

CHAPTER IV – RESULTS OF AUDIT

SECTION ‘A’ - PERFORMANCE REVIEW

URBAN DEVELOPMENT DEPARTMENT

4.1 Unit area value based self assessment scheme of property tax in Bruhat Bangalore Mahanagara Palike

EXECUTIVE SUMMARY

The Bruhat Bangalore Mahanagara Palike provides civic services and infrastructure facilities to the citizens of Bangalore while discharging its functions as per the provisions of the Karnataka Municipal Corporation Act, 1976. The Bruhat Bangalore Mahanagara Palike is statutorily empowered to levy and collect tax and non-tax revenues. The property tax has traditionally been and continues to be the principal source of revenue to upkeep the basic services in the city. The implementation mechanism in property tax management suffered from several deficiencies. Among others, the abnormal delay in conducting the physical survey of properties by Bruhat Bangalore Mahanagara Palike based on the digital mappings of the area geographical information system resulted in absence of a comprehensive database of properties. Instances of incorrect declaration of properties and their usage pattern led to short payment of property tax of ₹207.35 crore during the years 2008-10. Control mechanism as regards revenue collection was ineffective as evidenced from non-maintenance of database, registers, non-verification of returns filed, unencashed cheques, etc.

4.1.1 Introduction

The Bangalore Mahanagara Palike⁶⁶ (BMP) was statutorily empowered to levy and collect tax and non-tax revenues in accordance with the provisions of the Karnataka Municipal Corporations Act, 1976 (KMC Act). The BMP was renamed as Bruhat Bangalore Mahanagara Palike (BBMP) during 2007 by extending its jurisdiction to cover 110 adjoining urbanised villages. The BBMP comprised of 198 wards functioning under the jurisdictional control of eight⁶⁷ zonal offices. The BBMP is statutorily empowered to levy and collect tax and non-tax revenues. The property tax has traditionally been and continues to be the principal source of revenue to upkeep the basic services in the city. Apart from its own resources, the GOI and the State Government were also releasing grants to BBMP for its functioning.

The KMC Act provided for levy and collection of property tax at such percentage not being less than 20 *per cent* and not more than 25 *per cent* of the taxable annual value of building, vacant land or both.

⁶⁶ the coverage of earlier Bangalore City Corporation was extended from 52 to 100 wards and renamed as Bangalore Mahanagara Palike during 1995

⁶⁷ Bangalore (East), Bangalore (South), Bangalore (West), Bommanahalli, Byatarayanapura, Dasarahalli, Mahadevapura and Rajarajeshwarinagar

The Self Assessment Scheme (SAS) of property tax (based on the annual rental value) and payment of tax voluntarily by the property owners was first introduced during the year 2000. In order to further augment the revenue base of BBMP, the State Government amended (January 2009) the KMC Act to introduce the self assessment of property tax under Unit Area Value (UAV)⁶⁸ based system. Different tax rates are determined for each area or street by classifying them into zones, nature of use to which the building is put to and for class of buildings and vacant lands.

Based on the guidance value⁶⁹ of the locality published by the Department of Stamps and Registration, the jurisdictional area of the BBMP had been classified into six value zones⁷⁰ for the purpose of levy and collection of property tax. The SAS provided for incentive for timely payment of property tax and penalty for delay/non-payment.

4.1.2 Organisational structure

BBMP is functioning under the administrative control of the Urban Development Department (UDD) of the State Government, which approves the tax proposals submitted by the BBMP. The Standing Committee on Taxation and Finance in BBMP, which comprises of elected representatives is vested with the matters relating to finance and taxation.

The organisational structure for revenue collection is as under:

Department/Office/Centre	Head of the office	Responsibility
UDD	Additional Chief Secretary to Government of Karnataka	<ul style="list-style-type: none"> Calling for records/documents, etc. Approving proposals for revision of taxes Taking decisions on policy matters, etc.
Central office	Commissioner	Overall monitoring of revenues
	Special Commissioner	
	Deputy Commissioner (Revenue)	
Eight zonal offices	Additional Commissioner/Joint Commissioner	
Revenue divisional offices (30)	Revenue Officers (ROs)	Responsible for levy and collection of municipal taxes, license fees and accounting
Revenue sub-divisional offices (64)	Assistant Revenue Officers (AROs)	<ul style="list-style-type: none"> Supervision of the assessment and collection, daily collection under all taxes Scrutiny of returns filed by the assesses Proper accounting of taxes collected
Help centres at each ward	Tax Inspectors	Collection and remittance of property tax

⁶⁸ an average rate of expected returns from the property per square foot per month on the basis of the average market rate determined through mass appraisal method or real estate market information or any other reliable source or combination of these sources having regard to the location, type of construction of building, parking area of vehicles and such other criteria as may be prescribed

⁶⁹ average market rate for properties in a particular locality

⁷⁰ categorised as A,B,C,D,E and F value zones

4.1.3 Scope of audit and methodology

The performance appraisal on the implementation of SAS of property tax in BBMP for the period 2008-10 was conducted by sample check of records of the Commissioner and 16 AROs⁷¹ (selected out of 64 AROs⁷² based on monetary unit sampling without replacement method) of BBMP coming under seven⁷³ zonal offices. The Entry Conference in connection with the performance appraisal was held during August 2010 with the Special Commissioner, BBMP. The Exit Conference was held during March 2011 and the Special Commissioner, BBMP generally accepted the audit observations and assured that they would take remedial action.

The draft review report was forwarded to the State Government in January 2011; reply is awaited (March 2011).

