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**Chapter – V**

**Compliance Audit Paragraphs**

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## Municipal Administration and Urban Development Department

### 5.1 Sewerage and Underground Drainage in Urban Areas

#### 5.1.1 Introduction

Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was one of the flagship programmes launched<sup>1</sup> by Government of India (GoI) to support various infrastructural development projects including sanitation and sewerage in selected cities/towns<sup>2</sup>. GoI had sanctioned 14<sup>3</sup> Underground Drainage (UGD) projects for State during the period 2005-06 to 2010-11. These projects were sanctioned under the components of Urban Infrastructure and Governance (UIG) and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT). JNNURM guidelines stipulate that funds under UIG component were to be shared in the ratio of 50:20:30 by GoI, State Government and ULBs/other implementing agencies, while under UIDSSMT, the sharing pattern was 80:10:10 respectively.

#### 5.1.2 Responsibility centers

##### 5.1.2.1 State Level

Andhra Pradesh Urban Finance Infrastructure Development Corporation (APUFIDC) was designated (February 2006) by the State Government as State Level Nodal Agency (SLNA). It was responsible for appraising proposals submitted by implementing agencies to GoI and also implementation of UGD projects sanctioned under UIG and UIDSSMT components of JNNURM.

##### 5.1.2.2 Implementing agencies

Public Health Engineering Divisions/Urban Local Bodies (ULBs) were the implementing agencies of JNNURM/State sponsored projects in the State. These units were responsible for submission of Detailed Project Reports (DPRs) to SLNA for appraisal, accounting of funds received from SLNA, tendering, award of contracts, ensuring adherence to the time schedule as well as quality of the works executed by the contractors, furnishing of periodical reports on physical and financial progress, submitting utilization certificates, maintaining inventory of assets created, operate assets and facilities created etc.

<sup>1</sup> December 2005 with a mission period of seven years 2005-12 extended up to 2014

<sup>2</sup> 65 Cities/Urban Agglomerations (UAs) across the country were termed as 'Mission Cities' and other cities as 'Non-mission cities'

<sup>3</sup> **UIG:** 1. Sewerage System in Central part of Visakhapatnam, 2. Providing sewerage facilities to Old City of Visakhapatnam, 3. Providing Sewerage facilities in Northern part of Vijayawada City, 4. Providing UGD facilities to the un-served areas in Vijayawada, 5. Providing Sewerage facilities in un-served areas of VMC covering Housing Board Colony, Gunadala, Devinagar, Kedareshwarpet of Vijayawada and 6. Providing sewerage treatment plant at Singhnagar in Vijayawada.

**UIDSSMT:** 1. Kadapa, 2. Nagari, 3. Narasaraopet, 4. Tirupati (later upgraded to UIG) and 5. Yemmiganur

**State Funds:** 1. Nandyal, 2. Proddatur 3. Tadepalligudem

### 5.1.3 Audit approach

Out of 14 UGD Projects sanctioned under JNNURM, audit of implementation of 10 projects (nine<sup>4</sup> in progress and one completed<sup>5</sup>) covering the period 2011-16 was conducted between January 2016 and May 2016 to assess whether planning was robust enough to establish UGD projects; fund management was effective; implementation of projects was effectively carried out as per the guidelines of JNNURM and monitoring mechanism including quality controls was adequate and effective.

Audit methodology involved examination of records of APUFIDC, the State Level Nodal Agency (SLNA) and the implementing units of selected projects. Audit findings were benchmarked against criteria sourced from GoI guidelines on JNNURM; Central Public Health and Environmental Engineering Organisation (CPHEEO) Manual; Guidelines/Orders/Circulars issued by GoI/State Government/Nodal Agency; Detailed Project Reports (DPRs) of the selected projects, Andhra Pradesh Financial Code etc.

## Audit Findings

### 5.1.4 Planning

#### 5.1.4.1 Preparation of City Sanitation Plan

Central Public Health and Environmental Engineering Organisation (CPHEEO) manual stipulates that every ULB should have a City Sanitation Plan (CSP), a part of City Master Plan and to undertake to implement it for all its citizens in an economic, environmentally friendly and sustainable manner. Out of the eight test-checked ULBs, CSP was not prepared in two ULBs (Tadepalligudem and Yemmiganur). In respect of the remaining six<sup>6</sup> ULBs, implementing agencies did not furnish the information regarding preparation of CSP.

