

CHAPTER – II

**TRANSACTION AUDIT PARAGRAPHS
(Urban Administration and Development Department)**

2.1 Avoidable payment of penal interest.

Failure of Municipal Corporation/ Urban Administration and Development Department to adhere to the due date of repayment of the principal amount and interest of loan resulted in avoidable payment of penal interest ₹ 36.54 lakh

On-lending Loan Agreement was executed (March 2005) between Government of Madhya Pradesh and Municipal Corporation (MC), Bhopal/ Gwalior/ Indore/ Jabalpur for Asian Development Bank (ADB) financed Urban Water Supply & Environment Improvement.

According to section 3.05, 3.08 and 3.09 of the agreement, the maturity period of loan was 20 years and repayment was to be made in 20 equal instalments along with interest @ 10.5 percent p.a. on outstanding balance commencing from the following year, by the MCs annually by the 15th day of October month of each year in Government Treasury and in the event of default in the repayment the MCs would be liable to pay penal interest @ 3% per annum on such overdue instalments.

Scrutiny (January 2011) of loan repayment records of ADB financed project “UDAY” under Urban Administration and Development Department (UADD) revealed that the loan was received by the above MCs from ADB during 2006-07 to 2009-10. But the repayment of the annual instalments were not made by the concerned MCs on due date i.e. 15th October of each year. As the repayment of loan instalments (principal & interest) were not made by the concerned MCs on due date the UADD recovered ₹ 34.91 lakh from the amount of compensation payable towards octroi/chungi to MCs during 2009-11 (₹ 32.09 lakh on 31-3-2009 and ₹ 2.82 lakh on 04.09.2010 and MC Indore paid ₹ 1.63 lakh on 27.1.2010 as penal interest along with the amount of principal and interest. Details are given in **Appendix-V**.

On being pointed out Municipal Corporation Bhopal, Gwalior, Indore and Jabalpur replied (April 2011) that the installment could not be paid for want of sufficient funds. The replies are not acceptable as the Municipal Corporations were party to the agreement and were fully aware of the contractual obligations but failed to make required provision in their budget upto 2008-09 (Bhopal, Gwalior, Indore and Jabalpur) and the amount required for repayment was a small amount which could have been paid out of available resources. Failure of MCs & UADD to adhere to due date of repayment of principal amount and interest of loan resulted in avoidable payment of penal interest of ₹ 36.54 lakh, which could have been avoided had the timely repayment schedule of loan instalments been adhered by concerned MCs or UADD.

The matter was referred (March 2011) to the Government. Their reply is still awaited (April 2011).

2.2 Loss due to non imposing and levying Urban Development Cess.

Failure of Municipal Corporation Ujjain to impose and levy the Urban Development Cess with property tax resulted in loss of ₹ 212.85 lakh

According to the provision of sub-section (1) of section 6 of the Madhya Pradesh Upkar Adhiniyam 1981, Urban Development Cess (UDC) was to be imposed and levied every year at the rate of two percent of annual letting value or annual value on all buildings/ lands or both situated in municipal area or urban area. Further, where the lands or building or both were in occupation of the owner himself, the rate of cess shall be half of the rate afore said i.e. one percent and where the annual letting value or annual value of the buildings / lands or both is less than ten thousand no UD Cess would be imposed. According to sub- rule (1) and (2) of rule 6 of Madhya Pradesh Urban Development Cess (Collection) Rules, 2007 (MPUDCR) the local authority who collected / levied UD Cess would be entitled to retain 60 percent of the amount so collected, which would be deducted every month at source from the amount collected for remittance to the State Government and the balance 40 percent cess was to be remitted to the Government receipt head and shall be used for Urban Development scheme particularly for slum clearance.

Scrutiny of records of Municipal Corporation (MC) Ujjain revealed (February 2011) that according to MPUDCR the MC Ujjain did not impose and levy the UD Cess with property tax amounting to ₹ 212.85 lakh (₹ 127.71 lakh 60 percent of total amount to be retained by MC Ujjain and ₹ 85.14 lakh 40 percent of total amount to be remitted in the government account) during 2008-09. The Urban Administration and Development Department (UADD) deducted the amount of UD Cess ₹ 85.14 lakh on adhoc basis during 2008-09 from the compensation of Octroi payable to MC Ujjain during the year and credited to the Government account.

On being pointed out in audit the Commissioner MC Ujjain replied that efforts were being made for adjustment by lewing the arrears of UD Cess for 2008-09. Thus failure of MC Ujjain to impose and levy the total amount of ₹ 212.85 lakh of UD Cess during 2008-09 resulted in loss of ₹ 212.85 lakh (₹ 127.71 lakh to MC Ujjain and ₹ 85.14 lakh to the State Government) which could have been avoided by imposing and levying the UD Cess during the year.

