projects were completed out of 25 projects undertaken. Delay in completion was mainly due to delay in issuing AS by the Government which has led to delay in implementation and cost escalation. The water treatment plant for Alappuzha WSS was idling for more than three years due to delay in completion of other related components, and distribution of unsafe drinking water was continuing. Slow progress in implementation resulted in loss of central assistance of ₹6.31 crore in four test-checked municipalities. There was also diversion of scheme funds.

4.2 IMPLEMENTATION OF BASIC SERVICES TO THE URBAN POOR

4.2.1 Introduction

Government of India (GOI) launched a Sub-Mission, Basic Services to the Urban Poor (BSUP), under JNNURM⁹ in December 2005 to provide shelter, basic services and other related civic amenities to ensure integrated development of slums. The mission initially targeted for seven years from 2005-06 to 2011-12 was extended up to March 2015. Thiruvananthapuram and Kochi were the two cities¹⁰ selected in the State for the implementation of the scheme. In Thiruvananthapuram, BSUP was implemented in four phases and in Kochi in three phases. The various components of BSUP are given in **Appendix VIII**. Primarily, the BSUP projects involved construction of dwelling units and provision of basic services such as water supply, sanitation, community services, etc. Costford¹¹ and C-Earth Private Limited prepared the Detailed Project Reports (DPRs) for Thiruvananthapuram and Kochi respectively and GOI approved¹² the same.

There were 766 slums in the two cities (Thiruvananthapuram: 355 and Kochi: 411). The scheme was taken up for implementation in 30 slums (Thiruvananthapuram: 23, Kochi: 7). The objective of the audit was to ascertain whether Thiruvananthapuram and Kochi Corporations had complied with scheme guidelines and Government instructions to achieve scheme objective of the integrated development of slums by providing shelter, basic services and other related civic amenities. The audit criteria are the scheme guidelines and State Government instructions. Audit test-checked the implementation of projects under all phases in the two cities covering the period 2005-06 (year of inception) to 2013-14. Audit evidence was gathered through scrutiny of records, files and other documents pertaining to the implementation of the scheme in Thiruvananthapuram and Kochi Corporations and interaction with those concerned with the implementation of the project.

Funding pattern of the projects under the mission was as shown in **Table 4.4**.

⁹ Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was launched by GOI in December 2005 with the objective of planned development of identified cities.

¹⁰ Includes Corporations as well as the agglomeration areas

¹¹ Centre of Science and Technology for Rural Development, registered under Travancore Cochin Literary Scientific and Charitable Societies Act, 1955

¹² **Thiruvananthapuram:** Phase I - February 2007, Phase II - March 2007, Phase III- December 2007, Phase IV- December 2009; **Kochi:** Phase I - February 2007, Phase II - December 2007, Phase III - January 2008

Table 4.4: Funding pattern

City	GOI share	State Share	ULB share and Beneficiary contribution
			<i>(per cent)</i>
Thiruvananthapuram	80	10	10
Kochi	50	20	30

4.2.2 Organisational set up

At the Central level, BSUP was administered by Ministry of Housing and Urban Poverty Alleviation. The State Poverty Eradication Mission (Kudumbashree) was the State Level Nodal Agency (SLNA). The Urban Local Bodies (ULBs) were to prepare the DPRs and submit the same to the SLNA for appraisal. Kudumbashree was to submit the project to the State Level Steering Committee (SLSC) for getting sanction and seeking assistance from the GOI. The projects were sanctioned by the Central Sanctioning and Monitoring Committee (CSMC). At the State level, the implementation of BSUP was co-ordinated by the State Level Steering Committee (SLSC) headed by the Chief Minister.

Audit findings

4.2.3 Identification of beneficiaries

The guidelines issued by the Government contained criteria for the selection of beneficiaries. Families with the members suffering from chronic diseases, women as head of family, unwed mother, widow, physically or mentally challenged, landless families were some of the criteria to be satisfied for prioritization of beneficiaries. After prioritizing the families based on the above criteria, each application was to be scrutinized by Community Development Society (CDS) and the beneficiary list was to be approved by the Ward Sabha after detailed discussion. The lists prepared by the Ward Sabhas were consolidated by the ULBs.

Audit noticed the following shortcomings in the process of identification of beneficiaries:

- The approved DPRs contained 23631 beneficiaries (Thiruvananthapuram: 13187, Kochi: 10444). Audit, however, observed that the Corporations did not provide benefits to all the beneficiaries included in the approved DPRs and provided assistance to new beneficiaries by deleting most of the beneficiaries in the approved list even without obtaining the approval of SLSC and CSMC. Test-check of the files of 740 beneficiaries who received the assistance under the scheme in Thiruvananthapuram Corporation revealed that only 55 of them were from the approved beneficiary list. Kochi Corporation had changed the entire lists of 5830 beneficiaries of Urban Poverty Alleviation Department (UPAD) East and UPAD West and included new beneficiaries. The reasons for effecting such drastic changes from the

approved list of beneficiaries were not documented in both the Corporations. The eligibility of the newly selected beneficiaries could also not be ensured in Audit in the absence of documentation of the selection process.

- Out of the 565 flats constructed in Thiruvananthapuram, 368 flats (cost: ₹17.19 crore) had not been allotted to the beneficiaries as the beneficiary list was undergoing changes.
- As per Scheme guidelines, biometric mapping of the identified beneficiaries was to be conducted and their names placed on the website of ULBs. These requirements were not followed by the two Corporations.

Thus, there was lack of transparency in identification of beneficiaries resulting in denial of intended benefits to the deserving beneficiaries. Thiruvananthapuram Corporation replied (June 2014) that changes in the beneficiary list were made due to death/shifting of beneficiaries, reluctance of the beneficiaries to receive the assistance, non-production of necessary documents etc. Kochi Corporation stated (October 2014) that the beneficiary lists were prepared in a hurry, giving preference to the landless beneficiaries. They added that non-availability of land and non-co-operation of the beneficiaries forced them to make changes in the beneficiary list. Their reply was not tenable as the beneficiary list was to be prepared following the criteria prescribed for selection of beneficiaries, and was required to be approved by competent authority. Moreover, the Corporations could not substantiate their statements with supporting documents, which calls for investigation by the Government.

4.2.3.1 Selection of beneficiaries without ensuring eligibility

Conditions included in the agreement for allotment of flats stipulated that a beneficiary should not possess land or building. Thiruvananthapuram Corporation allotted 175 flats in two slum colonies, namely, Kannamoola Bund Colony and Karimadam Colony. Allotment of all these flats was done without obtaining non-possession certificates from the Village Officer, which is one of the requirements for allotment. The files of these beneficiaries did not even contain any indication with regard to the verification conducted by the Corporation. The process of selection of beneficiaries without obtaining Non-Possession Certificates or conducting verification by Corporation is not only resulting in violation of the selection procedure but also fraught with the risk of inclusion of ineligible beneficiaries, which needs investigation by Government.

4.2.4 Implementation of project

4.2.4.1 Physical Performance

The main activity under BSUP undertaken by the two Corporations was to provide dwelling units by constructing individual houses, flats and renovation of houses.

Physical performance of construction of dwelling units as of March 2014 is given in **Table 4.5**.

