CHAPTER IV
COMPLIANCE AUDIT

AUDIT OF SELECTED TOPICS

4.1 IMPLEMENTATION OF KERALA LOCAL GOVERNMENT SERVICE DELIVERY PROJECT

4.1.1 Introduction

Kerala Local Government Service Delivery Project (KLGSDP) is a World Bank assisted project of Government of Kerala (GoK) meant to enhance and strengthen the institutional capacity of the local government system in Kerala to deliver services and undertake basic administrative and governance functions more effectively and in a sustainable manner. The project covers all the Grama Panchayats (GPs) (978)[1] and Municipalities (60) in Kerala. Government of India (GoI) entered into a financing agreement with International Development Association (IDA) on 4 July 2011, for availing loan of Special Drawing Rights (SDR)[2] 128.10 million equivalent to US$ 200 million[3] (₹ 920.00 crore)[4] and on the same day, a project agreement was signed between IDA and GoK. According to the agreement, GoK was to provide US$ 60 million (₹ 276 crore) as its contribution, thus making the total project cost US$ 260 million (₹ 1,196crore). As on 29 December 2017, GoK received US$ 182.83 million (₹ 1,093.34 crore) and GoK released ₹ 472.62 crore towards state share. According to the agreement, GoK has to pay Service Charge on the withdrawn credit balance at the rate of three-fourths of one *per cent* per annum and has paid ₹ 28.31 crore upto September 2017. Government of Kerala commenced repayment of loan with effect from 15 September 2016 and repaid ₹ 86.02 crore upto September 2017. The project originally slated to be completed by 31 December 2015 was extended up to 29 December 2017.

4.1.2 Project components

The Project comprises of the following four components:

- Performance Grants (PG) to Grama Panchayats and Municipalities.
- Capacity Building for Local Bodies.
- Enhancing State monitoring of Local Government systems.
- Project Management.

The Local Self-Government Department (LSGD) was responsible for overall project implementation. The LSGD executed the project through Project Management Unit (PMU). The PMU was headed by a Project Director reporting to the Secretary/Principal Secretary, LSGD and supported by a full time Deputy Project Director.

4.1.3 Audit Objectives, Scope and Methodology

Audit was conducted to assess whether GoK received the entire funds and

[1] In November 2015, number of GPs was reduced to 941 and number of Municipalities increased to 87.

[2] Special drawing rights (SDR) is an international reserve asset created by the International Monetary Fund (IMF). The value of SDR is based on a basket of five major currencies.

[3] Loan amount subsequently reduced to US$ 190 million based on conversion rate (14 July 2016).

[4] At the then prevailing exchange rate of ₹ 46 (15 November 2010).

disbursed to LSGIs/executing agencies and funds were utilised for the purpose for which it was envisaged in Project Implementation Manual (PIM) and other relevant rules and orders. The audit was conducted between June and September 2017 covering the project period from 2011-12 to 2016-17 in selected GPs/ Municipalities and in the implementing/execution support agencies. Four districts (Ernakulam, Kozhikode, Palakkad and Thiruvananthapuram) out of 14 were selected by applying Probability Proportional to Size and Without Replacement (PPSWOR) method. Ten Municipalities (25 *per cent*) and 32 Grama Panchayats (10 *per cent*) in the above four districts were selected by stratified random sampling method. The list of selected GPs and Municipalities are given in **Appendix XVIII**.

The Audit commenced with an entry conference (23 June 2017) with Additional Secretary, LSGD wherein the audit objectives, scope and methodology were discussed. An exit conference (09 January 2018) was conducted with the Additional Chief Secretary, LSGD during which the audit findings were discussed in detail. Response of the Government was considered while finalising the report.

4.1.4 Funding

The disbursement method for this project was an advance through the Designated Account (DA) in US$, which was managed by Controller of Aid, Accounts and Audit (CAAA) Division, Ministry of Finance, Government of India. Funds were advanced from the World Bank to Government of India (GoI) based on an annual forecast, which in turn transferred the funds to GoK through the regular budgetary mechanism between the GoI and the States. Finance Department, GoK was to immediately transfer these funds (along with its own contribution) from the Consolidated Fund to a project specific sub-head in the Public Account of the State (under Account Head 8448). Thereafter, the funds were to be transferred to the dedicated Treasury based accounts of each individual GP and Municipality. For capacity building components, the GoK released funds into the Treasury Savings Bank (TSB) account of the PMU, based on their requirements. Component-wise estimate, amount received and expenditure are detailed in **Table 4.1**.

Table 4.1: Component - wise estimate, amount received and expenditure

Components	Project Estimate				Receipts		Expenditure as on 31.03.2017 (₹ in crore)
	GOK share (US$ million)	IDA (US$ million)	Total (US$ million)	Total (₹ in crore)	Total grant received from world bank(₹ in crore)	GOK share (₹ in crore)	
Performance Grant	60.00	178.60	238.60	1097.56	1019.59	472.62	1139.96
Capacity Building	0.00	11.20	11.20	51.52	73.75	Nil	19.99
Enhancing State Monitoring of the Local Government System	0.00	3.40	3.40	15.64			3.85
Project Management	0.00	6.80	6.80	31.28			18.67
Total Project Cost	**60.00**	**200.00**	**260.00**	**1196.00**	**1093.34**	**472.62**	**1182.47**

Source: PIM, Loan ledger of CAAA, reply of PMU, IKM

Out of US$ 200 million[5] proposed by World Bank, GoK received US$182.83 million (upto March 2017), which was equivalent to ₹ 1,093.34 crore. The World Bank cancelled (15 May 2017) the undisbursed balance of US$ 7.10 million[6] equivalent to ₹ 45.45 crore[7] due to huge amount of unspent/undocumented balances (₹ 383.49 crore[8]) with GoK as on 31 March 2017. Audit scrutiny revealed that against the proposed state share of US$ 60 million, State released US$ 75.80 million **(Appendix XIX)** as of March 2017, which resulted in excess state share of US$ 15.80 million. The GoK did not give any reply about the release of excess share, despite being requested by the Audit.

Audit Findings

4.1.5 Physical achievement of Performance Grant- Component I

This component provides annual, performance-based grant to all 978 GPs and 60 Municipalities. The objective was to provide GPs and Municipalities with additional discretionary funds for expanded local investment in a manner, which incentivises the strengthening of their institutional capacity. The grant was to be spent on both the creation and maintenance of capital assets used in service delivery. The overall goal was to improve GP and municipal performance in local governance and public service delivery.

Even though, Project Implementation Manual envisaged improving the quality of services to the institutions transferred to the LSGIs like schools, health centres, agricultural offices, veterinary dispensaries, water supply and addressing issues in productive sectors like agriculture, environment and community infrastructure, it was observed that during 2011-12 to 2016-17, expenditure in these areas were very low, ranging from 0.03 to 4.70 *per cent*. Performance Grant (PG) was utilised mainly for projects like road maintenance (38.50 *per cent*), new road (9.80 *per cent*), construction/maintenance of Panchayat/Municipality office building (13.17 *per cent*), etc. (**Appendix XX**).

It was further observed that as on 31 March 2017, out of 38,032 projects implemented, 22,798 projects were road projects utilising ₹ 546.21 crore (48.25 *per cent* of the total expenditure).

4.1.5.1 Delay in utilisation of Performance Grant- Component I

The year-wise release and utilisation of Performance Grant from 2011-12 to 2016-17 are detailed in **Table 4.2**:

Table 4.2: Year-wise release and utilisation of Performance Grant up to 31 March 2017

(₹ in crore)

Year	Opening Balance	Allotment	Total	Expenditure	Closing Balance	Percentage of expenditure
2011-12	0.00	140.00	140.00	93.98	46.02	67.13
2012-13	46.02	284.25	330.27	187.98	142.29	56.92

[5]Subsequently reduced to US$ 190 million based on conversion rate with SDR 128.10 million in July 2016.
[6]190-182.83 (5.27 million SDR).
[7]Calculation made by Audit based on prevailing exchange rate @ ₹ 64 as on 15 May 2017.
[8]₹ 1,093.34 crore (World Bank release) + ₹ 472.62 crore (state release)- ₹ 1,182.47 crore (Expenditure).

Year	Opening Balance	Allotment	Total	Expenditure	Closing Balance	Percentage of expenditure
2013-14	142.29	270.01	412.30	267.62	144.68	64.91
2014-15	144.68	319.40	464.08	115.30	348.77	24.84
2015-16	348.77	0.00	348.77	276.57	72.20	79.30
2016-17	70.77[9]	478.55	549.32	198.51	350.82	36.14
Total		**1492.21**		**1139.96**		

Source: IKM, Budget

As seen from the table, the utilisation of PG ranged from 24.84 *per cent* in 2014-15 to 79.30 *per cent* in 2015-16. Against allotment of ₹ 1,492.21 crore, the overall utilisation of funds was ₹ 1,139.96 crore only (76.39 *per cent*) as on 31 March 2017. Audit noticed that PMU reported an expenditure of ₹ 1,164.71 crore to World Bank through Interim Un-audited Financial Reports (IUFRs) as of March 2017, whereas expenditure statements of IKM (Sulekha statements[10]) showed an expenditure of ₹ 1,139.96 crore. Thus, the IUFRs of PMU was inflated by ₹ 24.75 crore. Government of Kerala (January 2018) stated that after reconciling the figures, the difference was reduced to ₹ 56.73 lakh and would be adjusted from the IUFRs to be submitted by the end of January 2018. However, the reply was not acceptable as PMU could not produce any document/IUFR to prove that the difference was reduced to ₹ 56.73 lakh.

Audit examined the reasons for delay in implementation of the project and consequent under-utilisation of funds which are discussed in the succeeding paragraphs.

(a) Delay in plan formulation

The financial year of LSGIs runs from April to March and the timeline for activities in PG are based on the existing annual public expenditure management cycle of LSGIs.

The Project Implementation Manual prescribed a timeline to be followed by the LSGIs for the implementation of KLGSDP projects. By April every year, LSGIs shall begin their annual planning process for the forthcoming financial year and associated budget process. This includes preparation of sub-projects for funding, public consultation and other internal project preparation processes. By September each year, LSGIs must have the approval for the sub-projects and its corresponding allocations. The LSGIs must finalise their annual budget consultation processes through meetings with Gram Sabhas by 1 November and get their annual budget approved by the end of March each year for submission to LSGD by end of April. Further, the plan formulation guidelines also prescribed that the projects for the ensuing year should be prepared well in advance *i.e.*, before 9 January, DPC approval obtained by end of January and estimates of the plan projects shall be included in the budget.

However, Audit noticed that none of the 42 test-checked LSGIs formulated the plan as stipulated in the PIM. There were delays ranging from 1 to 12 months, 3 to

[9] After reconciliation, the Government re-authorised ₹ 70.77 crore in February 2017 being the balance as on April 2016.

[10] The web application suite used by LSGIs to monitor plan formulation, appraisal, approval, revision process and expenditure against the allocation of plan projects.

12 months and 4 to 12 months in finalising sub-projects and getting District Planning Committee (DPC) approval for the years[11] 2014-15, 2015-16 and 2016-17 respectively (**Appendix XXI**). Delay in finalising projects in 42 selected LSGIs resulted in projects getting postponed to the subsequent years as spillover projects as shown in **Table 4.3**.

Table 4.3: Details of spillover projects in the selected LSGIs

Year	No. of projects formulated utilising KLGSDP	Project cost (₹ in crore)	No. of projects taken up for implementation	Expenditure of completed projects (₹ in crore)	No. of spill over projects	Percentage of projects not implemented
2014-15	338	20.00	145	5.26	193	57
2015-16	325	15.14	272	10.14	53	16
2016-17	396	31.58	226	9.80	170	43
Total		**66.72**		**25.20**		

Source: IKM data

Audit noticed that even though the selected LSGIs planned 325 to 396 KLGSDP projects annually, 16 to 57 *per cent* of the projects were not taken up for implementation and postponed to subsequent years as spill over projects.

While accepting the audit observation, GoK stated (December 2017) that delay occurred as LSGIs had taken up projects under KLGSDP along with their routine plan formulation system. As such, one of the objectives of the project to establish a well-functioning planning system in LSGIs remained unachieved.