4.1.4 Audit objectives

The audit objectives for the performance appraisal were to ascertain whether:

- the BBMP had a reliable database of all the properties;
- the existing system for levy, collection and accountal of property tax was efficient and effective; and
- the control mechanisms were adequate.

4.1.5 Audit criteria

The criteria adopted for the performance review were:

- KMC Act, 1976.
- Handbook on property tax issued by the BBMP for filing returns under SAS for the years 2008-09 to 2010-11.
- Guidelines on zonal classification issued by the BBMP and
- Orders and circulars relating to property tax issued by the State Government and BBMP.

4.1.6 Audit findings

The findings of the performance review are discussed in the succeeding paragraphs.

⁷¹ Chamarajpet, Hebbal, Jagajeevanramnagar, Jayanagar, Jeevanbhimanagar, Konanakunte, Madivala (BTM Layout), Mahadevapura (Hoodi), Mahalakshimpura, Marathahalli, Nagarbhavi, Nelegedaranahalli, Ramamurthyagar, Shantinagar, Shivajinagar and Whitefield

⁷² Due to failure in updation of software, tax collection particulars of all the 64 AROs were accounted against 53 AROs

⁷³ Bangalore (East), Bangalore (South), Bangalore (West), Bommanahalli, Dasarahalli, Mahadevapura and Rajarajeshwarinagar

4.1.7 Creation of database

4.1.7.1 Non-availability of comprehensive database

BBMP neither possessed a comprehensive database nor conducted any survey for precise assessment

Any tax assessment system will not be successful without having a comprehensive inventory of properties. It is stipulated that the AROs were to maintain a property register to record the details of all the assessable properties under their jurisdiction duly categorising the properties into different groups⁷⁴ and also having additional information such as age of the property, usage pattern, number of floors, total built-up area, etc. Such comprehensive and updated database was not maintained by any of the test-checked AROs. Audit further observed that even after the vast expansion of the erstwhile BMP area by merging the surrounding villages, the BBMP did not conduct any survey to arrive at an accurate number of properties within its revised jurisdiction.

4.1.7.2 The Jawaharlal Nehru National Urban Renewal Mission (JNNURM), a flagship programme launched in December 2005 by GOI as a part of larger urban agenda, prescribed the following two major targets in respect of property tax:

- to enhance the coverage of properties by putting in place a Geographical Information System (GIS) and
- to improve tax demand-collection ratio to 85 per cent by 2012.

In order to have an integrated database of properties within the jurisdiction of BBMP, there was a need to conduct comprehensive physical survey of existing properties based on the information/digital mappings obtained through GIS. The Additional Commissioners of zonal offices stated (December 2010) that even though the GIS was completed, the physical survey of existing properties was still in progress. However, the details to the extent of completion of such physical survey were not made available to Audit in any of the test-checked revenue sub-divisions.

As the BBMP failed to have a comprehensive database required for collection of property tax, achieving the target of raising the tax demand-collection ratio to 85 per cent remained a distant reality.

4.1.8 Levy, collection and accountal of property tax

4.1.8.1 Property tax collection

The total revenue of BBMP and quantum of property tax collected during the years 2007-10 is detailed in Table 4.1 below:

Table 4.1: Statement showing total tax revenue and property tax

Year	2007-08	2008-09	2009-10*
Total Revenue	1,934.35	2,289.91	3,461.01
Total Tax Revenue	907.55	711.01	1,362.58
Total Property Tax	719.09	517.95	1,142.73
Percentage of property tax to tax revenue	79	73	84

Source: As exhibited in the balance sheets of BBMP

*provisional accounts figures

⁷⁴ as published in the Handbook on property tax

Despite introduction of revised SAS system for payment of property tax during 2008-09, it was observed that the property tax collected when compared to tax revenue declined from 79 *per cent* to 73 *per cent*. There was 28 *per cent* reduction in property tax collection during 2008-09 to that of previous year. No reasons were furnished by BBMP for reduction in collection of property tax.

While furnishing the details of total property tax collected, the BBMP failed to furnish the break-up of tax collected and the arrears of tax collected for the respective years. The year-wise details of revenue outstanding were not available either with the AROs or BBMP central office. Therefore, audit could not ensure whether the BBMP had actually increased its revenue compared to previous years by introduction of SAS system.

4.1.8.2 Non-revision of property tax rates

The provisions of KMC Act provided for revision of property tax rates once in three years. In disregard of the provisions, the property tax rates fixed during the year 2000 are still being continued (December 2010) without any further revision.

BBMP did not adopt the prevailing market value of the properties

The BBMP claimed to have adopted the average market value of the properties in determination and classification of value zones. However, it was observed that the BMP/BBMP had adopted the market value of the year 2000 and the same had not been revised despite steady increase in real estate market value of properties in Bangalore. This had adversely affected the generation of tax revenues of BBMP.

4.1.8.3 Incorrect declaration of returns

Failure of the AROs in cross-verification of returns filed facilitated defaulters going unpunished

According to the SAS system, the AROs were required to cross-verify the truthfulness of the declaration and payment of tax in at least 10 *per cent* of the returns filed by the property owners. Audit, however, observed that none of the AROs cross-verified the returns and in the absence of database/basic records, accepted the details submitted by the property holders. Due to absence of cross-verification, the possibility of incorrect declaration of returns and defaulters going unpunished could not be ruled out.

4.1.8.4 For the purpose of self assessment of property tax, the physical properties classified under six value zones were categorised into 18 groups (five residential and 13 non-residential) which included vacant land, telecommunication towers, hoardings and properties exempt from property tax. Of the 642 tax returns made available to audit, 286 returns (45 *per cent*) did not contain sufficient information for assessment of those properties and thereby audit could not ascertain the correctness of the returns. The AROs accepted such incomplete returns without raising any objections.

