

**CHAPTER III**  
**AUDIT OF TRANSACTIONS**  
**(URBAN LOCAL BODIES)**

## CHAPTER III

### AUDIT OF TRANSACTIONS

Audit of transactions in the Municipal Administration and Water Supply Department, Municipal Corporations, Municipalities and Town Panchayats brought out instances of lapses in management of resources and failures in observance of regularity, propriety and economy. These have been presented in the succeeding paragraphs.

#### MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

##### 3.1 Losses noticed in audit

##### *MADURAI CITY MUNICIPAL CORPORATION*

##### 3.1.1 Non-levy of the annual license fee

**Non-levy of the annual license fee on Tamil Nadu State Marketing Corporation Limited for running the retail business of sale of liquor within the area of Madurai Corporation resulted in loss of revenue of ₹ 19.18 lakh.**

Madurai City Municipal Corporation notified in 1999 *inter alia* annual license fee for running of liquor shops under Section 360 of the Madurai City Municipal Corporation (MCMC) Act, 1971. Running a business without valid license attracted levy of penalty under Section 442 of the MCMC Act. The license fee payable was ₹ 1,000 per year upto 31 March 2009 and ₹ 2,000 per year from 1 April 2009 with penalty of ₹ 400 per year if valid license was not obtained.

Tamil Nadu State Marketing Corporation Limited (TASMAC) was entrusted with the retail sale of Indian Made Foreign Liquor in the State from November 2003. TASMAC had 169 retail outlets in 2004 in the Madurai Corporation area and it came down to 131 in March 2011. Scrutiny of records revealed that none of the retail outlets operated by TASMAC in the Corporation limits had obtained license from the Corporation for running the business as required under the MCMC Act. The Corporation did not initiate action in collecting the annual license fee from the retail outlets of TASMAC as required under the MCMC Act. This resulted in loss of revenue of ₹ 19.18 lakh (license fee: ₹ 14.82 lakh and penalty for running the outlets without valid license: ₹ 4.36 lakh) during the period April 2004 to March 2012.

The matter was referred to Government in January 2012. Government replied (March 2012) that as per Section 348 of the MCMC Act, 1971, the Government market committees need not obtain license and permission, hence

Madurai Corporation was not in a position to levy the annual license fee on TASMAC for running the retail business within its jurisdiction. The reply is not acceptable as the said provision was applicable only to the marketing committees established under the Tamil Nadu Agricultural Produce Act, 1959 and for any property belonging to the State Government or Central Government. As TASMAC was registered under the Companies Act, 1956 and running on commercial basis, justification given for non-levy of the license fee on TASMAC treating it as a market committee was not valid. Further, as TASMAC was doing retail business of liquor by storing in the retail outlets, the company was liable to obtain the annual license by paying the prescribed license fee.

## **3.2 Wasteful expenditure**

### ***THOOTHUKUDI CITY MUNICIPAL CORPORATION***

#### **3.2.1 Wasteful expenditure in construction of sewage treatment plant**

**Injudicious decision to change the site for construction of a sewage treatment plant resulted in wasteful expenditure of ₹ 2.64 crore.**

Based on the Detailed Project Report (DPR) prepared by a consultant in July 2004, Government of Tamil Nadu (GoTN) accorded (October 2005) administrative sanction to Thoothukudi City Municipal Corporation (Corporation) for implementing the Phase-I of Underground Sewerage Scheme at an estimated cost of ₹ 46.40 crore. The scheme was divided into four packages and entrusted to Tamil Nadu Water Supply and Drainage (TWAD) Board for implementation. The first three packages consisted of sewage collection system and laying of sewer network and the fourth package was for construction of Sewage Treatment Plant (STP).

After taking into consideration the availability of land, scope for future modifications, ease of operation and maintenance and affordability, DPR envisaged reconstruction of the STP at a cost of ₹ 3.23 crore at Tharuvaikulam (7.5 kilometres away from the town), where there was an STP already installed in 1985 to serve the existing sewerage system.