(b) Delay in conducting Annual Performance Assessment

As per the conditions of PIM, Annual Performance Assessment (APA) of LSGIs for the previous year was to be carried out between September and December of the current year and PG was to be released by April of every year in a single tranche. Audit noticed that delay of 10 to 15 months on the part of PMU in conducting the APA, led to delay of 10 months in releasing PG for 2013-14. Similarly, delay of 13 to 17 months in conducting APA resulted in delay of 11 months in 2014-15 in release of PG to LSGIs (**Appendix XXII**).

Government of Kerala stated (December 2017) that APA was a novel experience for LSGIs and other agencies involved and code of conduct due to election to Lok Sabha and LSGIs came into force in 2014 and 2015 respectively, which led to the delay in APA.

The reply was not acceptable as even after imparting training to PMU staff as part of first APA, PMU could not avoid delays in conducting APAs in subsequent years. Moreover, the possibility of conduct of election was known to PMU well in advance.

(c) Delay in re-authorisation of KLGSDP funds

According to PIM, each LSGI was to maintain a project specific dedicated treasury based public account for PG with the treasury and the funds allocated to the GP/Municipality for the project were to be transferred to this account. Unspent

[11] Plan formulation details of selected LSGIs for the years 2011-12, 2012-13 and 2013-14 were not available.

balances in the LSGI accounts at the end of the year were non-lapsable, which were to be carried over to the next financial year so that the GPs/Municipalities would have timely access to funds.

Government of Kerala dispensed (September 2015) with the system of transfer crediting KLGSDP funds to the public account of LSGIs and they were directed to draw funds directly from the Consolidated Fund of the State by presenting fully vouched contingent bills. At the end of the financial year, unspent balances lapsed and the amount was to be re-authorised by GoK during the next financial year. The change in the system of drawal of funds was also agreed by the World Bank. However, Audit noticed delays in re-authorisation of funds in the next financial year as detailed in **Table 4.4**.

Table 4.4: Table showing re-authorisation

(₹ in crore)

Year	Balance as on 31 March of the previous year	Amount re-authorised	Date of re-authorisation
2015-16	GoK directed LSGIs to utilise the unspent balances in the public account		Nil
2016-17	70.77	70.77	February 2017
2017-18	350.79	350.79	July 2017

Source: Government Orders

It was seen that due to delay in re-authorisation during 2016-17, no PG funds were available with LSGIs until the allotment of Performance Grant of ₹ 237.43 crore in October 2016 and during 2017-18, funds were not available till July 2017. Delay in re-authorisation resulted in non-availability of PG funds with LSGIs for a period of six months and four months in 2016-17 and 2017-18 respectively.

Government of Kerala (December 2017) accepted the delay and stated that shift to the new system was its policy decision. Audit did not challenge the policy decision making power of GoK, however while shifting to the new system, GoK should have ensured the availability of funds for implementation of projects, without delay. Thus, the failure of the GoK to re-authorise KLGSDP funds during 2016-17 and 2017-18 in a timely manner resulted in non-availability of funds for project implementation.

(d) Delay in implementation of projects in backward LSGIs

Government of Kerala forwarded a proposal to the World Bank (August 2014) for utilising additional funds available due to savings and exchange rate fluctuation by providing funds to backward GPs, GPs having Tribal Clusters and Revenue Deficit Municipalities to finance viable infrastructure projects for improved service delivery and local economic development. The proposal was intended to support 60 backward and tribal LSGIs by providing ₹ four crore to each LSGI. Department of Economic Affairs, Ministry of Finance in June 2015 approved the proposal submitted by the State to utilise the credit savings for additional activities under the project. The meeting (July 2015) chaired by the Principal Secretary, LSGD decided to engage Non-Governmental Organisations (NGO) to prepare Detailed Project Reports (DPR) in respect of identified infrastructure projects. World Bank Team in a review meeting (December 2015) set an action plan to sign the agreement with the selected NGOs in January 2016 and need assessments and selection of priority investments to be undertaken by NGOs was to be completed by 31 March, 2016. The DPR preparation was to be completed by June 2016 so that DPC approval could be obtained and the projects completed by 30 June 2017. However, due to delay on the part of PMU in identifying the NGOs, agreement could be entered into with NGOs only during May-June 2016. As the agreed timelines were not met, World Bank (July 2016) reduced the allocation to the backward component to ₹ 120 crore (₹ two crore per LSGI).

In the selected six LSGIs, which received funds under this component, 24 projects for ₹ 10.66 crore were envisaged. The projects included construction of community halls, drinking water projects, crematoriums etc. The DPRs for these works were submitted by the NGOs during October 2016 to April 2017 against the proposed submission by June 2016. Though it was planned to complete the works by 30 June 2017, 14 works were completed and remaining works were in progress (November 2017). The total expenditure incurred on 24 works as of November 2017 was only ₹ 6.78 crore (64 *per cent*) (**Appendix XXIII**). Thus, delay on the part of PMU in selecting NGOs and getting the DPRs submitted by them in time led to delay in execution of works included under backward region component. As per the conditions of PIM, fund remaining unutilised at the end of project period were to be returned to the World Bank. Government of Kerala (December 2017) stated that even though selection of NGOs were completed on 25 April 2016, due to election code of conduct, the agreements were signed only in May 2016. Reply was not acceptable though the decision to engage the NGOs was taken in July 2015, the process of selection started only in January 2016.

Thus, delay in implementation of projects due to delayed plan formulation, delay in APA, non-adherence to project agreement and delayed project implementation in backward LSGIs resulted in short utilisation of funds and extension of the project period for two years. Slow pace in implementation of the project resulted in World Bank cancelling (15 May 2017) the undisbursed balance of US$ 7.1 million (5.27 million SDR) equivalent to ₹ 45.44 crore. Extension of project period also resulted in increase in GoK contribution to the tune of US$ 15.80 million towards the project. Slow utilisation of funds also resulted in accumulation of exchange loss to the tune of US$ 8.60 million (equivalent to ₹ 55.93[12] crore) as on 31 March 2017 (**Appendix XXIV**). World Bank team in their visit during April 2017 informed that all exchange losses will have to be absorbed by the State and returned to the Bank after project closing.

4.1.5.2 Non-achievement of project objective

According to the PIM, PG was to be introduced in two phases. The administrative and institutional systems necessary for utilisation of PG in the second phase were to be established during the first two years (first phase). During this period, the GPs and Municipalities received grant subject to basic fiduciary requirements, that is, clean Local Fund Audit (LFA) opinion (not adverse or disclaimed), Annual Plan approved by both the Panchayat/Municipal Council and District Planning Committee (DPC) and a copy sent to LSGD by end of April. All the LSGIs (1,038) except two received grant in first year[13] (2011-12) and for second year (2012-13), all LSGIs except three received grant. From third year onwards, i.e., in phase two, the LSGIs were to receive grant on the basis of demonstrated institutional

[12] Calculated at the exchange rate of ₹ 65.04.
[13] 2011-12 - Vattavada and Mangalpady GPs.
2012-13 - Vattavada, Pavaratty GPs and Thrikkakara Municipality.

performance as measured through an Annual Performance Assessment (APA) and the local bodies were to meet a set of Mandatory Minimum Conditions (MMCs) in full and achieve a certain score against a set of performance criteria, as prescribed in PIM.

The performance of the LSGIs was to be assessed in the areas of (i) Planning and Budgeting (ii) Project execution and service delivery (iii) Accounting, Reporting and Audits and (iv) Transparency and Accountability. The key outcome intended through the project was 70 *per cent* GPs and Municipalities pass the performance assessment for a well-functioning fiduciary, planning and service delivery systems and introduction of a well-established performance based grant system increasingly financed by GoK. Audit noticed that GoK diluted MMC and performance criteria to make more LSGIs eligible for PG fund, as detailed in **Table 4.5**.

Table 4.5: Table showing number of LSGIs which qualified APA

APA year	Total no. of LSGIs	No. of LSGIs qualified before relaxation of criteria	Per - centage	No. of LSGIs qualified after relaxation of criteria	Per-centage of LSGIs cleared	No. of LSGIs failed
2013-14	1038	88	8.48	849	90.27	101
2014-15	1038	112	10.79	782	86.13	144
2015-16	1028	201	19.55	697	87.35	130

Source: PMU

It is seen from the above that in all the three years, criteria were relaxed as only 8.48 to 19.55 *per cent* of LSGIs could clear the criteria fixed. The proposed parameters and subsequent relaxed conditions are detailed in **Appendix XXV**. A review of the status of adherence to the MMCs by test-checked LSGIs revealed the following.

Planning and Budgeting

The MMC under Planning and Budgeting stated that annual plan for preceding year approved by both the Council and DPC and budget for new financial year approved by the Council were to be forwarded to LSGD by the end of March. Only 88 LSGIs during 2013-14 and 216 LSGIs during 2014-15 qualified the MMC. During these years, all LSGIs were declared to have cleared the MMC under Planning and Budgeting assuming that LGSIs prepared annual plan and budget on time. Even though all the LSGIs test-checked prepared budget by the end of March, there was delay ranging from one to 12 months in finalising annual plan during 2014-15 to 2016-17 as detailed in paragraph **4.1.5.1(a)**.

Project Execution and Service Delivery

Project Implementation Manual prescribed MMC of minimum utilisation of 80 *per cent* of PG alone. However, GoK relaxed this condition and set a minimum of 80 *per cent* of Development Fund[14] as MMC criteria. This resulted in LSGIs giving less priority in spending KLGSDP funds. Audit noticed that in 11 to 40[15] out of 42

[14] KLGSDP Performance Grant, Development Fund - General - capital, Development Fund - Special Component Plan - capital, Development Fund - Central Finance Commission - capital.

[15] 2011-12 : 15 LSGIs, 2012-13 : 25 LSGIs, 2013-14 : 21 LSGIs, 2014-15 : 40 LSGIs, 2015-16 : 11 LSGIs and 2016-17 : 31 LSGIs.

test-checked LSGIs, the utilisation of Performance Grant was below 60 *per cent* during 2011-12 to 2016-17. World Bank review mission in March 2016 observed that only 40 *per cent* of LSGIs spent above 80 *per cent* of PG fund during 2015-16. The mission expressed concern about providing additional funds to LSGIs with low utilisation and emphasised that KLGSDP funds for the fifth PG cycle (2016-17) should only be disbursed to LSGIs that have utilised at least 80 *per cent* of the KLGSDP under fourth PG cycle in 2015-16. However, this condition was not adhered to. In 17 out of 42 test-checked LSGIs, the fund utilisation was below 80 *per cent* during 2015-16 and 11 out of 17 LSGIs received PG during 2016-17.

Another MMC was that capital works and acquisitions funded from PG have taken place. However, GoK relaxed this criterion and considered any one of the projects funded by KLGSDP completed as criterion, for clearance of MMC during 2013-14. During 2014-15, just signing of agreement for work or issue of supply order in the case of procurement of goods in at least 80 *per cent* of total projects was considered as MMC clearance.

Transparency and Accountability

Preparation of a public report on the annual plan and budget and dissemination to grama sabhas and ward sabhas within one month of DPC approval was one of the MMC. It was seen that none of the test-checked LSGIs prepared and disseminated public report on annual plan and budget during 2011-12 to 2016-17. Instead, budget summary and final plan document was taken into account as public report. The public reports on plan and budget are an important means of communicating the development plans to the people and also a measure to enhance local transparency and downward accountability of LSGIs.

Regarding performance criteria, the minimum performance benchmark was fixed as 50, which was lowered to 35 during the years 2014-15 and 2015-16, as the performance of LSGIs relating to critical infrastructures[16] was poor.

Thus, as a result of relaxing the MMC and performance criteria, LSGIs could not achieve the objective of a well-functioning fiduciary, planning and service delivery system. Instead of developing a realistic and feasible mechanism for incrementally strengthening the institutional capacities of GPs and Municipalities, for utilising the grant and implementing the projects in a timely manner, PMU diluted the eligibility conditions and gave LSGIs further instalment.

Annual Performance Assessment was conducted to identify the institutional strength and weakness of the GPs and Municipalities so as to assist them to identify areas for improvement and monitor progress on a yearly basis. It was also seen that even though introduction of a well established Performance Grant system increasingly financed by GoK was one of the objectives of the project, the performance assessment of LSGIs was not conducted during 2016-17. Thus, the intended outcome of 70 *per cent* LSGIs passing the assessment for a well established Performance Grant system could not be achieved. Government of Kerala stated (December 2017) that changes in proposed parameters were done with the approval of the World Bank. However, GoK did not produce any

[16] Crematorium/burial ground, slaughter house, solid/liquid/plastic waste management facilities, public toilets, front office and visitor friendly facilities in LSGI Office, fish/vegetable markets, street lights, safe drinking water facilities, anganwadis and basic infrastructure in SC& ST colonies/sanketham.

document to substantiate World Bank approval. The reply was not acceptable as by relaxing the criteria, the objective of establishing a well-functioning fiduciary, planning and service delivery system in LSGIs could not be achieved.

