

Chapter-4
Financial Irregularities

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Financial Irregularities

This Chapter contains audit findings related to financial irregularities such as overpayment, irregular expenditure from SCM fund, loss of interest and short recovery of interest on mobilisation advance.

Smart City Mission is a Centrally Sponsored Scheme, under which the Centre has to provide maximum of ₹ 500 crore for each city and an equal share has to be contributed by the State/Urban Local Bodies (ULB) for meeting expenditure on Project and Administration & Office Expenses (A&OE). The position of the funds released to DSCL and the utilisation by it up to March 2023 is detailed in **Table-4.1** below:

Table-4.1: Details of funds received and expenditure incurred up to March 2023

(₹ in crore)

Sl. No.	Year	Funds released by GoI to GoU	Funds released to DSCL			Expenditure
			Central Share	State Share	Total	
1	2015-16	2.00	0.00	0.00	0.00	0.00
2	2016-17	0.00	2.00	0.00	2.00	0.00
3	2017-18	18.00	0.00	3.00	3.00	2.00
4	2018-19	40.00	54.00	53.00	107.00	9.68
5	2019-20	136.00	109.00	74.00	183.00	140.84
6	2020-21	51.50	82.50	5.00	87.50	129.66
7	2021-22	0.00	0.00	115.00	115.00	148.86
8	2022-23	147.00	144.50	95.50	240.00	203.07
Total		394.50	392.00¹	345.50²	737.50	634.11

Source: Data provided by DSCL.

As is evident from the above table, the GoI had released ₹ 394.50 crore to the GoU up to March 2023 against which GoU released ₹ 392.00 crore as Central share to DSCL. The GoU had also released ₹ 345.50 crore as State matching share to DSCL up to March 2023. Against the total released funds of ₹ 737.50 crore (project fund ₹ 696.50 crore and A&OE fund ₹ 41.00 crore), DSCL had incurred an expenditure of ₹ 634.11 crore (project fund ₹ 591.38 crore and A&OE fund ₹ 42.73 crore³).

The Audit findings relating to the financial irregularities are discussed below:

4.1 Delay in release of funds

As per the sanction orders of MoHUA, State Government should transfer the Central share of fund along with its matching share to the bank account of Special Purpose Vehicle (SPV) within seven days of receipt.

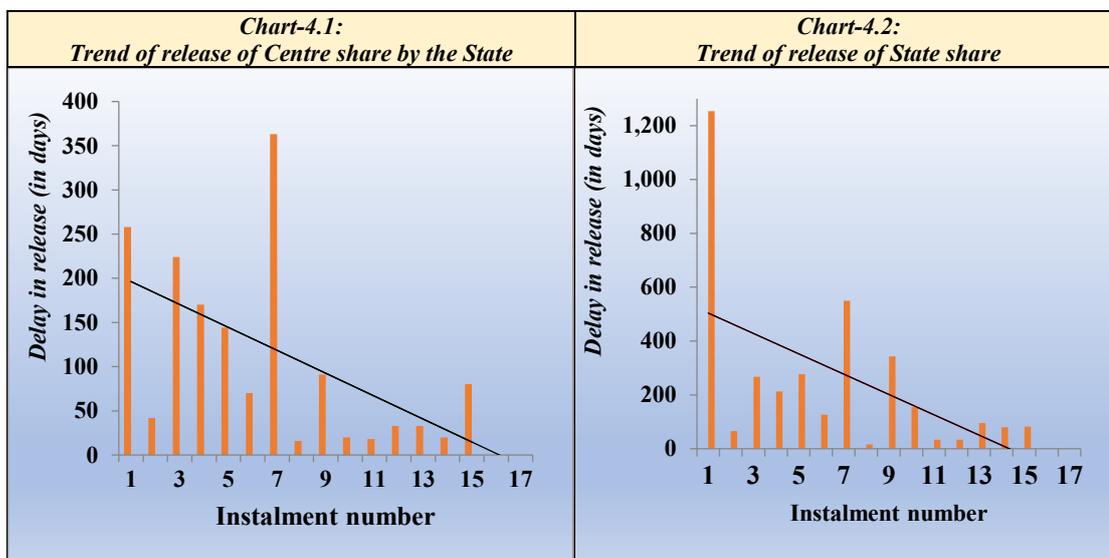
Audit observed that in contravention to the Ministry's orders, there was inordinate delay ranging from 16 days to 363 days in release of Central share of fund by GoU to the SPV and GoU also released its matching share with the delay ranging from 16 days to 1,254 days as detailed in **Appendix-4.1**.

