
CHAPTER V

AUDIT OF TRANSACTIONS

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URBAN DEVELOPMENT DEPARTMENT

ULHASNAGAR MUNICIPAL CORPORATION

5.1 Implementation of Service Level Benchmarks by Ulhasnagar Municipal Corporation

5.1.1 Introduction

Benchmarking is recognized as an important mechanism for introducing accountability in service delivery. It involves measuring and monitoring of service provider performance on a systematic and continuous basis. Sustained benchmarking can help utilities to identify performance gaps and introduce improvements through the sharing of information and best practices, ultimately resulting in better services to people. Recognizing its importance, the Ministry of Urban Development (MoUD), Government of India (GoI) prescribed (July 2008) the Service Level Benchmarking (SLB) in four key sectors viz., water supply, solid waste management, sewage management and storm water drainage. The Government of Maharashtra (GoM) adopted the national benchmarks in February 2010 for achievement by the urban local bodies.

The Thirteenth Finance Commission recommended that the State Governments should gradually establish standards for delivery of all essential services provided by local bodies. For a start, the State Governments must notify or cause all the Municipal Corporations and Municipalities to notify by the end of a fiscal year (31 March) the service standards for four service sectors proposed to be achieved by them by the end of the succeeding fiscal year.

5.1.2 Scope of audit

Audit selected Ulhasnagar Municipal Corporation (UMC), a medium size municipal town in Thane district with an estimated population of 6.10 lakh, to ascertain the extent to which the Corporation had achieved the national benchmarks or the benchmarks set by it against the four keys sectors (water supply, solid waste management, sewage management and storm water drainage) during the period 2011-12 to 2013-14. Further, in order to bridge the performance gaps in service delivery with regard to three of the four sectors viz., sewage management, solid waste management and storm water drainage, GoM proposed (March 2012) a City Sanitation Plan (CSP) at a total cost of ₹ 366.63 crore¹ for implementation in UMC during 2012-16. Audit also examined how the implementation of CSP in UMC has helped addressing the

¹ Sewage management: ₹ 289.87 crore; Solid waste management: ₹ 58.89 crore; Storm water drainage: ₹ 17.87 crore

gaps in service delivery and facilitated achievement of the SLBs in these three service sectors.

Audit findings

Audit observations on achievement of SLBs by UMC (against national benchmarks as well as own targets) and the adequacy of CSP in improving the SLBs are discussed below.

5.1.3 Water Supply

The achievement of UMC against the national benchmarks as well as the targets set by it during 2011-14 is indicated in **Appendix-V**. As could be seen, against nine indicators, UMC could achieve the SLBs in respect of only three indicators (refer indicators at **Sl. No. 2, 6 and 7** in **Appendix-V**). Further, UMC claimed 101 *per cent* achievement against cost recovery in water supply services (refer indicator at **Sl. No. 8** in **Appendix-V**) during 2013-14. This achievement appeared to be overstated as the operating revenue of UMC during 2013-14 was only ₹ 33.73 crore while the operating expenses during the same period was ₹ 42.35 crore², indicating that the cost recovery in water supply services was only to the extent of 80 *per cent*³.

The under-achievement of SLB against the remaining indicators was primarily due to time and cost overrun in augmentation of an existing water supply project under JNNURM and failure of UMC to develop its own water source, as discussed below.

5.1.3.1 Delay in implementation of a water supply project

In order to improve the water supply system in UMC, GoI approved (December 2008) a water supply augmentation project at a cost of ₹ 127.65 crore under JNNURM. The work was awarded (December 2009) at a cost of ₹ 160.03 crore with scheduled date of completion as December 2011. Audit observed that due to non-inclusion of an additional Elevated Service Reservoir (ESR) in the initial estimates, the scope of work increased significantly and led to revision of the original scheduled date of completion up to December 2014 and cost overrun of ₹ 104.97 crore. The UMC paid ₹ 238.76 crore to the contractor till January 2015 from its own resources and the work was incomplete as of March 2015. The UMC/GoM has not submitted a revised project proposal to GoI for additional funding as of March 2015.