4.1.5.3 Unproductive expenditure utilising KLGSDP Fund

According to PIM, the PG was to be spent on both the creation and maintenance of capital assets used in service delivery. Scrutiny of the 42 test-checked LSGIs revealed that the assets created in Eloor Municipality and Kalamassery Municipality utilising KLGSDP Fund turned unproductive as detailed below:

- Administrative sanction was issued by the Eloor Grama Panchayat Council (July 2010) for ₹ 4.40 crore and Technical Sanction by State Level Technical Committee (SLTC) for ₹ 3.37 crore (February 2011) for the construction of a Community Hall at Pathalam in Eloor Municipality[17]. After negotiations, the work was awarded to the lone bidder for ₹ 3.18 crore and an agreement executed (February 2012). The project was to be completed in February 2013. Out of the total funds earmarked for the project, ₹ 0.53 crore related to KLGSDP Fund.

While executing the work, the Municipal Engineer requested (August 2012) additional quantity of steel (1145 quintal) over the estimated quantity as the quantity of steel was calculated on the basis of quantity of concrete rather than structural design. Accordingly, sanction was obtained for additional quantity of steel (March 2013) and the estimate was revised to ₹ 4.06 crore by Municipal Engineer, Eloor Municipality. As the time elapsed, the contractor demanded (October 2013) revision of rate from 15 to 25.90 *per cent* above estimate. Pending decision from the Municipal Council, the contractor stopped the work (October 2013) and the work was not completed (December 2017). The contractor was paid an amount of ₹ 2.78 crore (June 2013), being value of work done, which included ₹ 0.43 crore from KLGSDP Fund. Audit observed that due to delay on the part of Municipal Council in giving revised Administrative Sanction, revised Technical Sanction was obtained only in January 2015 and the Municipal Engineer directed the contractor to execute a supplementary agreement only in January 2015. Thus, lapse on the part of SLTC in granting Technical Sanction without analysing the estimate led to subsequent demand for additional quantity of steel, which required revision of the estimate and consequently, stoppage of work. Further, laxity on the part of Municipality in taking timely action to obtain revised Technical Sanction also contributed to the stoppage of work. The expenditure incurred so far became unproductive.

Government of Kerala, while accepting the facts (December 2017) pointed out by Audit stated that the Municipality took a resolution to complete the project in 2017-18.

- Kalamassery Municipality constructed (April 2014) a Gas Crematorium in their own land incurring an expenditure of ₹ 1.17 crore from KLGSDP Fund. Based on competitive tender, the operation of crematorium was entrusted to Shri V.M.Ramadas for a period of one year from April 2014. Audit observed that the crematorium had stopped functioning since February 2015 and only 31 cremations were done. Though Municipality again invited tender (June 2016) for operating the crematorium, no response was received. During joint inspection (July 2017), it was noticed that waste collected from the municipal area was dumped near the

[17]Converted as Municipality w.e.f. November 2010.

crematorium and thereby polluting the entire area. The Centre for Socio Economic and Environmental Studies (CSES) in the end line survey report stated (July 2017) that the crematorium had to stop working due to its location, as people were not comfortable to cremate their loved ones in the vicinity of a dumping ground. Audit observed that lapse on the part of the Municipality in making the crematorium functional resulted in idle investment of ₹ 1.17 crore out of KLGSDP Fund. Government of Kerala stated that (December 2017) Municipality had taken steps to make the crematorium functional and also decided to shift the dumping yard from the premises of the crematorium.

Failure of two LSGIs to ensure the completion and utilisation of assets created using KLGSDP Fund resulted in idle investment of ₹ 1.60 crore. Further, PMU, which was responsible for monitoring the project performance in line with the implementation schedule also failed in doing its job.

4.1.5.4 Incurring expenditure on non-conforming projects/items included in negative list

According to PIM, the PG will be utilised for the acquisition of capital assets; capital works and maintenance and operation of these assets in line with the functional mandates of local bodies. The grant will be fully discretionary within these parameters, subject to a clear negative list. Further, GoK issued clarification in November 2011 and listed out the activities, which were not to be executed utilising KLGSDP Fund or which did not conform to the objectives of the PG. This included purchase of land, purchase of vehicles, assistance towards individual house construction/maintenance, payment of honorarium to Anganwadi workers etc. However, a review of records in PMU revealed that LSGIs utilised an amount of ₹ 5.95 crore during 2011-12 to 2014-15 towards the items on non-conforming projects/projects included in the negative list as given in **Table 4.6**:

Table 4.6: Table showing expenditure on non-conforming projects/projects included in negative list

Year	No. of projects	Amount (₹ in crore)
2011-12	179	3.99
2012-13	39	1.80
2013-14	10	0.14
2014-15	1	0.02
Total	**229**	**5.95**

Source: PMU

Utilisation of PG for non-conforming projects/projects included in negative list noticed in the selected LSGIs are given below.

- In Balussery GP, during 2011-12, an amount of ₹ 3.90 lakh was incurred for individual house renovation.
- During 2011-12, an amount of ₹ 1.82 lakh was incurred by the Veterinary Surgeon in Balussery GP towards livestock breeding programme.
- During 2011-12, Arikkulam GP incurred an expenditure of ₹ 0.80 lakh out of KLGSDP Fund for individual house renovation.
- During 2013-14, Koduvally GP incurred an expenditure of ₹ two lakh out of KLGSDP Fund for renovation of houses (women).

Secretaries of Balussery and Arikkulam GPs stated that during the initial period of the project, they were unaware of the conditions for utilisation of KLGSDP Fund.

Audit noticed that the orientation programs intended to create awareness among LSGIs about the terms and conditions for utilisation of PG was first conducted by PMU in September 2012 and most of the non-conforming projects (81 *per cent*) were undertaken by LSGIs during 2011-12.

Government of Kerala stated (December 2017) that KILA conducted orientation programmes during June-July 2011. Reply was not acceptable as incurring huge expenditure on non-conforming projects during 2011-12 indicated that KILA did not create proper awareness among the LSGI functionaries about the terms and conditions for utilisation of PG.

Thus, negligence on the part of PMU/KILA in providing proper awareness to LSGIs on the utilisation of PG led to utilisation of ₹ 5.95 crore for purposes other than creation and maintenance of capital assets used in service delivery.

4.1.6 Component II- Capacity Building

This component provides capacity building inputs to strengthen and supplement the existing systems, human resource knowledge and improve capacities of LSGIs to enable LSGIs to function efficiently, effectively and with increased accountability. The project adopted a two track approach. In the short and medium term, immediate capacity development activities to address critical capacity gaps to be taken up by Kerala Institute of Local Administration (KILA) and State Institute for Rural Development (SIRD). In the long term, the component was to support formulation of a state-wide capacity building strategy for LSGIs. The allocation for capacity building was ₹ 51.52 crore and expenditure till March 2017 was ₹ 19.99 crore. The audit observations relating to this component are detailed below:

4.1.6.1 Non-achievement of objective

Kerala Institute of Local Administration was entrusted with the preparation of manuals on key functional areas of LSGIs, imparting training on these manuals to all LSGIs and conducting capacity needs assessment and development of capacity development strategies. Accordingly, an MoU was signed (June 2011) by PMU with KILA. Preparation of manuals was to be completed by June 2012 and first training was to be imparted by July 2012 and capacity needs assessment was to be conducted by July 2013. However, KILA did not prepare the manuals in time. They submitted the manuals only in December 2015 to GoK for approval but the same were approved between December 2016 and June 2017. Due to delay in the preparation of manuals, KILA could not impart training (October 2017) to LSGIs on these manuals. Even though the component was intended to enhance the institutional performance of LSGIs by building the human resource knowledge and to formulate a state-wide capacity building strategy for LSGIs, failure of KILA to adhere to the timeline resulted in non-achievement of the objective.

While accepting the audit observation, GoK (December 2017) stated that the delay in preparation of manuals was attributed to delay in selecting faculties and vetting the manuals. Audit noticed that capacity building of LSGIs through strengthening/enhancing human resource knowledge was pivotal to the effective utilisation of PG. As such, GoK should have ensured the timely completion of manuals and imparting training.

4.1.6.2 Mentoring by providing Capacity Building for Urban Local Bodies personnel in Municipalities

The project envisaged to provide technical support (online and mentoring at field level) to GPs for the implementation of e-governance systems and accounting systems by providing one Accountant-cum-IT specialist in each Block Panchayat. In order to assist the smooth implementation of accounting reforms in ULBs, GoK requested (May 2012) the World Bank to facilitate the continuity of the scheme – 'Capacity Building for Urban Local Bodies'(CBULB),[18] by covering salaries of the CBULB Accountants engaged on contract basis for 60 Municipalities for one year. The proposal of GoK was approved by the World Bank (November 2012) as the objective of the CBULB scheme was consistent with the KLGSDP objectives. The entire process of implementing the municipal accounting reforms was envisaged to be completed in one year and GoK was required to create the post of Accountants in Municipalities. It was further envisaged that Annual Financial Statements of 60 Municipalities for the year 2013-14 would be prepared by Municipal staff with guidance of CBULB Team by July 2014. It was observed that, though GoK created (June 2012) the post of accountants by upgrading existing post of Upper Division Clerks in ULBs; the posts were not yet filled (November 2017). As Accountants were not posted, training was provided to clerical staff and most of them left on account of transfer/promotion. Thus, instead of training municipal staff who would stay on the job even after CBULB initiative ends, the accounts were prepared and finalised by CBULB personnel. The assistance to CBULB personnel under KLGSDP continued till June 2017 and scheme was discontinued with effect from July 2017. Audit noticed that even though an amount of ₹ 3.10 crore (March 2017) was spent for the engagement of CBULB personnel, intended objectives were not achieved as GoK did not appoint Accountants in Municipalities and train them. Thus, instead of providing technical support in the short term and build capacities for preparation of accounts, CBULB personnel rather prepared the financial statements which posed some risks as the CBULB staff was not permanently deployed for this purpose and Municipalities could not achieve self-sustenance as far as accounting duties were concerned.

While accepting audit observation, GoK stated (December 2017) that accountants in charge of the Municipalities were subjected to frequent transfers, the double entry accounting was conducted with the support of CBULB staff. Though GoK created the post of Accountants in Municipalities, an independent accounting cadre was not materialized yet (January 2018).

4.1.7 Component III - Enhancing State Monitoring of the Local Government System

In order to strengthen the system of performance monitoring of GPs and Municipalities in Kerala, the project envisaged for (a) preparation of a database of basic GP and municipal level information, (b) service delivery survey, (c) evaluation and studies for the project, and (d) formation of a Decentralisation Analysis Cell (DAC) which, among other things, will be responsible for (a) and (b). Accordingly, an MoU was signed by PMU with Gulati Institute of Finance and Taxation (GIFT) in June 2011 for setting up of DAC.

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[18] CBULB was a GoI scheme for the implementation of the computerised accrual based double entry system of accounting in ULBs. GoI discontinued funding the scheme in 2012. The scheme was funded upto September 2012 from Kerala Sustainable Urban Development Project (KSUDP).

4.1.7.1 Non-achievement of the objective of Decentralisation Analysis Cell

Decentralisation Analysis Cell (DAC) was to carry out policy advisory function, providing independent analysis on the performance of the State's inter-governmental fiscal system and service delivery system and providing ongoing policy advice to GoK and the State Finance Commission (SFC) on local and inter-governmental fiscal and institutional issues. The core activities of the policy advisory function was preparation of annual fiscal report, just-in-time policy advice to GoK and policy studies on key policy issues (e.g. property taxation, municipal borrowing, analysis of inter-governmental transfers, etc.) Audit observed that other than conducting 26 policy studies[19], DAC did not so far (November 2017) prepare any annual fiscal report or provide any policy advice to GoK/SFC on local and inter-governmental fiscal and institutional issues. Further, DAC was to establish a database, which stores basic information regarding LSGIs and municipal profiles such as population, vital statistics, livelihoods, employment, education, water and sanitation, budget expenditures and physical assets. The database would enable both decision makers and general public to get real-time information on physical and financial activities of development projects at local level. Even though the database was to be established by March 2012, other than developing a model user friendly website for Annual Financial Statements of LSGIs, DAC did not establish a database as envisaged. As DAC did not establish the database, PMU (March 2015) entered into an agreement with M/s IPE Global Pvt. Ltd. for establishing the above database at a total cost of ₹ 1.51 crore (exclusive of taxes) within a period of eight months from the date of agreement. Audit observed that PMU granted extension thrice and the last extension expired in November 2017. Though an amount of ₹ 86.03 lakh was paid to the firm, it did not establish the database till date (December 2017). The World Bank in its last implementation support mission (December 2017) informed that any further payments in this regard would not be financed by World Bank.