Government accepted (December 2016) the observation.

#### 5.1.4.2 Deficiencies in preparation of Detailed Project Report

The Detailed Project Report (DPR) for UGD Project of "Sewerage system in central part of Visakhapatnam" was originally proposed for 700 kms of sewerage network in 2006. It is a pre-requisite that a survey of entire length of the project (i.e., 700 kms) is surveyed with a view to incorporate the same in the DPR. However, it was seen that

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<sup>4</sup> **UIG:** Greater Visakhapatnam Municipal Corporation (GVMC):1. Sewerage System in Central part of Visakhapatnam, Vijayawada Municipal Corporation (VMC): 2. Providing Sewerage facilities in Northern part of Vijayawada City 3. Providing UGD facilities to the un-served areas  
**UIDSSMT:** 1. Kadapa 2. Narasaraopet and 3. Yemmiganur

**State Funds:** 1.Nandyal, 2.Proddatur and 3.Tadepalligudem

<sup>5</sup> Providing sewerage facilities in un-served areas of VMC covering Housing Board Colony, Gunadala, Devinagar and Kedareshwarapet

<sup>6</sup> Kadapa, Nandyal, Narasaraopet, Proddatur, Vijayawada and Visakhapatnam

the survey was conducted (May 2006) only for 296 kms. Since the survey for the entire proposed length was not conducted, as prescribed in the Central Public Health and Environmental Engineering Organisation (CPHEEO) Manual, there were large number of deviations, such as increased length of pumping mains, change in location of Sewerage Treatment Plants (STPs)/Sump Cum Pump House, increase in sewer pipe lines/manholes etc. This had resulted in increase in the cost of the project by ₹45.72 crore. Further, the liability of meeting this entire cost had to be borne by the State Government/implementing agencies, as the revised cost of projects would not be shared by GoI as per the guidelines of JNNURM.

Government accepted (December 2016) the observation.

### 5.1.5 Fund Management

Under JNNURM, GoI and State Government released funds to SLNA for onward disbursement to the ULBs/other implementing agencies. First instalment of GoI grants (25 per cent in case of UIG projects and 50 per cent in respect of UIDSSMT projects) was to be released on signing of the Memorandum of Understanding (MoU) by the State Government/ULB/other implementing agencies for implementation of JNNURM projects. The balance assistance was to be released in instalments on submission of Utilisation Certificates (UCs) and fulfilment of other conditions as agreed upon in the MoU.

Funds released and expenditure incurred towards implementation of test-checked projects as of March 2016 are given in *Appendix- 5.1*.

#### 5.1.5.1 Short release of funds

Audit observed shortfall of ₹141.27 crore in release of grants by both GoI and State Government in all the test-checked projects as shown in the *Appendix- 5.1*. This had affected the pace of execution of works. Reasons for short releases of funds by both GoI and State Government were not furnished by the department.

Further, there was a short release of ₹79.70 crore to the implementing agencies by SLNA in respect of test-checked projects. This was attributed to slow progress of works.

Government (December 2016) did not furnish the reply.

#### 5.1.5.2 Funds lying idle

In Kadapa ULB, an amount of ₹two crore was released (December 2014) by State Level Nodal Agency for acquisition of land required for construction of Sewerage Treatment Plant. However, due to indecision<sup>7</sup> of the implementing agency in acquiring land, ₹two crore has been lying idle as of May 2016.

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<sup>7</sup> Change in technology for STP from Waste Stabilization Pond to Sequencing Batch Reactor technology

Government replied (December 2016) that the preliminary valuation of land for acquisition was still under process.

### **5.1.6 Execution of projects**

Of the ten test-checked projects, only one project (Providing sewerage facilities in unserved areas of Vijayawada Municipal Corporation covering Housing Board colony, Gunadala etc.) was completed and the remaining nine projects were in progress. Audit observed the following significant observations on execution of projects.