Scrutiny of the records revealed that the Technical Standing Committee<sup>1</sup> visited (September 2007) the STP site at Tharuvaikulam and recommended shifting of the STP to Pulthottam, within the town limits of Thoothukudi on the ground that the site at Tharuvaikulam was far away from the town. Therefore, the work for the fourth package i.e. construction of STP was awarded only in October 2009.

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<sup>1</sup> Officials of TWAD Board, Chennai Metropolitan Water Supply and Sewerage Board, Commissioner of Municipal Administration, Commissioner and Engineer of Thoothukudi Municipal Corporation.

Commissioner of Municipal Administration (CMA) instructed (13 November 2008) all the Urban Local Bodies that before identification of site for STP, preliminary assessment of opinion of the public/nearby residents should be made and the STP site should be atleast 500 metres away from any public utility area such as parks, temples, educational institutions, etc. The STP work at Pulthottam was awarded (October 2009) for ₹ 17.99 crore fixing the completion period as 24 months. However, the work had to be stopped in July 2010 after incurring an expenditure of ₹ 2.64 crore due to public protest as the site was adjacent to residential/public utility area and there was also a school within the radius of 250 metres.

The Municipal Council therefore resolved (December 2010) to shift the STP from Pulthottam to the originally proposed site at Tharuvaikulam. The Municipal Council also resolved (January 2011) to pay the amount of ₹ 2.64 crore incurred on the works at Pulthottam STP site to TWAD Board from its General Fund as GoTN did not accede to its request for allocation of this sum as grant. The scheme is yet to be completed (June 2012).

Thus, the injudicious decision of the Corporation to change the STP site without ascertaining the public opinion in advance and not reviewing the decision of the Technical Standing Committee after receipt of the CMA circular resulted in wasteful expenditure of ₹ 2.64 crore, besides cost and time overrun.

The matter was referred to Government in January and June 2012. Government in their reply (November 2012) stated that the work was stopped in July 2010 due to public protest and the District Collector conducted peace committee meeting on various occasions to convince the agitated public. Government further stated that a joint inspection was also made by the then Joint Managing Director, TWAD Board and the then CMA, Chennai on 11 November 2010. But, the nearby residents had strong objections to continue the work and hence alternate locations for shifting the STP were explored by the Corporation.

The reply is not acceptable, as the public consultation and joint inspection should have been conducted before commencement of the work in October 2009 and not after incurring an expenditure of ₹ 2.64 crore.

## **CORPORATION OF CHENNAI**

### **3.2.2 Wasteful expenditure in construction of a Railway Overbridge**

**Failure of the Corporation of Chennai to ensure the load tests before driving the piles for Railway Overbridge resulted in wasteful expenditure of ₹ 2.51 crore.**

Government of Tamil Nadu sanctioned (June 1998), construction of a Railway Overbridge (ROB) at Perambur at a cost of ₹ 21 crore<sup>2</sup>. Based on the detailed project report submitted by the consultant, Indian Institute of Technology, Madras (IITM) in 1997, Corporation of Chennai (CoC) awarded (January 1999) the contract for construction of the ROB to National Building Construction Corporation Limited (NBCC) for ₹ 10.69 crore.

As per clause 4.1 of IS 2911 (Part IV), an initial load test was required to be conducted for pile constructions so as to get an idea of piling system and to determine the safe load capacities by application of factor of safety. The above clause was incorporated in the agreement which also stipulated the condition that no work was to be commenced before the Engineer's decision as to capacity of the pile. The load tests were to be conducted under the direct supervision of the Engineer of CoC.

Audit scrutiny revealed that NBCC constructed 67 piles of 750 mm and 900 mm dia between March 1999 and September 1999. Initial load test for 750 mm dia pile was conducted in July 1999. Two initial load tests for 900 mm pile bores were conducted by NBCC in October 1999 and December 1999 and one more test was conducted in June 2000. During the tests, it was found that 900 mm dia piles did not have adequate bearing capacity as the results of the three load tests were 125 MT, 67 MT and 200 MT respectively as against the required design load of 450 MT.