Incorrect declaration of property tax returns resulted in revenue loss of ₹207.35 crore

Out of the available 356 returns (complete in all respects), audit test-checked 169 returns and found that in 68 cases (40 per cent), these assesses had incorrectly declared their property tax resulting in loss of revenue of ₹207.35 crore during the period 2008-10, as detailed in the **Table 4.2** below.

Table 4.2: Statement showing details of short collection of tax and interest

(₹in lakh)

Category	Total number of returns analysed	Number of returns found irregular	Total revenue loss	Audit observation
Residential apartments	12	3	2,690.46	Incorrect adoption of rate of tax and non-payment of interest for delayed payment
Educational institutions	30	22	2,647.73	Exemption claimed without enclosing the certificate
Sports and recreations clubs	10	3	932.19	Non-payment and incorrect computation of property tax
Shopping malls and multiplexes	6	3	1,229.15	Incorrect declaration of category
Star/luxury hotels	20	9	358.40	Incorrect adoption of service area and rate of tax
Software companies	25	10	9,445.98	Non-adoption of tax rates applicable to centrally air conditioned category
Other non-residential properties	50	11	2,839.35	Mis-classification of zone and incorrect computation
Government residential quarters	6	6	515.27	Non/Short payment of tax on residential accommodation
Hospitals	10	1	76.74	Incorrect computation without furnishing complete property details
Total	169	68	20,735.27	

Source: Tax Returns

Note : Loss of revenue includes penal interest for non-payment of property tax calculated up to March 2011

Possibility of significant revenue leakage due to absence of the system of cross-verification could not be ruled out.

4.1.8.5 Inadequate networking leading to improper accounting

Laxity in networking of offices hindered proper accountal and reconciliation of tax collected

A comprehensive automated system both at BBMP central office and in each sub-divisional office duly connected through an appropriate network would help in tracking the payment of property tax from all the property owners under the jurisdiction besides maintaining a full-fledged accounting system. However, such an automated system was not in place in BBMP as evidenced from the following:

- Though the number of AROs increased (August 2009) from 53 to 64, the details of collection from these AROs were accounted against the erstwhile 53 AROs due to non-updation of software even as of March 2011.
- The payment of property tax 'online' is being directly accounted in the central office of BBMP without routing through the ARO concerned. This lacuna in the automation system resulted in non-updation of records of AROs despite payment of tax by the property owners and consequent non-reconciliation.

Enforcement of penal provision against the defaulters was inadequate

4.1.8.6 Inadequate enforcement of penal provision

The provisions of KMC Act provided for levy of penal interest at the rate of two *per cent* per month on the tax not/short paid. Further, the Commissioner may recover the tax by distraint under his warrant and by sale of moveable property of the defaulter. If the defaulter's property could not be attached, the Commissioner may prosecute the defaulter before a Magistrate. In the absence of database and failure of AROs in cross-verification of tax returns filed, the BBMP did not identify any defaulter on its own and collected the penal interest only from voluntary tax payers who paid late. Laxity in enforcement of the penal provisions led to defaulters getting away scot free. There was also no compulsion for the property owners to pay the correct tax or even to pay any property tax at all.

4.1.9 Control mechanisms

The internal control and monitoring mechanism in BBMP with regard to revenue collection was ineffective as discussed below.

- The AROs failed in proper accounting of daily collections in the help centres and did not reconcile the bank balances periodically. Non-maintenance of required registers, improper accounting and non-reconciliation with bank accounts led to incorrect reporting of collections at sub-divisional level.
- The scheme provided for payment of property tax through cheque or demand draft. The AROs issued the tax receipts on the spot without waiting for the realisation of cheques. Many property owners had misused the provision and made payment through cheques which were not realised despite issuance of tax receipt. On an enquiry, the BBMP furnished the details of 1,404 cases of unrealised cheques involving an amount of ₹1.96 crore up to the year 2009-10 under the jurisdiction of 30 AROs. Of this, it was noticed that 1,272 unrealised cheques involving ₹1.79 crore pertained to the years 2008-10. Details in respect of remaining 34 AROs were not furnished to audit. Besides, details of action taken on those who had misused the provision were not forthcoming from the records. There was no provision under the Act or an administrative mechanism for a systematic auditing of the returns filed/assessed cases.

4.1.10 Conclusion

Despite having GIS mappings, in the absence of physical survey and updated basic records, the details of properties to be assessed were not available with BBMP. The rates of property tax had not been revised periodically, as required, hindering generation of tax revenue. The AROs failed in cross-verification of returns filed which facilitated improper declaration and short payment of tax. Failure of AROs in proper reconciliation with bank accounts coupled with non-computerisation and non-networking of the collection centres with sub-divisions and central office hindered proper accounting of revenue collection. Inadequate enforcement of penal provisions enabled defaulters to escape punishment.

4.1.11 Recommendations

- BBMP needs to consider revision of tax rates periodically in order to generate sufficient revenue.
- Collection of tax should be either on-line or through demand draft to rule out the possibility of non-realisation of cheques.
- An independent system of cross-checking the self assessed returns and to identify and initiate action on the defaulters needs to be in place.
- Revenue officers should be made accountable in the event of significant shortfall in tax collection, failure to check incorrect declarations.
- The State Government should evolve an overall monitoring mechanism to improve revenue collection of BBMP.

