

## CHAPTER-II

### 2. RESULTS OF AUDIT

The summary of the findings on audit of Cuttack Municipal Corporation (CMC), Bhubaneswar Municipal Corporation (BMC), nine Municipalities and seven Notified Area Councils (NACs) are as under:

#### 2.1 Wasteful expenditure on architectural charges - Rs 20.98 lakh.

The Cuttack Municipal Corporation (CMC) decided (1996) to construct office complex of the Corporation (Mahanagar Bhawan) at Khannanagar. The M/s Creative Architect, Bhubaneswar was awarded the work for preparation of architectural drawings and designs of the complex at a consultancy fee at 4.5 *per cent* of the total project cost. As per the agreement (May 1996) with the firm, the CMC was liable to pay Rs 35.86 lakh towards consultancy fee on the project cost of Rs 7.97 crore in seven stages and 80% of the payment was to be made before actual commencement of the work.

Records of the CMC revealed that the firm was paid Rs 20.98 lakh (59 *per cent*) in May 1997 before the commencement of the work. In 2003, the Corporation decided to change the site of the office complex to another site (Choudhury Bazar) where the Corporation office was functioning originally and the said firm again entered in to another agreement (August 2005) to prepare and submit the drawings and designs for the new site as the earlier drawings and designs were not suitable for the changed site. Commencement of the work at the second site was not taken up (December 2006) due to non-provision of funds. As the estimated cost of the work was raised from Rs.07.97 crore to Rs.11.79 crore, the consultancy fee for preparation of drawings and designs for second site raised from Rs.35.86 lakh to Rs.53.07 lakh.

In the 1<sup>st</sup> agreement it was agreed upon that the consultant will be paid 100% after 6 months even if the work is not executed. The Municipal Authorities knew fully well that such a big project can not be completed within 6 months and the clause regarding payment was to the advantage of the consultant. Lack of proper planning for constructing the office complex at Khananagar the consultancy charges of Rs 20.98 lakh paid to the firm by the CMC was rendered wasteful.

The Commissioner, CMC in a letter (August 2006) to the Government (Housing & Urban Development Department) has confirmed the fact.

## **2.2 Loss of revenue on idle assets involving Rs 21.15 lakh**

An agreement was entered into (July 1996) between Cuttack Municipal Corporation (CMC) and one private firm (M/s Bhawani Construction Private Ltd.) for construction of a multi-storied building with commercial and residential complexes at Choudhary Bazar on the land owned by the CMC. As per the agreement, the CMC in lieu of land was to get 11293 sft<sup>\*\*</sup> floor area covering Ground floor to the fifth (top) floor as the owner's share to let out on rental basis.

Records revealed that the CMC on the proposal of the firm (December 1998) agreed to take all the residential units (eight flats) in the fifth floor instead of earlier agreement to get the said residential units from the second floor to fifth floor. However, the CMC finally took over the possession (February 2003) of all the residential units in the fifth floor, shopping units in ground floor and the office complex in the first floor covering 11293 Sq feet as agreed upon. Since then, the CMC's shares of shops/office complex and residential flats have not been let out. This has resulted in loss of rent of Rs 21.15 lakh (Appendix-IV) till December 2006. To an audit query on non-use of CMC's assets, the commissioner did not furnish any reply.

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<sup>\*\*</sup> Shops in ground floor for 2040 sft, office space in first floor for 2105 sft. and residential units in second floor to fifth floor of 1787 sft. in each floor with two flats.