Twenty one additional piles of 750 mm dia were constructed between October 2000 and March 2001 based on the recommendations of the IITM. However, the structure had sunk to the ground during 2001. The work of ROB was stopped in August 2001 and an enquiry commission was appointed by Government in September 2001 to probe into the alleged irregularities in the construction. Subsequently, the design and drawings made by IITM were referred to Anna University in June 2006 as it was felt that proof checking of design by another agency was required. Anna University recommended (January 2008) open foundation instead of pile foundation.

As the scope of work was entirely changed from pile foundation to open foundation and the 88 piles already constructed would not be safe to bear the design load, the contract with NBCC was terminated in January 2008, after incurring an expenditure of ₹ 3.05 crore.

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<sup>2</sup> Includes estimated cost ₹ 4.90 crore relating to Railway portion to be executed by the Railways and the cost to be borne by the Corporation of Chennai.

The revised work with open foundation was awarded to another contractor in June 2008 and completed in March 2010 at a cost of ₹ 35.22 crore. The revised work included the cost of dismantling of all the 88 piles constructed under pile foundation except the retaining wall constructed at a cost of ₹ 54 lakh.

The CoC allowed the NBCC to drive 67 piles even before conducting the initial load tests and did not stop the pile work. The CoC's laxity in allowing NBCC to drive the piles before conducting the pile tests resulted in wasteful expenditure of ₹ 2.51 crore besides time and cost overrun.

The matter was referred to Government in February 2012. Government replied (June 2012) that as per the guidance of the premier institution IITM, the Perambur flyover work was carried out. The sub soil investigations were done by IITM and the CoC did not check the soil investigation carried out by the IITM as the institution itself had the experts in all fields and their experience had not been doubted. The reply is not acceptable as the CoC failed to ensure the conduct of initial load tests by NBCC before the construction of piles as required under the contract agreement. CoC also did not stop the pile work and allowed the contractor to construct 67 piles without conducting the load tests, which led to demolition of the piles resulting in wasteful expenditure of ₹ 2.51 crore.

### 3.3 Avoidable expenditure

#### **MADURAI CITY MUNICIPAL CORPORATION**

##### **3.3.1 Non-recovery of central excise duty exemption availed by the contractor**

**Failure of Madurai City Municipal Corporation to recover the central excise duty exemption on use of pipes for the second Vaigai water supply scheme resulted in avoidable expenditure of ₹ 4.74 crore.**

During 2006-09, Madurai City Municipal Corporation (Corporation) implemented the Second Vaigai Water Supply Scheme under the Jawaharlal Nehru National Urban Renewal Mission at a cost of ₹ 78.45 crore. The estimate for pipeline work prepared (₹ 48.87 crore) by the Corporation, adopting the Tamil Nadu Water Supply and Drainage Board schedule of rates for the year 2006-07 *inter alia* included the central excise duty component. While according technical sanction (November 2006) by the Superintending Engineer in the Office of the Commissioner of Municipal Administration, it was specifically mentioned that if any excise duty exemption was possible that should be recovered from the contractor. But while entering into agreement with the contractor, the Corporation failed to include this condition in the agreement. The work was awarded to M/s P&C Constructions (Private) Limited in January 2007 at a tendered cost of ₹ 49.28 crore, which was 4.94 per cent in excess of the estimated cost. The Central Excise Notification No.47/2002 dated 6 September 2002, exempted excise duty for pipes needed for delivery of water from its source to water treatment plant and from there to the storage facility in respect of water supply scheme.



It was observed during audit that the District Collector, Madurai had in December 2008 issued certificate to the contractor duly endorsing a copy to the Commissioner of the Corporation for availing central excise duty exemption for supply of pipes to the treatment plants and from there to the storage points of Second Vaigai Water Supply Scheme. The Central Excise Department, Erode-I Range Office confirmed in September 2011 that the contractor had actually availed duty exemption for supply of pipes for the Second Vaigai Water Supply Scheme between May 2007 and March 2009. The contractor had been paid an amount of ₹ 11.19 crore in three bills in January 2009 and May 2009 subsequent to the issue of certificate by the Collector of Madurai for availing central excise duty exemption. While making payment to the contractor, the Corporation, however, failed to deduct the exempted amount from the payments made to him. Failure of Executive Engineer of the Corporation to deduct the central excise duty exemption on the value of pipes laid by the contractor resulted in undue benefit to the contractor and avoidable expenditure of ₹ 4.74 crore to the Corporation as detailed in the **Appendix 3.1.**

