

## CHAPTER-II

### 2. RESULTS OF AUDIT

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

#### 2.1 Blocking up of funds of Rs.1.49 crore due to delay in acquisition of land

In order to improve the drainage system of Mahanadi Vihar area of Cuttack town, the CMC decided to acquire 1.085 acres of land based on a survey conducted and an amount of Rs.1.49 crore was deposited by CMC with the Land Acquisition Officer (LAO) of Cuttack Collectorate (June 2006). The amount comprised of value of land Rs.1.45 crore and establishment charges of Rs.3.44 lakh.

Scrutiny of records revealed that there was an allegation by a landholder (April 2007) regarding wrong survey and demarcation of land, which affected his building and LAO proposed (May 2007) to conduct a joint enquiry/redemarcation to assess the existence of the structure prior to the date of notification under section 4(1) of Land Acquisition Act. But the CMC conducted the joint enquiry (March 2008) along with the field staff of LAO on the basis of which CMC decided to take over possession of the balance portion of the land in April 2008. The same has not been done till October 2008.

Delay in acquisition of the land due to faulty survey initially conducted by the CMC resulted in blocking of funds of Rs.1.49 crore .

To an audit query no reply was furnished by the CMC.

#### 2.2 Unwarranted payment of salaries due to delay in transfer of staff-Rs.90.61 lakh

The Housing and Urban Development Department of Government of Orissa decided (February 2004) to transfer the services of the employees of Secondary Schools of ULBs to the administrative control of School and Mass Education

Department since the teaching and non-teaching staffs were declared as Government employees from February 2004.

Scrutiny of records of CMC revealed that the transfer of services of the staff of secondary schools was delayed due to administrative reasons for about two years and salary to the tune of Rs.90.61 lakh for the period from 03/2004 to 03/2005 was paid out of CMC's own funds. CMC could transfer the services of the staff of secondary schools to the concerned Inspectors of Schools only in August 2006. However payment of salary to the staff from 04/2005 to 11/2005 was made out of funds provided by Government. Thus delay on the part of the Municipal authorities in transferring the staff in accordance with the Government decision resulted in unnecessary payment of salary to the staff for the period from 03/2004 to 03/2005 from the Municipal funds which would otherwise be available for undertaking developmental activities of the Corporation.

To an audit query the CMC did not furnish any reply.

### **2.3 Undue liability of Rs. 30.14 lakh due to delay in implementation of EPF**

As per the provisions of the Employees Provident Fund and Miscellaneous provision Act-1952, contribution @12 *per cent* of the basic wages including Dearness Allowance was to be deducted from the wages of the sweeping and cleaning staff and the employer was also to contribute its share of 13.61 *per cent* and the amount was to be credited to the EPF account every month. CMC became liable for payment of Employees Provident Fund (EPF) in respect of Nominal Muster Roll (NMR) employees with effect from April 2001.

Scrutiny of records revealed that the CMC decided (April 2005) to implement the Act from January 2006 in respect of NMR employees engaged in cleaning and sweeping activities and effected the recovery of EPF contribution only from January 2006 and made the payments along with employer share but did not pay the amounts relating to previous period due to non recovery from the employees. Due to non-payment of the dues, the EPF Commissioner seized the Bank accounts of CMC maintained with Urban Co-operative Bank, Cuttack

(January 2007) and raised a demand of Rs.2.74 crore for the period from April 2001 to July 2006. The CMC was able to get back its Bank accounts released on payment of Rs.75.36 lakh (Rs.41.08 lakh as Employers share, Rs.26.06 as Employees share and Rs.8.22 lakh as interest for delayed payment) for the period from March 2005 to March 2006 and provided a Bank Guarantee worth Rs.50.00 lakh. Out of the Employees share of Rs.26.06 lakh, the CMC could recover Rs.04.14 lakh and the balance of Rs.21.92 lakh has not yet been recovered from its employees which resulted in payment of Rs.30.14 lakh from CMCs resources towards employees share and interest of Rs.8.22 lakh for delay in payment. Of the remaining, Rs 14.35 lakh were paid between April and July 2006 leaving liability of Rs 89.71 lakh unsettled.

No reply was furnished by the CMC.

#### **2.4 Loss due to non-recovery of EGB cost- Rs.86.30 lakh**

As per the conditions of contract for execution of Public works, either the contractor had to return the Empty Gunny Bag (EGB) of cement or the cost of EGB @ Rs.3/- per bag was to be recovered from the work bills.

Scrutiny of records of BMC revealed that during 2003-07, 135634 metres of Cement Concrete (CC) roads with the width of 3.5 metres measuring to 474719 square metres was constructed and payment was made through work bills, but the cost of EGB was not recovered from the work bills. As per the analysis of rates 6.06 bags of cement is required for execution of one square meters of CC road. Basing on this the total consumption/utilization of cement in constructing 474719 square metres of CC road comes to 28,76,797 bags. Due to non-recovery of the cost of 28,76,797 EGBs, the BMC sustained a loss of Rs.86.30 lakh worked out at the rate of Rs 3 per bag.