Table 4.5: Physical progress of implementation of dwelling units

Name of ULB		Sanctioned	Started	Completed	Percentage of progress with reference to sanctioned projects
Thiruvananthapuram	New houses	10892	8542	6704	62
	Flats	1621	877	630	39
	Renovation	674	425	343	51
Kochi	New houses	8864	8415	7236	82
	Flats	864	48	12	1
	Renovation	716	368	357	50
Total		23631	18675	15282	65

Out of 23631 dwelling units targeted under the scheme in the two cities, construction was started in respect of 18675 units of which 15282 units were completed. While the progress of construction of individual houses in Thiruvananthapuram was 62 per cent, it was 82 per cent in Kochi. Though the main objective of the Scheme was the integrated development of slums, the main activity undertaken by the Corporations was construction of dwelling units. These dwelling units were constructed at different locations of the cities and not confined to the slums, thus violating the norms. The progress of construction of flats meant for slum dwellers was one per cent and 39 per cent in Kochi and Thiruvananthapuram respectively. Most of the infrastructure facilities proposed for providing basic services to slum dwellers remained unattended in Kochi and the progress made in certain items such as water supply, community services, sewerage, etc. in Thiruvananthapuram was insignificant. It was observed in audit that the progress of implementation of the projects for the development of slums was not encouraging.

4.2.4.2 Financial performance

The details of funds released by GOI, the State Government and the contributions of the ULBs and beneficiaries as well as the expenditure incurred on the implementation of the scheme from 2005-06 (year of launch) to 2013-14 are given in **Appendix IX**.

The total financial assistance provided by GOI up to September 2014 was ₹166.26 crore, State Government contributed ₹37.39 crore and the Corporations contributed ₹19.91 crore. The total receipt of ₹246.22 crore included beneficiary contribution of ₹22.67 crore. The Corporations expended ₹223.33 crore.

Central assistance provided under the mission can be used to leverage additional resources for financing urban development so that maximum projects could be implemented within the allotted time frame resorting to Public Private Partnership (PPP) model wherever possible. The two Corporations had not proposed any project by PPP mode of implementation except the twelve flats constructed in Kochi.

According to the Guidelines, excess expenditure over the project cost was to be met by the Corporations. Audit noticed that Tripunithura Municipality utilised ₹23.29 lakh as against the project cost of ₹16.47 lakh for providing infrastructure facilities in four colonies. Utilisation of the excess amount of ₹6.82 lakh from the scheme fund was irregular and violated the provisions of the Guidelines.

4.2.4.3 Construction of dwelling units on private land

Construction of 115 dwelling units and other infrastructure works of the Kannammoola Bund Colony under Phase I of BSUP in Thiruvananthapuram was entrusted (September 2008) to M/s Habitat Technologies Group and 2.14 acres of land was handed over to them for development. When M/s Habitat Technologies Group commenced the work, the Secretary of the Corporation received (July 2009) a complaint with regard to the ownership of the land. It was only in September 2012 that the Corporation confirmed that the developer had started the work in the private land. In the meantime, the developer executed certain works costing ₹5.01 lakh in the private land. Corporation stated (June 2014) that construction in the private land happened as there was no demarcation between Corporation land and private land. Prompt action on the complaint could have avoided the wasteful expenditure of ₹5.01 lakh. The units were finally constructed on the Corporation land.

4.2.4.4 Excess collection of Beneficiary Contribution

The Scheme Guidelines provide that beneficiaries belonging to Scheduled Caste (SC)/Scheduled Tribe (ST)/Backward Communities/Other Backward Communities/Physically Handicapped need to contribute 10 *per cent* of the project cost as beneficiary contribution. Audit noticed that the two Corporations collected beneficiary contribution at the rate of 12 *per cent* of the project cost (applicable to general category) from the OBC categories on the basis of direction given by the nodal agency (Kudumbashree). The excess collection of beneficiary contribution worked out to ₹2.69 crore from 11006 beneficiaries to whom individual houses were sanctioned (Thiruvananthapuram: ₹1.76 crore, Kochi: ₹0.93 crore). Non-compliance with the prescribed rate of collection of 10 *per cent* resulted in excess collection from the specified category. On being asked by Audit, the SLNA replied that State had changed the beneficiary share pattern considering the socio-economic conditions in the State. However, no Government orders/instructions in support of this change were produced to Audit.

4.2.4.5 Deficiency in preparation of Detailed Project Reports

The Scheme Guidelines insist on involvement of communities in the preparation of Detailed Project Reports (DPRs), which is critical in developing ownership and sustainability of infrastructure provided within slums. For this, the ULBs need to empanel civil society groups/NGOs to help, mobilize and organize communities and to engage urban poor communities in a participatory planning process that will adequately respond to their needs. This is especially necessary for determining the

type and location of services, development of housing designs, ensuring upgraded/new settlements have access to schools, health care services, roads, transport systems, etc. Audit noticed the following deficiencies in the preparation of the DPRs.

(i) No information was available in the files to verify that the DPRs were prepared through participatory planning as stipulated in the Guidelines. In the absence of participatory planning, there were local protests, unwillingness of beneficiaries to pool their land for construction of flats, inclusion of ineligible beneficiaries, etc. As a sequel, many of the projects proposed for implementation in the slums of both the Corporations could not be started/remained incomplete due to reasons as detailed in **Table 4.6**.

Table 4.6: Details of projects remaining unimplemented

Projects not implemented	Reasons for non-implementation
Thiruvananthapuram (Ten projects): Two Cent, Rajiv Nagar, Karimadam, Balanagar, Beemapally Varuvilakam, Pongumoodu Alappuram, Nemam Kunukadu, Puthenpally Attinkara, Barton Hill and Chitravilakam	Non-availability of land
Thiruvananthapuram (Two projects): Mannanmoola and Thycaud Poundukulam	Local protests
Thiruvananthapuram (One project): Poonkulam	Unsuitability of land
Kochi (Two projects): Mundamveli, Mundamveli Santhome	Ineligibility of beneficiaries
Kochi (Four projects): 24 Muri, Panayappilly, Pattathiparambu and Chilavannur	Unwillingness of beneficiaries
Kochi (Two projects): Fishermen Colony and Chirakkal	Unwillingness of beneficiaries

(ii) As many of the projects could not be executed within the stipulated time for the reasons stated above, Thiruvananthapuram and Kochi Corporations had proposed to surrender ₹40.05 crore (Thiruvananthapuram: ₹20.38 crore, Kochi: ₹19.67 crore) to Government of India. In Thiruvananthapuram, Audit observed that works to the tune of ₹75.63 crore were not executed on account of the reasons indicated above. As the scheme is scheduled to be completed by March 2015, only three months are left for completion of the balance work. It would be difficult to complete these works within the stipulated time (March 2015) at the present pace of implementation.

Thus, though the DPRs contained projects for the development of slum dwellers, implementation of the projects costing ₹95.30 crore (Thiruvananthapuram: ₹75.63 crore, Kochi: ₹19.67 crore) as indicated in the above table did not materialize. The non-implementation and delay in implementation of projects as well as non-materialization of DPR due to lack of popular support implies that DPRs were prepared without involvement of communities. Thus, the expenditure of ₹77.49 lakh on the implementation of DPRs remained largely unfruitful.

4.2.4.6 Delay in release of first instalment of assistance

As per Guidelines, assistance to the beneficiaries for construction of houses was to be given in four instalments and the first instalment (₹10,000) was to be given in advance, on execution of agreement. The beneficiary was to complete the constructions within six months of the date of first instalment.

Inordinate delay up to 402 days was noticed in release of the first instalment of assistance in 320 cases out of 444 case files seen by Audit. Audit noticed that delay in completion of houses ranged from nine months to 66 months. Thiruvananthapuram Corporation stated that the delay in release of first instalment was due to confusion over the enhancement of the amount of assistance during the initial period. Audit, however, noticed that delay in release of first instalment continued during the entire period of implementation of the scheme and not only during the initial period as replied. Delay in releasing assistance had an impact on the completion of houses within the stipulated period laid down in the Guidelines.