Audit observed that even though the project guidelines stipulated posting of a full time Director in DAC, PMU/GoK failed to do so. The Posts of Deputy Director (Policy Advisor), Deputy Director (Data), Research Analyst and Data Analyst even though filled up, their services were discontinued on completion of one year (June 2013) as they did not have enough competence to carry out the tasks of DAC. It was seen that throughout the project period, the key posts remained vacant, which adversely affected the functioning of DAC.

World Bank in its midterm review in 2014 opined that even after almost two and half years into project implementation, DAC performed sub-optimally due to institutional challenges, including problems of staffing, coordination within GIFT and DAC, leadership challenges and limited commitment and passion within DAC to deliver on its mandate. Even though ₹ 3.85 crore was spent for strengthening the system of performance monitoring of GPs and Municipalities in Kerala, the objective was not achieved yet (January 2018).

Government of Kerala (December 2017) stated that inspite of the limitations, DAC analysed the issues relating to reliability and consistency of fiscal data of LSGIs as generated through the different software modules. GoK further stated that DAC

[19] Out of the 26 Policy advisory studies, six reports were proposed for independent publication, four reports were proposed to be published as a compendium and rest of the studies to be retained as policy advisory study papers.

established a model user friendly census database and supervised service delivery and endline surveys and undertaken policy studies. The reply was not acceptable as the preparation of database, which would have enabled decision makers to get real time information on development projects was not realised. Further, preparation of annual fiscal report and providing policy advisory function could not be attained.

4.1.8 Component IV-Project Management

The Project Management Unit (PMU) established under the LSGD had the overall responsibility for day to day project management, coordination and monitoring and evaluation of the project. The main activities envisaged were (i) support to project management, (ii) financing, and (iii) project reporting. It was also to facilitate day to day decisions for implementation of various components of the project and ensure that the project resources were budgeted for and disbursed and project accounts were audited. Project Management Unit at the state level was headed by a Project Director reporting to the Principal Secretary, LSGD. A full time Deputy Project Director was to be hired for overall supervision. The project engaged individual experts/specialists to support the PMU in its day-to-day management of the project.

4.1.8.1 Appointment of consultants for conducting Annual Performance Assessment Survey

Project Management Unit divided the LSGIs in three regions *viz.*, southern region, central region and northern region with 325-375 LSGIs each for conducting Annual Performance Assessment (APA) survey for 2013-14. Project Management Unit invited (June 2012) Expression of Interest (EoI) and 26 firms submitted their proposals. After analysing the EoIs, Request for Proposals were invited from the six EoI qualified consultant firms. The firms submitted the technical and financial bids and the evaluation method adopted was Quality and Cost Based Selection (QCBS). After the tender evaluation, three firms were selected for conducting APA survey in southern, central and northern region. The details of firms, price quoted by them and payments made are given in **Table 4.7**:

Table 4.7: Comparison of tender submitted by three firms

Name of firm	Date of agreement	Contract value (₹ in lakh) (inclusive of taxes)	Districts covered and number of LSGIs	Total amount paid including taxes (₹ in lakh)	Date of payment
Mott MacDonald	27/08/2013	51.31	Thiruvananthapuram, Kollam, Pathanamthitta, Alappuzha, Kottayam – 362 LSGIs	51.31	14/11/2014
STEM	27/08/2013	86.97	Idukki, Ernakulam, Thrissur and Palakkad – 338 LSGIs	86.97	14/11/2014
JPS Associates	27/08/2013	74.05	Malappuram, Kozhikode, Kannur, Kasaragod and Wayanad – 338 LSGIs	74.05	14/11/2014

Source: PMU data

World Bank guidelines provide for negotiation when experts' rates offered were much higher than typically charged rates by consultants for similar contracts. It further upholds right of the client to seek clarifications if the fees are very high and to ask for their change.

Audit observed that even though the nature of work, number and qualification of experts to be engaged and deliverables were the same, there was substantial difference in the contract value. Even though World Bank guidelines provided for negotiation, it was seen that no negotiations were conducted with the two firms to reduce the rates with that of M/s. Mott MacDonald.

Government of Kerala stated (December 2017) that in southern region concentration of LSGIs made travel easy resulted in coverage of more institutions by assigned staff per day might have prompted the firm M/s Mott MacDonald to quote less. The reply was not acceptable as PMU did not negotiate even though World Bank guidelines provided for negotiation when there was wide variation in the quoted rates. Further, M/s Mott MacDonald was selected for conducting APA survey in 362 while other two firms were to conduct survey only in 338 LSGIs.

4.1.9 Monitoring

4.1.9.1 Functioning of Committees

Government of Kerala constituted three committees *viz*., Co-ordination Committee, Joint Programme Committee and Steering Committee during 2011-12 for monitoring the timely implementation of the project. The Co-ordination committee[20] was to review the project progress and achievement regarding overall physical and financial targets. Even though the committee was to meet at least once in a month, during 2011-12 to 2016-17 the committee met only once in 2011-12 to a maximum of five times in 2015-16[21].

Government of Kerala constituted (August 2011) the Joint Programme Committee[22] for reviewing the work of execution support agencies and for taking decisions on co-ordination issues among them. Even though the committee was to meet at least once in a month, the committee met only once (14 October 2011) during the project period. The non-convening of the committee resulted in non-monitoring the timely implementation of the activities envisaged by the execution support agencies.

It was noticed that Steering Committee[23]constituted for oversight and implementation of component relating to DAC, did not meet to discuss the issues of DAC. Failure to address the implementation issues of DAC led to non-implementation of the activities by DAC.

Project Director, KLGSDP, who was the convener of all the committees did not convene the committees as prescribed by GoK. In the exit conference (January 2018), Additional Chief Secretary stated that the objective of constituting three committees was different, Project Director should have taken steps to convene the committees. Absence of regular monitoring resulted in delay in implementation of projects as reported in preceding paragraphs.

[20]Principal Secretary, LSGD – Chairman, Project Director, KLGSDP – Convener, Principal Secretary/representative of Finance Department and Planning Department – members.

[21] The co-ordination committee met only once during 2011-12, thrice during 2012-13, twice during 2013-14, four times during 2014-15, five times during 2015-16 and twice during 2016-17.

[22]Principal Secretary, LSGD – Chairman, Project Director, KLGSDP – Convenor, Director of Panchayat/Urban Affairs/KILA/SIRD/DAC/GIFT/IKM –members.

[23]Principal Secretary, LSGD – Chairman, Project Director, KLGSDP – Convenor, Director of Panchayat/Urban Affairs/KILA/SIRD/DAC/GIFT – members.

4.1.10 Conclusion

The objective of incrementally strengthening the institutional capacity of LSGIs, so that 70 *per cent* of LSGIs pass the performance assessment was not achieved. Strengthening the capacity of LSGIs to absorb funds rather than diluting mandatory conditions would have resulted in better utilisation of fund. Delay in utilisation of funds led to extension of loan period for two years and non-receipt of loan amount to the tune of ₹ 45.45 crore. Lapses in implementation of works in two test-checked LSGIs resulted in unproductive expenditure of ₹ 1.60 crore. Capacity building programmes did not materialise even after lapse of five years since the commencement of the project. The day to day project management, co-ordination and monitoring of projects by PMU was ineffective. The three committees constituted with the objective of providing guidance for implementation of the project did not hold its meetings as envisaged, resulting in ineffective monitoring and oversight.

4.2 IMPLEMENTATION OF PROJECTS FOR SOLID WASTE MANAGEMENT IN PANCHAYAT RAJ INSTITUTIONS

4.2.1 Introduction

Kerala has found a place in world tourism map for its pristine environment and ethnic culture. However, over the years, the quantum of solid waste generated by different entities (Households, Commercial Centres, Institutions, Industries, etc.) increased in pace with the increase in population and associated activities. Dumping of solid waste in public places creates health and ecological problems. Sections 219 A to X of Kerala Panchayat Raj Act, 1994, stipulate various provisions for Solid Waste Management in Panchayat Raj Institutions.

4.2.2 Audit Objective, Scope and Methodology

With a view to ascertain whether the projects for the Management of Solid Waste by Panchayat Raj Institutions (PRIs) were implemented in accordance with the provisions of various Act/Rules and orders of Government of India (GoI)/Government of Kerala (GoK), audit was conducted from April 2017 to September 2017 covering the period 2012-13 to 2016-17. Audit Methodology included scrutiny of records maintained by Local Self-Government Department (LSGD), Kerala State Suchitwa Mission (Suchitwa Mission), District Suchitwa Mission (DSM) and the selected PRIs; details were also collected through joint site verification with the officials of the PRIs. Four District Panchayats (DPs) (out of 14 DPs) were selected by applying Probability Proportion to Size and Without Replacement (PPSWOR) method based on the criteria of expenditure on Solid Waste Management (SWM). Grama Panchayats (GPs) from selected DPs were grouped into two categories i.e., GPs having tourist/pilgrim destination and others. Minimum two GPs from each group were selected. The list of 27 GPs[24](out of 278 GPs) and four DPs selected is given in **Appendix XXVI**.

The Audit commenced with an entry conference (23 June 2017) with Additional Secretary, LSGD. An exit conference was conducted on 09 January 2018 with the Additional Chief Secretary, LSGD during which the audit findings were discussed in detail.

[24]10 *per cent* of GPs selected from each district.

4.2.3 Audit Criteria

The sources of audit criteria were as under:

- Kerala Panchayat Raj Act, 1994, and rules made thereunder;
- Environment (Protection) Act,1986;
- Plastic Waste (Management and Handling) Rules, 2011;
- Plastic Waste Management Rules, 2016;
- Bio-Medical Waste (Management and Handling) Rules,1998;
- Bio-Medical Waste Management Rules, 2016; and
- Guidelines/Orders/Notifications/Circulars issued on the subject by Government of India/Government of Kerala.

4.2.4 Organisational Structure

The responsibility of SWM in the State is vested with Local Self-Government Institutions (LSGIs). The Panchayat Raj Institutions (PRIs) formulate various projects related to SWM and are implemented through Government approved service providers/accredited agencies. Local Self-Government Department is responsible for formulating State policy and strategy in the field of waste management for PRIs. Suchitwa Mission[25], under LSGD is entrusted with the responsibility of providing technical and financial support to Panchayat Raj Institutions for implementation of SWM Projects. Panchayat Raj Institutions receive grant from Suchitwa Mission for implementing various projects for SWM. The grants are released by Suchitwa Mission through District Suchitwa Mission (DSM)[26]. District Suchitwa Missions are also responsible for monitoring the implementation of SWM projects by PRIs and to report to Suchitwa Mission every month.

4.2.5 Funding

Panchayat Raj Institutions receive grant from Suchitwa Mission under Suchitwa Keralam Project, State Plan Scheme and Swachh Bharat Mission (Gramin), a centrally sponsored scheme, for waste management in rural areas. Suchitwa Mission provides funds ranging from 50 to 75 *per cent* of the total project cost as financial assistance. In addition, PRIs also provide funds from their plan allocation and own funds.

Details of funds received by the PRIs in the State from Suchitwa Mission during 2012-13 to 2016-17 for implementation of SWM projects are shown below:

4.2.5.1 Suchitwa Keralam (Rural)

Director of Panchayats disburses the funds to Suchitwa Mission, which in turn, releases funds to the concerned PRIs through DSMs. The details of funds released to the PRIs of the State for SWM under Suchitwa Keralam (Rural) are shown in **Table 4.8**.

[25] Suchitwa Mission is a society registered under Travancore Cochin Literary Scientific and Charitable Societies Registration Act, 1955. It is headed by an Executive Director and assisted by four Directors, three Programme Officers and a Finance Manager.