### **2.3 Infructuous expenditure on purchase of mosquito larvacidal oil - Rs 73.16 lakh**

The Cuttack Municipal Corporation (CMC) procures Mosquito Larvacidal oil (ML oil) from the Indian Oil Corporation Ltd. (IOCL) to use as larvacide for checking mosquito menace within the area of the Municipal Corporation. As per the prescribed norm, 12 KL (one truck load) of ML oil should contain 11940 litres of Light Diesel oil (99.5 *per cent*) blended with Rosin Turpentine oil (RTO) of 60 liters (0.5 *per cent*)

Scrutiny of records revealed, the Superintendent of Police (SP) Vigilance, cuttack on the complaints regarding the use of low larvacide capacity of ML oil by the CMC, conducted a test of the ML oil in Regional Medical Research Centre, Bhubaneswar. It was found in the test that the mortality capacity of larvacide was only 25 per cent against the prescribed norm of 80 per cent. Further investigation revealed, the IOCL was blending 45 litres of Rosin Turpentine oil in place of 60 litres norm in a quantity of 12 KL of ML for supply to CMC. During 2004-06, the CMC procured 252 KL of ML oil involving expenditure of Rs 73.16 lakh (Rs 29093 per KL) which proved substandard and ineffective.

Since the CMC failed to test the ML oil at pre-procurement or post procurement stage, the expenditure on oil led to infructuous expenditure of Rs 73.16 lakh. The Commissioner of CMC confirming the fact stated to take appropriate action on receipt of final report from the Vigilance Department (December 2006).

### **2.4 Inadmissible expenditure of EFC Grants - Rs 66.07 lakh**

The Housing and Urban Development Department sanctioned funds from the Eleventh Finance Commission (EFC) Grants to different Urban Local Bodies (ULBs) during 2001-05. As stipulated in the sanction orders, the purchase of Tractor, Mini Trucks, Wheel barrows, garbage handling equipment are admissible for small ULBs and Excavators, Trucks for big ULBs under Solid Waste Management programme. Since the CMC comes under big ULB, the purchase of Wheel barrows is not admissible for the Corporation.

Records revealed, the CMC in violation of the orders of the Government, purchased 3585 number of Wheel barrows for Rs 66.07 lakh leading to inadmissible expenditure out of the EFC grant. On audit query, the commissioner did not furnish any reply (December 2006).

### **2.5 Avoidable expenditure on procurement of Acquitab – Rs 12.96 lakh**

The CMC has been procuring and using Halogen 4mg tablets as a water disinfectant since long. During 2004-06, the CMC procured eight lakh Acquitabs costing Rs 13.15 lakh (Rs 1.65 *paise* per tab inclusive of tax) to be used as water disinfectant in addition to purchase of 5.50 lakh of Halogen tablets of Rs 0.16 lakh (Rs 0.03 *paise* per tab) in 2004-05.

As the Halogen tab used was cost effective without any adverse report, the reason for procurement of Acquitab at higher cost of Rs 1.62 *paise* per tab could not be ascertained. Had eight lakh Halogen tabs in lieu of Acquitab been purchased, the CMC could have saved an avoidable expenditure of Rs 12.96 lakh. It was replied to the audit observation that the matter would be decided in Health Standing Committee of the CMC.

### **2.6 Futile expenditure on Indoor spraying operation for Rs 10.13 lakh**

Solfac WP-10, an insecticide is used for indoor residual spraying to check mosquito menace. Regarding the procedures for spraying of the insecticide, the Director General, Health Services (DGHS), Government of India (Ministry of Health) issued guidelines which inter alia prescribed that the spraying operations should be done by the Malaria Parasite Workers (MPWs) having been duly trained before the spray operation and the spray operations should be in two rounds in a period of six months.

Records revealed, the CMC procured 250 Kg of Solfac WP-10 (October 2005) involving of Rs 10.13 lakh which were sprayed (March-April 2006) by engaging daily labourers. There was no second round spray within a gap of six months. Non-adherence to the guidelines, the spray conducted without trained MPWs and without follow-up

second round spray, could render the entire spraying operation ineffective and the expenditure of Rs.10.13 lakh on procurement and use of insecticide futile.

To an audit query, the commissioner, CMC replied that the guidelines of the DGHS would be followed hence forward.