4.2.4.7 Extra expenditure due to delay in awarding the work

GOI sanctioned (December 2007/February 2009) two projects, viz., (i) construction of 105 flats and infrastructure for SC beneficiaries (ii) 213 flats for General Category in Kalladimugham Colony in Thiruvananthapuram Corporation. The land required for the SC project was purchased utilising Special Component Plan Fund (SCP fund) and the land for the project for general category was purchased using General Purpose Fund of the Corporation. Mistaking that the Corporation had used SCP fund for purchase of land for general category, the SC organizations protested against the project proposed for the General Category. The Corporation took more than three years to settle the dispute over the source of fund. There was no justification for the inordinate delay in settling the issue. As a result, the award of these two works was delayed for five and three years respectively. Meanwhile, estimates of the works were revised based on Schedule of Rates (SOR) 2010 resulting in extra expenditure of ₹10.94 crore.

Both the works were awarded to Costford in February 2012, stipulating the date of completion as May 2014/January 2014. The works were still in progress (December 2014). Audit also noticed that the Corporation had agreed to the demand of Costford for further revision of rates based on 2012 SOR. Final decision of the Government was awaited (December 2014).

Thus, the projects sanctioned in December 2007 and February 2009 had not been completed even as of December 2014. Besides cost escalation of ₹10.94 crore, the delay has resulted in denial of these facilities to the beneficiaries.

4.2.4.8 Non-completion of houses after receiving the assistance

As per the Guidelines, the construction of individual houses was to be completed within six months from the date of disbursement of first instalment of the assistance. The Guidelines further provide that the amount of assistance given to

the beneficiary had to be recovered with penal interest at the rate of 18 *per cent* from the beneficiary, if the beneficiary has not completed construction or transferred the property. Audit noticed that 1782 beneficiaries who received assistance during January 2008 to February 2014 had not completed the construction even as of October 2014. The details of incomplete houses in the two Corporations are given in **Table 4.7**.

Table 4.7: Details of incomplete houses

Period of delay	Number of incomplete houses		
	Thiruvananthapuram	Kochi	Total
Six to 12 months	677	47	724
12 to 36 months	238	138	376
36 to 60 months	233	203	436
Above 60 months	106	140	246
Total	1254	528	1782

The total assistance given to these beneficiaries amounted to ₹16.82 crore (Kochi: ₹3.90 crore, Thiruvananthapuram: ₹12.92 crore). The delay in completion of houses indicated lack of monitoring mechanism existing in the Corporations. No specific reply was furnished in this regard and it was stated that action is being taken to complete the construction of the above houses.

4.2.4.9 Sale of house after receiving assistance

The Guidelines provide that houses constructed under the scheme shall not be transferred or sold for the first seven years. To ensure this, the documents of the house should be kept under the safe custody of the Corporation. During site verification, Audit noticed that, in Thiruvananthapuram Corporation, one beneficiary had sold her house before expiry of the stipulated period of seven years. The Corporation was not aware of the sale till it was pointed out by Audit. Though the beneficiary was in possession of the title deed of the land, the assistance was released based on a possession certificate issued by the Muttathara Village Officer to the effect that the beneficiary was residing in the land. In this case, the sale of property was made possible as the beneficiary kept the title deed under her custody. While holding the title deed, issue of possession certificate was not warranted and the Corporation also failed to ensure whether the beneficiary was holding the title deed. Further, out of the 25 files seen by Audit, assistance was released in 24 cases, based on the possession certificate issued by Village Officer of Muttathara. Whether the beneficiaries still hold the possession of these houses requires further verification by the Corporation.

4.2.4.10 Wasteful expenditure on purchase of motor pump sets

DPR for Kalamassery Municipality included project for providing individual water connections to each household. The project included laying of pipelines and setting up of water distribution system. The Municipality invited quotations for supply of

water tanks, rain water harvesting units, motor pumps, septic tanks etc., though these items were required only after completing laying of pipeline. In response to the quotation, an offer for supply of pump sets alone was received. The Municipality purchased 145 pump sets at a cost of ₹2.99 lakh. The pump sets could not be used as the works relating to laying of pipeline and setting up of water distribution system were not carried out. The pump sets were lying in the store of the Kalamassery Municipality for the last five years and were in obsolete condition. Thus, the expenditure of ₹2.99 lakh has become infructuous due to lapse on the part of the Municipality to execute the main components of the project. Responsibility for purchase of pump sets, much in advance, is required to be fixed.

4.2.4.11 Double/excess payments

As per the system existing in Kochi Corporation for release of assistance, Project Implementation Unit (PIU) prepares cheques based on the list of beneficiaries furnished by UPAD and submits to the Corporation Secretary for authorisation. The Project Officer of UPAD was responsible for ensuring the correctness of the list of beneficiaries. The Project Officer, however, did not ensure as to whether the beneficiaries received the entitled amount/the entire cheque amount transferred to the beneficiaries' accounts as per the list attached/the unpaid amount, if any, was refunded to the scheme account. Test-check of records of UPAD of Kochi Corporation revealed that the amount transferred to the accounts of 39 beneficiaries exceeded their entitled amount by ₹11.64 lakh.

Audit also noticed that the UPAD made changes in the list of beneficiaries as well as the amount sanctioned to them without the knowledge of the Secretary who originally authorized the payments. The action of the UPAD in proposing changes without the consent of the Secretary was not in order. After giving direction for the changes, the UPAD did not ensure that the bank has complied with the proposed changes. This was one of the reasons for the payment of excess amount.

Incomplete maintenance of register of beneficiaries and authorizing the payments without verifying the basic records/registers were the other factors that contributed for the excess payment.

4.2.5 Fund Management

4.2.5.1 Delay in transfer of GOI share

As per the funding pattern of the scheme, 25 per cent of the committed central share relating to the project would be released to the State Government as first instalment on approval of the project and on receipt of the central fund the State has to release the matching fund. The balance assistance would be released by GOI in three instalments on receipt of the Utilisation Certificate for 70 per cent of the central and state shares.

Audit noticed that there were delays in transfer of GOI funds to SLNA. The delay ranged from 1 ½ months to 16 months resulting in loss of interest amounting to ₹2.74 crore. The reply in this regard is awaited.

4.2.5.2 Short payment of assistance to the beneficiaries

The approved DPR prescribed the amount of assistance to be paid for construction of individual houses. The assistance ranged from ₹1,20,850 to ₹1,33,400. Audit noticed that the two Corporations disbursed lesser amount of assistance (₹1,20,000) than that prescribed in the DPR. This had resulted in short payment of ₹2.49 crore to 9142 beneficiaries (Thiruvananthapuram: 3865; Kochi: 5277) in the two Corporations. The Corporations stated (June 2014) that they disbursed lesser amount as per the direction of the Kudumbashree. As the central assistance was sanctioned taking into account the financial assistance included in the DPR, the direction of Kudumbashree to disburse lesser amount than that prescribed in the DPR was wrong. The SLNA replied that it was an omission and directions were issued to disburse the assistance as per the DPR.

4.2.5.3 Non-adjustment of Mobilisation Advances

Advances given to various agencies were to be recorded in the advance register so as to keep a watch on the adjustment of the advances. Thiruvananthapuram Corporation was not maintaining advance register for recording advances for works under BSUP Scheme. As per cheque issue register and the details given to Audit, advances amounting to ₹16.03 lakh paid during September 2008 to May 2014 was remaining unadjusted till date, against accredited agencies (Habitat: ₹5.77 lakh, Kerala State Nirmithi Kendra: ₹10.26 lakh). These advances related to works which were either stopped or abandoned.