The matter was referred (March 2011) to Government. The reply is still awaited (April 2011).

2.3 Diversion of funds ₹ 353.69 lakh

Central/ State Government releases funds in the form of grants-in-aid for development of urban areas which are to be spent exclusively on the projects for which the grant was sanctioned.

Scrutiny of records of UADD (January 2011) revealed that the scheme funds were irregularly diverted towards construction of office building "Palika

Bhawan” at Bhopal. These buildings at present was being utilized as Directorate. Details are given below:-

(₹ In lakh)

Sl. No.	Name of grant	Year of receipt grant	Name of programme	Nature	Objective	Amount diverted and utilised	Purpose	Status of work
1.	DFID	2005-06 to 2010-11	Department For International Development (DFID) MPUSP	Externally aided project for poverty alleviation	For implementing various developmental activities in urban poor areas	165.90 (2008-09)	Construction of office building	Completed
2.	GOI	2007-08	State Urban Development Authority (SUDA)	Swarn Jayanti Shahri Rojgar Yojana (SJSRY)	For implementation of various Employment Generation activities in Urban Areas	25.00 (2008-09)	--do--	--do--
3.	GOI	--	Backward Region Grant Fund (BRGF)	Backward Region	Developmental activities in Backward Region	25.00 (2008-09)	--do--	--do--
4.	ULBs share	--	Engineering cell fund	Funded though share of assigned revenue to ULBs	To provide technical support to the ULBs	137.79 (2005-10) out of saving	--do--	--do--
					Total	353.69		

It is thus evident that the funds meant for employment generation and local development were diverted with the approval of Commissioner UADD/ Government which defeated the very purpose of the programme for which the grant was sanctioned.

2.4 Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

2.4.1 Non submission of Utilisation Certificates ₹ 478.60 crore

Under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) scheme, grant-in-aid of ₹ 627.12 crore was received by the Commissioner UADD from GOI during 2005-06 to 2009-10 but the utilization certificate of only ₹ 148.52 crore against the grant were sent to the GOI (March 2010). It was observed that the details of expenditure incurred by the districts covered under JNNURM out of the grant received from GOI was not maintained at UADD level. Therefore the actual utilization of grant could not be ascertained in audit. The position of funds received and utilization certificate sent to GOI under JNNURM is shown in **Appendix – VI**.

2.4.2 Defective reporting of utilization of funds

Under JNNURM an amount of grant of ₹ 1337.28 lakh for reorganization of Water Supply System in Ujjain was received from GOI during the year 2007-08 but the Commissioner, Municipal Corporation Ujjain (MCU) submitted utilization certificate to GOI in April 2010 as the grant received and utilized in the year 2008-09 instead of 2007-08.

2.4.3 Non clearance of liabilities under JNNURM

A project for purchase of 50 buses (10 air conditioner and 40 Midi CNG) of ₹ 14.20 crore for Urban transportation was approved under JNNURM under which a central grant ₹ 5.68 crore along with State Government Share of ₹ 71 lakh was received on 10.09.2009 by MC Ujjain from the Commissioner, UADD Bhopal.

Scrutiny of records relating to purchase of buses, revealed that as per detailed project, purchase order was issued (05.06.2009) to Tata Motors for supply of 40 Midi CNG buses valuing ₹ 5,58,46,880/- @ ₹ 13,96,172 per bus. As per agreement these buses were to be supplied upto 04.09.2009 against which with a delay of 131 to 184 days 39 buses valuing ₹ 5,44,50,708/- were supplied by the Tata Motors between January to March 2010. But no payment was made towards purchase of CNG Midi buses (February 2011) and liability not settled although the balance of fund of ₹ 7.40 crore were available with the MC Ujjain (December 2010).

2.5 Release and utilisation of Twelfth Finance Commission grants of Urban Local Bodies

Introduction:

The Twelfth Finance Commission (TFC) had made the recommendations on the measures needed to augment the Consolidated Fund of the States to supplement the resources of the Municipalities on the basis of the recommendations of the State Finance Commission. In this regard the TFC has recommended (June 2005) grants amounting to ₹ 361.00 crore payable during the period 2005-10 to Madhya Pradesh (M.P.) for urban Local Bodies. TFC stressed the importance of public private partnership to enhance delivery of solid waste management services in the urban areas. TFC has further emphasised that highest priority should be assigned to creation of database and maintenance of accounts at the grass root levels.