#### **5.1.6.1 Improper sanction of projects**

Three<sup>8</sup> test-checked Underground Drainage Projects proposed (2005-06) by State Government under UIDSSMT were not approved by GoI. As such, the State Government decided to take up these three projects with its own funds. It was observed that the progress<sup>9</sup> in these works was slow due to funds constraint. The State Government had decided (November 2012) to review the works wherever the progress was less than 25 *per cent*. Since the progress of UGD projects of Proddatur and Nandyal was less than 25 *per cent*, ULBs proposed dropping these works in September 2014 and August 2015, respectively. As a result, the infrastructure (laying of sewer lines), created with an expenditure of ₹9.48 crore<sup>10</sup> on these projects, became infructuous.

Government accepted (December 2016) that the works were dropped and stated that efforts would be made to utilize the sewer network already laid.

#### **5.1.6.2 Acceptance of Single tender**

As per Government order (July 2003) financial bid is to be opened only after the bidder qualifies the technical bid conditions. In case of receipt of single tender, the department should go for a second call after giving wide publicity for the purpose of obtaining competitive rates.

Audit observed that eleven works/sub-works of five ULBs<sup>11</sup> were entrusted to contractors on single tender on first call only. Of this, one sub-work of underground drainage project of Vijayawada Municipal Corporation, single tender was accepted even though tenderer did not satisfy technical specification relating to physical quantity of laying Stoneware Glazed pipes. Thus the bidding procedure was not followed as specified by the Government.

Government stated (December 2016) that since only single bid was received the same was accepted. The reply was not acceptable as the department should have gone for

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<sup>8</sup> Nandyal, Proddatur and Tadepalligudem

<sup>9</sup> Nandyal nine *per cent*, Proddatur 18 *per cent* and Tadepalligudem 60 *per cent*

<sup>10</sup> Nandyal ₹4.30 crore and Proddatur ₹5.18 crore

<sup>11</sup> Nandyal, Narasaraopet, Tadepalligudem, Vijayawada (seven works) and Yemmiganur

second call in case of receipt of single tender as per the Government orders mentioned *ibid*.

### 5.1.6.3 Delay/Non-completion of UGD Projects

Significant audit observations on incomplete test-checked projects are discussed below:

- i. The State Government had proposed to GoI for approval of underground drainage project to Tadepalligudem under UIDSSMT at an estimated cost of ₹61.40 crore. Since the project was not approved by GoI, the State Government decided to take up with its own/ULB funds. The work was awarded in November 2008 to contractor at a contract value of ₹57.27 crore with a stipulation to complete in 24 months (November 2010). Later, the validity of the contract was extended up to December 2015. Against this stipulated date of completion, progress of works was only 60 *per cent* as of March 2016 with an expenditure of ₹27.91 crore. The project could not progress since the permission for passing of pipe line below the bridge was denied (October 2009) by the Railways. Permission from Irrigation and Roads & Buildings departments was also pending. Failure of ULB in ensuring the permissions before execution of the work resulted in non-completion of the project.

Government accepted the audit observation (December 2016).

- ii. The State Government had proposed underground drainage project to Kadapa under UIDSSMT at an estimated cost of ₹72.16 crore and accorded administrative sanction (February 2007). The contract was awarded in March 2008 and was scheduled to be completed by March 2010. Validity of the contract was extended up to June 2013 due to non-removal of structures for laying sewer lines and non-acquisition of land. Since the contractor did not turn up after May 2013, the contract was terminated in July 2015. An amount of ₹68.34 crore was paid to the contractor as of May 2013.

Meanwhile, revised estimates were proposed (February 2014) with additional sewer network and construction of Sewerage Treatment Plant (20 MLD), which was sanctioned by Government in September 2014 for ₹108.41 crore. However, the ULB did not call for fresh tenders due to pending technical approval by Engineer-in-Chief as of September 2016. This resulted in unfruitful expenditure of ₹68.34 crore on the work left by the contractor in May 2013.

Government accepted (December 2016) the audit observation.