Due to delay in completion of the water supply augmentation project, the old water supply infrastructure could not be improved and the extent of non-revenue water, which was pegged at 35 *per cent* and 32 *per cent* during 2012-13 and 2013-14 respectively against the national benchmark of 20 *per cent* (refer indicator at **Sl. No. 4** in **Appendix-V**), remained a cause of concern for UMC.

5.1.3.2 Failure of UMC to develop its own water source

The UMC does not have its own source of water. It receives water from Maharashtra Industrial Development Corporation (MIDC) which also supplies

² This does not include administrative expenses

³ (Total operating revenue ÷ total annual operating expenses) x100

water to various industries located in and around UMC as well as to Kalyan Dombivali Municipal Corporation and Ambarnath Municipal Council. In order to develop its own water source, UMC planned to execute a water supply project on Ulhas river. The work was awarded (November 2011) to a contractor on Build Own Operate and Transfer (BOOT) basis for operation period of 30 years with a capital investment of ₹ 135.02 crore. The work was to be completed in 18 months (May 2013). Audit observed that the work did not commence as of December 2014 due to non-acquisition of land and pending approval for allocation of water to the project from the Water Resources Department. Thus, UMC continues to be dependent on MIDC for water supply.

To compound the problem, MIDC revised (December 2013) the water charges rates from ₹ eight per thousand litre to ₹ 14 per thousand litre which would put an additional financial burden on UMC to the extent of ₹ 34.54⁴ crore per year. But, UMC has not revised the water charges rates and it continues to charge its domestic and non-domestic consumers at flat rates irrespective of actual consumption of water, which has only widened the gap between operating revenue and operating expenses⁵.

5.1.4 Solid Waste Management

The UMC generates about 379 MT of Municipal Solid Waste (MSW) per day (1.38 lakh MT annually) which include residential, commercial and construction/demolition waste. There were shortfalls in achievement of SLB indicators by UMC (**Appendix-VI**) due to shortfall in household level coverage for collection of waste, non-segregation/recycling of collected waste, unscientific disposal of waste at landfill site, short-recovery of solid waste management charges *etc.*

As per Rule 4 (1) of Municipal Solid Waste (Management and Handling) Rules, 2000 (MSW Rules), every municipal authority shall within its territory be responsible for collection, storage, segregation, transportation, processing and disposal of municipal solid wastes. Audit observed that a contract for collection (door-to-door and from bins), segregation and transportation of solid waste was awarded to Antony Waste Handling Cell Private Limited, Raigad at a financial consideration of ₹ 1.20 lakh per day or ₹ 4.38 crore *per annum* for 10 years effective from 01 October 2003. However, the contract was terminated after nine years and three months in January 2013 due to violation of contract provisions by the contractor such as, non-redressal of complaints of citizens, non-deployment of vehicles for garbage collection as per contract specifications and non-collections of garbage from door-to-door. But, no penal action was taken against the contractor and the contractor was paid his dues regularly till the termination of contract in January 2013. Thereafter in October 2013, UMC appointed (October 2013) another contractor (Konark Enviro Project Private Limited, Thane) for collection and transportation of solid waste generated from street sweeping, community bins

⁴ Average water supply during last three years was 157.71 Million Litre Daily (MLD) x 365 days = 57564.15 million litre x ₹ 6 per thousand litre (₹ 6000) = ₹ 34,53,84,900

⁵ Operating expenses include electricity, chemicals, staff, out-sourced operations/staff related to water supply, bulk water purchase costs and other operations and maintenance expenses

and door-to-door collection for a period of eight years at a financial consideration of ₹ 4.46 lakh per day (₹ 16.28 crore *per annum*).

Further, the CSP envisaged an expenditure of ₹ 58.89 crore on the MSW component during 2012-16. However, UMC made a budget provision of only ₹ 4.25 crore against ₹ 34.20 crore proposed to be spent during 2012-14. Consequently, none of the planned works⁶ envisaged under the MSW component of CSP could be taken up during 2012-14. Photographs below show unscientific dumping of waste by the contractor.



The UMC's achievement against the indicators 'Household level coverage of MSW services' and 'Extent of segregation of MSW' merely ranged between 22 to 36 *per cent* and zero to 10 *per cent* respectively during 2011-14 (**Sl. No. 1 and 3 of Appendix-VI**). This indicated that the engagement of first contractor for management of MSW in UMC at a financial consideration of ₹ 4.38 crore annually for a period of nine years did not serve any fruitful purpose. Besides, non-implementation of MSW component of CSP further strained the achievement of SLBs.