[26] District Suchitwa Mission is headed by a District Co-ordinator and assisted by an Assistant Co-ordinator, Programme Officer and a technical consultant.

Table 4.8: Details of funds released to PRIs of the State under Suchitwa Keralam (Rural) for Solid Waste Management

(₹ in crore)

Year	Amount released	Amount utilised	Amount refunded	Amount retained by various PRIs
2012-13	18.31	6.21	3.46	8.64
2013-14	4.27	1.50	0.32	2.45
2014-15	2.60	0.70	0.21	1.69
2015-16	5.02	1.03	0.26	3.73
2016-17	3.84	0.002	Nil	3.84
Total	34.04	9.44	4.25	20.35

Source: Kerala State Suchitwa Mission

Out of the total release of ₹ 34.04 crore during 2012-13 to 2016-17, the utilisation was only ₹ 9.44 crore (27.74 *per cent*). Further, it was seen that ₹ 20.35 crore was retained by various PRIs. The low utilisation of funds indicated that the majority of the projects undertaken by the PRIs for SWM did not materialise.

Out of the total release of ₹ 1.08 crore during 2012-13 to 2016-17, the selected PRIs utilised ₹ 0.71crore only. The details of funds given to selected Panchayats are given in **Appendix XXVII**.

Government stated (January 2018) that funds could not be fully utilised due to public protest, lack of interest on the part of beneficiaries, etc., It was also stated that action would be taken to get the unutilised funds refunded to Suchitwa Mission.

Reply was not acceptable as PRIs did not make the stakeholders aware of the necessity for SWM, which resulted in non-implementation of projects for which funds were provided.

4.2.5.2 Swachh Bharat Mission (Gramin)

Funds under Swachh Bharat Mission (Gramin) released by Ministry of Drinking Water and Sanitation, GoI to GoK are transferred to Treasury Savings Bank Account of Suchitwa Mission along with State Share[27]. Funds are then transferred to DSMs account through Real Time Gross Settlement (RTGS) and finally to GPs by way of cheque/demand draft. The details of funds released under this scheme to PRIs of the State for SWM are given in **Table 4.9**.

Table 4.9: Details of funds released to PRIs of the State under Swachh Bharat Mission (Gramin) for solid waste management

(₹ in crore)

Year	Amount released	Amount utilised	Amount refunded	Amount retained by various PRIs
2012-13	2.61	0.97	0.11	1.53
2013-14	8.09	5.20	0.40	2.49
2014-15	5.05	3.47	0.24	1.34
2015-16	1.67	1.24	Nil	0.43
2016-17	0.94	0.46	Nil	0.48
Total	18.36	11.34	0.75	6.27

Source: Kerala State Suchitwa Mission

[27]From 2012-13 to September 2014 : GoI and GoK was to share the expenditure in 70:30 ratio, revised to 75:25 in October 2014 and 60:40 in October 2015.

Out of the release of ₹ 18.36 crore, the utilisation was only ₹ 11.34 crore (61.77 *per cent*) and an amount of ₹ 6.27 crore was retained by various PRIs of the State. Audit scrutiny revealed that the amounts transferred to the PRIs were shown as expenditure in the accounts of Suchitwa Mission and Utilisation Certificate (UC) issued to GoI leading to projection of inflated expenditure. Government of Kerala stated (January 2018) that funds could not be utilised due to reasons like public protest, delay in identifying beneficiaries, etc. Government also stated that funds were shown as expenditure and UCs issued as soon as they were released to PRIs in anticipation of utilisation of funds by PRIs to ensure timely receipt of GoI assistance. The reply was not acceptable as funds were shown as utilised in the UCs for the purpose for which they were given when the same were retained without utilisation by various GPs for the intended purpose.

Out of the total release of ₹ 43.40 lakh during 2012-13 to 2016-17, the selected PRIs utilised ₹ 30.51 lakh only. The details of funds given to selected PRIs are given in **Appendix XXVIII**.

Audit findings

4.2.6 Planning

Panchayat Raj Institutions formulated various projects for household level SWM. The projects proposed by the Working Groups[28] are consolidated and presented in the Grama Sabha. The beneficiaries for the projects are selected from the Grama Sabha. After obtaining sanction from Grama Sabha, the draft projects are discussed in the Development Seminar and submitted to Panchayat Committee for approval. These projects are submitted to District Planning Committee (DPC) for sanction. Deficiencies noted in the planning process are given below:

4.2.6.1 Non/partial implementation of projects due to lack of awareness among beneficiaries

As per plan formulation and subsidy guidelines of GoK (November 2013) for LSGIs, PRIs were required to give proper awareness in respect of Solid Waste Management programmes undertaken by them. Government of Kerala vide orders (May 2012) instructed LSGIs to adopt the technology used for waste treatment from among list of approved technologies[29] acceptable to beneficiaries and formulate projects accordingly. As per GoK orders relating to source level treatment of solid waste, 10 *per cent* of the project cost was to be met by beneficiaries in respect of compost units and 25 *per cent* of the cost in respect of bio-gas plants installed at household level.

Grama Panchayats formulated various projects for solid waste management at household level. Audit scrutiny revealed that 14 projects formulated in 10 test-checked LSGIs at an estimated cost of ₹ 1.79 crore were not implemented/partially implemented due to insufficient number of beneficiaries, reluctance on the part of beneficiaries to remit beneficiary contribution, negative opinion about the projects from neighbouring Panchayats where similar projects were implemented etc. Audit noticed that apart from information given in the Grama Sabha, no further awareness programmes were conducted by the GPs

[28] Working Groups are set up for various sectors for preparation of projects for LSGIs. The main function of Working Group is to analyse the situation of the sector concerned and prepare suitable projects.

[29] Pipe composting, pot composting, vermi composting, ring composting, bio-gas plants etc.

(except Kumarakam and Koovappady GPs[30]) to educate the beneficiaries about the necessity of treatment of waste at source. This led to non/partial implementation of household level waste management projects implemented in 10 test-checked LSGIs as detailed in **Appendix XXIX**.

Government reply was silent on the failure of PRIs to educate the beneficiaries about the necessity for treatment of waste at source.

4.2.6.2 Functioning of Ward Health Sanitation Committees

The guidelines issued by GoK (February 2007) under National Rural Health Mission stipulated constitution of Ward Health Sanitation Committees (WHSCs) at the ward level with elected representative of the ward as Chairperson and Registered Medical Practitioners, School Teachers, representatives of Residents Associations, Scheduled Tribes representative etc., as members. The responsibilities of WHSCs included planning, implementation and monitoring of ward level sanitation programme, etc. As per GoK guidelines, WHSCs were required to constitute sanitation squads to identify problems relating to waste treatment in the area, conduct mapping of unhygienic places where there was accumulation of waste and to report to WHSC for preparation of sanitation plan.

Audit scrutiny of the functioning of WHSCs and sanitation squad revealed that the WHSCs constituted in 24[31]out of 27 test-checked GPs did not have representation of Registered Medical Practitioners/School Teachers/Residents Association/Scheduled Tribes. This defeated the intention of the Government to have a professional and representative body to tackle the issue of sanitation. Audit conducted joint field visit in all test-checked GPs and found waste dumped in an unscientific manner in 24[32] GPs. The waste were seen dumped on road sides, water bodies, public places. Moreover, neither mapping of these places were conducted by the sanitation squad for preparation of sanitation plan nor the problems relating to waste treatment identified.

Government of Kerala stated (January 2018) that the Standing Committees of the LSGIs were evaluating the activities of WHSCs and funds were allotted to WHSCs by LSGIs. The reply was not acceptable as WHSC failed to ensure the preparation of sanitation plan and identifying the problems relating to waste treatment.

4.2.6.3 Implementation of projects without Technical Sanction leading to wasteful expenditure

As technologies for treatment of solid waste using incinerators were not environment friendly, GoK ordered (December 2014) that the projects prepared by LSGIs for setting up of incinerators were to be provided with Technical Sanction

[30]Koovappady and Kumarakam GPs stated that beneficiaries were given awareness about solid waste management through public meeting. However, no records were available with the GPs to substantiate their claims.

[31]Alakode, Arakuzha, Arpookara, Chottanikkara, Erumeli, Kadinamkulam,Kanjirappally, Karakulam, Karimkunnam, Kattakada, Koovappady, Kumarakam, Kunnathunad, Madavoor, Mulavukadu, Munnar, Nedumbassery, Njarakkal, Peringammala, Peermade, Poovar, Udayanapuram, Varapuzha and Vijayapuram GPs.

[32]Arakuzha, Arpookara, Athirampuzha, Chottanikkara, Erumeli, Kadinamkulam, Kanjirapally, Karakulam, Karimkunnam, Kattakada, Koovappady, Kumarakam, Kunnathunad, Mulavukadu, Munnar, Nedumbassery, Njarakkal, Peermade, Peringammala, Poovar, Udayanapuram, Varapuzha, Vijayapuram and Vellarada GPs.

by Suchitwa Mission/Pollution Control Board before implementing the scheme. But this was not adhered to in Vijayapuram GP as detailed below.

Vijayapuram GP formulated a project in 2015-16 for installing two incinerators at a cost of ₹ 12.30 lakh for treatment of waste at Kosamattom and Kollakombe Scheduled Caste colonies. Even before getting Technical Sanction from Suchitwa Mission, GP incurred an expenditure of ₹ 2.96 lakh for constructing two platforms for installing the incinerators at these colonies. However, Suchitwa Mission refused Technical Sanction (February 2016) for the incinerators, as the specifications of the proposed incinerators did not conform to the standards necessary for safe incineration of waste. As the Technical Sanction was not obtained, the incinerators were not installed which rendered the expenditure of ₹ 2.96 lakh incurred on the platform wasteful. It was noticed during joint visit that as no waste treatment plant was set up, residents of Kosamattom colony started dumping waste including food waste, plastic waste all around the platform constructed for installing incinerator as depicted in **Exhibit No 1**, making the entire area stinky and unhygienic. Waste was also dumped in the nearby Meenachil River.

Exhibit No . 1: Waste dumped at Kosamattom Colony (16 June 2017)

Government stated (January 2018) that suitable instructions would be issued to PRIs to avoid such irregularities.

Faulty planning by GP led to non-establishment of an appropriate solid waste treatment facility in the GP and unfruitful expenditure of ₹ 2.96 lakh.

4.2.7 Implementation

As per Section 219 A of the Kerala Panchayat Raj Act, 1994, (KPR Act), GPs shall make adequate arrangements for removal of solid waste. As per Section 219 G, the GP, may for the purpose of recycling, treating, processing and disposing of solid wastes or converting such solid waste into compost or any other matter construct, acquire, operate, maintain and manage any establishment within or outside the Panchayat area and run it on a commercial basis or contract out such activity. The status of implementation of SWM projects by test checked PRIs are given in **Table 4.10**.

Table 4.10: Status of SWM projects formulated and executed by the selected PRIs

Year	Total number of projects taken up	Projects fully implemented		Projects partially implemented		Projects not implemented	
		Number	Expenditure (₹ in crore)	Number	Expenditure (₹ in crore)	Number	Amount Allotted (₹ in crore)
2012-13	69	11	0.47	12	0.85	46	6.26
2013-14	70	15	0.74	12	1.06	43	4.89
2014-15	73	17	1.24	11	0.68	45	4.36
2015-16	68	12	1.16	9	0.37	47	3.27
2016-17	71	6	1.06	14	1.34	51	4.96
Total	**351**	**61**	**4.67**	**58**	**4.30**	**232**	**23.74**

Source: Figures furnished by Information Kerala Mission.

It was noticed that out of 351 projects taken up during the period 2012-13 to 2016-17, only 61 projects (17.38 *per cent*) were fully implemented, 58 projects were partially implemented and 232 projects worth ₹ 23.74 crore were not taken up for implementation even though all the projects were to be implemented in one year as all were single year projects. The reasons given by PRIs for poor implementation was non-identification of sufficient number of beneficiaries, lack of interest on the part of beneficiaries, non-issuance of Technical Sanction by Suchitwa Mission, etc. Suchitwa Mission stated (December 2017) that Technical Sanction would not be granted in respect of projects not conforming to Government approved standards and specifications.

Failure of PRIs to formulate projects according to Government approved standards and specifications/tardy implementation of projects showed lack of seriousness on the part of PRIs in tackling the issue of solid waste.