4.2.6 Control mechanism

The main objective of the internal control system is to gear up the supervisory controls and management systems in the organization, to have proper control over implementation of various programmes and also to insulate it from financial irregularities. The internal control system in the Corporations was not effective in the case of implementation of projects under BSUP. In the two Corporations, there existed no system to ensure that the projects were implemented within the stipulated time. There was no control mechanism in place in Kudumbashree to monitor financial flows *vis-a-vis* physical performance.

Mahindra Consulting Engineers Limited, Chennai was appointed as a Third Party Inspection and Monitoring Agency (TPIMA) by Kudumbashree to review and monitor the performance of the BSUP projects during pre-construction stage, construction stage, commissioning, trial run and testing stage and post construction stage. The inputs from the agency were meant to enable the Programme Monitoring and Evaluation System to report on the performance of the project implementation. Though TPIMA had inspected the projects and submitted their suggestions to the nodal agency, it did not serve any purpose as none of the reports were forwarded to Thiruvananthapuram Corporation and only one report was given to Kochi Corporation. The payment of ₹3.33 lakh made to TPIMA remained largely unfruitful.

4.2.7 Conclusion

Though BSUP aimed at the integrated development of slums by providing improved housing, basic services and social services to the slum population, the implementation of the scheme was mostly confined to giving assistance for construction of houses at locations other than slums. The progress made in the construction of flats for the slum dwellers was not encouraging as achievement was only one *per cent* in Kochi and 39 *per cent* in Thiruvananthapuram. Most of the infrastructure facilities included in the DPRs were also not attended. As the needs and aspirations of urban poor communities were not considered, many of the projects included in the DPRs remained unimplemented. There existed no system in the Corporations/SLNA to ensure that the projects were implemented within the stipulated time. There were lapses in the selection of beneficiaries and disbursement of assistance.

The matter was referred to the Government in December 2014, reply is awaited (March 2015).

4.3 LAND MANAGEMENT BY PANCHAYAT RAJ INSTITUTIONS

4.3.1 Introduction

Efficient land management is a vital part of a Panchayat to assure that the land in possession is put to optimum utilisation. Land management covers maintenance of a comprehensive database of all land, safe custody of land records, protection and utilisation.

The lands possessed by Panchayat Raj Institutions (PRIs) are categorized as:

- (i) Own lands of PRIs acquired through land acquisition proceedings, direct purchase or free surrender, or those assigned by the Government;
- (ii) Lands transferred along with the institutions and assets as part of decentralization of powers;
- (iii) Puramboke lands vested in the Local Governments under Sections 169 and 218 of the Kerala Panchayat Raj Act; and
- (iv) Puramboke lands over which the Local Governments have power to regulate the use of land set apart for the common use of the community, such as grazing grounds, burning and burial grounds, etc.

The objective of audit was to assess whether effective mechanism exists in PRIs to ensure that the land in custody is maintained properly minimising the scope for encroachment, and put to use effectively to derive optimum benefit. Audit was conducted from July 2014 to October 2014 covering the period 2009-10 to 2013-14. Apart from State level offices, 32¹³ PRIs were selected for test-check using Simple Random Sampling Without Replacement (SRSWOR). Audit methodology included scrutiny of records, issue of audit enquiries and obtaining replies, interaction with officials, site verification etc.

Audit findings

4.3.2 Absence of database relating to land

Complete and accurate database regarding the extent of land, date of acquisition, cost of acquisition, type, location, survey number etc., of entire land possessed by PRIs including those available with various departments under their control is a pre-requisite for good land management. Such database helps in formulating land use planning, monitoring, proper utilisation and prevent encroachments or alienation of land.

¹³ **District Panchayats:** Alappuzha, Ernakulam, Kozhikode, Wayanad

Block Panchayats: Aryad, Kanjikkuzhi, Pattanakkad, Alangad, Edappally, Vypin, Mulanthuruthy, Balussery, Kozhikode, Vadakara, Sulthan Bathery

Grama Panchayats: Aroor, Aryad, Kanjikkuzhi, Mararikkulam North, Pattanakkad, Cheranellur, Chottanikkara, Karumalloor, Mulanthuruthy, Njarakkal, Pallippuram, Azhiyoor, Panangad, Ramanattukara, Ulliyeri, Meenangadi, Sulthan Bathery

Government had issued (December 2005) orders for maintenance of detailed asset accounts on the basis of recommendations of Second State Finance Commission. Accordingly, the PRIs were required to maintain ten registers of which nine were for accounting immovable assets. The Government issued instructions in July 2011 for the maintenance of Asset Register showing the four categories of lands under their control and possession. While giving instructions, Government stated that the details of land under categories (i) and (ii) indicated in paragraph 4.3.1 were necessarily to be available with the Local Governments and the details of the other two categories were to be collected from the village officers concerned. Audit noticed that none of the PRIs test-checked had maintained the registers properly as instructed by the Government orders of December 2005/July 2011. The details of land under categories (iii) and (iv) were not collected from the Village Officers by any PRIs, except Pattanakkad Grama Panchayat (GP).

For maintaining the Asset Register in digital form, the Government issued (February 2013) directions to all LSGIs to prepare a comprehensive database of all assets under their control by 30 April 2013. At the district level, the Deputy Director of Panchayats and Assistant Development Commissioner were responsible for monitoring all the activities related to preparation of database. Further, the Executive Engineer was to furnish details once in three days to Chief Engineer (Local Self-Government Department) who was to consolidate and submit it to the Government in the Local Self-Government Department once in five days. The preparation of the database, as envisaged, had not been completed by any of the test-checked PRIs. Audit noticed the following deficiencies in the maintenance of database of land under the possession of PRIs:

- The register did not contain details of all lands possessed by the PRIs. The asset register did not contain details of the four categories of lands under the custody of the PRIs test-checked.
- Details contained in the register were incomplete. Mandatory requirements such as survey number, extent of land, date of acquisition, cost of acquisition, etc. were not recorded properly in the Register.
- The correctness of the details contained in the register had not been verified at any time. Audit noticed that assets incorporated in the register included lands not actually belonging to the PRI. The Asset Register of Kanjikkuzhi Block Panchayat (BP) contained 0.47 hectare of land (Community Health Centre) which belonged to Aryad BP. The Alangad BP had included in its Asset Register 72 square meters of land (Women Industrial Centre) belonging to Alangad GP and 3.03 ares (Small Scale Industrial Centre, Eloor) belonging to Eloor Municipality. The Vanitha Vyavasaya Kendram, Cheruvannur (set up in 2.79 hectares) and Vanitha Vyavasaya Kendram, Payyoli (in 0.24 hectares) belonging to Payyoli GP had been included in the Asset Register of District Panchayat (DP), Kozhikode.

Audit further noticed that the Government had appointed (July 2012) Focal Point Officers in all the departments for collecting details of the lands under the control of each department. The law officers of Panchayat Directorate and Urban Affairs Directorate and the Additional Development Commissioner-I of Commissionerate of Rural Development were entrusted with this assignment. However, no attempt was made to collect the land details even after two and half years of creation of Focal Point Officers for this purpose.

4.3.3 Safe custody of Title Deeds

Title deed is a legal document to prove the ownership of a property and thus confers certain rights and privileges on the person who holds it. The Secretaries of the PRIs are responsible for its safe custody and periodical verification. Audit noticed that the PRIs test-checked did not possess the Title Deeds of all lands acquired by them. Though Audit requested the PRIs to furnish information regarding the details of Title Deeds in respect of the properties in their possession, many of them furnished information relating to only the plots for which Title Deeds were available with them. Audit could not ensure the correctness of the number of plots in the absence of complete data of land possessed by the PRIs. Audit noticed a mismatch between the number of plots possessed by the PRIs and the Title Deeds available with them as shown in **Table 4.8**.