5.1.5 Sewage Management

The sewerage system in Ulhasnagar was constructed in 1994 by Maharashtra Jeevan Pradhikaran on conventional gravity⁷ method where the collection lines bring the sewage to a centralised treatment plant. Total sewage generated by UMC is 96 Million Litre Daily (MLD). The UMC has one STP of 28 MLD capacity which is connected to 150.24 km long sewage network system.

Audit observed that there was significant under-achievement of SLBs (zero to 15 *per cent*) during 2013-14 in five⁸ of the nine indicators prescribed by MoUD, GoI for sewage management (refer **Sl. No. 2 to 6 of Appendix-VII**). The under achievement of SLBs was mainly due to the inadequacy of the existing sewage network system, which was very old and broken. As a result, only 10 to 12 MLD reaches the STP for treatment. Consequently, 84 MLD⁹ of sewage/waste water was flowing directly into Ulhas river/open nallahs without treatment.

⁶ Scientific disposal of MSW in landfill sites and treatment and processing of MSW for reuse

⁷ Sewage system constructed by using natural slope

⁸ Coverage of sewage network services, collection efficiency of sewage network, adequacy of sewage treatment capacity, quality of sewage treatment and extent of reuse and recycling of sewage

⁹ Total sewage generated by UMC = 96 MLD; Total sewage treated in STP = 12 MLD;
Difference = 96 – 12 = 84 MLD

Further, the CSP envisaged an expenditure of ₹ 289.87 crore during 2012-16 for sewage management component. However, UMC did not make any budget provision against ₹ 165.49 crore proposed to be spent during 2012-14. Consequently, none of the works planned¹⁰ to be taken up under CSP for improving the sewage network system could be taken up during 2012-14.

The UMC accepted the facts and attributed (April 2015) the shortfalls in achievement of SLBs to old underground sewage system which was constructed in 1994 for the then projected population of 3.66 lakh and floods during 2005, which washed away the underground sewage system and caused severe damage to the STP and pumping station. The UMC added that a proposal for improvement of the underground sewage system at a cost of ₹ 375 crore has been prepared under JNNURM and submitted to GoI for approval.

The reply of UMC is not convincing because 10 years had elapsed since flooding of Mumbai in 2005 and in the intervening period, UMC failed to implement the CSP which could have significantly improved the efficiency of the underground sewage network system.

5.1.6 Storm Water Drainage

Storm Water Drainage (SWD) is runoff from rainfall that flows over roads, driveways, parking lots rooftops and other paved surfaces that do not allow water to soak into the ground. The UMC has a total road length network of 126 km of which, 100 km has storm water drains on both sides.

Two SLB indicators for SWD prescribed by MoUD, GoI specify 100 *per cent* coverage of storm water drainage network and zero incidence of water logging/flooding. Audit observed that against UMC's own benchmarking of 80 *per cent* for coverage of storm water drainage network during 2013-14, the achievement was 94 *per cent* indicating that the target was exceeded by 14 *per cent*. But, there were 21 incidents of water logging/flooding during 2013-14 against the benchmarking of five such incidents set by the UMC during the same period.

Audit further observed that the CSP envisaged an expenditure of ₹ 17.87 crore during 2012-16 for SWD component. However, UMC did not make any budget provision against ₹ 8.94 crore proposed to be spent during 2012-14. Consequently, none of the two planned¹¹ storm water drainage works envisaged under CSP could be taken up during 2012-14.

5.1.7 Conclusion and recommendations

The UMC could not achieve the SLBs against majority of the nine performance indicators in water supply due to delay in implementation of a water supply augmentation project approved way back in December 2008 by GoI at a cost of ₹ 127.65 crore. Further, due to non-availability of its own source of water, UMC was purchasing bulk water from MIDC at a significant

¹⁰ Repair of old and broken sewage network system, construction of new STP of 87 MLD capacity, reuse mechanism for waste disposal *etc.*

¹¹ (i) Completion of all storm water drains and (ii) devising appropriate solution for water logging after studying the duration of water logging and its depth

higher cost. However, UMC has not revised the water charges rates and it continues to charge its consumers at flat rates irrespective of actual consumption of water, which has widened the gap between operating revenue and operating expenses of UMC.