### **2.7 Blockage of funds due to excess procurement of stocks of Rs 37.00 lakh**

As an important element of prudent financial principles on utilization of the public fund, the purchases on stores and stock should not be made more than the requirements. Records revealed that the CMC procured (2004-06) electrical and steel stores (Appendix-V) in excess of their immediate requirement and utilized only 18 to 59 *per cent* of the above during the said period. This led to idling of stores resulting in blockage of fund of Rs 37.00 lakh on procurement of excess stores. To an audit query, the Commissioner replied that the stocks would be utilized very soon.

### **2.8 Irregular utilization of NSDP fund of Rs 19.90 lakh**

National Slum Development Programme (NSDP), a centrally sponsored scheme was implemented during 1996-07 with a specific objective of providing basic amenities to the slum dwellers in urban areas in the form of shelter, water, health care, sanitation, education, connectivity etc. As per the scheme, 10 per cent of the allocation must be utilised for construction and upgradation of shelter for the people of slum areas. Under the programme, the CMC received Rs 1.99 crore during 2002-06 of which Rs 19.90 lakh was to be utilized for construction of shelter houses. The records revealed, no fund was utilized for the above purpose by the CMC leading to deprivation of benefits intended under the schemes for the urban slum dwellers. The commissioner did not reply to the above observation of audit (December 2006).

### **2.9 Idle/ wasteful expenditure on purchase of land - Rs 15.65 lakh**

A piece of land measuring an area of 2.688 acres in Sahid Nagar was acquired by the BMC (1998) on lease basis from the Government (General Administration Department) on payment of a premium of Rs 1.34 crore for construction of a town hall and a public library on the leased land. Besides, the BMC incurred expenditure (1998-99) of Rs 13.20 lakh on payment of compensation to 132 slum dwellers and a sum of Rs 2.45 lakh was spent for their rehabilitation. As per lease agreement, the BMC was to commence construction on the allotted land within 36 months of the execution of the lease deed.

Records revealed, the BMC did not do any construction work on the land for which the Government cancelled the allotment after seven years and re-allotted the same to Bhubaneswar Development Authority (BDA) to save the land from encroachment. The Government decided to adjust the amount due to the BMC against future allotment of land which has not been done till date (March 2007). As the BMC failed to commence the construction work on the leased land within the stipulated period, Rs 1.34 crore paid to the Government as premium remained idle in addition to wasteful expenditure of Rs 15.65 lakh on payment of compensation and rehabilitation for slum dwellers. On this observation, no reply was furnished by the Commissioner BMC.

### **2.10 Loss due to excess evaporation of Diesel/Petrol - Rs 1.68 lakh**

The CMC has been operating one Indian Oil Corporation Ltd (IOCL) Diesel/Petrol filling station (Kathajodi Filling Station) since 1971. Records of the filling station revealed, evaporation loss on petrol/diesel was unauthorisedly allowed in the filling station beyond the permissible limit during 2004-06 leading to a loss of CMC fund of Rs 1.68 lakh as detailed under:

Year	Diesel/ Petrol	In litres				Loss  (Rupees in lakh)
		Quantity. Procured	Quantity shown as evaporatio n loss	Permissible evaporation loss ††	Excess	
2004-05	Diesel	3,40,000	1700	850	850	0.28
2005-06	-do-	3,88,000	1940	970	970	0.32
2004-05	Petrol	5,32,000	5320	3990	1330	0.59
2005-06	-do-	4,44,000	4440	3330	1110	0.49
<b>Total</b>		<b>17,04,000</b>	<b>13400</b>	<b>9140</b>	<b>4260</b>	<b>1.68</b>

On audit observation, the manager of the Filling station stated that the existing evaporation loss was continuing since long as the underground tank was not checked for last 31 years. Lack of supervision of the Filling Station has resulted in loss of Rs 1.68 lakh during 2004-06.