2.5.1 Delay in release of grant by GOI

Para 6.1 of guidelines for release and utilisation of grants recommended by TFC¹ provides that the Local Bodies' grants were to be released by the Centre in two equal instalments in July and January every year. Para 6.2 of guidelines lays that two sets of details, one on allocation of funds and another on release of funds will be reported by the State Government in the prescribed formats prior to release of each instalment by the Government of India. State Finance Secretary was also required to furnish a certificate showing dates and amount of grant received and released by the state within 15 days from the date of release of each instalment by GOI. Scrutiny of records of the Finance Department (FD) revealed (September 2010) that instead of releasing the instalments in July 2009 and January 2010 the first and second instalment amount of ₹ 72.20 crore (first instalment ₹ 36.10 crore and second instalment ₹ 36.10 crore) for the year 2009-10 were released by GOI on 4 December 2009 and 02 February 2010 respectively as shown below:

Sl. No.	Particulars	Due date of release by GOI	Actual date of release by GOI	Period of delay in release by GOI ²	Status of Certificate submitted to GOI
1.	I st instalment	July - 2009	4 December 2009	125 days	12 January 2010
2.	II nd instalment	January - 2010	02 February 2010	01 days	UC not sent

¹ Guidelines for release and utilisation of grant recommended by the Twelfth Finance Commission for Augmentation of Consolidated funds of the State for supplementing the resources the Rural and Urban Local Bodies (Local Bodies Grants) issued in June 2005.

It would be seen from above that there were delays of 125 and 01² days in release of first and second Instalments of TFC grant respectively. Reasons for delayed release of TFC grant were neither recorded nor stated to audit. However audit observed that delayed release of grant was perhaps due to late submission of utilisation certificates to GOI by FD.

2.5.2 Delay in transfer of grant to ULBs and non payment of interest on delayed transfer

According to para 6.1 and 6.4 of GOI guidelines of TFC grants, it was mandatory for the States to transfer the grants released by the Centre to the ULBs within 15 days from the date of its credit into the State Government's account. In case of delayed transfer of grants to ULBs beyond the specified period of 15 days, the State Government was required to pay interest to ULBs at the rate equal to the RBI rate on such delayed transfer.

Scrutiny of records of the FD revealed (September 2010) that the GOI released the first and second instalment of ₹ 72.20 crore (first instalment of ₹ 36.10 and second instalment of ₹ 36.10 crore) for the year 2009-10 on 04 December 2009 and 02 February 2010 respectively and credited into State Government's accounts on the same date. Bank accounts of ULBs were test checked in audit. The test check in thirteen ULBs (November- January 2011) revealed that there was a delay of 05 to 42 days (beyond specified period of 15 days) in transfer of grants of ₹ 5.81 crore to their respective bank accounts (**Appendix – VII**). As per GOI guidelines and also as per past practice, the FD was required to pay interest @ 5% on the delayed transfer of grants to ULBs during the year 2009-10. Interest calculated @ 5% in test checked ULBs units works out to be ₹ 1.93 lakh.

But no reply has been furnished so far by the FD and UADD (February 2011).

2.5.3 Diversion of grants

According to State TFC working plan/ guidelines the expenditure on SWM should be 50 percent, on water supply and sanitation 48 percent and on building of data base on finances 2 percent of the total TFC grants received.

During scrutiny of records of TFC grants maintained in 14 test checked ULBs, it was observed that out of the total grant amount of ₹ 26.91 crore received in the financial year 2005-10, a sum of ₹ 1.40 crore (5.21 percent) was spent on other works like: construction of roads, Community Hall, lightings etc, which was against the work plan/ guidelines. On being pointed out in audit CMOs replied that the amount on other works was utilised in accordance with the instructions contained in UADD letter No. 1840 dt. 22.8.2005.

The reply was not convincing since the grant of ₹ 1.40 crore was diverted from the objectives envisaged in TFC guidelines to other works enlisted in **Appendix- VIII**.

² Ist Inst. 125 days (August 31, September 30, October 31, November 30, December 03)
IInd Inst. 01 days (February 01)

2.5.4 Unspent balance of grant

State TFC working plan/ guidelines envisaged that the TFC grants received may be utilised (i) on Solid Waste Management (SWM) 50 percent, (ii) on water supply and sanitation 48 percent and (iii) on building a data base on finances 2 percent.

The Twelfth Finance Commission period was over in March 2010. Scrutiny of records of 25 ULBs revealed that out of total TFC grant of ₹ 29.43 crore received by the ULBs during 2005-10, an amount of ₹ 11.54 crore (39.21 percent) remained unspent as of January 2011 as shown in **Appendix- IX**. Out of this unspent balance ₹ 10.77 crore was lying in their respective bank accounts and rest ₹ 0.77 crore was kept in the shape of FDRs by the CMOs Sanawad, Badwaha, Lateri and Sironj. On pointing out in audit, the Heads of auditee units explained various reasons viz. awaited approval from Parishad for incurring the expenditure, late allotment of grant, non acquisition of land for landfill stations and non demarcation of land for unspent grants.

