Report of the
Comptroller and Auditor General of India

Performance Audit of Mukhyamanthrigala Nagarothana Yojane (Phase-III) for City Corporations

for the year ended March 2021

Government of Karnataka
Report No.6 of the year 2022

List of Appendices

Preface

1. This Report of the Comptroller and Auditor General of India for the year ended 31 March 2021 has been prepared for submission to the Governor of Karnataka under Article 151(2) of the Constitution of India for being placed in the State Legislature.

2. The Report covering the period 2014-21 contains the results of Performance Audit of '*Mukhyamanthrigala Nagarothana Yojane* (Phase-III) for City Corporations'.

3. The Audit was conducted in conformity with the Auditing standards issued by the Comptroller and Auditor General of India.

Executive Summary

Government of Karnataka (GoK) launched '*Mukhyamanthrigala Nagarothana Yojane* (Phase-III) for City Corporations (CCs) at the estimated cost of ₹ 1,000 crore with the objective to upgrade infrastructure and civic amenities in the 10 CCs of the State. The Scheme was to be implemented during the period from 2014-15 to 2016-17. Each CC was allotted ₹ 100 crore funded with 50 *per cent* allocation by Government Grants and remaining 50 *per cent* by obtaining loan borrowed through Karnataka Water and Sanitation Pooled Fund Trust (KWSPFT). The Urban Development Department (UDD) was the nodal department for the implementation of the Scheme and the Director of Municipal Administration (DMA) under UDD was to monitor the implementation of the Scheme.

Performance audit of Chief Minister's Special Grant of ₹ 100 crore each to seven CCs (*Nagarothana* Phase-I) for the period 2008-12 was conducted during April to July 2012 and the findings were included in Paragraph 4.2 of the Report of the Comptroller and Auditor General of India (Local Bodies) for the year ended 31 March 2012 (Report No.6 of the year 2013). The Committee on Local Bodies and Panchayat Raj Institutions discussed this performance audit report during August and September 2015. The Committee, in its 13th Report (June 2016), recommended to initiate disciplinary action against the officials concerned, recover the amount from the officers responsible and ensure due care for third party consultancy. The Action Taken Report was awaited from the State Government (March 2022).

The current performance audit of the Scheme was conducted for the period from 2014-15 to 2020-21 to assess whether planning was carried out as prescribed in the guidelines, financial management was efficient, the works were executed economically, efficiently and effectively and monitoring was effective. The Audit involved examination of records at Urban Development Department, Directorate of Municipal Administration, Karnataka Water and Sanitation Pooled Fund Trust, four (Ballari, Mysuru, Tumakuru and Vijayapura) out of 10 City Corporations and the District Urban Development Cells. Against the available amount of ₹ 931.63 crore, expenditure of ₹ 922.35 crore was incurred (March 2021) under the Scheme. Audit test-checked 52 (23 *per cent*) out of 227 packages in four CCs, covering an expenditure of ₹ 59.96 crore.

Audit findings are organised into three chapters namely Planning and Financial Management; Contract Management and Execution of Works; and Monitoring. The major deficiencies noticed are detailed below:

A) Planning and Financial Management

Pursuant to announcement (July 2013) of the Scheme, the State Government issued (September 2013) the first set of implementation guidelines. This circular, however, did not contain any criteria to be adopted for preparing the action plans. Detailed guidelines containing the instructions for preparing the actions plans were issued only in May 2014. The test-checked four CCs had already submitted (November 2013 to April 2014) their action plans before these instructions were issued. The Government/DMA also did not instruct CCs to revise the action plans in accordance with the detailed guidelines issued. Thus, the action plans in test-checked CCs were not comprehensive. None of the test-checked CCs provided any data/record based on which the works were prioritised and selected. The CCs did not execute around 19 *per cent* of the works originally included in the action plans.

There were subsequent revisions (four to five times) to the action plans in all the test-checked CCs. The Government, in disregard of its own instructions, accorded approvals to revised action plans and did not restrict the funds to the cost of remaining works. Further, the Government had accorded approvals to revised action plans of two test-checked CCs (Ballari and Mysuru) without obtaining concurrence from the respective District Level Committees (DLCs).

Budgetary Control was deficient as there were instances of savings/excess over the budget estimates. The envisaged objective of releasing funds over a period of three years (2014-15 to 2016-17) was not adhered to and release of grants was not commensurate with the requirement of funds.