Table 4.8: Custody of Title Deeds

Sl. No.	Name of PRI	Plots owned	Title deeds in possession
1	Sulthan Bathery GP	84	23
2	Aryad GP	30	15
3	Kanjikkuzhi GP	63	17
4	Vypin BP	2	0

The PRIs replied that copies of the missing Title Deeds would be obtained from the Sub Registrar offices concerned.

Audit also noticed that the PRIs were not keeping register of valuables incorporating the details of Title Deeds in custody also, so as to enable periodic verification.

4.3.4 Utilisation of land

4.3.4.1 Absence of Land Use Plan

Land use planning ensures systematic assessment of physical, social and economic factors to explore options for increasing productivity and meet the public needs. As institutions of Self- Government, the PRIs need to formulate plans for utilisation of their lands for the economic development of the area and for the social and economic development of the people.

None of the PRIs test-checked had a Land Use Plan so as to utilise their land commensurate with the immediate and long term requirements. Audit noticed that

land measuring 2.70 hectares acquired by four PRIs with the intention of providing various facilities/benefits to the public had not been utilised due to absence of definite Land Use Plan, as mentioned below:

- Njarakkal GP had received 0.76 hectares of land as early as in 1997-98 from Revenue Department for providing house sites to landless workers in rural areas. The GP took 11 years to develop the land to make it suitable for distribution to beneficiaries. The GP had not formulated any definite plan for distribution of the land even after five years of completing the land development work at a cost of ₹25.20 lakh. The site was physically verified by the audit party and found that it was partly waterlogged even now. This site was purchased by the department under State Sponsored Scheme and handed over to GP. The GP replied that the site would be distributed to the beneficiaries at the earliest.
- During 2009-10, Ulliyery GP purchased 1.35 hectares (cost: ₹54.50 lakh) of land for providing house sites to 50 Landless Homeless SC families. The GP distributed the land to 10 beneficiaries and retained the balance land as the remaining 40 were already provided with houses under EMS Housing Scheme. The GP had not formulated any plan either to identify new beneficiaries or to formulate alternative projects. The GP replied that at the time of formulation of housing scheme by the GP, there were no other housing schemes. Later, when other housing schemes such as EMS Housing Scheme started, the beneficiaries availed assistance under those housing schemes.
- Two GPs¹⁴ acquired 58.81 ares of land (purchased 42.61 ares at a cost of ₹182 lakh and 16.20 ares free of cost) during 2007-08, 2010-11 and 2011-12 for implementation of specific schemes/projects (construction of flats under EMS Housing Scheme and two bus stands). The entire land was remaining idle as the GPs failed to mobilize the required resources for the projects. Audit found lack of planning for proper utilisation of land for the intended purpose due to funds constraints.

4.3.4.2 Purchase of wet land

Ensuring suitability of land before making investment is a requirement for effective utilisation. Failure in ensuring suitability of land before purchase by two GPs resulted in the available resources being tied up in idle assets as mentioned below:

(a) Ramanattukara GP purchased 0.96 hectares of wet land valuing ₹28.06 lakh in March 2007 for the construction of a Mini Stadium. The Deputy Director of Panchayats (DDP) gave suitability certificate for the land in January 2007, subject to the condition that sanction from the competent authority has to be obtained before registration of the land. Ignoring the direction given by DDP, the GP

¹⁴ Mulanthuruthy GP, Panangad GP

registered the purchase deed, without obtaining sanction of the Government. The request (March 2010) of the GP to convert the wet land was rejected by the Government in October 2010 stating that it was against the provisions of Kerala Conservation of Paddy and Wetland Act, 2008. The GP stated that the matter would be brought to the notice of Government again for permission to construct the stadium. Thus, Audit found that the grant of conditional suitability certificate by the DDP and the failure of the GP in purchasing land without obtaining sanction of the Government resulted in the land, purchased at a cost of ₹28.06 lakh, remaining idle even after a lapse of eight years.

(b) In March 2012, Karumalloor GP purchased 0.28 hectares of wet land for SC Housing Scheme, incurring expenditure of ₹19.76 lakh. Neither the suitability certificate nor Government permission was obtained before purchasing the wet land. The housing scheme had not been implemented (November 2014). Non-observance of mandatory requirements as envisaged in the extant rules and orders resulted in incurring unfruitful expenditure. The GP stated that necessary steps would be taken to obtain permission from the Government in this regard and to comply with other formalities.

4.3.4.3 Land purchased for establishment of industrial units not utilised

Eight PRIs had taken up schemes for setting up industrial units in their respective localities. The scheme intended to provide infrastructure such as land, building, electricity, water connection etc., to attract potential industrial entrepreneurs and to facilitate setting up of new industrial ventures.

Test-check of records revealed that land measuring 5.77 hectares, purchased by these PRIs, had not been utilised for establishment of industrial units for periods ranging from two to 16 years as shown in **Table 4.9**.

Table 4.9: Land purchased for industrial units

SI No	Name of PRI	Year of purchase	Area (hectare)	Reasons
1	Alappuzha DP	1997-98	0.43	Unit not set up. The working of the committee appointed for the day-to-day management of the project was not effective.
2	Balussery BP	1998-99	0.81	Land lying idle. No reasons assigned.
3	Wayanad DP	1999-00	2.65	Building constructed. Not functioning due to paucity of fund.
4	Sulthan Bathery GP	2000-01	0.39	Paddy processing unit. Not functioning due to decline in paddy production.
5	Meenangadi GP	2006-07	0.96	Land lying idle. No reasons assigned.
6	Vypin BP	2007-08	0.02	Building constructed but not working. No reasons assigned.
7	Mulanthuruthy GP	2007-08	0.11	Unit not working due to scarcity of water.
8	Panangad GP	2011-12	0.40	Clearance from various authorities pending.
Total			5.77	

It may be seen from the above that the non-utilisation of the land was attributable to lack of proper planning by the PRIs.

Audit further observed that after deliberations on Paragraph 4.7 of Comptroller and Auditor General's Audit Report for the year ended March 2004, the Local Fund Accounts Committee (LFAC), in its Eighth Report (presented to the Legislature on 21 March 2012) had expressed concern over the non-utilisation of the land acquired for the establishment of mini industrial estates in the State. The LFAC had observed that non-establishment of the mini-industrial estate was due to defective planning of the Local Governments. The details of the extent of land acquired and utilised for the establishment of the mini industrial estate in the State, called for by the LFAC from the Government were not furnished as of January 2015.

4.3.4.4 Land purchased for Model Residential School remaining idle

With the aim of providing better educational facility to socially and economically backward Scheduled Caste students and to avoid expenditure on rent being incurred by Scheduled Caste Development Office (SCDO), Kozhikode District Panchayat (DP) purchased ten acres of land in March 2010 valued at ₹1.82 crore for the construction of a Model Residential School (MRS) which was functioning in a rented building. The DP transferred the land to SC Development Department in April 2012, retaining the ownership. At the time of transfer, the SC Department already had nine acres of land in its possession, allotted by Government for the same purpose. The construction of MRS has not been commenced even after two years of its transfer, and both pieces of land are remaining idle.

The MRS was still functioning in the rented building. The total expenditure incurred by SCDO towards rent from April 2012 to November 2014 amounted to ₹56 lakh (approximately). The Secretary of the DP stated that SC Department was solely responsible for the construction of the school on the land transferred to them.