SECTION ‘B’ - PARAGRAPHS

URBAN DEVELOPMENT DEPARTMENT

BRUHAT BANGALORE MAHANAGARA PALIKE

4.2 Cash management

4.2.1 Introduction

The finances of Bruhat Bangalore Mahanagara Palike (BBMP) consisted mainly of the grants received from Central and State Governments and tax and non-tax revenues collected by BBMP.

The financial transactions of the BBMP were operated through bank accounts opened in various banks⁷⁵; a Personal Deposit Account in the name of Commissioner, BBMP operated in the District Treasury, Bangalore for facilitating credit/withdrawal of grants and loans released by the State Government. In addition, flexi accounts for third party amounts like contractors’ security deposit, earnest money deposit, *etc.* (till their refunds) and escrow accounts for repayment of institutional loans were opened and operated in various banks. While Assistant Revenue Officers (AROs) and other revenue generating units were permitted only to remit the revenues realised by them to designated bank accounts, the Divisional Zonal Offices were permitted to remit as well as make payments.

Audit reviewed (October to December 2010) the cash management in BBMP during the period from 2008-09 to 2009-10 through test-check of records in the office of the Chief Accounts Officer (CAO), BBMP.

The Entry Conference (August 2010) and Exit Conference (March 2011) was held with Special Commissioner, BBMP.

4.2.2 Financial position of BBMP

The financial position of BBMP during the period under review is as shown in **Table 4.3** below.

Table 4.3: Financial position of BBMP

(₹ in crore)				
Year	Opening Balance	Receipts	Expenditure/payments	Closing Balance*
2008-09	346.28	2,508.06	2,436.21	418.13
2009-10	418.13	3,363.07	3,397.92	383.28
Total		5,871.13	5,834.13	

Source: Uncertified Annual accounts furnished by CAO, BBMP

* Net of credit and debit balances of bank accounts

⁷⁵ Syndicate and Canara banks being nodal banks for general receipt/expenditure of BBMP and Industrial Development Bank of India (IDBI) exclusively for accounting of property tax revenues

As at the end of March 2009, BBMP had outstanding arrears of revenue amounting to ₹596.62 crore which had increased by 87 per cent to ₹1,114.47 crore by the end of March 2010. The BBMP availed loan from financial institutions aggregating ₹2,052 crore⁷⁶ during the period 2008-10 and had current liability and provisions⁷⁷ of ₹692.56 crore and ₹2,797.33 crore as on 31 March 2009 and 2010 respectively.

4.2.3 Audit findings

4.2.3.1 Non-maintenance of cashbook

As per the provisions of the Karnataka Financial Code, every office is required to maintain a cash book and all financial transactions are to be recorded in real time. As the BBMP was operating more than 600 bank accounts, there was a need to maintain a cash book for each bank account separately duly reconciling the balances with the bank accounts periodically.

However, during audit, it was noticed that the BBMP had not maintained the cash book for bank accounts as prescribed. Wherever maintained, the receipts side of the cash book was left blank without any entries either for funds transferred or amounts remitted to the account. As a result, Audit could not vouchsafe the correctness of the balances exhibited in the records of the CAO. The Chief Auditor has also pointed out this deficiency in his audit reports for the periods 2006-07 and 2007-08.

During the Exit Conference, CAO, BBMP stated (March 2011) that instructions would be issued to the concerned officials for maintenance of cash books for each bank account.

4.2.3.2 Expenditure Management

The demand drafts/ cash /cheques received by BBMP were sent to banks without being entered in the cash books. Hence Audit could not ensure that cheques/cash deposited in banks were fully and correctly accounted under BBMP account. While making payment towards work bills and other claims also, the CAO, BBMP did not have any supporting records and relied only on bank balances. The various DDOs were given Letters of Credit (LOC) based on this incomplete information.

4.2.3.3 Non-reconciliation of balances with bank accounts

During the years 2008-09 and 2009-10, the BBMP has incorporated 602 bank accounts in its annual accounts prepared centrally under fund based

⁷⁶ 2008-09 – ₹500 crore and 2009-10 – ₹1,552 crore

⁷⁷ Includes cess, taxes and royalties, recoveries adjustable/payable to outsiders, Earnest Money Deposit, security deposit and provision made towards works bills and administrative expenses

accounting system (FBAS). Neither the bank balances reflected in the annual accounts for the years 2008-10 were reconciled with that of the bank statement balance nor the confirmation of balances from concerned subordinate offices was obtained to ensure the correctness of bank balances exhibited in the accounts under FBAS. It was noticed in test-check that there were differences ranging from ₹11.18 lakh to ₹159.96 crore between bank balance as per BBMP accounts and statements furnished by banks, as at the end of March 2009, in respect of 15 bank accounts maintained at Central Office of BBMP and made available to Audit for verification. However, no action was taken by the authorities to reconcile the difference.

BBMP in its reply (March 2011), stated that action would be taken to reconcile the differences.

4.2.3.4 Retention of funds in bank accounts without transfer to nodal bank accounts

Huge funds were retained in the bank accounts without being transferred to nodal accounts

As per instructions (September 2001) of the CAO, the AROs were required to ensure that the revenues collected in the revenue generating units of the BBMP were credited to designated bank accounts and transferred to nodal bank accounts (at Syndicate Bank or Canara Bank) weekly. Further, AROs were required to submit the bank statement every Monday to the Zonal Assistant Controller of Finance (ZACF). In turn, the ZACF was required to obtain a copy of the nodal bank account pass sheet from the CAO's office and ensure the prompt and correct transfer of funds from revenue generating units to concerned nodal accounts.