#### **5.1.6.4 Pipes lying idle**

Pipes worth ₹8.19 crore<sup>12</sup> procured in (November 2010 – May 2013) by four ULBs for the purpose of laying sewerage lines and pumping mains remained unutilized as of May 2016. The quality/durability of the pipes procured in advance would be adversely affected while lying idle in open. The reasons for not utilizing these pipes were not forthcoming from the records produced to audit.

Government stated (December 2016) that the pipes would be used after finalization of the location for construction of Sewerage Treatment Plant in Tadepalligudem and that payment made for un-utilized pipes in Kadapa and Proddatur would be recovered as per agreement conditions. Government did not furnish reply for Vijayawada project.

#### **5.1.6.5 Undue benefit to the contractors**

In respect of underground drainage project of Yemmiganur, the cost of 'Refilling of trenches and Relaying of roads' was to be borne by the contractor as per the agreement conditions. However, an amount of ₹47 lakh was paid to the contractor for this item. This was an undue benefit to the contractor.

Government stated (December 2016) that additional cost of ₹47 lakh was paid to contractor as provision made in the contract was not adequate. The reply was not acceptable as the agreement conditions clearly stated that cost of these works were to be borne by the contractor.

Further, as per Central Board of Excise and Customs notification (July 2012), Service Tax was exempted on all works contracts. Contrary to this, an amount of ₹0.27 crore was paid (November 2015) to the contractor.

Government accepted (December 2016) the audit observation.

#### **5.1.6.6 Non-recovery of Mobilisation Advance**

In respect of one<sup>13</sup> sub-work under underground drainage project of Vijayawada, an amount of ₹0.25 crore was paid to the contractor in November 2009 towards mobilisation advance, which was to be recovered along with the interest<sup>14</sup> from the subsequent running account bills made to the contractor. However, an amount of ₹2.74 crore was paid to the contractor through running bills without recovering the mobilisation advance as of June 2016. Similarly, in UGD project of Nandyal, mobilisation advance of ₹three crore paid to the contractor in July 2009 was not recovered as of June 2016.

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<sup>12</sup> Kadapa ₹1.44 crore (idle from May 2013), Proddatur ₹3.22 crore (idle from November 2010), Tadepalligudem ₹3.30 crore (idle from February 2011) and Vijayawada ₹0.23 crore (idle from January 2011)

<sup>13</sup> Providing 600 mm DI K9 UGD pumping main from Prakash Nagar collection well to Ajithsingh Nagar STP

<sup>14</sup> Two *per cent* over and above prime lending rate



Government accepted the observation and stated (December 2016) that the mobilisation advance paid in Nandyal project would be recovered. However, no reply was furnished in respect of Vijayawada project.

#### **5.1.6.7 Bank Guarantees not revalidated**

In respect of underground drainage project of Kadapa, the contract was terminated in July 2015 due to the contractor not turning up after partial completion of work. The contractor was paid ₹68.41 crore for the work done without effecting recovery of ₹8.52 crore due from contractor. Against ₹8.52 crore, ₹6.96 crore<sup>15</sup> was available with the implementing agency as Security Deposit and Bank Guarantees (BGs). The validity of BGs expired in April 2014 when the contract was still valid. Since these BGs were not revalidated, the implementing agency was unable to encash the bank guarantees to set off the dues against the contractor.

Government stated (December 2016) that the contractor in respect of Kadapa Project did not revalidate the BGs in spite of repeated notices and those dues would be recovered from other works of the agency. However, the works where from the dues would be recovered was not specified.

The reply of the Government was not acceptable, as under the rules, recovery relating to a specific work could not be ensured on payments from other works of the contractor.

#### **5.1.6.8 Short levy and recovery of VAT**

Value Added Tax (VAT) is to be levied and recovered at the rate of four *per cent* from the contractor as per Section 4 of AP VAT Act 2005 and as per the clause 91 of Agreement condition, prevailing rates of taxes should be applied. VAT was enhanced from four *per cent* to five *per cent* from September 2011. However, VAT was recovered at four *per cent* only in three packages of Greater Visakhapatnam Municipal Corporation (GVMC) project, resulting in short recovery of ₹85.76 lakh as of July 2015. GVMC replied that short recovery would be adjusted in final payment due to the contractor.