On this being pointed out it was replied that the cost of cement bags is not being recovered since last many years. The reply was not acceptable as the cost of EGB was always included in the estimates of the works.

### **2.5 Idle investment on purchase of land - Rs.73.80 lakh**

The Government of Orissa allotted to BMC an area of 0.626 acre at a premium of Rs.46.95 lakh at Goutam Nagar for construction of Lingaraj Market Complex and another 0.358 acre at premium of Rs.26.85 lakh for construction of Kalyan Mandap at Ganga Nagar. The BMC took over possession of the said land in August 2004 after payment of the premium of Rs.73.80 lakh.

On test check of records, it was noticed that BMC has not taken any action for construction of the said complexes till February 2008. A consultant was appointed for preparation of project reports in March 2008. The construction of the projects were abnormally delayed after purchase of land and Rs.73.80 lakh paid as consideration money is idling without any return for the last 3 years.

To an audit query the BMC stated that action would be taken to construct the projects early.

### **2.6 Excess recovery of Rs.33.00 lakh by Government on purchase of land**

BMC purchased 16.504 acres of land from Government of Orissa at a premium of Rs.7.95 crore in seven different locations within the Municipal Corporation area during 1996 to 2002 for construction of Market complexes and Kalyan mandaps. Out of the total premium payable, BMC paid Rs.3.28 crore to the Government leaving a balance amount of Rs.4.67 crore (August 2004).

Scrutiny of records revealed that due to non-payment of balance due to Government towards land premium by the BMC, Government deducted Rs.5.00 crore out of Octroi compensation grants due to BMC (Rs.3.00 crore in August 2004 and Rs.2.00 crore in October 2004), which resulted in excess recovery of Rs.33.00 lakh by the Government. Though there was no specific reason for excess recovery BMC has not taken any initiative/steps to get back the money recovered in excess of its dues to the Government.

To an audit query no reply was furnished by the BMC.

### **2.7 Avoidable expenditure of Rs.23.23 lakh due to retendering**

BMC invited tender for transportation of garbage's in ward no 25 (November 2004) in response to which only one tender from M/s Trishakti Agency was received. The rate quoted by the firm was Rs.45,484/-per month and Rs.56412/- per month for transportation of garbage upto 10 Kms and 25 Kms respectively. Since only one tender had been received, BMC decided (January 2005) to retender the work and two agencies submitted their tenders. Of the two, one tender was rejected (January 2005) due to non-furnishing of EPF registration documents and the second one was M/s Trishakti Agency who submitted their tender against the first tender call notice. However in the second tender the agency has quoted Rs.1,10,000/- and Rs.1,41.850/-per month for transportation of garbages for distances of 10 Kms and 25 Kms respectively which was Rs.64516/- and Rs.85438/- more than the rates offered in the first tender. BMC has accepted the tender without any negotiations and incurred an extra expenditure of Rs.23.23 lakh for transportation of garbages upto a distance of 10 Kms during 2005-08.

The decision for not inviting fresh tender by giving wide publicity in absence of sufficient numbers of tenders led to an avoidable expenditure of Rs.23.23 lakh.

To an audit query no reply was furnished by the BMC.

### **2.8 Infructuous expenditure of Rs.31.62 lakh on construction of Town Hall**

Kendrapara Municipal Council resolved during 2003-04 to take up the construction of a Town Hall for conducting various social functions of the area. Funds for the construction was appropriated from Special Problem Fund (Rs.20 lakh), MPLAD (Rs.5.00 lakh) and own resources (Rs.5.00 lakh). Accordingly, estimate for Rs.30.00 lakh was prepared and approved by the Municipality. Tender was invited for the work against which only one tender for Rs.35.26 lakh at 17.53 *per cent* above estimated cost was received from a contractor and the same was accepted (January 2004). The contractor was asked to complete the work by

November 2004, but the site could not be handed over to the contractor as there was delay in site clearance. The site for execution of work was cleared up by September 2004 and the Municipality intimated the contractor to take the layout on 29.09.2004. So the contractor was granted extension of time for completion of the work upto June 2005 without cost escalation. Midway of construction he applied for hike in rate of Steel and other materials and the Municipality prepared the revised estimate to Rs.43.05 lakh for its completion but the Municipality did not proceed for further execution of work due to paucity of funds. The Municipality closed the contract after execution of work upto roof level for which payment of Rs.31.62 lakh (March 2006) was made to the contractor. Thereafter the work remained abandoned for want of funds which resulted in unfruitful expenditure of Rs.31.62 lakh on construction of Town Hall.

On this being pointed out, the Municipality stated (November 2007) that regular correspondence was made with the Government for providing additional funds under Special Problem Fund but no funds have been sanctioned by the Government.

### **2.9 Irregular expenditure of Rs.35.00 lakh under NSDP scheme**

The objective of the National Slum Development Programme (NSDP) a Centrally Sponsored Scheme (CSS) is to provide water supply, sanitation, primary education facilities, health care, pre-primary adult literacy, non-formal education facilities, housing, community empowerment, garbage and solid waste management etc. of slum areas. The implementation of the programme was to ensure provision of the basic minimum services in the slum habitations through identification of the missing links for development of the slum area.