However, the AROs failed to adhere to these stipulations and it was noticed that as of March 2009⁷⁸, funds aggregating more than ₹1,065 crore⁷⁹ were lying idle in 106 bank accounts⁸⁰, out of which ₹774.87 crore pertained to collections prior to April 2008. On a review of 16 bank account statements, it was noticed that the delay in transfer of funds to nodal accounts varied from 65 to 888 days.

Failure of the AROs in transferring the funds regularly and failure of the ZACF in monitoring and enforcing monetary discipline resulted in retention of huge sums in bank accounts and undue benefit to banks. It also deprived the BBMP of these revenue receipts forcing it to resort to taking loans from financial institutions at high interest rates.

⁷⁸ the accounts for 2009-10 yet to be finalised

⁷⁹ the difference in figures to that exhibited in financial position under paragraph 4.2.2 was due to exhibition of net debit and credit balances

⁸⁰ Bank accounts operated by AROs and having balance more than ₹10 lakh only are commented

The CAO replied (March 2011) that corrective measures have been initiated to watch the timely transfer of funds and actual position would be intimated in due course.

4.2.3.5 Non-adherence to agreement resulting in loss of interest

The BBMP entered into (February 2009) a Memorandum of Understanding (MoU) with IDBI. The MoU stipulated that the revenue collections of AROs should be transferred to the nodal bank accounts on daily basis and also that funds over and above ₹ one crore were to be transferred to flexi deposit account on T + 2 days basis⁸¹.

Despite this, it was noticed in Audit that average daily balances ranging from ₹13 crore to ₹82 crore were allowed to remain in nodal bank accounts without being transferred to flexi deposit account. The number of days wherein the balance exceeded ₹ one crore ranged from 1 to 18 during the period from April to June 2009. Non-adherence to the provisions of MoU deprived BBMP of interest amounting to ₹15.47 lakh⁸². This clearly indicates the failure of the CAO to monitor the balances in nodal bank accounts and failure to scrupulously follow the stipulations of MoU.

In reply, the CAO stated (March 2011) that IDBI had given interest on the balances held by it, the details of which would be intimated.

4.2.3.6 Loss of benefit to BBMP

Based on the position of funds, the BBMP was taking on an average 5 to 6 months to make payment of bills to the contractors. In order to facilitate faster settlement of contractors bills, BBMP introduced Bills Discount facility (Hundi system) which provided for the banks to discount the bill directly to the contractor with tenure up to 180 days. This was done by executing a tripartite agreement between BBMP, Bank and contractor concerned which, *inter alia*, stipulated that the BBMP would make payment on the due date of the bills to the bank or authorise the bank to debit the bill amount to its account with the bank. The commission or service charges would be collected by the bank from the contractor while discounting his bills depending upon the tenure of the bills. Interest beyond 180 days would be payable by BBMP. It was noticed in Audit that during 2008-09 and 2009-10, bills discounted amounting ₹83.41 crore by the contractors in 17 out of 27 divisions of BBMP were paid before their due dates ranging from 3 to 179 days.

Had BBMP adhered to the interest-free time period of 180 days, the available funds could have been invested in interest earning term deposits to help reduce its liabilities.

⁸¹ transaction day on which the balance exceeds ₹ one crore plus 2 days

⁸² @ of 5.25 per cent per annum

4.2.3.7 Maintenance of bank accounts in individual names

All the bank accounts operated by BBMP were to be in the name of the Commissioner by official designation and no account was to be opened in individual names. However, test-check of records disclosed that four⁸³ bank accounts were opened and operated in BBMP in the individual names of the officials. No cash books were being maintained for these bank transactions. In the absence of cash book, Audit could not ensure whether all the bank transactions/ entries appearing in the pass sheets of the said banks were genuine and brought in to the books of accounts correctly.

The CAO stated (March 2011) that no bank accounts were being operated at present under individual name.

4.2.3.8 Inter-bank transfers

As per the prevailing system, all the funds collected by the subordinate offices of BBMP were to be transferred to nodal bank accounts which in turn were to be transferred to other accounts on need basis. No internal fund transfers among the operative bank accounts were permitted for cash transactions through banks. However, the test-check of transactions revealed inter-bank transfers on 42 occasions involving funds ranging between ₹ one lakh and ₹ Six crore during 2008-10. The CAO failed to monitor such irregular inter-bank transfers, evidencing weak internal control system in BBMP.

4.2.4 Conclusion

Cash books in respect of bank accounts were either not maintained or were incomplete. Huge funds were retained in bank accounts without transferring to nodal accounts and the balances were not reconciled. Inter-bank transfers revealed weak internal control system in BBMP. Opening/operating of bank accounts in the name of individuals was fraught with the risk of misappropriation of funds.

4.3 Undue benefit to a contractor

Unjustified action of the Chief Engineer, Bruhat Bangalore Mahanagara Palike in changing the scope of road drain work led to undue benefit of ₹87 lakh to a contractor

The work of widening and construction of Race Course Road from Anandrao Circle to Basaveshwara Circle in Bangalore was taken by Bruhat Bangalore Mahanagara Palike (BBMP) at a cost of ₹3.91 crore based on the Schedule of Rates (SR) for 2006-07. The Chief Engineer (CE) accorded technical sanction and short term item rate tenders were called for by the Executive Engineer (EE), Road Widening Division. The Commissioner, BBMP, recommended the lower of only two tenders received for approval of the State Government instead of rejecting the tenders due to lack of competition. The State

⁸³ at Canara Bank extension counter of BBMP

Government accorded approval (June 2008) based on the SR of 2007-08 for a negotiated rate of ₹5.72 crore at 14.48 per cent above the estimated cost.