With regard to category-wise limits prescribed under the Scheme, none of the test-checked CCs attained the minimum allocation of ₹ 15 crore stipulated in respect of water supply and underground drainage (UGD) works. Out of four test-checked CCs, traffic management works were executed in CC, Vijayapura only. In contravention to the Scheme guidelines, test-checked CCs diverted ₹ 108.75 crore (40 *per cent* of total expenditure of ₹ 269.28 crore) towards works taken up under other schemes.

KWSPFT incurred avoidable interest liability of ₹ 5.09 crore due to non-recoupment of loan diverted from *Nagarothana* Phase-II to Phase-III, which was availed at a higher interest rate. There was additional expenditure of ₹ 4.87 crore due to availing loans at higher than the quoted interest rate, non-exercising the option of availing loans which were available at lower interest rates and delay in repayment of loan as per the schedule prescribed in the agreements. The incorrect estimation of the demand of grants by KWSPFT for loan repayment resulted in release of grants by UDD in excess of requirement for the purpose.

Failure of CC, Vijayapura to follow due procedure of law and delay in paying land compensation led to additional liability aggregating ₹ 3.96 crore.

B) Contract Management and Execution of Works

The Detailed Project Reports (DPRs) for test-checked packages were not furnished to Audit in three CCs (Mysuru, Tumakuru and Vijayapura). California Bearing Ratio values to ascertain the strength of soil were also not referred to by these three CCs while preparing estimates for the road works. The Benkelman Beam Deflection tests and traffic studies had not been appended to the estimates in any of the test-checked CCs. These omissions led to preparation of unrealistic and defective estimates.

Technical evaluation and award of Project Management Consultant (PMC) works by DMA was flawed as none of the three consultants satisfied the mandatory criteria such as financial turnover, experience and availability of technically qualified key professionals and were, therefore, liable to be rejected as technically non-responsive. CC, Ballari did not assess its technical capacity properly and awarded PMC work to ineligible consultant.

CCs did not give wide publicity to tenders and awarded works without inviting fresh tenders in cases of insufficient participation of bidders. Two CCs (Ballari and Mysuru) awarded six (19 *per cent*) out of 31 test-checked packages to ineligible contractors. Such irregular award of works was attributable to discrepancies in tender evaluations such as inconsistency in calculation of available bid capacity, non-rejection despite being aware of submission of fake certificates and non-adherence to the minimum qualifying criteria stipulated in the tender documents. There was unjustified rejection of technically responsive bids in two CCs (Ballari and Tumakuru) due to improper calculation of tender capacities and adoption of incorrect turnover. Further, DMA awarded 3 out of 18 packages at tender premium in CC, Ballari and restricted the awards for the other 15 packages at the estimated cost, indicating lack of consistency in tendering process. Three test-checked CCs (Ballari, Mysuru and Tumakuru) awarded contracts in 18 (42 *per cent*) out of 43 packages after the expiry of bid validity.

Test-checked CCs took up 32 (14 *per cent*) out of 227 packages for which the estimated cost was less than ₹ 100 lakh. Moreover, the cost of 452 (70 *per cent*) out of 643 works in these CCs was less than the mandated minimum cost of ₹ 50 lakh.

Eleven (69 *per cent*) out of 16 works in seven packages of three CCs (Ballari, Mysuru and Tumakuru) were not executed due to non-availability of work sites. Further, there were delays ranging from 75 to 547 days in completion of eight (19 *per cent*) out of 43 packages in Ballari, Mysuru and Tumakuru CCs. Delays were mainly attributable to non-completion of UGD works, not shifting of electric poles, *etc*., before entrusting works.

Expenditure of ₹ 68.95 lakh incurred in test-checked CCs was inadmissible/irregular, which was attributable to adoption of incorrect rates, item executed in disregard of prescribed specification, payment for earthwork excavation at higher rates, *etc*. In contravention to the Codal provisions, underlying layers were also removed and re-laid while scarifying the existing bituminous surface in eight (19 *per cent*) out of 43 packages of three CCs (Mysuru, Tumakuru and Vijayapura). This led to avoidable expenditure of ₹ 3.12 crore. Three test-checked CCs (Ballari, Mysuru and Tumakuru) incurred additional expenditure of ₹ 38.23 lakh in six (14 *per cent*) out of 43 packages as the works were executed in disregard of prescribed norms. In six (20 *per cent*) out of 30 packages, three test-checked CCs (Ballari, Tumakuru and Vijayapura) paid a sum of ₹ 104.54 lakh to the contractors for the quantities not executed. Two CCs (Ballari and Mysuru) utilised savings of ₹ 74.69 lakh on three (10 *per cent*) out of 31 packages for executing additional works without approval from DMA.