Thus, Audit observed that in view of the fact that construction of MRS for SC students was outside the domain of DPs enumerated in the Schedules of KPR Act, there was no necessity for the DP to purchase land for the construction of school for SC students.

4.3.4.5 Protection of land

(i) Protection with compound walls/fencing

Government had given direction to all LSGIs that the land available with them should be surveyed, boundaries protected with compound walls and display board showing the ownership should be erected at the site. LSGIs were permitted to utilise their Development Fund, Maintenance Fund or Own Fund for the purpose. Audit noticed that adequate steps were not taken by PRIs for the protection of their lands. Out of total 1523 plots with an extent of 991.13 hectares, as disclosed by the

Asset registers of test-checked PRIs, only 307 plots with an extent of 436.40 hectares were protected with compound walls or fencing. Paucity of funds, inadequate technical staff etc, were the reasons attributed by PRIs for the non-compliance to Government direction. The fact, however, remains that PRIs were not ensuring safety measures to guard against the misuse or encroachment of the land.

(ii) Periodical verification of land

As per the direction issued (August 2008) by the Government, a Committee headed by the President of the Panchayat/Standing Committee Chairman, with elected representatives and officials as members was to be constituted for periodical verification of land, so as to ensure that the property was free from encroachment. Audit, however, observed that the Committee had not been constituted in any of the PRIs test-checked and periodical verification of properties was not being done as envisaged. The PRIs stated that the committee would be constituted. Thus, due to non-constitution of the committee, the panchayats could not ensure that the lands in their possession are free from encroachment.

(iii) Encroachment of Agricultural Farm

State Seed Farm, Okkal, having more than 13 hectares of land, was under the jurisdiction of Ernakulam DP. The implementation of the functions relating to the farm was vested with the Senior Agricultural Officer of Agriculture Department. The Senior Agricultural Officer, State Seed Farm, Okkal reported (July 2012) to the District Panchayat, Ernakulam, a case of encroachment by a private party on the land of Block No.7 of the Seed Farm, Okkal and also requested the Taluk Survey Officer, Kunnathunadu to demarcate the boundaries of the farm. It was noticed during audit that the District Panchayat had not taken any action to redeem the encroached land.

4.3.4.6 Other points of interest

(i) Excess expenditure incurred on purchase of land for establishing Gender Park

As per the direction issued (January 2008) by the Government, solatium allowable for purchase of land by negotiation was only up to a maximum of 30 *per cent* above the value fixed by the District Collector. For providing basic infrastructure facilities for women oriented welfare schemes, Alappuzha DP purchased (March 2012) 24.40 ares of land along with a building for ₹six crore. In this case, the District Collector had valued the land at ₹3.43 crore and the Executive Engineer valued the building at ₹90.48 lakh. As such, the maximum amount payable in this regard was only ₹5.36 crore¹⁵.

¹⁵ Cost of land	: ₹ 3.43 crore
Add: 30 <i>per cent</i> solatium	: ₹ 1.03 crore
Value of building	: ₹ 0.90 crore
Total	: ₹ 5.36 crore

The DP passed unanimous resolution in support of the purchase and approached (April 2012) the Government for ratifying the excess expenditure of ₹63.86 lakh. The Government rejected the request of the DP stating that it was impossible to approve the deal as the amount was fixed by negotiation. The land purchased by the DP is still remaining unutilised (October 2014).

The DP replied that the actual cost of the property would work out to ₹six crore and as such no excess expenditure was incurred for the purchase. The reply of DP was not correct as the maximum amount allowable for purchase of land as per the extant orders was only ₹5.36 crore.

(ii) Lease rent not realised due to non- execution of lease deed

Sulthan Bathery GP resolved (August 2004) to transfer one acre of land to District Tourism Promotion Council (DTPC) Wayanad, for constructing a tourism complex at Manichira. On the basis of the above resolution and with the approval of Tourism Department, DTPC, Wayanad constructed (December 2008) a tourism complex (Pepper Grove) at a cost of ₹1.65 crore. The GP decided (February 2010) to transfer the land to DTPC Wayanad on lease basis in accordance with the provisions of the Kerala Panchayat Raj (Acquisition & Disposal of Property) Rules, 2005, which was agreed to by the lessee. Even though a draft lease agreement was prepared and forwarded (September 2010) to lessee fixing the lease rent at ₹five lakh per annum, no lease deed was executed between the lessor and the lessee and no lease amount has been remitted by lessee till date (October 2014). Failure to execute lease deed resulted in non-realisation of lease rent amounting to ₹20 lakh for the period 2010-11 to 2013-14.

The matter was referred to Government in March 2015. Reply is awaited.

4.3.5 Conclusion

The PRIs did not have any comprehensive database relating to the lands under their control. The Asset Registers maintained were not exhaustive and were deficient in many aspects. The PRIs did not possess the Title Deeds of all lands acquired by them. None of the PRIs test-checked had a Land Use Plan so as to utilise their land commensurate with the immediate and long term requirements, resulting in non-utilisation of land acquired for specific purposes. Periodical verification of land was not being done to ensure that the land was maintained properly and free from encroachments.

OTHER COMPLIANCE AUDIT OBSERVATIONS

4.4 Misappropriation of money

Failure of the Deputy Director (Finance) and Project Director in exercising proper internal checks led to the misappropriation of ₹1.10 lakh by the same Project Assistant who had misappropriated ₹1.77 lakh on an earlier occasion.

Kerala Sustainable Urban Development Project (KSUDP) is an initiative of Government of Kerala to improve urban infrastructure services in Kerala in a sustainable manner. As per the Project Financial Management and Accounting (PFMA) Manual of KSUDP, the Deputy Director (Finance) is the person authorized to sign all bills and vouchers, after ensuring compliance with adopted procedures, Accounts Manager is responsible for the reconciliation of the cash book of the project with that of Treasury/Bank pass books who is supervised by the Deputy Director (Finance).

A mention was made in paragraph 4.1 of the Report of the Comptroller and Auditor General of India (Local Self-Government Institutions) for the year ended March 2012 about a case of misappropriation of ₹1.77 lakh by a Project Assistant who was entrusted with the charge of accounts of KSUDP. In the said paragraph Audit had observed that the failure of the Deputy Director (Finance) in exercising proper internal checks such as monthly reconciliation of cash balance, proper maintenance of records relating to cash, etc., had led to the misappropriation. Principal Secretary to Government stated (January 2013) that disciplinary action against the delinquent official was in progress and steps had been initiated to realise the money from him.

Audit scrutiny of the records of KSUDP revealed (November 2014) two more cases of misappropriation amounting to ₹1.10 lakh by the same Project Assistant, as mentioned below:

As per the sanction issued (06 August 2012/10 August 2012) by the Deputy Director (Finance), the Project Assistant had prepared two cheques on 07 August 2012 and 10 August 2012 for ₹1,145 (in favour of news paper agent) and for ₹2,056 (in favour of housekeeper) respectively. After getting signature of the Deputy Director, the Project Assistant altered the amounts (by inserting '5' in the extra space purposefully left on the left side of '2,056' and '6' on the left side of '1,145', corresponding changes were also made in the amount written in words) and encashed ₹52,056 instead of ₹2,056 and ₹61,145 instead of ₹1,145. Thus, instead of drawing ₹3,201, the Project Assistant had drawn ₹1,13,201, by falsification of the cheques. Out of ₹1,13,201 drawn from the bank the Project Assistant disbursed ₹3,201 and misappropriated the balance amount of ₹1,10,000. This could not be detected by the supervisory officers of the accounts wing, due to non-reconciliation of transactions of the bank/cashbook with the bank passbooks monthly as provided in Paragraph 40(vi) of the PFMA Manual of KSUDP.