Scrutiny of Nayagarh NAC records revealed that the Nayagarh NAC availed Central assistance of Rs.35.00 lakh out of which Rs.24.50 lakh as loan @ 13 *per cent* per annum with 2.75 *per cent* extra for default in payment and balance of Rs.10.50 lakh as grant during 1998-2007. Instead of utilizing the funds for the provisions of Civic services in the slum area, the NAC used the funds for

construction of roads, drain and electrification etc in places other than slum areas in clear violation of NSDP guidelines.

On this being pointed out, it was stated that as per the decision of the council the funds were diverted for other works. The reply was not tenable, as the utilization of funds did not address the problems of the slum areas for which the amount was sanctioned.

**2.10 Irregular utilization of EFC grants - Rs.62.64 lakh**

As per Government of Orissa, Housing and Urban Development Department order (January 2003), 50 *per cent* of Eleventh Finance Commission (EFC) grant shall be used for Sanitation including streetlight, roads and drains; 35 *per cent* for Solid Waste Management and the balance 15 *per cent* for development of database.

Puri Municipality received EFC grants of Rs.113.99 lakh during 2001-05 and with additional provisions of its own fund of Rs.57.00 lakh, the total provision of funds of Rs.170.99 lakh was made. However, the utilization was not done in prescribed ratio as could be seen from details below: -

|  | <u>Provision</u>             | <u>Expenditure</u>           |
|--|------------------------------|------------------------------|
| 1) Development of database                       | Rs.25.65 lakh                | - NIL -                      |
| 2) Solid waste management                        | Rs.59.85 lakh                | Rs 22.85 lakh                |
| 3) Sanitation, street lighting,<br>Roads & drain | <u>Rs.85.49 lakh</u>         | <u>Rs.148.14 lakh</u>        |
| <b>Total</b>                                     | <b><u>Rs.170.99 lakh</u></b> | <b><u>Rs.170.99 lakh</u></b> |

The irregular utilization of funds of Rs.62.64 lakh required specific regularization from Government.

On this being pointed out the Municipality stated that the works were taken up as per requirement of the people and decision of the council. The reply was not justifiable since the expenditure incurred by the Municipality was not in conformity with the guidelines for release of EFC grants which were specific in nature.

### **2.11 Unfruitful expenditure on incomplete works- Rs 1.49 crore**

Test check of records of six ULBs (Four Municipality and Two NACs) revealed that the works started under different schemes/ programmes/ projects involving expenditures of Rs 1.49 crore (**Appendix-III**) remained incomplete with delays ranging from three to twelve years from the date of commencement of the work. Non-completion of works defeated the purpose of allotment and resulted in unfruitful expenditure of Rs 1.49 crore.

On this being pointed out specific replies were not furnished by the ULBs. However, it was replied that action would be taken to complete the works.

### **2.12 Advances lying unadjusted - Rs 10.31 crore**

As per Rule 138 of the Orissa Municipal Rules 1953, advances made to individuals/ contractors/suppliers for departmental purposes should be promptly adjusted and the unspent balances refunded/recovered immediately. Test check of records of 15 ULBs (**Appendix-IV**) revealed that advances of Rs 10.31 crore had not been adjusted since long. In CMC the advances of Rs.4.86 crore remained outstanding prior to 1986-87. In BMC unadjusted advance of Rs.2.26 crore relates to the period 1992-2007 and in Berhampur Municipality advance of Rs.1.04 crore relates to the period 1947-2006. 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. Due to inaction on the part of the ULBs to adjust the advances, the possibility of recovery of old advances is remote and ultimately it may end up in loss to the ULBs.

On this being pointed out the ULBs agreed (2007-08) to recover the advances early. But the replies were not tenable in audit since the possibility of recovery of old advances is remote.



### **2.13 Non remittance of royalty of Rs 8.43 lakh**

As per Orissa Minor Mineral Concession Rules 2004, royalty shall be collected from each works bills of the executing agencies for procurement and use of materials, moorums, sand, stones etc and the same shall be remitted to Government account forthwith.

Test check of records of four ULBs (**Appendix-V**) revealed that Rs8.43 lakh recovered from the work-bills during 2004-07 has not been remitted to the Government account in violation of rules, instead the same has been kept in Bank Accounts of the ULBs.

On this being pointed out in audit the ULBs stated that action would be taken to deposit the royalty early.

### **2.14 Failure of Internal control Mechanism**

“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’s accounts, and report thereon to the Standing Committee on Taxation, Finance and Accounts.

Records of the CMC revealed that the provision of the Act was not followed by the Corporation and the Audit wing under the supervision of an Audit Superintendent and control of the Financial Officer did not have the independent status and remained practically non-functional as no major irregularity could be traced by the wing during 2006-07. The audit of the accounts by LFA was completed upto 2005-06 but the reports were received upto 2001-02 only. In BMC the audit wing was found non-functional, as the relevant records were not produced to them for examination. The reports of the LFA and A G (Audit) for the earlier years remained uncompleted.