#### **2.11 Delay in completion of work leading to unproductive expenditure of Rs.2crore.**

The Chief Engineer, Public Health (CE PH), Orissa prepared an estimate of Rs 2.69 crore for supply of piped water from Naraj water source to Bharatpur under Bhubaneswar Municipal Corporation (BMC) jurisdiction. The work was scheduled to commence on 13.05.04 and to be completed within one year of the commencement of the work.

Scrutiny of records of BMC (January 2007) revealed that BMC deposited(May 2004) an amount of Rupees one crore with Executive Engineer, Public Health (EE PH), Division-III, Bhubaneswar for execution of the work and another amount of Rupees one crore in November 2006 for the purpose. But the work was not completed as of January 2007. On this being pointed out, the Commissioner, BMC replied that the work was delayed due to delay in land alienation (30.11.2005) and stated that the work would be completed by April 2008.

The reply was not tenable, as the land alienation was completed by November 2005 and the work was to be completed by November 2006, as per scheduled programme. Thus, due to non completion of the work, the expenditure of rupees two crore remained unproductive.

†† Permissible loss 0.25 per cent in diesel and 0.75 per cent in petrol

### **2.12 Non remittance of Government / other dues amounting to Rs 14.66 lakh**

As per financial provisions, the Government dues like Income Tax, Sales Taxes and Royalties collected should be deposited to the respective accounts of the Government within the period of seven days. Test check of records of two NACs and two Municipalities (Appendix-VI) revealed, Rs14.66 lakh recovered from the work-bills during 2004-06 has not been remitted to the Government in violation of rules but has been kept in their Bank Accounts.

### **2.13 Idle expenditure of NSDP fund of Rs 21.56 lakh**

The NAC Anugul received Rs 21.56 lakh (Rs 5.86 lakh Grants and Rs 15.10 lakh Loan) out of the centrally sponsored National Slum Development Programme (NSDP) fund during 1999-2003 and utilized the above fund for construction of a hospital building to provide healthcare facilities to the slum dwellers and others. Records revealed, the construction of the said hospital building at an estimated cost of Rs 43.89 lakh commenced from March 1999 has been lying incomplete since 2003-04. To the audit query, the Executive Officer NAC replied that the building could not be completed due to paucity of fund and the Government was requested to make provision for it.

Failure to make adequate provision of funds before the commencement of work led to idle expenditure of Rs 21.56 lakh on incomplete works.

#### **2.14 Non realization of Rent , Rates and Taxes - Rs 3.33 crore**

The ULBs earn major portion of their revenues from their own sources through collection of taxes, rents, fees and issue of licenses etc. The Demand Collection and Balance (DCB) position of six Municipalities and three NACs (Appendix-VII) revealed that the revenue of Rs 4.59 crore was outstanding for realization by the above ULBs as of March 2006. Out of the above amount, Rs 3.33 crore (73 per cent) related to arrear demand. The year wise breakup of arrear demand can not be worked out. The rate of collection of which was 22 per cent (Rs 0.96 crore collected out of demand of Rs 4.29 crore) during 2005-06. Lack of determined efforts in realization depressed the revenue receipts of the ULBs.

#### **2.15 Unfruitful expenditure on Incomplete works- Rs 86.67 lakh**

Test check of records of three ULBs (Two Municipal Corporations and One Municipality) revealed that the works started under different schemes/ programmes/ projects involving expenditures of Rs 86.67 lakh (Appendix-VIII) were incomplete with delays ranging from 2 to 10 years from the scheduled period of completion. Non completion of works defeated the purpose of allotment and resulted in unfruitful expenditure of Rs 86.67 lakh.

#### **2.16 Advances lying unadjusted - Rs 2.74 crore**

Advances made to individuals / contractors / suppliers for departmental purposes should be promptly adjusted and the unspent balances refunded/recovered immediately. Test check of seven Municipalities and three NACs (Appendix-IX) revealed, advances of Rs 2.74 crore had not been adjusted since long. In Keonjhar and Baripada Municipalities, the advances were rolling from 1957-58 and 1968-69 respectively. The age of the advances outstanding could not be known in majority of ULBs due to non preparation of

list of outstanding advances and improper maintenance of Advance Ledgers. The possibility of recovery of old advances is remote and ultimately it may end up in loss of money.