Government of Kerala stated (January 2018) that reasons like public protest, non-co-operation of beneficiaries, lack of a permanent administrative leadership/ policies and views in PRIs, lack of sufficient number of beneficiaries, lack of interest on the part of beneficiaries, lack of required raw materials, insufficient market facility for manure, etc., led to tardy implementation of waste treatment plants.

The reply of GoK was not acceptable as making adequate arrangements for removal of solid waste is a function of PRIs.

Non-implementation/partial implementation and non-maintenance of completed projects resulted in dumping of waste in public places and water bodies in the test checked GPs as discussed below.

4.2.7.1 Community/Institutional level Waste treatment plants lying idle

- Kanjirappally GP installed (March 2012) a 1.5 metric ton per day capacity community level bio-gas plant at Town Hall compound at a cost of ₹ 20.50 lakh. The plant was installed by M/s Socio Economic Unit Foundation (SEUF)[33]. As per GoK order (March 2011), GP was to enter into Operation & Maintenance (O&M) contract for a period of three years with the supplier/consultant in respect of community level bio-gas plants. The GP did not enter into any maintenance contract with the agency, for which no reasons were attributed by the GP. Secretary, GP stated (November 2017) that the bio-gas plant became defunct with effect from March 2014 due to depositing of non bio-degradable waste in the plant. It was also seen that the GP incurred an expenditure of ₹ 2.51 lakh for burying bio-degradable waste during 2013-14 to 2015-16 as no other community level solid waste treatment facility existed in the GP.

- Athirampuzha GP was having a bio-gas plant (installed in August 2009) and vermi compost plant in the town market for treating waste in the market. During joint site visit, Audit noticed that bio-gas and vermi compost plants were lying defunct. It was stated that bio-gas plant in the market was damaged by an excavation vehicle in April 2015 and vermi compost plant was lying idle with effect from 2014 onwards as the cost of operating the plant was not economical.

[33] SEUF is a NGO, which aims at supporting and promoting sustainable socio-economic development of the community with focus on empowerment of the deprived groups.

- Thiruvananthapuram DP installed one bio-gas plant each (200 kg per day floating type) at District Homeo Hospital, East Fort (June 2012) and District Ayurveda Hospital, Varkala (March 2014). The plants were installed by Kerala Agro Industries Corporation Limited, (KAICO) for a cost of ₹ 4.50 lakh. In violation of Government Order, DP Thiruvananthapuram did not enter into O&M Contract with the supplier/consultant. Audit noticed that the plant was not functioning in District Homeo Hospital since April, 2015. Superintendent, District Homeo Hospital stated (October 2017) that the waste generated was now being buried in hospital compound. Similarly, the plant in District Ayurveda Hospital was non-functional since May 2017.

- About 90 lakh Sabarimala pilgrims visit Erumeli GP during Sabarimala pilgrim season every year and consequently huge quantity of solid waste is being generated. The GP was having a solid waste treatment plant at Kavungamkuzhi based on windrow/vermi composting technology constructed at a cost of ₹ 14.40 lakh (2009-10). Suchitwa Mission released an amount of ₹ 15 lakh in April 2013 for upgrading the facilities in the existing plant for which GP prepared an estimate for ₹ 15 lakh in July 2013. The work was completed at a cost of ₹ 13.58 lakh (December 2014). The balance fund of ₹ 1.42 lakh was refunded to Suchitwa Mission in July 2017.

Exhibit No. 2: Waste remaining untreated in the treatment plant at Erumeli (04 August 2017)

However, the bio-degradable waste brought to the plant did not decompose due to the presence of large quantity of chlorine/bleaching powder in the waste, which was applied on to the waste by Health Department daily during pilgrim season as a sanitation activity to prevent spread of communicable diseases.

As composting of the waste did not materialise, waste accumulated in the plant. In order to accommodate new waste brought to the plant, GP incurred additional expenditure of ₹ 2.52 lakh for removal of the accumulated waste in the plant. The GP went for upgradation of the plant even though bio-degradable waste was lying untreated in the existing plant due to presence of chlorine/bleaching powder. The upgradation only increased the storage capacity of the plant and the entire facility was now being used as a dumping yard for waste. On a joint visit to the treatment plant, it was seen that garbage including food waste and plastic waste were dumped in huge quantities in and around four sheds making the entire area filthy, foul smelling and unhygienic as depicted in **Exhibit No. 2**. Thus, the action of Erumeli GP to increase the plant capacity without adopting suitable technology for management of waste generated rendered the expenditure of ₹ 27.98 lakh[34] unfruitful besides allowing accumulation of waste in the plant.

Government of Kerala stated (January 2018) that the waste deposited in the plant were properly treated without creating any environmental problem. The reply was not acceptable as the waste generated in the GP was now (February 2018) being dumped at a vacant site at Kodithottam and openly burnt, which is an environmental hazard.

[34]₹ 14.40 lakh +₹ 13.58 lakh=₹ 27.98 lakh.

Thus, lack of maintenance/co-ordination led to stoppage of functioning of six solid waste treatment plants in four LSGIs installed at a cost of ₹ 52.98 lakh. The failure on the part of the LSGIs to make these plants functional led to unscientific disposal like burial/burning of waste, which is a health hazard and cause environmental degradation. Further, LSGIs did not provide means for safe disposal of solid waste.

4.2.7.2 Excess payment made to a firm

Government of Kerala vide order (May 2007) specified the procedure to be followed while executing works through accredited agencies. As per the order, the Engineer of the accredited agency was to record all measurements in Measurement Book (M-Book). The entries in the M-book were required to be check-measured by an Officer not below the rank of Assistant Executive Engineer of the LSGD. The valuation of the work done was to be certified by the Engineer who had check-measured the work. The M-Book and connected vouchers were also to be handed over to LSGI by the accredited agency within 15 days from the date of completion of work for verification and payment.

Thiruvananthapuram DP formulated a project for installation of a 500 kg per day bio-gas plant at Neyyattinkara District hospital and awarded (February 2012) the work to the Kerala Agro Industries Corporation Limited (KAICO) for an estimated cost of ₹ 7.33 lakh with scheduled date of completion as June 2012. Audit scrutiny revealed that no M-Book was maintained by KAICO. Executive Engineer, LSGD without check measuring the work done issued a valuation certificate in February 2014, stating that the value of the work done was ₹ 6.32 lakh. Based on the valuation certificate, payment of ₹ 5.62 lakh was made to KAICO in March 2014. Executive Engineer, LSGD on a site visit later found that some items in the original valuation certification were not executed and submitted a revised valuation certificate (April 2014) stating that the value of bio-gas plant was only ₹ 5.05 lakh resulting in an over payment of ₹ 0.57 lakh to the agency. The agency did not carry out several items included in the Technical Sanction, like electrification works, pulveriser, slurry pump, etc. The plant was now being operated manually as the agency did not fully implement the work. Executive Engineer, LSGD stated (November 2017) that they did not supervise the work at any stage and no M-Book was maintained by KAICO. The action of the Executive Engineer, LSGD in issuing valuation certificate without check measuring the work done led to an excess payment of ₹ 0.57 lakh and installation of a plant with lesser facilities than envisaged.

Government of Kerala stated (January 2018) that action would be taken to initiate revenue recovery proceedings to recover the excess amount from KAICO.

The DP did not take any action to recover the excess payment made to the firm or to get the work completed.

4.2.7.3 Non-establishment of waste treatment facilities in tourist places

As per Section 219A of Kerala Panchayat Raj Act, 1994, GP is responsible for the removal of solid waste from public place in the GP. As per Section 219 G, GPs may, for the purpose of re-cycling, treating, processing and disposing of solid waste, acquire, construct, operate, maintain and manage any establishment within or outside the GP.

- Peermade, a hill station in Kerala is an important tourist destination in the state. The heavy inflow of tourists results in generation of large quantity of solid waste. Due to the absence of any project for SWM, the GP collected solid waste from different places and dumped it in a valley on the side of NH183 (Kottayam Kumily Road) at Mathaikoka polluting the area as depicted in **Exhibit No. 3**.

Joint site visit by Audit party and GP officials revealed that a fresh water stream flows right through the garbage piled in the valley. The stream then joins the Azhutha River, thus, polluting the entire river system. Azhutha River joins river Pamba, the third longest river in the state. Pamba River is a source for 36 drinking water supply schemes catering to a targeted population of nearly ten lakh people. The absence of solid waste treatment projects in Peermade led to indiscriminate dumping of waste in the GP polluting land and water.

Exhibit No.3: Waste dumped at Mathaikoka, Peermade (25 August 2017)

Government of Kerala stated (January 2018) that no waste treatment plant was set up in the GP as the GP did not have land under its possession. Grama Panchayat replied that a waste treatment plant would be constructed on completion of procedures for acquisition of land.

- Munnar is a major tourist spot in Kerala situated in the Western Ghats. It is home to Eravikulam national park, a habitat for the endangered Nilgiri Tahr[35]. In spite of being visited by more than seven lakh tourists every year, the GP has no solid waste treatment facility. The GP placed waste bins in several places and the waste so collected is dumped in an isolated area. Audit noticed during joint site verification that the dumping area was filled with large quantities of waste like food waste, plastic waste, thermocol, bottles, garbage in plastic carry bags, and e-waste as depicted in **Exhibit No. 4**. A stream of fresh water flows near the dumping site. Dumping of waste without segregating the waste into degradable, non-degradable and toxic waste and without proper treatment in a scientific way, would cause environmental issues in the GP.

Exhibit No.4 : Waste dumped in Munnar (14 September 2017)

Government of Kerala stated (January 2018) that a project was taken up to erect a plastic shredding and granuling unit in the waste dumping yard.

The Peermade and Munnar GPs did not adhere to the provisions of the Kerala Panchayat Raj Act, 1994, which led to indiscriminate dumping of waste in the two GPs and which would have a negative impact on the ecology, quality of life and tourism potential of this region.

4.2.7.4 Implementation of works without the approval of Pollution Control Board/ Suchitwa Mission

As technologies for treatment of solid waste using incinerators were not environment friendly, GoK ordered (December 2014) that the projects prepared by

[35] The Nilgiri Tahr is an ungulate that is endemic to the Nilgiri Hills and the southern portion of the Western Ghats in the states of Tamil Nadu and Kerala.

LSGIs for setting up of incinerators were to be provided with Technical Sanction by Suchitwa Mission/Pollution Control Board (PCB) before implementing the scheme. As per rule 7.4 of Bio-Medical Waste Management Rules, 2016, the bio-medical waste generating institution shall set up incinerator after obtaining authorisation from State Pollution Control Board. Audit noticed that two LSGIs implemented projects for setting up incinerators without obtaining technical sanction/authorisation from these agencies.

- Ernakulam DP implemented projects in September 2016 and March 2017 for setting up of incinerator at District Hospital, Aluva and in District Panchayat Office, incurring expenditure of ₹ 21.32 lakh and ₹ 0.95 lakh respectively.

- Kottayam DP implemented projects in January 2015 and December 2015 for setting up of waste treatment furnace at District Ayurveda Hospital and District Panchayat Office incurring expenditure of ₹ 3.56 lakh and ₹ 4.25 lakh respectively.

Government of Kerala stated (January 2018) that the incinerator at District Hospital, Aluva was installed with the approval of DPC and Panchayat Committee. It was also stated that the incinerators at Ernakulam and Kottayam DP offices were set up to manage waste generated in the office compound as open burning of waste would create environmental problem. The reply was not acceptable as approval of Suchitwa Mission/Pollution Control Board was mandatory for setting up of incinerator in Office/Hospital. The Superintendent, District Hospital, Aluva stated (June 2017) that action would be taken to obtain approval from the PCB at the earliest. In the absence of Technical Sanction/authorisation from the competent agencies, it could not be ensured whether the technology used by the LSGIs for waste disposal was environmental friendly.

4.2.7.5 Non-compliance to provisions relating to solid waste management

Kerala Panchayat Raj Act, 1994, Plastic Waste Management Rules, 2016, Government Orders, etc., have enumerated measures such as house to house collection of waste, collection centres for e-waste and plastic waste, minimum price for plastic carry bags, registration of shop keepers and street vendors providing plastic carry bags, constitution of waste disposal fund, etc., to be taken by PRIs for SWM. Audit scrutiny revealed that none of the PRIs test-checked complied with these provisions. The details are given in **Appendix XXX**.