¹ ₹ 2.50 crore of Central Share was released in May 2023 by the State.

² Balance amount of ₹ 49.00 crore of State share was released in May 2023.

³ An amount of ₹ 3.00 crore was transferred from Project fund in March 2022 to meet the A&OE expenditure.

Audit also noticed a decreasing trend of delay in release of funds as shown in **Chart-4.1** and **Chart-4.2** below. This trend coincided with the operation of Single Nodal Account (SNA⁴) system by GoI in March 2021.



4.2 Over payment of ₹ 34.70 lakh in Modern Doon Library project

An MoU of ₹ 13.25 crore was signed (September 2019) between DSCL and an Implementing Agency⁵ for the construction of Modern Doon Library and procurement of the supporting items⁶.

Audit scrutiny revealed that during the execution of the work, 64 items worth ₹ 2.76 crore were sanctioned as extra items. The rates of 46 items⁷, out of these 64 items were inclusive of GST. Despite the inclusion of GST, a payment of ₹ 19.82 lakh as GST (18 per cent) was made to the contractor for these 46 items. Consequently, GST was paid twice on these items and thus, an excess payment of ₹ 19.82 lakh was made to the contractor.

Further, 40 desktops valuing ₹ 26.20 lakh were also approved as extra items at higher rates, whereas the items with the same specifications were already included in the scope of the contract. As a result, an excess payment of ₹ 14.88 lakh was made to the contractor as detailed in **Table-4.2** below:

Table-4.2: Details of excess payment

<i>(Amount in ₹)</i>					
Item	As included in original Contract	Permitted as extra item and paid	Difference of rate	No of item	Amount
1	2	3	4 (3-2)	5	6 (5 x 4)
Computers	33,964.29	65,500	31,535.71	40	12,61,428.40
GST (18 per cent)					2,27,057.11
Grand Total					14,88,485.51

Thus, undue benefit of ₹ 34.70 lakh⁸ was extended to the contractor.

⁴ Opened by DSCL in April 2022.

⁵ Project Manager (Khel), Uttarakhand Peyjal Nigam, Dehradun.

⁶ Furniture, Computer, CCTV and other IT equipment.

⁷ 19 items worth ₹ 1.79 crore were based on DSR 2018, 27 items worth ₹ 60.58 lakh were on market rates.

⁸ ₹ 34.70 lakh = ₹ 19.82 lakh+ ₹ 14.88 lakh.

During the Exit Conference (21 June 2024), while accepting the Audit observation, it was stated that the amount of GST had been recovered from the contractor and on the issue of excess payment for desktops to the contractor, it was assured that the excess payment would be recovered from the contractor.

4.3 Irregular expenditure from SCM Fund

The SCM was planned to be executed through two approaches: Area-Based Development (ABD) and a Pan-city initiatives. As per Paragraph 10.3 of the SCM Guidelines, funds provided by the GoI in the SCM to the SPV will be in the form of tied grant and kept in a separate Grant Fund. These funds will be utilised only for the purposes for which the grants have been given and subject to the conditions laid down by the MoHUA. Further, as per sanction orders of the MoHUA, the money will be utilised strictly in accordance with the SCM Guidelines and for the purpose for which it has been sanctioned.

Scrutiny of records revealed that, four roads⁹ selected for Smart Road Project (SRP) were in the periphery of ABD area. The scope of works in SRP included up-gradation of the road through strengthening of the pavement, provision of drains, multi utility duct (MUD), sewerage work, underground water supply lines *etc.* as discussed in *paragraph 2.4.5 of Chapter - 2*. Audit observed that, out of the above four roads, the work on Chakrata Road¹⁰ (total length 1.9 km) also included a 950-meter stretch located outside the ABD area. DSCL incurred an expenditure of ₹ 19.47 crore¹¹ from the SCM funds on execution of works beyond the ABD area, which was in violation of the provisions of the SCM Guidelines.

On being pointed out by Audit, the Government accepted (May 2024) the fact and stated that it was strategically done to encompass the VVIP area of Yamuna Colony which witnesses continuous movement of VIPs and heavy tourist traffic. However, the fact remains that, in violation of the SCM Guidelines, an irregular expenditure of ₹ 19.47 crore was incurred from the Smart City fund which was a tied grant.