#### **2.17 Non-recovery of professional tax for Rs 5.90 lakh**

As per the Government of Orissa (Finance Department) orders (November 2000), the professional tax is required to be recovered from every person engaged in any profession/ trade and employment at the rate specified in the schedule from the date of issue of orders. The record of CMC showed that the said tax was not deducted at all from the employees of the CMC till date (December 2006) Failure to deduct tax in violation of rules attracted liability of the CMC for Rs 5.90 lakh.

#### **2.18 Short realization of royalty of Rs 1.49 lakh**

As per Government of Orissa Minor Mineral Concession Rules, the royalty is recoverable from the works bill for use of minor minerals like sand, clay, morrum, chips, road metals etc in execution of works. Scrutiny of 22 nos of works bills (Appendix-X) under Anugul NAC and Bhubaneswar Municipal Corporation (BMC) revealed, royalty of Rs 1.49 lakh was short realized from the works bills as realization was not made as per the revised rate with effect from 31 August 2004 (Orissa Gazette Notification No SRO 421). Short realization of revenue in violation of rules by the ULBs led to loss of Government revenue of Rs 1.49 lakh.

#### **2.19 Doubtful expenditure of Rs 11.98 crore**

The case records and Measurement Books (MBs) in support of expenditure on works etc. for Rs 11.98 crore (Appendix-XI) were not be produced to audit in spite of repeated requests during audit. Due to non production of records, the authenticity of the execution of works by BMC and CMC authorities; and the expenditure involved could not be ensured.

## **2.20 Failure of Internal control system in BMC**

“Internal audit” functions as an important part of Internal Control Mechanism (ICM) to enforce financial discipline in an organization. As per provisions of the Orissa Municipal Corporation Act, the Chief Auditor (CA) of the corporation should conduct monthly examination and audit of the Corporation accounts and report thereon to the Standing Committee on Taxation, Finance and Accounts.

Records of BMC revealed, the CA issued 385 audit memos (July 2005 to December 2006) indicating irregularities involving money value for Rs 3.00 crore against which no compliance was received (March 2007). The CA was also not provided with files/ records from January 2007 onwards. Non production of records to CA and non compliance to observations of CA involving Rs 3.00 crore indicated failure of internal audit system in BMC. So also 102 nos of audit memos were issued by the Audit Party (Office of the Sr.DAG/ Local Bodies Audit & Accounts) in course of inspection (January-March 2007) which were not replied to.

Although the matter was brought to the notice of the Commissioner in writing, reply to 102 audit memos did not come forth.

## **2.21 Conclusion and recommendations**

There was accumulation of unutilized balances. Receipt & Payment accounts were not maintained for which authenticity of accounts could not be ensured. The loss of revenue for idling of assets, irregular/inadmissible expenditure in violation of rules, wasteful expenditure in procurement of stores and non remittance of statutory deductions to Government indicated that internal control mechanisms are not adequate to ensure proper financial management. In view of the findings as explained in previous chapters, the Government should ensure that:

- Accounts are upto date;
- Funds are utilized timely and unspent balances refunded promptly;
- Data base on finances are maintained in all levels of ULBs;
- Statutory Government deductions are remitted to Government accounts timely;
- Schemes are implemented as per Guidelines;
- Adequate control exists to prevent loss of fund, wasteful expenditure etc;
- Works are completed in time;
- Idle assets are utilized to enhance the revenue of the ULBs

**Bhubaneswar**  
**The----- day of-----2007**

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**Orissa, Bhubaneswar**

Countersigned

**Bhubaneswar**  
**The----- day of-----2007**

**(Sanat Kumar Mishra)**  
**Principal Accountant General (Civil Audit)**  
**Orissa**