Audit noticed that Deputy Director (Finance) failed in exercising internal checks in matters relating to financial transactions despite the observations made in the earlier audit conducted in January 2012.

The Project Director had also not exercised his supervisory control over the officer under him including the Deputy Director (Finance). Lack of timely action by the Project Director against the Project Assistant was also one of the reasons due to which the Project Assistant committed the fraud again.

On this being pointed out by Audit, the Project Director admitted (December 2014) the misappropriation and stated that the case had been reported (December 2014) to Government besides filing a criminal case against the Project Assistant. The Project Director further added (March 2015) that the Deputy Director (Finance) has not made any monetary loss to the Government except supervisory lapses.

The reply of the Project Director is not acceptable as the amount of ₹1.10 lakh was misappropriated due to lack of internal control mechanism and lapses in exercising the supervisory role by the Deputy Director (Finance) and Project Director.

The matter was reported to Government in March 2015; but reply was not received.

4.5 Unfruitful expenditure due to non-functioning of Vanitha Apparel Park

Non-execution of agreement by Manjeri Municipality setting forth obligations for operation of apparel park by the consortium of women entrepreneurs resulted in idling of building, machinery and equipment costing ₹37.21 lakh.

Manjeri Municipality formulated (2005-06) a project for the development of infrastructure facilities required for creation of a Vanitha Apparel Park with an outlay of ₹40.20 lakh at the existing women industrial estate at Karuvambram. The source of fund was Special Central Assistance for Development of Enterprises for Educated Women sanctioned by Government of India during 2002-03 (₹25 lakh), Development Fund of Municipality (₹12.90 lakh) and Beneficiary contribution (₹2.30 lakh). The Municipality constituted (December 2004) a Cluster Coordination Committee (CCC) with Municipal Chairman as Chairman and General Manager of District Industries Centre as convener for setting up the Vanitha Apparel Park.

The project envisaged establishment of a Common Facility Service Centre (CFSC), which would provide high quality machines/accessories essential for making quality garments, which individual entrepreneurs cannot afford. Activities like imparting training in modern garment making machinery, bulk procurement of raw material and its distribution, conducting exhibitions for the promotion of marketing including export etc. were also envisaged. For the management and running of CFSC, a Consortium (Malabar Garments Consortium Private Limited) comprising five women garment making co-operative societies, four women entrepreneurs and

a textile exporting unit, as members was registered (April 2005), at the instance of the CCC. However, no agreement outlining terms and conditions was entered into with the consortium for ensuring smooth functioning of the CFSC.

The municipality purchased (March 2006) machinery such as garment printing machine, offset printing machine, high speed overlock machine, automatic button sewing machine, steam ironing system, etc., and 7.5 KVA Generator at a cost of ₹15.78 lakh and installed them in the newly constructed building of women industrial estate. Construction of office building, work sheds and water tank was also completed at a cost of



Building of Apparel Park in dilapidated condition

₹21.43 lakh during March - September 2006. Though the park was inaugurated in January 2007, it never functioned as a CFSC as it was not taken over by the Consortium due to internal conflicts among the members. The Municipality stated that there was no demand for the park from other entrepreneurs.

Thus, due to the non-operation of the CFSC, the buildings, machinery and equipment acquired at a cost of ₹37.21 lakh were idling and were in a deteriorated condition for more than eight years. Further, expenditure of ₹37.21 lakh incurred on the project has become infructuous. Audit observed that failure of the Municipality to enter into an agreement with the consortium for the smooth running of the project resulted in non-achievement of the social objectives of promoting women entrepreneurs and also in safeguarding the financial interests of Municipality/Government.

The matter was referred to Government in February 2015; but reply had not been received (March 2015).

4.6 Loss of revenue due to non-disposal of excavated earth

Failure of Anchal Block Panchayat in including the surplus quantity of earth, its cost and method of disposal as part of the estimate, resulted in loss of revenue of ₹21.22 lakh.

Anchal Block Panchayat (BP) took up a project for improvement of Vayakkal LMS LPS - Ozhukkuparakkal Road in Edamulakkal Grama Panchayat under Rural Infrastructure Development Fund (RIDF) during 2006-07 at an estimated cost of ₹89.50 lakh. The work was awarded to the lowest tenderer at 18.2 *per cent* below estimate. The work started in May 2008 was scheduled to be completed by March 2009.

Audit scrutiny of the records revealed that one of the items of the work was road formation and widening. As per the tender schedule prepared by the BP, 29050

cubic metres of earth was to be excavated for widening of the road and 9180 cubic metres of gravelly cut earth available from the site was to be used for filling low places. There was no mention about the utilisation/storage of the balance quantity of excavated earth though it was known to the BP that large quantity of surplus earth was required to be removed from the worksite.

During actual execution, 28520 cubic metres of earth was excavated, out of which only 8114 cubic metres was used for filling, against the stated quantity of 9180 cubic metres, leaving 20406 cubic metres of earth costing ₹21.22 lakh¹⁶ for disposal. Though the contractor (December 2008) requested for a place to dump the balance quantity of earth, the BP could not specify a suitable land for the purpose. The request made by the BP to allot a dumping yard was also rejected (January 2010) by the revenue authority.

The work was completed in March 2013, after a delay of four years and ₹53.71 lakh was paid to the contractor. The Secretary of the BP stated that the delay in execution of the work was due to non-availability of suitable site to dump the surplus earth.

Joint physical verification conducted (March 2015) by Audit along with the officials of the BP revealed that no earth was dumped either on the sides of the road or nearby places. The BP did not reply to an audit query as to how such enormous quantity of surplus earth was removed from the worksite without the knowledge of the Engineer in charge of the site/Secretary of the BP.

Thus, due to the failure of the BP in planning the execution of the work including manner of handling the surplus quantity of earth resulted in loss of revenue of ₹21.22 lakh.

The matter was referred to the Government in December 2014; but reply was not received (March 2015).

4.7 Inordinate delay in the implementation of solid waste management project

Failure of the municipality in timely completion of the civil works and in addressing the issues relating to the functioning of the waste dumping yard led to the inordinate delay in completion of the project thereby rendering an expenditure of ₹30.28 lakh unfruitful.

Manjeri Municipality formulated (2009-10) a project for installation of an incinerator in the waste dumping ground owned by the Municipality at Vettikode to process solid waste by thermal treatment. The District Planning Committee approved the Project in January 2010.

The Municipality entrusted (March 2010) the works relating to design, supply, erection and commissioning of the incinerator to the lowest tenderer, M/s Essco Furnaces Private Limited, Chennai (contractor) at a cost of ₹20.13 lakh with the stipulation to complete the work within six months, *i.e.*, by September 2010. The agreement between the Municipality and the contractor stipulated that the civil

¹⁶ Based on Schedule of Rates 2010 & 2012, when the works executed were check-measured.

works such as foundation of the chimney, equipment and masonry and other allied civil works were to be carried out by the Municipality.

The Municipality, however, did not have a time bound programme to execute the civil and other allied works so as to enable the contractor to finish his works as scheduled. Though the contractor supplied (March 2010) the incinerator for installation, Municipality provided funds for civil works during subsequent years (2010-11&2011-12). The Municipality completed the civil works in June 2012.