The contractor who executed the agreement on 27 July 2008 was required to complete the work by April 2009. Out of 17 items of work entrusted to the contractor as per the agreement, the amount quoted for 16 items worked out to ₹5.51 crore which was 41 per cent above the estimated cost of these items based on SR for 2007-08. The amount quoted for the remaining item, viz., construction of rubble stone masonry drain was ₹20.60 lakh, which was 81 per cent below the estimated cost of ₹1.08 crore based on SR for 2007-08. Details of quoted rates in respect of some of the items of work are detailed in **Table 4.4** below:

Table 4.4: Items of work for which rates were quoted

Item of work	Estimated Rate (in ₹)	Estimated cost (₹ in crore)	Tendered Rate (in ₹)	Tendered cost (₹ in crore)	Percentage of excess(+)/below (-)
Construction of wet mix macadam	1,462.80	0.68	2,200	1.02	(+) 50
Providing and laying dense bituminous macadam	6,413.57	1.18	9,462	1.74	(+) 47
Providing and laying bituminous concrete	6,998.27	0.80	10,600	1.21	(+) 51
Providing and constructing coursed rubble stone masonry drains	4,192.15	1.08	800	0.21	(-) 81

Thus, the contractor loaded his rates for the majority of the items with huge profit margins and yet managed to bring down the overall tender percentage to 14.48 per cent by deliberately under-quoting for rubble masonry drain.

During inspection, the CE cited lack of space on the roadside for stacking materials due to heavy traffic and suggested (June 2008) construction of drains with reinforced cement concrete (RCC) instead of coursed rubble stones. The CE's *suo motu* suggestion was directed towards rendering the item of construction of drains in stone masonry inoperative as the contractor had quoted an abnormally low rate for this item. This suggestion was enforced by the EE at once despite the fact that every variation order authorising a new item of work was to be approved by the Commissioner before its execution. The construction of RCC drain was paid for as an extra item at the Schedule of Rates for 2008-09 plus the tender percentage of 14.48 per cent. EE stated (January 2011) that CE had ordered the change in scope of work as there was blockage of traffic due to stacking of materials. The reply was not tenable as the traffic conditions were within the knowledge of the contractor before submission of the bid and were factored in his quoted rates. Thus, the changeover from stone masonry drain to RCC drain was not need driven and was directed towards relieving the contractor of the responsibility of constructing stone masonry drain at his abnormally low rates. The change order abuse resulted in an unauthorised benefit of at least ₹87 lakh to the contractor.

Irregularities in the tendering process which should have been aborted due to lack of competition coupled with unjustified change over from stone masonry to RCC for the road drains resulted in an undue benefit of ₹87 lakh to the contractor.

The matter was referred to the State Government in January 2011; reply had not been received (March 2011).

4.4 Extra expenditure on a road work due to defective estimates

Action of the Chief Engineer, Bruhat Bangalore Mahanagara Palike in not following the prescribed specifications led to avoidable extra payment of ₹39.49 lakh on a road widening and strengthening work

Government approved (June 2008) the entrustment of the work of widening and strengthening the existing Palace Road from the Mysore Bank Circle to High Ground Police Station to a contractor at a cost of ₹7.75 crore, which was 24 *per cent* over the Schedule of Rates (SR) for 2007-08.

Bruhat Bangalore Mahanagara Palike (BBMP) follows the specifications prescribed by the Ministry of Surface Transport, Government of India (Ministry) for preparation of estimates for road-works, wherein cross-sections of the road are to be taken at an interval of 50 metres in plain and rolling terrains to determine accurately the quantities of roadway excavation. Contrary to the specifications, BBMP determined the quantities of roadway excavation on *ad-hoc* basis. The estimates were to be checked by the technical/drawing branch, but no such branch existed in the division. The Chief Engineer (CE) accorded (September 2008) technical sanction despite faulty preliminary investigation. During excavation, it was noticed that the ground level in the stretches to be widened was 1 to 1.5 metres higher than the existing road level, resulting in huge increase of quantities of roadway excavation. In terms of the agreement with the contractor, any additional quantity exceeding 125 *per cent* of the tendered quantity executed under an item of work was to be paid at the rate mentioned in the prevalent SR plus or minus the overall tender percentage. The quantity of the excavation in ordinary soil increased by 219 *per cent* (from 14,733 cubic metres (cum) to 46,944 cum) over the tendered quantity. Also, 28,528 cum of excavation in ordinary soil in excess of 125 *per cent* of the tendered quantity was paid at the rate of ₹238.43 per cum against the tendered rate of ₹100 per cum, resulting in avoidable extra payment of ₹39.49 lakh to the contractor.

Executive Engineer, Road Widening Division, BBMP stated (December 2010) that the work which had earlier been entrusted to Karnataka Road Development Corporation Limited (KRDCL) by Government was subsequently transferred to BBMP and the estimate prepared by the KRDCL was adopted for execution.

The reply was not acceptable as the new estimate was prepared by BBMP and technically sanctioned by the CE without following the procedure prescribed by the Ministry.

The matter was referred to the State Government in January 2011; reply had not been received (March 2011).

4.5 Extra expenditure due to failure to invoke defect liability provisions

Failure of the Commissioner, Bruhat Bangalore Mahanagara Palike to invoke the defect liability provisions in the agreement led to extra expenditure of ₹87 lakh on a road which had developed defects within four to seven months of construction

The work of widening and strengthening of the existing Bellary Road from High Grounds Police Station to Windsor Manor Circle (chainage Km 1.20 to Km 2.00) was executed by Bruhat Bangalore Mahanagara Palike (BBMP) through four contractors between September 2008 and December 2008. The Chief Engineer (Major roads) accorded (March 2008) technical sanction for all the works. The works in these chainages commenced during July to December 2008 and were completed between September and December 2008 at a cost of ₹4.23 crore.