Government of Kerala stated (January 2018) that steps would be taken to ensure that all local bodies comply with the provisions relating to SWM enumerated in Kerala Panchayat Raj Act, 1994, Plastic Waste Management Rules, 2016 and various Government Orders.

4.2.8 Monitoring

4.2.8.1 Lack of authorisation of Kerala State Pollution Control Board for running plants

As per Rule 10 of Bio-Medical Waste Management Rules, 2016, every occupier of bio-medical waste generating institution, shall obtain an authorisation from the prescribed authority (State Pollution Control Board) for its functioning. With a view to streamline the procedure for handling, collection, transportation and disposal of bio-medical waste so as to avoid any adverse effect on human health and environment, GoK issued orders in March 2012 stating LSGIs should ensure authorisation by Kerala State Pollution Control Board while issuing licence or permission to bio-medical waste generating institutions. It shall also not permit any such institution to function without authorisation from PCB. Audit noticed that nine test-checked GPs[36] did not insist authorisation from PCB in respect of 46 bio-medical waste generating institutions at the time of granting licence. In the absence of authorisation from PCB, it cannot be ensured whether bio-medical waste generated was being treated as per the provisions in Bio-Medical Waste Management Rules, 2016. Grama Panchayats did not insist authorisation from PCB in contravention of Government instructions, was irregular and risk to human life and environment.

4.2.8.2 Imposition of fine/penalties

As per section 219 S of Kerala Panchayat Raj Act, 1994, any person who deposits rubbish or filth in a public water course or water body or any such water source vested in village panchayat, shall be punishable with fine which should not be less than ₹ 10,000 but not exceeding ₹ 25,000 and with imprisonment not exceeding one year.

Section 219 T of the Act stipulates that fines not less than five hundred rupees which may be extended up to two thousand rupees shall be levied from persons depositing or throwing any rubbish or solid waste in public places. On joint inspection with Panchayat officials, Audit noticed dumping of garbage in public places and water bodies in 24 test-checked GPs. None of the test-checked GPs initiated any action against persons depositing garbage in water bodies and other public places as stipulated in the Act.

Panchayat Raj Institutions failed in ensuring the compliance of provisions of KPR Act, which would have acted as a deterrent against depositing of waste in water bodies and public places.

Government reply did not give any reason for the failure of PRIs for not imposing fine against persons depositing solid waste in water bodies or public places.

4.2.8.3 Monitoring by Suchitwa Mission

Suchitwa Mission is entrusted with the responsibility of providing technical and financial support to PRIs in the implementation of SWM projects. Government of Kerala issued instructions (June 2012) that District Suchitwa Mission (DSM) offices to monitor the progress of projects undertaken by LSGIs in every district and to send a progress report to Suchitwa Mission. However, none of the DSMs furnished any such progress reports during the audit period. Audit noticed that monitoring of SWM projects implemented by LSGIs was not done by the test-checked DSMs. District Suchitwa Mission stated that monitoring of utilisation of funds could not be done due to shortage of manpower. The reply was not acceptable as DSMs are responsible for monitoring the SWM projects. Suchitwa Mission did not ensure the utilisation of funds provided to PRIs for implementation of SWM schemes and timely refund of unutilised fund as explained in paragraphs **4.2.5.1** and **4.2.5.2**. Further, Suchitwa Mission did not ensure continuous functioning of solid waste treatment plants already established. Non-monitoring

[36]Arakuzha GP, Erumeli GP, Kanjirappally GP, Konnathady GP, Koovappady GP, Kumarakam GP, Peermade GP, Varapuzha GP and Vellarada GP.

the implementation of projects resulted in non-utilisation of funds by PRIs and non-functioning of solid waste treatment plants already established.

Government of Kerala stated (January 2018) that action was taken to monitor the projects through DSM offices for which a monitoring format was developed and circulated to DSMs.

The reply was not acceptable as the DSMs failed to monitor the implementation of SWM projects undertaken by PRIs.

4.2.9 Conclusion

Though the responsibility of SWM was vested with PRIs, they did not optimally utilise the funds provided to them for this purpose. The schemes implemented by PRIs for household solid waste management were not successful, as the PRIs were not able to identify sufficient number of beneficiaries to implement the schemes. The assets created for solid waste treatment were not properly maintained leading to wasteful expenditure and unscientific disposal of waste resulting in pollution of land and water. None of the test-checked GPs complied with various provisions in the Kerala Panchayat Raj Act, 1994, Plastic Waste Management Rule, 2016, etc., regarding house to house collection of waste, collection of e-waste and plastic waste, minimum price for plastic carry bags, etc. Failure of DSMs to monitor projects undertaken by PRIs led to large number of schemes remaining incomplete/not taken up.

OTHER COMPLIANCE AUDIT OBSERVATIONS

4.3 Unfruitful expenditure in installation of e-toilets by Pathanamthitta District Panchayat

Non-functioning of 27 e-toilets installed in 16 Grama Panchayats by Pathanamthitta District Panchayat resulted in unfruitful expenditure of ₹ 1.56 crore

Pathanamthitta District Panchayat (DP) formulated (2011) a project to install 27 connected[37] e-toilets in 16 Grama Panchayats (GPs), within its territory with a view to make Pathanamthitta district the first e-toilet infrastructure developed district in India and to provide modern sanitation facility to the pilgrims visiting Sabarimala, tourists and the public. The e-toilets are built with automated systems, which ensure self-cleaning providing unhindered usage by public.

Administrative sanction was accorded (25 January 2012) by the DP for an estimate of ₹ 1.53 crore from the Maintenance Fund (Road) for the project. The District Planning Committee also granted its approval on 25 February 2012 for the project. Government of Kerala (GoK) accorded sanction (16 March 2012) for purchasing e-toilets from Kerala State Electronics Development Corporation Limited[38](KELTRON). Out of the total expenditure of ₹ 1.56 crore, ₹ 0.91 crore was met from Maintenance Fund (Non-Road) and the remaining from Maintenance Fund (Road). The diversion of funds from Maintenance Fund (Road) for this purpose was ratified by the GoK (October 2012). The entire amount of ₹ 1.56 crore was paid to KELTRON through Suchitwa Mission during the period from March 2012 to January 2015.

[37]The public user can view the toilet map via web or mobile.
[38] KELTRON is a public sector enterprise owned by the GoK producing a wide range of products.

Tri-partite agreements were executed by 16 GPs[39] with Suchitwa Mission and KELTRON. As per the tri-partite agreements Suchitwa Mission was responsible for overall monitoring, implementation and overseeing the maintenance of unit and to promote, campaign and create awareness and co-ordinate all activities. KELTRON was responsible for the supply and installation of e-toilets at selected sites, to provide one year warranty for any manufacturing defects and afterwards to ensure system support through Annual Maintenance Contract (AMC) for a minimum period of six years. The GPs were responsible for providing electricity, water and drainage connections to the e-toilets and for the payment of AMC charges[40] in advance after the first year warranty period to ensure sustainability of operations of the e-toilets.

Audit observed that though requested by KELTRON twice (14 June 2013 and 14 September 2013), the Secretary, Pathanamthitta DP and the District Co-ordinator, Suchitwa Mission could not ensure execution of AMC between GPs and KELTRON by paying the charges in advance for the continued service support beyond warranty period. The details of expenditure involved for installation of e-toilets in each GP, date of agreement, present status, etc., are given in **Appendix XXXI**.

Joint verification (July 2017) by Audit along with DP staff revealed that all the 27 e-toilets installed in 16 GPs in Pathanamthitta district by the DP were damaged and became non-functional beyond the scope of repair. Out of the 27 e-toilets, 11 were never functional as the GPs failed to provide water and electricity connection. Five e-toilets installed in three GPs stopped functioning during the warranty period itself. But no records were available with the GPs concerned regarding action taken to get them repaired by the service provider (KELTRON). The remaining e-toilets stopped functioning and no repair work was taken up as there was no AMC.

Three GPs[41] stated that they did not enter into an AMC with KELTRON citing the poor performance of the machine/paucity of fund/lack of interest shown by the public to use the e-toilets.

The District Co-ordinator, Suchitwa Mission stated (September 2017) that they conducted awareness programmes about e-toilets. However, the same could not be verified by Audit as no records on conducting awareness programme about the use of e-toilets were available with Suchitwa Mission.

Thus, failure on the part of Grama Panchayats to provide water/electricity connections and ensuring the functioning of e-toilets during the warranty period and beyond that period through AMCs, failure on the part of the Suchitwa Mission to create awareness among public and lack of monitoring on the part of DP led to non-functioning of e-toilets and consequently, led to unfruitful expenditure of ₹ 1.56 crore.

Government of Kerala, while agreeing with the audit findings stated (January 2018) that the collective passivity of the constituent agencies responsible for

[39] In the case of e-toilets installed in District Hospital, Kozhencherry, the agreement was signed by the Superintendent of the District Hospital.

[40] AMC charges to KELTRON @ 15 *per cent* of unit cost for e-toilets and @ 10 *per cent* of unit cost for Sewage Treatment Plants.

[41] Konni GP, Kottanad GP and Kuttoor GP.

implementation of the project led the project into a failure and GoK issued directions to the DP to explore all possible avenues to revamp the project and to put the units into use at the earliest.

4.4 Non-collection of Service Tax by five Local Self-Government Institutions from tenants

Five Local Self-Government Institutions created a liability of ₹ 38.40 lakh on account of non-collection of Service Tax from tenants.

Service tax (ST), introduced by the Government of India from July 1994 through the Finance Act, 1994, is levied on taxable services and the responsibility for payment of tax rests on the service provider[42]. Section 65(105)(zzzz) of the Finance Act introduced by Government of India in May 2007 through a notification, stipulates that ST is to be levied from 01 June 2007 on taxable services like renting of immovable property or any other service in relation to such renting for use in the course of or for furtherance of business or commerce. If the total rent collected exceeds ₹ eight lakh per year (April 2007)/₹ 10 lakh per year (April 2008), the service provider is liable to pay ST at the rates prescribed. Non-remittance of ST within the prescribed time will attract interest at the rates prescribed from time to time.

Rule 4, Service Tax Rules, 1994, stipulates that every person liable for paying the ST shall make an application for registration within a period of thirty days from the date on which the ST under the Act is levied. Failure to take registration shall attract a penalty, which may extend to ten thousand rupees.

Audit of five Local Self-Government Institutions (LSGIs)[43], revealed that though they collected rent from their tenants, they failed to collect ST as an additional component. The LSGIs neither registered themselves under the Service Tax Rules nor paid ST to the Central Board of Excise and Customs (CBEC) till date (March 2018).

Thus, the failure on the part of the LSGIs in the collection of ST from their tenants created liability of ₹ 38.40 lakh up to 2016-17 (**Appendix XXXII**). Further, the non-registration/non-remittance of ST to CBEC in time would create an additional liability in the form of interest and penalty for delay.

While confirming the audit findings, the Secretaries of LSGIs stated that they were not aware of the provision that ST was required to be collected from tenants on rental services/registration with CBEC. A similar paragraph on non-collection and non-remittance of ST by Kadakkal GP and two Municipalities[44] was included in the Report of the Comptroller and Auditor General (LSGIs), Government of Kerala for the year ended March 2012.

From the replies of the Secretaries of LSGIs, it is clear that in spite of this issue being brought to the notice of Local Self-Government Department (LSGD) by Audit in the past, no measures were taken by the LSGD to ensure that all LSGIs liable to pay ST registered under Service Tax Rules and that ST was collected and remitted.

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[42] Except for certain services enumerated under Rule 2(d)(i) of Service Tax Rules, 1994.

[43] Sreekantapuram Municipality, Ambalappuzha South GP, Kalluvathukkal GP, Pampady GP and Pazhayakunnummel GP.

[44] Pathanamthitta and Varkala Municipalities.

Thus, the failure to collect ST from tenants created a liability of ₹ 38.40 lakh for the LSGIs and further additional liability towards interest and penalty for delayed payment of ST.

The matter was brought to the notice of Government of Kerala (September 2017). Despite reminders (November 2017 and January 2018) reply was not received (March 2018).

4.5 Wasteful expenditure of ₹ 25.20 lakh due to abandoning of a work

Failure of Chapparapadavu Grama Panchayat to follow the prescribed procedure and lack of co-ordination with Government of Kerala and District Collector led to abandoning the work of reconstruction of the foot over bridge after incurring an expenditure of ₹ 25.20 lakh.