Defective selection of site by CC, Ballari for constructing bus terminal and non-utilisation of diesel generator sets at CC, Tumakuru rendered the expenditure of

₹ 3.78 crore unfruitful. Comparison of the rates of electrical items as mentioned in PWD Schedule of Rates (SR) with the market rates indicated that SR rates were much higher than the prevailing market rates. This anomaly resulted in loss to the Government exchequer to an extent of ₹ 1.29 crore in five packages of test-checked CCs (except Ballari).

C) Monitoring

Against 84 review meetings to be held at DMA during 2014-15 to 2020-21, DMA held 25 meetings. Also, DLCs in test-checked four CCs did not conduct any meeting to monitor the implementation of Scheme.

Irregularities were noticed in quality inspection reports submitted by PMCs such as variation in dates/quantity of works executed, non-certification of the quality of works inspected, *etc*. Financial reporting was also deficient due to discrepancies such as improper accounting, non-maintenance of records and inconsistencies in expenditure exhibited in various sources due to non-reconciliation. Management Information System (MIS) of the Scheme was not reliable due to data inconsistencies. The internal audit was not functional in test-checked CCs and DMA.

As majority of the works taken up under the Scheme were disaggregated and below the prescribed financial limit of ₹ 50 lakh, assessment of the holistic development of the urban infrastructure was not feasible. The Government/ DMA also did not conduct impact assessment of the Scheme by identifying measurable indices. The envisaged objective of recognising good performance was not achieved as the Government did not take any action to disburse incentive to good performing CCs.

Conclusion

The CCs did not follow the Government guidelines for preparation of action plans detailing the works to be taken up under the Scheme. There was absence of need-based analysis in planning and selection of works. Delay in issuing detailed guidelines and non-adherence to the prescribed criteria deprived the CCs the opportunity of following a prioritised and holistic approach to its infrastructure development needs. The revision of action plans without concurrence of DLCs was against the community/ participatory planning concept prescribed in Scheme guidelines.

Failure of CCs to adhere to the limits prescribed in the Scheme guidelines for various categories of works resulted in non-selection of works related to traffic management, water supply and UGD works, ignoring overall infrastructure development of cities.

Financial management was deficient as there were instances of lapse of grants, diversion/blockage of Scheme funds and avoidable interest liability owing to non-reconciliation and discrepancies in availing loan and its repayment.

In the absence of DPRs and basis data, Audit could not verify how the pavement designs had been firmed up and whether the provisions made in the estimates were consistent with the requirement. This also resulted in variations/cost escalation during execution.

Incorrect technical evaluation by DMA led to award of PMC works aggregating ₹ 14.63 crore to ineligible consultants. Tendering process for works in test-checked CCs and DMA lacked transparency and fairness as evidenced by acceptance of single bids, irregular award of works to technically non-responsive tenderers, unjustified rejection of bids and award of works after the expiry of bid validity.

CCs failed to create tangible assets as the cost of majority of the works was less than the prescribed limit of ₹ 50 lakh. CCs did not ensure the availability of sites before entrustment of works, resulting in delay and non-execution of works. Execution of works in disregard of prescribed norms and specifications led to irregular, avoidable and extra expenditure, resulting in undue benefit to the contractors. There were also instances of assets created under the Scheme remaining unutilised due to improper planning and execution.

Monitoring was not effective as shortfalls were noticed in the stipulated review meetings to be conducted by DLCs and at DMA/Government level. Discrepancies in financial progress reports and quality inspection reports submitted by PMCs rendered them unreliable. The Government/ DMA did not conduct impact assessment of the Scheme by identifying measurable indices and also did not incentivise good performing CCs.

Recommendations

- ***Planning for infrastructure development in the cities were to be undertaken only after need analysis and in consultation with the stakeholders to aid in the holistic development of infrastructure of the cities.***
- ***The availing of loans and their servicing need to be exercised with due diligence and loan accounts should be periodically reconciled to preclude risk of additional liabilities to Government.***
- ***Responsibility needs to be fixed for the irregularities in tender procedure leading to selection of ineligible bidders.***
- ***Action may be taken to recover the avoidable/extra expenditure incurred in execution of works along with fixing responsibility on the delinquent officials.***
- ***The monitoring mechanism should be strengthened by instituting robust reporting through quality inspection reports, establishing reliable MIS, constituting internal audit and conducting prescribed review meetings at various levels.***
- ***The Government should identify measurable indices for assessing the performance of CCs and conduct impact assessment of the Scheme.***