The Commissioner of the Corporation replied (December 2011) that the contractor had informed that only an amount of ₹ 63.41 lakh was availed as exemption of excise duty for the pipes supplied to the Second Vaigai Water Supply Scheme – Package-I. The Commissioner further stated that the Central Excise Department had been addressed in December 2011 and on receipt of confirmation from the department, the actual amount availed by the contractor would be recovered.

The matter was referred to Government in November 2011; reply has not been received (December 2012).

### ***TIRUPPUR CITY MUNICIPAL CORPORATION***

#### **3.3.2 Avoidable payment of sewage treatment charges**

**Failure of the Tiruppur City Municipal Corporation to synchronize provision of house connections for sewage disposal with the completion of infrastructure for sewage collection and treatment resulted in avoidable payment of ₹ 2.07 crore as charges for the period when the infrastructure were idling.**

Government of Tamil Nadu, Tiruppur City Municipal Corporation (TCMC) (erstwhile Municipality) and New Tiruppur Area Development Corporation Limited (NTADCL) entered into an agreement in February 2000 to provide water supply and sewage facilities in the service area<sup>3</sup> of Tiruppur for 33 years. As per the agreement, NTADCL was to finance, develop, design,

<sup>3</sup> Service area means, in relation to water supply services, area within Tiruppur City Municipal Corporation as well as outside the municipal area covered by Tiruppur Local Planning Area and way side villages and in relation to sewage service means the area within Tiruppur City Municipal Corporation where NTADCL off takes the sewage from the Tiruppur City Municipal Corporation for purposes of treatment and disposal at the sewage treatment facility.

construct, operate, maintain and transfer all the facilities relating to water treatment, sewage treatment, water distribution system and sewerage system in the service area strictly on commercial principles. The agreement stipulated that the TCMC should initiate its activities in tune with the project plan of NTADCL and install such number of connections from households within 28 months of the commencement of the construction of the facilities. The sewage treatment facilities were established by NTADCL in October 2007 and were ready for operation with a capacity to treat 15 mld of sewage.

Scrutiny of records revealed that the TCMC failed to provide the desired number of service connections simultaneously with readiness of the sewage treatment facilities. The process of giving house service connections was initiated only in November 2007 i.e. after establishment of the sewage treatment facilities. It was also noticed that the TCMC had published the by-laws providing for levy and collection of the deposit amount and monthly user charges in May 2006. Delay in this regard resulted in failure to mobilize people for availing the house connections for sewage discharge. House connections were given and the sewage collection and treatment facilities were put to use only by September 2009. Thus, the facilities remained idle for about two years.

The TCMC made payment (September 2011 and November 2011) of ₹ 6.62 crore to NTADCL towards the sewage treatment charges for the period September 2007 to October 2011. This included ₹ 2.07 crore towards electricity charges, insurance charges and expenditure for cleaning of the sewer for the period of non-operation (October 2007 to September 2009) of the sewage facilities.

The Commissioner of TCMC replied (January 2012) that during the process of giving house service connections, it was noticed that the dummies provided at the time of laying of the sewer lines was not removed in many places. There were omissions of interconnection of sewers at street junction. Use of damaged sewer pipes led to blockages in the systems. Due to these problems, while giving house service connections, there was over flow of sewage from the manhole and spread over the streets. As the toilets were situated at the backyard of the houses, expenditure to connect the toilets to the main sewer line was high which the house owners were not willing to incur. Due to non-co-operation from the public to take sewer connections to their houses, there was slow progress in providing the house connections.

Reply of the Commissioner, TCMC is not acceptable as TCMC and NTADCL were to coordinate to ensure that the schedule of the TCMC integrated with the project plan of NTADCL. TCMC should have taken advance action as stipulated in the agreement and convince the public on house connections before October 2007, when the facilities were ready for commissioning. TCMC should have avoided this lacuna by better supervision of the work of NTADCL.