As per the contract agreement, these four contractors were to rectify defects, if any, during the defect liability period of one year from the date of issue of completion certificate, failing which BBMP was to assess the cost of rectification of defects and recover it from the contractors.

The bituminous surface laid by these contractors consisted of a binder course of bituminous macadam of 50 mm thickness and a wearing course of bituminous concrete of 40 mm thickness. The consultant appointed by BBMP for the work reported (April 2009) that the road had developed distress in the form of ruts, cracks and potholes and suggested for profile correction of the road and providing fresh overlays of dense bituminous macadam of 50 mm thickness and bituminous concrete of 40 mm thickness.

Although the road developed distress during the defect liability period within 4 to 7 months of its completion, BBMP did not get the defects rectified by these contractors. On the other hand, Commissioner, BBMP sanctioned (July 2009) an estimate which included profile correction and fresh overlays of dense bituminous macadam and bituminous concrete from chainage 1.20Km to 2.00 Km. Interestingly, tenders for laying fresh bituminous surfaces in these chainages had been invited (February and May 2009) after splitting the work into two portions based on the orders of the Commissioner

far in advance of sanction. The work was got completed (June and August 2009) at a cost of ₹87 lakh.

The action of BBMP in sanctioning a fresh estimate for rectification was evidently driven towards relieving the contractors of the burden of rectification, which resulted in an extra expenditure of ₹87 lakh to BBMP. The EE stated (December 2010) that a 900mm dia pipeline running below the road surface had not been noticed at the time of estimation and it was removed before constructing the bituminous surfaces. It was further stated that sinking of the road was noticed after laying the bituminous surfaces and fresh overlays were, therefore, provided. The reply appears to be an afterthought as the existence and removal of the pipeline never figured in the proposal of fresh bituminous overlays approved by the Commissioner. No payment had been made to the contractors towards removal of the pipeline. The reason stated by the EE was totally different from that stated by the Commissioner who approved the fresh overlays on the ground that only one layer of asphaltting had been provided earlier. The reason adduced by the Commissioner was also incorrect as payments for two layers of asphaltting had been made to contractors for chainages Km 1.20 to 2.00. The conflicting reasons adduced by the Commissioner and the EE for providing the fresh overlays raise a doubt as to whether at all the initial construction of the bituminous surfaces and the subsequent provision of fresh bituminous overlays had been carried out according to the contract specifications. As fraudulent practices cannot be ruled out, the matter requires investigation by the State Government.

The matter was referred to the State Government in January 2011; reply had not been received (March 2011).

4.6 Wasteful expenditure on providing utility cable ducts

Failure of the Commissioner, Bruhat Bangalore Mahanagara Palike in taking possession of the requisite land before commencement of work resulted in wasteful investment of ₹4.31 crore on partially constructed cable ducts

Codal provisions provide that no work should be commenced unless the required land is available and transferred to the executing authority. Bruhat Bangalore Mahanagara Palike (BBMP) took up (August 2008 to December 2009) the work of providing utility cable ducts and chambers on either side of four roads⁸⁴ by splitting the work into 14 packages and entrusting them to seven different contractors at their lowest tendered rates aggregating ₹16.66 crore. The Chief Engineer (Major roads) accorded technical sanction between March and May 2008 for all these works with directions to the EE to ensure availability of land before commencement.

⁸⁴ Hosur Road, Palace Road, Race Course Road and Sheshadri Road

It was seen that these ducts and chambers were meant primarily for the cables of the Bangalore Electricity Supply Company and other service providers. These service providers had already laid their cables beneath the existing four roads. BBMP took up the construction of the ducts to facilitate relocation of the cables of the service providers when the roads would be widened. For effective relocation of the already laid cables, it was imperative that the road widening works and construction of ducts were to be dovetailed into an integrated programme wherein the ducts were completed first and kept in a state of readiness to facilitate relocation of the cables when the existing roads were dug up for widening. The status of the cable duct works as of October 2010 in seven test-checked packages was as shown in **Appendix 4.1**.

The execution of these duct works witnessed lack of planning as the road widening works in three packages had commenced seven to ten months in advance of commencement of the duct works. Consequently, the ducts were not ready in these three packages at the time of road widening. Further, the Executive Engineer (EE) disregarded the CE's guidelines and selected the contractors for the duct works without ensuring the availability of land and consequently, ducts were provided only in places where land was available. It was further seen that before taking up the duct works, BBMP had not consulted the service providers and ensured their readiness to relocate the cables. The road widening works including the bituminous surfacing were, nevertheless, completed without relocation of the existing cables as only 4,289 metres of ducts were provided as against the requirement of 7,243 metres due to non-availability of land. The ducts partially provided along the stretches of these roads did not, therefore, serve any purpose.

EE replied (December 2010) that the works had been taken up in anticipation of getting the required land but the public were unwilling to part with their land. The reply was not tenable as works were to be taken up by the BBMP only after ensuring availability of land.

Thus, commencement of works on the cable ducts without taking possession of the requisite land and without consulting all the service providers resulted in wasteful investment of ₹4.31 crore on partially constructed cable ducts.

The matter was referred to the State Government in January 2011; reply had not been received (March 2011).

4.7 Extra payment because of manipulation of specifications and estimated rate for desilting works

Improper action of the Chief Engineer, Bruhat Bangalore Mahanagara Palike in irregularly adopting the specification applicable for excavation for foundation of culverts and inflating the estimated rate for two desilting works led to excess payment of ₹90.25 lakh to two chosen contractors

The Karnataka Transparency in Public Procurements Act, 1999 (Act) provides that no procurement entity shall procure goods or services except by inviting tenders.