Government accepted the audit observation (December 2016) and assured that the amount would be recovered from the future payments of the agency.

#### **5.1.6.9 Non-levy of Labour Cess**

As per State Government orders, Labour cess had to be levied at the rate of one *per cent* of value of work done and transfer to labour department of Government for welfare of workers under construction activities. However, Vijayawada Municipal Corporation did not include this in the agreement and did not levy labour cess. This

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<sup>15</sup> Bank Guarantee: ₹4.82 crore and Security Deposit ₹2.14 crore

resulted in non-recovery of ₹26.44 lakh from the contractor's bills in respect of nine works of two<sup>16</sup> projects.

Government (December 2016) did not furnish specific reply.

#### **5.1.6.10 Consent from Pollution Control Board**

As per Water (Prevention and control of Pollution) Act, 1974, previous consent of the State Pollution Control Board (SPCB) is necessary for establishment of treatment and disposal system to ascertain whether the proposed treatment plant design meets the discharge standards for treated sewerage. In four<sup>17</sup> test-checked ULBs, Waste Stabilization Pond (WSP) was proposed to treat sewage discharge. However, the consent of SPCB as required under mandatory provision was not obtained by these ULBs.

Government accepted (December 2016) the audit observation and assured that the same would be obtained before commissioning the projects.

### **5.1.7 Monitoring and Evaluation**

#### **5.1.7.1 Short fall in testing**

As per the conditions of the agreements of Kadapa and Yemmiganur projects, after the pipes (sewer lines/pumping mains) were laid and jointed, they were to be subjected to hydrostatic pressure test. Out of 4,05,962 Running meters (Rmts) executed in these two projects, the test was conducted only for 1,92,949 Rmts (48 per cent). The contractor of Kadapa Project did not turn up after May 2013 and the contract was terminated in July 2015. Thus, the quality of work was compromised. The implementing agency failed to ensure completion of test of pipes laid before termination of contract.

Government stated (December 2016) that testing of already laid sewer network of the projects would be carried out with other agency at the cost of the original agency. The reply was not acceptable since hydrostatic pressure test could not be conducted for 2,13,013 Rmt without excavation work.

#### **5.1.7.2 Improper utilization of MS pipes**

According to Central Public Health and Environmental Engineering Organisation (CPHEEO) Manual, Mild Steel (MS) pipes should be avoided in sewerage pumping system/raising mains, since they are prone to corrosion. However, audit observed that in the underground drainage project of Greater Visakhapatnam Municipal

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<sup>16</sup> Providing Under Ground Drainage facilities to un-served areas (five works) – ₹23.36 lakh and Providing sewage facilities in un-served areas of VMC covering HB Colony, Gunadala etc.,(four works) – ₹3.08 lakh

<sup>17</sup> Kadapa, Narasaraopet, Tadepalligudem and Yemmiganur

Corporation<sup>18</sup> MS pipes worth ₹nine crore were used in contravention to the manual provisions. This would jeopardise the entire sewerage system.

Government accepted the audit observation (December 2016) that MS pipes were used and reasons for the lapse would be called for from the ULB.

### 5.1.7.3 Quality Control Checks

In respect of underground drainage project of Kadapa, third party agency had observed (February 2014) that seepage water was present in the manholes. The defect was not rectified since permission for extension of the main was pending with Irrigation Department. Further, erosion observed on the bund at Sewerage Treatment Plant at Nanepally was also not rectified as of May 2016. In other test-checked projects, satisfactory reports of the third party quality control were found on records.

Government did not furnish specific reply (December 2016) for rectification.

### 5.1.8 Conclusion

Audit observed shortcomings in the planning and implementation of the project. City sanitation plan was not prepared by the ULBs. There was shortfall in release of funds by GoI and State Government. ULBs were overburdened with escalation in cost due to improper survey on the requirement of sewerage network and delay in completion of projects. Contract was terminated without revalidating bank guarantees. There was shortfall in conducting hydraulic pressure tests on the pipes already laid. Quality control checks were not addressed.