In order to bridge the performance gaps in service delivery, the water supply augmentation project may be completed by UMC on priority. The UMC also needs to become self-sufficient to ensure that water supply services are cost-effective.

Despite engagement of a contractor for a period of 10 years and an annual recurring expenditure of ₹ 4.38 crore, there were shortfalls in achievement of SLBs in solid waste management due to shortfalls in household level coverage for collection of waste, non-segregation/recycling of collected waste, unscientific disposal of waste at landfill site etc.

The UMC should ensure effective monitoring of the ongoing solid waste management contract so as to facilitate achievement of SLBs.

The sewage network system in UMC was very old and broken. Consequently, only 12 per cent of the total sewage generated by the city was reaching the STP for treatment and the remaining 88 per cent was flowing directly into river/open nullahs. This has adversely affected the achievement of SLBs.

The project for improvement of underground sewage system proposed at a cost of ₹ 375 crore under JNNURM should be implemented for early rehabilitation of the old sewage network and STP.

Though the City Sanitation Plan was proposed to be implemented during 2012-16 with an estimated expenditure of ₹ 366.63 crore on solid waste management, sewage management and storm water drainage, only ₹ 4.25 crore was provided for during 2012-14 under solid waste management of which, no expenditure was incurred.

The UMC may review the adequacy/validity of the city sanitation plan and if the plan is still considered pertinent, adequate funds may be allocated forthwith for its early implementation.

The matter was referred to the Government in September 2014; their reply was awaited as of March 2015.

MUNICIPAL CORPORATION OF GREATER MUMBAI

5.2 Avoidable payment of commission

Failure of MCGM to collect Octroi directly from BPCL for crude oil imported by it resulted in avoidable payment of commission of ₹ 101.32 crore during 2010-13.

Under Section 192 (1) of Mumbai Municipal Corporation Act 1888 'Octroi' a tax is levied on the articles entered into Mumbai by roads, railways, sea and airways for consumption, use or sale.

Bharat Petroleum Corporation Limited (BPCL) was importing crude oil into Mumbai limits by sea and the oil tankers were berthed at the Indira dock under the control of Mumbai Port Trust (MbPT). For this purpose, BPCL was paying Octroi on imported crude oil to Municipal Corporation of Greater Mumbai (MCGM).

Audit observed that the system of payment of Octroi by BPCL to MCGM was complex. The BPCL was depositing the Octroi cheques at the counters of MbPT, after the same was assessed by the Octroi staff of MCGM stationed at Indira dock. The MbPT was then depositing the Octroi cheques in the SBI account of MCGM. The MbPT was thus, acting as a collection agent for MCGM for which, MCGM was paying a commission of three *per cent* to MbPT on the gross collection of Octroi. During the period 2010-13¹², MCGM paid commission amounting to ₹ 101.32 crore to MbPT.

The payment of commission amounting to ₹ 101.32 crore by MCGM to MbPT was avoidable for the following reasons:

- For gas/crude oil imported by BPCL outside the Indira dock/MbPT area, BPCL was making payment of Octroi to MCGM directly through cheques. Therefore, payment of Octroi on goods imported and berthed at MbPT through a third party (MbPT) lacked rationale.
- The MCGM had other options for collection of Octroi from BPCL. These were (i) through e-payment, (ii) account current facility¹³ in terms of Rule 28 of MCGM Octroi Rules, 1965, and (iii) direct collection of Octroi cheques by the departmental staff of MCGM stationed at Indira dock from BPCL. Though the third alternative was mooted way back in December 2000 by the Additional Municipal Commissioner, MCGM yet it was not implemented.

Thus, failure of MCGM to collect Octroi directly from BPCL on account of crude oil imported by it resulted in avoidable payment of commission of ₹ 101.32 crore during 2010-13.

The matter was referred to Government in July 2014; their reply was awaited as of March 2015.

AURANGABAD MUNICIPAL CORPORATION

5.3 Loss of revenue due to non-issue of licences

Aurangabad Municipal Corporation has been incurring an estimated recurring loss of ₹ 1.33 crore annually due to non-issue of licences to various establishments.