The Commissioner, Bruhat Bangalore Mahanagara Palike (BBMP) requested (August 2008) the State Government to exempt, *inter alia*, two works⁸⁵ from the purview of the Act on the ground that these works were to be taken up urgently and there was no time to invite tenders. These two works envisaged desilting and re-sectioning of two canals. Government exempted (October 2008) these two works from the purview of the Act.

The Executive Engineer, Storm Water Drains Division, Hebbal Valley (EE) directed (January 2009) two contractors to execute these works without technical sanction, terms of entrustment or approval of the Administrator. The Chief Engineer, Storm Water Drains, BBMP (CE) accorded technical sanction to these works only in May 2009. EE entered into agreements with these two contractors (July 2009), requiring them to execute the works at the estimated rates. Against the estimated cost of ₹3.13 crore for these two works, payments aggregating ₹1.65 crore had been made to these two contractors as of December 2009. Audit scrutiny disclosed the following:

(i) For preparation of estimates for works, BBMP followed the SR of Public Works Department (PWD), Bangalore Circle which, *inter alia*, prescribed that the rates for items not found therein were to be obtained from the SR of Minor Irrigation (MI) or Panchayat Raj Engineering Department or National Highways, as the case may be. The work entrusted to the contractors consisted of excavation of accumulated earth from the beds and sides of the canals and disposal of the same on the canal sides in layers. While SR of PWD, Bangalore Circle for 2008-09 did not contain this item of work, the SR of MI provided a rate of ₹51 per cum for this item of work. Instead of preparing the estimate for desilting based on the rate of ₹51 per cum as per the SR of MI, the EE framed the estimate by irregularly adopting the rate of ₹88.70 per cum sanctioned in the SR of PWD, Bangalore Circle for excavation of foundation trenches in ordinary soil for pipe/masonry culverts which was not the relevant specification.

⁸⁵ (i) Resectioning and widening of Rajakaluve from Attur lake to Puttenahalli lake and Yelahanka tank to Rachenahalli tank via Jakkur tank (estimated cost: ₹1.61 crore)

(ii) Resectioning and widening of Rajakaluve from Rachenahalli tank to Mariyannana Palya Rajakaluve and Byatarayanapura village to Rachenahalli tank via Amruthahalli tank and Allalassandra tank to Jakkur tank (estimated cost: ₹1.53 crore)

It was further seen that another 20 per cent was added to the rate of ₹88.70 per cum for working in foul conditions and 6 per cent as area weightage although the canals carried only the extra water from the tanks and not any sewage and the SR of PWD, Bangalore Circle did not sanction any such weightage. A final rate of ₹112.82 per cum was approved in the estimate for desilting against the admissible rate of ₹51 per cum. The CE also accorded (May 2009) technical sanction to the estimate without objecting to the irrelevant specifications and the rate adopted by the EE.

As of December 2009, BBMP had paid for excavation of 1.46 lakh cum at the rate of ₹112.82 per cum, involving an excess payment of ₹90.25 lakh.

(ii) At the time of ratifying the action of the EE in entrusting the works at the estimated rates, the Administrator had observed (July 2009) that the delay in taking up the works after obtaining exemption from Government defeated the very purpose of seeking exemption from Government on grounds of urgency. He had further observed that BBMP could have invited tenders during the period of the delay and obtained competitive rates less than the SR considering the nature of work involved. Thus, seeking the State Government's exemption from the purview of the Act for these two works and the subsequent entrustment of these works at inflated estimated rates was evidently directed towards bypassing the controls prescribed.

(iii) Although the EE entered into agreements with the contractor on 16 July 2009, the stamp papers used for the agreements had been purchased from the bank only on 5 August 2009. There was evidently manipulation of the date of agreement by the EE.

(iv) Recording of pre-measurements is a prerequisite for commencement of desilting works. The pre-measurements for these two works had been recorded in the measurement books on 20 April 2009 and 20 July 2009. Evidently, the desilting works ought to have been taken up by these two contractors after these dates. BBMP also insists on submission of photographs in support of the progress achieved at the time of submission of bills for payment. Photographs available in the files carried the date 6 November 2008 and showed distant pictures of a stationary excavator from different angles. A majority of the photographs showed full flow of water in the canal. The date of the photographs evidenced that the works had either been in progress or completed as on 6 November 2008 whereas the pre-measurements were recorded only on 20 April 2009 and 20 July 2009. The checklist prepared by the EE for one of these works mentioned that the work had commenced on 15 November 2008. Thus, the conflicting dates of commencement of works as evidenced by the measurement books, photographs and other documents evidently presented strong indications of manipulation of records, raising doubts whether these works had been executed at all. As the possibility of

malpractices in the execution of these works cannot be ruled out, the matter calls for detailed investigation.

Thus, the State Government's unjustified exemption of these two works from the purview of the Act helped the BBMP entrust the works directly to two chosen contractors after manipulating the specification and inflating the estimated rate. Besides the excess payment of ₹90.25 lakh to the contractor, the execution of these works witnessed manipulation of records raising doubts about the quality of the entire expenditure of ₹1.65 crore reported on the work.

The matter was referred to the State Government in January 2011; reply had not been received (March 2011).

BANGALORE
The

(KEERTI TEWARI)
Accountant General
(Local Bodies Audit and Accounts)

COUNTERSIGNED

NEW DELHI
The

(VINOD RAI)
Comptroller and Auditor General of India