The Kerala Panchayat Raj Rules, 1997, stipulate that the rules and methods adopted in the Public Works Department of Government in the matter of preparation of estimates and plans of works, invitation of tender, execution of work, payment for such works, system of accounting, etc., shall be followed in respect of execution of public works. As per the provisions in Kerala Public Works Manual, an estimate can become operative for execution only when funds are available and the availability should be ensured before Technical Sanction is issued. On scrutiny of the records relating to 2011-12 to 2015-16 of the Chapparapadavu Grama Panchayat (GP) in Kannur District during December 2016, it was revealed that the GP failed in adhering to the above said provisions, which led to a wasteful expenditure of ₹ 25.20 lakh as detailed below:

The Karimkayam foot bridge constructed across Kuppam River in the GP, commuted by almost 200 people daily including school children, was destroyed during heavy flood in 2006. Considering the urgency in reconstructing the bridge, Disaster Management (Revenue K) Department (DMD), Government of Kerala (GoK) accorded Administrative Sanction (September 2009) for ₹ 20 lakh. The estimate for the project was prepared based on Schedule of Rates 2010 for ₹ 46.30 lakh and Technical Sanction for the same amount was issued in August 2010 by the Technical Advisory Group.

The District Planning Committee approved the project in their Annual plan 2010-11 and the funds envisaged by them for the project includes Development Fund (₹ 10 lakh), Own Fund (₹ 5.30 lakh), Disaster Management Fund (DMF) (₹ 20 lakh) and MLA Fund (₹ 11 lakh).

The work was tendered (September 2010) and awarded to a contractor for a total project cost of ₹ 46.29 lakh. An agreement was executed on 14 September 2010 with date of completion as 13 April 2011. The work of construction of bridge started in September 2010 and the value of work done by contractor upto June 2013 was ₹ 26.46 lakh. An amount of ₹ 10 lakh from Development Fund (March 2011) and ₹ 5.30 lakh from Own Fund (July 2011) totalling ₹ 15.30 lakh was paid to the contractor. Due to non-receipt of DMF and MLA Fund, the GP could not make further payment to the contractor for the work done and the contractor stopped the work in June 2013. When the Secretary requested the District Collector (August 2013) for MLA Fund and DMF, it was intimated (July 2014) that special sanction of GoK was required for clubbing various funds for the execution of the project. However, based on the request of GP, GoK (June 2014) gave permission to the District Collector to release ₹ 11 lakh from MLA Fund specifying that the release was in consideration of the urgency of the work even though it was against rules to club MLA Fund with other funds. On release of MLA Fund (₹ 11 lakh), an amount of ₹ 9.90 lakh[45] was paid to the contractor (March 2015).

The District Collector requested GoK (November 2014) to sanction the DMF after condoning the omission of the GP and grant extension of time period for the completion of work. The GoK extended the time of completion for six months from May 2015, but did not release the fund. Subsequently, the GP decided (May 2017) to terminate the work due to non-availability of sufficient funds. On enquiring about the non-release of DMF, the Disaster Management Department stated (October 2017) that as per State Disaster Response Fund (SDRF) norms, after issuing Administrative Sanction for a work under SDRF, the LSGI should forward the detailed estimate to the District Collector for getting Technical Sanction and Executive Sanction. On completion of the work, final bill had to be presented for sanctioning fund as the norms of the DMF works do not have provision for advance payment. The District Collector stated (September 2017) that the GP did not seek sanction or submit bill for obtaining funds under DMF.

The Director of Panchayats stated (October 2017) that approximately, an amount of ₹ 50 lakh would be required to complete the balance work and further PWD constructed a bridge at Manakkal, one kilometre away from the proposed bridge which was opened to public in May 2017 and due to non-receipt of DMF, the GP had to terminate the work of Karimkayam Bridge.

Lapse on the part of GP in not following the prescribed procedures and lack of co-ordination with GoK and District Collector led to abandoning the work after incurring an expenditure of ₹ 25.20 lakh (October 2017). Moreover, the local populace including school children had to depend on the new bridge constructed at Manakkal, which is one kilometre away from the abandoned foot over bridge for crossing the river.

The matter was brought to the notice of Government of Kerala (September 2017). Despite reminders (November 2017 and January 2018), reply was not received (March 2018).

4.6 Unfruitful expenditure on the development of Geographic Information System Database for Pathanamthitta Municipality

Pathanamthitta Municipality did not complete the project on Geographic Information System as per the conditions of agreement which led to an unfruitful expenditure of ₹ 20 lakh

A Geographic Information System (GIS) is designed to capture, store, analyse, manage and present spatial or geographic data, which allows users to create interactive queries, analyse spatial information, edit data in maps and present the results.

Pathanamthitta Municipality formulated a project (2013-14) to develop a Geographic Information System Database. The main objectives of the project were to maintain the database of all assets like buildings, roads, bridges, etc., under the Municipality for facilitating asset management and to fix the ward level boundaries

[45] Deducting retention money of 10 *per cent* of total amount.

of the Municipality. The database would also include information regarding ownership and the tax status of a plot shown on map through thematic mapping. Tax Payment Module would enable users to log in to their account and to pay the taxes using debit card and view details of past payments. Another feature of the software was tracking of the users and alerting them by messages in case of delay in tax payment.

Administrative Sanction was accorded (May 2013) for the project for ₹ 20 lakh by the Municipal Secretary. The work was awarded (December 2013) to the lowest tenderer, M/s UL Technology Solutions Pvt. Ltd. (ULTS). Agreement was signed (02 December 2013) between the Municipal Secretary and ULTS and the payment was to be made in six stages based on the quantum of work executed (**Appendix XXXIII**). The stipulated date of completion of the project was 30 June 2014.

Audit scrutiny (October 2017) of records and joint inspection of the web portal (October 2017) by Audit and the Municipality staff revealed as under:

- The details of all buildings were neither available in the software nor the assessment and collection of Property Tax was done by the Municipality utilising the software.
- Out of the 22 components of scope of service, ten were partially achieved and 12 were not achieved. The partially achieved components also could not be utilised as the details of only 12,405 out of 17,000 properties were included in the software.
- The Municipality without ensuring stage-wise completion of the project as mentioned in the contract, made payment of ₹ 15.17 lakh on production of two bills (₹ 8.99 lakh - May 2014 and ₹ 6.18 lakh - August 2014) when the contractor was actually eligible to get only 30 *per cent* of the contract amount i.e., ₹ six lakh.
- Despite the knowledge that the contractor did not complete the project, the Municipality made the third payment of ₹ 4.83 lakh (March 2017). Further, the project was already delayed by 40 months.
- As per paragraph 8.6 of the agreement, the Municipality was entitled to get all the payments made by it with 18 *per cent* interest if the ULTS failed in performing the acts stipulated under the agreement and also on failure of the mission undertaken by the ULTS. However, the Municipality did not take any action to recover the amount paid to ULTS.

Thus, the failure of the Municipality to get the project executed by the contractor as per the agreement rendered ₹ 20 lakh spent on the project unfruitful, besides non achievement of the intended objective.

The Secretary, Pathanamthitta Municipality (March 2016) informed the Project Manager, ULTS that though the project was inaugurated on 3 October 2015, it could not be put to use by the Municipality as no training was imparted to the employees and the details like demand notice, demand register, etc., of property tax, revised property tax, service tax, surcharge, etc., were not incorporated in the application. M/s UL Technology Solutions Pvt. Ltd. did not respond (November 2017) to the letter of the Secretary.

Government of Kerala stated (December 2017) that the collection of property tax through this system was not possible as it was done through 'Sanchaya' software developed by the Information Kerala Mission (IKM) and intimation was already given to IKM to integrate GIS database with 'Sanchaya' software. But the Deputy Director, IKM stated (January 2018) that they did not receive instructions from Directorate of Urban Affairs for integrating GIS data base with 'Sanchaya' software. The Deputy Director, IKM further stated that though requested by IKM, to share GIS data, Pathanamthitta Municipality did not respond till date (January 2018).

The reply of Government of Kerala was not specific to the points raised by Audit. However, the fact remains that the project was not executed completely due to which it failed to deliver the intended results.

4.7 Avoidable expenditure due to non–adherence to tender formalities

Failure of Idukki District Panchayat in adhering to the provisions contained in the Guidelines for Procurement of Goods and Services led to an avoidable expenditure of ₹ 15.06 lakh on purchase of tri-scooters to differently abled persons.

As per paragraph 3.2 of the Guidelines for Procurement of Goods and Services in Local Self-Government Institutions in Kerala (November 2010), contracts estimated to cost more than ₹ one lakh should be carried out through open tendering process. Scrutiny of the accounts and registers of Idukki District Panchayat (DP) for the period 2015-17 during July 2017 revealed the following:

The Idukki District Panchayat Committee (DPC) in the meeting held on February 2015 decided to implement two projects of supplying free tri-scooters to differently abled men and women. Administrative Sanction for the project was issued by the Secretary, Idukki DP on June 2015 for ₹ 1.46 crore for the supply of 208 scooters[46]. The DPC vide resolution dated 26 August 2015 decided to purchase the vehicle directly through M/s KELTRON[47] in violation of the existing provision of resorting to open tender system. M/s KELTRON submitted two options for the supply of motorised tri-cycles (scooter with side wheel attachment) i.e., Mahindra Gusto make (₹ 64,500) and Hero Pleasure make (₹ 67,500). The DP selected Mahindra Gusto 109.6cc 4 stroke scooter and agreement was executed (September 2015) with M/s KELTRON. Subsequently, the DP placed supply order for 309 tri-scooters in four projects[48] to M/s KELTRON against which 224 tri-scooters were supplied in two projects (862/16 and 863/16) as the DP could not identify beneficiaries for the remaining two projects (864/16 and 865/16), which were envisaged for SC (General) and SC (Women). M/s KELTRON was paid an amount of ₹ 1.44 crore in three[49] instalments for the supply of 224 tri-scooters.

An audit scrutiny of the purchase of the tri-scooters by Pathanamthitta DP for differently abled persons during 2015-16 revealed that the DP resorted to open tender system (August 2015). The tenders were invited through the District Social Justice Officer, Pathannamthitta. Tenders were received from six agencies (September 2015) and the Pathanamthitta DP decided to purchase the tri-scooter

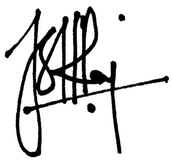
[46] @ of ₹ 70,000 per scooter.
[47] Keltron is a public sector enterprise owned by the GoK producing a wide range of products.
[48] 862/16, 863/16, 864/16 and 865/16.
[49] ₹ 72.24 lakh in December 2015, ₹ 32.25 lakh in February 2016 and ₹ 39.99 lakh in March 2016.

from M/s Pulimoottil Automobiles, Kottayam at the rate of ₹ 57,777 per vehicle. Audit scrutiny revealed that the vehicles purchased by both the DPs were of the same specifications and purchases were made based on the rates furnished during the same time period. The difference in the purchase price of the vehicles with same specifications procured by the two DPs worked out to ₹ 6,723 (₹ 64,500- ₹ 57,777) per scooter.

The Secretary, Idukki DP stated that when they resorted to open tender system during 2014-15, the rate offered from M/s Pulimoottil Agencies was ₹ 66,900, which was on a higher side. Since M/s Keltron agreed to supply tri-scooter for ₹ 64,500 during 2015-16, they resorted to direct purchase. However, the reply was not acceptable because M/s Pulimoottil Agencies had given their rates as ₹ 57,777 in September 2015 in response to the tender notice of Pathanamthitta DP. Had Idukki DP resorted to open tender, they could have procured the same at a lower rate than the one offered by M/s Keltron.

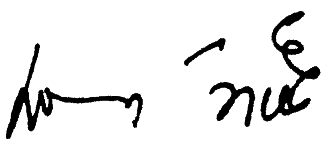
Thus, lapse on the part of Idukki District Panchayat in procuring the tri-scooters without resorting to tender formalities led to an avoidable expenditure of ₹ 15.06 lakh.[50]

The matter was brought to the notice of Government (October 2017). Despite reminders (November 2017 and January 2018) reply was not received (March 2018).



Thiruvananthapuram, **(S. SUNIL RAJ)**
The Accountant General (General and Social Sector Audit), Kerala

Countersigned



New Delhi, **(RAJIV MEHRISHI)**
The Comptroller and Auditor General of India

[50](₹ 64,500- ₹ 57,777) x 224 scooters = ₹ 15,05,952.