## 5.2 Infructuous expenditure of ₹53.30 lakh

**Failure of the department to ensure availability of funds before commencement of work resulted in infructuous expenditure of ₹53.30 lakh**

As a commercial scheme under the Integrated Development of Small and Medium Towns, ‘Construction of shopping cum office complex in municipal office compound, Narasaraopet’ was proposed in April 2003. The scheme was expected to yield annual rental income of ₹32.32 lakh and municipal tax of ₹4.30 lakh from 19 shops, to be raised by 10 *per cent* every three years. Technical sanction was accorded in May 2005 for an estimated cost of ₹1.26 crore.

The contract was awarded in December 2005 but cancelled (May 2007) due to non-release of funds. A fresh contract was awarded for the execution of the work in August 2008 at a cost of ₹1.29 crore. The period of completion was stipulated as May 2009.

Scrutiny of records of Narasaraopet Municipality (December 2012) showed that the work was completed upto the ground floor and then stopped by the contractor in

<sup>18</sup> Providing Sewerage system to Central part of Visakhapatnam city

October 2009, expressing his inability to continue due to non-release of funds. Expenditure of ₹53.30 lakh was incurred by then. Even after the lapse of seven years, no action had been initiated by the Department to complete the unfinished works.

Department in its reply (March 2016) confirmed that the work was not resumed/completed and that there was no income generation.

Thus, failure of the department to ensure availability of funds before commencement of work resulted in infructuous expenditure of ₹53.30 lakh due to non-completion of the construction of shopping cum office complex. In addition, revenue that was projected as rent and taxes too could not be generated.

The matter was reported to Government in June 2016; reply has not been received (December 2016).

### **5.3 Short levy/assessment and collection of Building Penalisation charges**

**Incorrect application of rates on Penalisation Charges for unauthorised constructions/deviations by Narasaraopet Municipality resulted in loss of revenue of ₹49.65 lakh**

Government of Andhra Pradesh had issued notification in December 2007 to penalise the unauthorised constructions/deviations as a one-time measure in respect of existing buildings constructed after 1 January 1985 and before 15 December 2007, with a view to regulating unauthorised constructions/deviations. This was amended in January 2008, revising the penalisation charges. Penalisation charges varied according to the percentage of deviation, built up area and market value of land/plinth area of a flat and also according to the usage *viz.*, residential or commercial.

Scrutiny of records of Narasaraopet Municipality during December 2012 regarding Building Penalisation Scheme showed that, during 2010-11, 1,277 applications were received for regularisation of unauthorised constructions/deviations by paying Building Penalisation Charges. Of these, 939 cases were finalised after realising ₹2.44 crore. Audit had test-checked 20 cases. Out of these, in 10 cases, there were short realisations of penalisation charges of ₹49.65 lakh (*Appendix- 5.2*). This was due to reasons such as improper charging of commercial usage as residential, omission in plinth area, incorrect adoption of rates of basic penalisation charges, incorrect adoption of market value and erroneous computation of area of deviation.

The Commissioner, Narasaraopet Municipality stated (April 2016) that the matter was being reviewed and action taken in this regard would be intimated to audit. However, as per the notification, the competent authority was to communicate approval/rejection not beyond six months from the date of receipt of application. Hence, the proceedings already finalised/pending could not be revived at this stage.

As a result, the municipality suffered loss of ₹49.65 lakh on account of short assessment arising out of incorrect adoption of rates/usage/plinth area in determining the penalisation charges for unauthorised constructions/deviations.

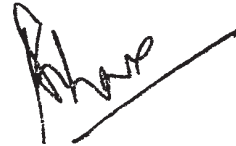
The matter was reported to Government in June 2016; reply has not been received (December 2016).

Hyderabad  
The  
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(L.TOCHHAWNG)  
Principal Accountant General (G&SSA)  
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Countersigned



New Delhi  
The  
02 FEB 2017

(SHASHI KANT SHARMA)  
Comptroller and Auditor General of India