As per provisions of Sections 377, 378 and 381 to 385 read with Section 386(2) of the Maharashtra Municipal Corporations Act, 1949, no person shall, without a licence from the Commissioner, sell or expose for sale any animal or article in any municipal market/private market. Licence for carrying out business within the area of Municipal Corporation limits shall be given by the Commissioner for a specific period by charging a fee at such rate as shall from time to time be fixed by the Commissioner, with the sanction of the Corporation.

Scrutiny of records of Aurangabad Municipal Corporation (AMC) revealed (December 2012) that the system of issuing of licences to the establishments (business, shops, hotels, theatre *etc.*) was not being followed. Whereas in other

¹² Details of commission paid by MCGM to MbPT during 2013-14 was not furnished to audit

¹³ Under current account facility, advance Octroi payment is made by a merchant which is settled/adjusted by MCGM at intervals not exceeding one month

Municipal Corporations, such as, Akola, Amravati, Nagpur and Nanded licence fee in the range of ₹ 100 to ₹ 10,000 *per annum* per establishment depending upon its category, was being levied and recovered.

Information obtained from the office of the Deputy Labour Commissioner, Aurangabad Division, Aurangabad revealed that there were 1,33,295 establishments registered within the limit of AMC as of December 2012. Even by conservative estimates, if a minimum annual fee of ₹ 100 per licence for an establishment is reckoned, the AMC could have earned ₹ 1.33 crore annually.

The Assistant Director of Town Planning, AMC stated (April 2015) that the proposal for issue of licences to the establishments and charging of admissible licence fees from them was placed (November 2014) before the General Body of the Municipal Corporation for its approval. However, the proposal was rejected by the General Body in a resolution passed on the same day. The Commissioner, AMC had sent (November 2014) a proposal to the Principal Secretary, Urban Development Department of Government of Maharashtra (GoM) to rescind/set aside the resolution passed by the General Body, so as to act in accordance with the provisions contained in the Maharashtra Municipal Corporations Act, 1949. As soon as directions to this effect are received from the GoM, the provisions of the Act will be implemented forthwith to prevent further loss of revenue to the Corporation.

Thus, non-issue of licences to various establishments, though provided for under the Maharashtra Municipal Corporations Act, 1949, resulted in recurring annual loss of ₹ 1.33 crore to the AMC.

The matter was referred to the Government in July 2014; their reply was awaited as of March 2015.

AMRAVATI, NANDED-WAGHALA, THANE AND VASAI-VIRAR MUNICIPAL CORPORATIONS

5.4 Avoidable payment of electricity duty

Four Municipal Corporations failed to avail of exemption of electricity duty during 2009-14, resulting in avoidable expenditure of ₹ 3.42 crore.

Section 3(2) (ia) of the Bombay Electricity Duty Act, 1958 provides for exemption in levy of Electricity Duty (ED) on the units of energy consumed by or in respect of Municipal Corporation for the purpose of, or in respect of a school or college imparting education, a hospital, public street lighting, public water works and system of public sewers or drains (except in respect of premises used for residential purposes).


Scrutiny of records revealed that four Municipal Corporations paid (2009-14) an avoidable ED of ₹ 3.42 crore to Maharashtra State Electricity Distribution Company Limited on electricity bills for public water works and public sewers or drains, in contravention of the provisions of the Act. The details are indicated in **Table 1**.

Table 1: Details of ED paid by four Municipal Corporations during 2009-14

Name of MC	Period	Amount of ED paid (₹ in crore)
Amravati	2009-14	0.12
Nanded-Waghala	2009-14	0.80
Thane	2010-13	0.55
Vasai-Virar	April 2011 to July 2012	1.95
Total		3.42

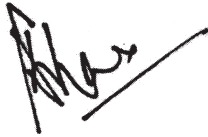
The matter was referred to the Government in July 2014 and January 2015; their reply was awaited as of March 2015.

Mumbai
The 29 June, 2015


(MALA SINHA)
Principal Accountant General (Audit)-I,
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Countersigned

New Delhi
The 03 July, 2015


(SHASHI KANT SHARMA)
Comptroller and Auditor General of India