2.5.5 Inclusion of unspent funds in utilization certificates (UCs)

As per para 6.3 of GOI guidelines of TFC grants, the State Finance Secretary was required to provide a certificate to GOI every year regarding percentage of grants spent by the ULBs on SWM.

Test check of records of Municipal Councils and Nagar Panchayats revealed that ₹ 13.62 crore on account of SWM was received in 22 ULBs during 2005-10. Out of it only ₹ 4.86 crore could be utilised during the period and ₹ 8.76³ crore remained unutilised as detailed in **Appendix -X**. Whereas the FD submitted the UCs of entire amount of ₹ 180.50 crore received on account of SWM (being 50 percent of total TFC grant) during 2005-10 in the state.

Thus, UCs submitted to GOI by FD did not reflect the utilisation of TFC grants at grass root level. Reply of FD was awaited (February 2011).

2.5.6 No progress in Solid Waste Management (SWM)

As per para 3.1 (XIV) of GOI guidelines of TFC grants, at least 50 percent of the grant-in-aid provided to each State for the ULBs should be earmarked for SWM. The Municipalities should concentrate on collection, segregation & transportation of solid waste.

Test check of records of four ULBs belonging to three districts revealed that no work on SWM except an expenditure during 2005-10 of ₹ 0.0041 crore on preparation of DPRs was started despite release of grant of ₹ 2.77 crore as detailed in **Appendix- XI**.

³ Unutilised amount ₹ 8.76 crore (pertaining to SWM) is included in unspent amount of ₹ 11.54 crore as explained in 2.5.4.

2.5.7 Non achievement of Solid Waste Management (SWM) parameters

According to the schedule II annexed to (Rule 6 (i) and (iii), 7 (i)) of GOI Municipal Solid Wastes Management and Handling Rules 2000) notified in gazette (25 September 2000), parameters were fixed alongwith its compliance criteria for collection, segregation, storage, transportation, processing and disposal of municipal solid wastes.

Test check of records of eight MCs⁴ revealed that an expenditure of ₹ 24.13 crore⁵ was incurred from 2005-06 to 2009-10 only for collection and transportation of Municipal Solid Waste (MSW) at old land fill site but other activities like: segregation, storage, processing and disposal of MSW were not taken-up at all and that too through Public Private Partnership (PPP) as required vide para 3.1 XIV of GOI guidelines of TFC grants. The reasons for not taking up the activities specified in the notification *ibid* were varying in MCs as mentioned in the **Appendix- XII**. It was also noticed that land fill site was not selected in Nagar Palika Amarwara, Nagar Panchayat Harrai, Nagar Panchayat Newton chikhali and Nagar Palika Badwaha. This resulted in non-fulfillment of all the parameters & non-implementation of PPP in SWM.

2.5.8 Non-monitoring of Expenditure by Divisional Deputy Directors

As per para 4 of the working plan issued by the Directorate UADD Bhopal for 2005-10, a close watch was to be kept by the Deputy Directors (DDs) on the expenditure incurred on the recommendation of TFC.

On enquiring, MC Bhopal, Sehore, Vidisha, Chhindwara, Shahdol and Khargone stated that no monitoring was exercised by the concerned Divisional DDs. Accordingly the matter was taken up with the respective DDs but replies from DD Bhopal, Sehore, Vidisha, Chhindwara and Shahdol are still awaited (February 2011).

2.5.9 Database on finances of ULBs

The second State Finance Commission (SFC) recommended (December 2003) (Beyond the Fiscal Package) the need for building up database in respect of municipal finances. This recommendation was accepted by the State Government (March 2005). The database needs to be maintained in the standard formats as prescribed by the C&AG which was agreed (June 2004) by UADD. But the final action for development of database was awaited (December 2010). As per UCs reported (July 2010) to GOI by FD, the TFC grants amounting to ₹ 7.22 crore (being 2 percent of total TFC grant ₹ 361.00 crore) for maintenance of accounts and creation of database received from 2005-06 to 2009-10 have been utilised on the specified purpose, but the database of finances in the formats prescribed by C&AG was not found created in any of the test checked Municipal Corporation/ Council in five

⁴ Nagar Nigam Bhopal, Sehore, Chhindwara, Shahdol and Khargone

⁵ ₹ 24.13 crore (Bhopal: ₹ 20.53, Sehore: ₹ 1.36, Chhindwara: ₹ 0.68, Shahdol: ₹ 1.18, Khargone ₹ 0.38)

districts⁶. It was also observed that in 15 Municipal bodies out of TFC grant of ₹ 19.78 crore received, a sum of ₹ 39.53 lakh (two percent of TFC grant) was available for building of data base but ₹ 36.49 lakh (92 percent) remained unspent **Appendix – XIII** as of March 2010.

⁶ Vidisha, Sehore, Chhindwara, Shahdol and Khargone