Audit further noticed that the long delay in completing the civil works compelled the contractor to keep the incinerator in the dumping ground of the Municipality without any protection. In the meantime, the miscreants of the locality destroyed the platform and nuts and bolts of the chimney. The Municipality had to incur additional expenditure of ₹2.35 lakh for correcting the platform and replacing the nuts and bolts of the chimney. Though complaints were given by the Municipality to Police against protesters who damaged Government property and stopped the installation of the plant, the contractor faced protest from the troublemakers against the setting up of the incinerator, including manhandling of the workers.

As the contractor did not have trouble free site for continuing his work, he abandoned the work without imparting training to the staff to operationalise the incinerator. Though the Municipal council had decided (August 2013) to terminate the contract and rearrange the balance work *viz.* plumbing, maintenance works of the chimney, wiring works and installation of aviation light at the risk and cost of the contractor, the decision was not put into operation so far (March 2015).

As of March 2015, the total expenditure incurred on the project was ₹30.28 lakh¹⁷. Though the incinerator was installed and trial run conducted in July 2012, it was never utilised ever since its trial runs due to protest from local residents against the waste dumping ground.

Failure of the Municipality in timely completion of the civil works and to create awareness among the local public about the need for installing the incinerator meant to address the issues relating to the waste dumping yard, led to non-completion/non-functioning of the project. This has resulted in the incinerator remaining idle and rendering the expenditure of ₹30.28 lakh unfruitful.

The matter was referred to Government in December 2014; reply has not been received (March 2015).

4.8 Idle investment on a water supply project due to defective project formulation

A drinking water supply project taken up in February 2009 has not been commissioned due to defects in the formulation of the project.

Under decentralized planning, prioritization and formulation of projects and their implementation are to be done with peoples' participation. Feasibility study report,

¹⁷ Payment to the contractor: ₹17.42 lakh, civil works: ₹11.61 lakh, maintenance works: ₹1.25 lakh

detailed project report and estimate are the building blocks in the execution of the projects, which are to be prepared before execution of the project.

District Panchayat, Ernakulam formulated (2008-09) a project for supply of drinking water (estimated cost: ₹26.50 lakh¹⁸) in Vengola Grama Panchayat, utilising the Special Component Plan (SCP) fund. The project envisaged distribution of potable water to 129 families, majority of whom were Scheduled Caste (SC) families. The major components of the project included construction of a well within an existing pond, retaining wall, water distribution system, renovation and roofing of existing tank and installation of motor pump. The work entrusted (February 2009) to the beneficiary committee constituted from among the intended beneficiaries of the project at estimate rate, was completed in March 2010, except the installation of pump sets. The expenditure on the project amounted to ₹30.30 lakh. The District Panchayat also spent (August 2010) ₹4.68 lakh for maintenance work of the well. The total expenditure incurred on the project was ₹36.96 lakh, including the cost of construction of compound wall to the pond, drainage, etc. done by Vengola Grama Panchayat during 2009-10 (₹1.98 lakh). The project has not been commissioned so far. Audit noticed the following facts which adversely affected the execution of the project:

- The source of water was an existing pond used by local people for various purposes including bathing of animals. The selection of the pond, without proper measures for purification, as the source of drinking water aroused public protest.
- Before formulating the project, District Panchayat had not prepared a project report after conducting detailed study with regard to the feasibility of the project as well as suitability of the source of water. As a result, District Panchayat could not ensure that proper mechanism was put in place for distribution of clean and safe potable water.
- An Enquiry Commission constituted (July 2011) to make suggestions for rectification of defects also expressed concern over the safety of the water for human consumption and suggested remedial measures like separating the intake well and its surroundings from the rest of the pond by constructing a wall, inserting filter media, raising the height of the wall of the well, etc.
- The cost of the rectification work was estimated at ₹7.71 lakh. The District Panchayat, however, could not carry out these works even as of January 2015, as the tenders floated in March 2013/ August 2013 did not fetch any favourable offers.

Thus, a drinking water supply project taken up in February 2009 had not been commissioned even as of January 2015, due to defects in the formulation of the project and ₹36.96 lakh spent from the SCP funds has become idle investment without any benefit to the intended beneficiaries.

¹⁸ Revised to ₹33.12 lakh

The matter was reported to the Government in March 2015; reply has not been received.

4.9 Idle investment on project for solid waste disposal

Inadequate monitoring of the installation of a biogas plant by Suchitwa Mission as well as the GP led to defective construction of the plant and consequent closure of a slaughter house in Krishnapuram Grama Panchayat resulting in idle investment of ₹16.63 lakh.

As per the Kerala Panchayat Raj (Slaughter houses and Meat Stalls) Rules, 1996, animals shall be slaughtered only in places especially allotted for the purpose in a public place or licenced slaughter house.

Krishnapuram Grama Panchayat (GP) had constructed a slaughter house in Ward II during 2003-04 at a cost of ₹8.22 lakh. The slaughter house did not function as no facilities were provided for treatment of waste from the slaughter house. The GP undertook (January 2007) a project for installing a biogas plant with the help of a Service Provider, viz., Jyothy Biogas and Rural Social Service Centre, Thiruvananthapuram. The Government sanctioned (January 2007) ₹4.09 lakh as Clean Kerala Mission support for the project. The Project Director of Suchitwa Mission (erstwhile Clean Kerala Mission) was to provide technical support for the project and ensure observance of all conditions for setting up of solid waste management plant. The GP paid ₹ 6.45 lakh to the Service Provider towards cost of plant and machinery.

On completion of the plant in May 2007, the Executive Director of Suchitwa Mission inspected the site in July 2008 and observed that as the biogas plant was installed at a higher level than the slaughter house, an additional sump was to be constructed for initial collection of the waste from the slaughter house and the waste was to be pumped into the biogas plant using a slurry pump. The Service Provider executed the additional work at a cost of ₹1.96 lakh and handed over (May 2010) the plant to the GP. The total expenditure on the slaughter house and installation of the plant amounted to ₹16.63 lakh. Though the plant was completed in May 2010 and trial run conducted in October 2010, the GP could not operationalise the biogas plant as the pumping mechanism of the waste from the sump to the biogas plant was not successful.

Audit noticed the following lapses in the execution of the project:

- While installing the plant the Service Provider had informed the Secretary of the GP that the plant has to be positioned at a higher level due to excessive mud and water in the pit. The GP, however, did not bring this fact to the notice of Suchitwa Mission, the designated agency to give technical advice for the installation of solid waste management plant.
- Being the technical consultant, the Suchitwa Mission had a primary responsibility to ensure that the installation of the biogas plant was as per the approved plan and design. The Suchitwa Mission had not discharged their responsibility as none of the officials had visited the site during installation of

the biogas plant. Consequently, they could not examine whether there would be any adverse impact on the functioning of the plant due to installing it at a higher level as suggested by the operator. Further, the rectification works suggested by Suchitwa Mission were also proved inadequate as very often waste had to be transferred from the sump into the biogas chamber manually. Suchitwa Mission had not analysed the reasons for non-functioning of the pumping mechanism and suggested suitable remedial measures to operationalise the plant.

- Non-installation of machinery for a modern slaughter house, inadequate facilities for treatment of waste, unhygienic conditions, etc., led to public protest resulting in closure of the plant.

Thus, inadequate monitoring of the installation of the biogas plant by Suchitwa Mission and the GP led to defective construction of the plant and consequent closure of the slaughter house leading to idle investment of ₹16.63 lakh. Besides, closure of the slaughter house led to unauthorized slaughtering of animals in the GP in violation of Kerala Panchayat Raj (Slaughter houses and Meat Stalls) Rules, 1996.

The matter was reported to Government in March 2015; reply has not been received.



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