4.4 Loss of interest

The implementation of the SCM at the city level was to be done by a SPV to be incorporated as a limited company under the Companies Act, 2013. DSCL was incorporated (15 September 2017) as a limited company under the Companies Act, 2013. To protect the best financial interest, DSCL was required to exercise financial prudence while making decisions and adhering to the existing Rules & Regulations.

Scrutiny of the records of the DSCL revealed that the DSCL had operated two current accounts at HDFC bank for project fund and A&OE fund during the period 2017-18 to 2020-21. The Statutory Auditors in their Report on financial statements of DSCL for the year ended on 31 March 2019, had pointed out that a significant amount of funds

⁹ Haridwar Road, EC Road, Rajpur Road and Chakrata Road.

¹⁰ From *Ghanta Ghar* to Kishan Nagar Chowk. The said route can be divided into two parts [from *Ghanta Ghar* to Bindal Bridge (950 meters) and from Bindal Bridge to Kishan Nagar Chowk (950 meters)].

¹¹ ₹ 19.47 crore = [Chakrata Road: ₹ 13.78 crore (*On pro-rata basis*) + ₹ 5.69 crore (shifting of retaining wall of Doon School)].

remained idle in both the current accounts and suggested that these idle funds may be invested prudently to earn interest income in interest-bearing securities payable on demand. Further scrutiny showed that DSCL formulated (October 2020), three years after its inception, a policy for investment of the unutilised funds in a term/fixed deposit in a bank for a period in which maximum interest may accrue. DSCL closed¹² both the accounts and opened new accounts¹³ at a different bank to generate interest on the unutilised funds.

Consequently, the three-year delay caused these unutilised funds to remain in a non-interest-bearing bank account, resulting in potential loss of interest of ₹ 6.20 crore¹⁴ to GoI/GoU as detailed in the **Table-4.3** given below:

Table-4.3: Details of interest

						<i>(₹ in lakh)</i>
Sl. No.	Account Number	2017-18	2018-19	2019-20	2020-21	Total
1	50200027724411	0.50	83.43	6.17	3.74	93.84
2	50200032926554	0.00	62.54	220.85	242.80	526.19
Total		0.50	145.97	227.02	246.54	620.03

The Government, while accepting the audit observation, stated (30 May 2024) that the current accounts were opened after obtaining approval of the Board of DSCL. It further clarified that all SNA accounts have now been converted to savings accounts.

The fact remains that the GoI/GoU suffered losses of interest due to delay in exercising financial prudence.

4.5 Short recovery of interest on mobilisation advance

Central Vigilance Commission guidelines 2007 provides that the amount of Mobilisation Advance (MA), interest to be charged, if any; its recovery schedule and any other relevant detail should be explicitly stipulated in the tendered documents upfront. Rule 53 (2) of Uttarakhand Procurement Rules 2017 also provides that the advances shall be subject to payment of interest, till the amount is deducted or adjusted. A bank guarantee or adjustment of advance should be taken to secure the repayment or adjustment of advance. Further, as per Section 32.5 of Central Public Works Department (CPWD) Manual, MA limited to 10 *per cent* of tendered amount at 10 *per cent* simple interest can be sanctioned to the contractors on specific request as per terms of the contract and such advance should be released in not less than two instalments.

DSCL released (16 January 2020) an amount of ₹ 3.64 crore as MA to the contractor. Audit noticed that there was no provision in the contract for the rate of interest to be charged on MA. However, in the absence of rate of interest to be charged on MA, a lump sum amount of ₹ 10.00 lakh was recovered (March 2021) as interest on MA till

¹² HDFC Bank accounts 50200027724411 and 50200032926554 were closed on 14 January 2021 and 12 November 2020, respectively.

¹³ Mostly savings bank accounts.

¹⁴ Calculated @ three *per cent*.

the date of audit (October 2023). Considering the interest rate as provided in the CPWD manual, interest to be charged from the contractor was worked out to ₹ 91.12 lakh by audit, as detailed in *Appendix-4.2*.

During the Exit Conference (21 June 2024), it was informed that in the 28th Board of Directors meeting (19 June 2024) of DSCL, the interest rate on MA had been decided at the rate of 10 *per cent* and steps will be taken to recover the interest on MA. The fact remains that interest on MA was recovered short by ₹ 81.12 lakh as of June 2024.

4.6 Recommendations

- 1. The State Government should ensure prompt recovery against overpayment and fix accountability.*
- 2. The State Government should explicitly include the provision for interest rate to be charged on Mobilisation Advance, in the Procurement Rules.*