Thus, failure of TCMC in synchronizing provision of the house service connections with establishment of the Under Ground Sewerage Scheme



resulted in avoidable payment of ₹ 2.07 crore towards electricity, insurance and cleaning of the sewer during the period of non-operation of the sewage facilities.

The matter was referred to Government in December 2011; reply has not been received (December 2012).

### **3.4 Idle investment**

#### **POLLACHI MUNICIPALITY**

##### **3.4.1 Idling of shops in the bus stand**

**Failure of Pollachi Municipality to conduct pre-auction to assess the demand before construction of shops in the bus stand resulted in idling of 26 shops constructed at a cost of ₹ 22.84 lakh.**

Government of Tamil Nadu accorded administrative sanction (March 2006) for ₹ 1.75 crore for construction of an additional bus stand at Pollachi Municipality (Municipality) with cent *per cent* funding from Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL). The sanction was subject to commencement of the work only after pre-auction of 75 *per cent* of the proposed 34 shops and one restaurant in the bus stand. Revised administrative sanction for the work with funding arrangement of 90 *per cent* contribution from TNUIFSL and 10 *per cent* from the Municipality was accorded in November 2007.

The work was awarded to Sree Raagavendra Constructions, Erode in August 2007 at a cost of ₹ 2.27 crore for construction of the bus stand with eight shops, one restaurant and one pay and use toilet on the ground floor and 26 shops on the first floor. The work was completed in October 2009 at a cost of ₹ 2.15 crore and the additional bus stand was inaugurated in November 2009.

It was noticed in audit that pre-auction of 75 *per cent* of the shops were not conducted as stipulated in the administrative sanction. Eight shops, the restaurant and the pay and use toilet on the ground floor were auctioned and handed over to the lessees in November/December 2009. However, the 26 shops built on the first floor in October 2009 at a cost of ₹ 22.84 lakh remained unoccupied for want of offer from the tenderers (December 2011), though the deposit amount for the tender was reduced four times and auction was conducted 30 times. Had the demand for shops been assessed before construction, the present idling of the shops could have been avoided.

Thus, failure of the Municipality to conduct pre-auction of the shops as stipulated in the sanction order, before commencement of the work to assess the demand resulted in idling of 26 shops constructed at a cost of ₹ 22.84 lakh on the first floor of the bus stand.

The matter was referred to Government in January 2012. Government replied (March 2012) that in spite of calling tenders for the 26 shops constructed on the first floor of the complex, tenders were not received since the rate quoted was lower than the rate fixed by the Municipal Engineer.

The reply is not convincing as Government is silent on the failure to conduct pre-auction by the Municipality to assess the demand for shops in advance of commencement of the work.

### **PARANGIPETTAI AND THIRUNINDRAVUR TOWN PANCHAYATS**

#### **3.4.2 Idling of market complexes**

**Two Town Panchayats constructed market complexes without carrying out the demand survey, which resulted in idling of the complexes constructed at a cost of ₹ 17.72 lakh for over three years.**

For strengthening of existing civic infrastructural facilities and creation of requisite amenities in Town Panchayats (TPs) under the Anaithu Peruratchi Anna Marumalarchi Thittam, Government of Tamil Nadu issued (July 2007) guidelines to all town panchayats to propose works only after carrying out detailed investigation and if necessary after seeking the help of consultant. Audit scrutiny revealed that despite this instruction, TPs constructed shopping complexes without assessing demand, leading to their idling as described in the following two cases:

- (i) Parangipettai TP in Cuddalore District proposed setting up of a weekly market complex for augmenting its revenue in July 2007 and completed construction of the complex in July 2009 at a cost of ₹ 7.35 lakh.



**Idle market complex at Parangipettai**

- (ii) Thirunindravur TP in Thiruvallur District proposed (February 2008) setting up of a daily market complex to avoid traffic problems in the roads by relocating the street vendors to the proposed market and to earn revenue. The complex consisting of six shops was completed in February 2009 at a cost of ₹ 10.37 lakh.



**Idle market complex at Thirunindravur**

Audit scrutiny revealed that both the market complexes were not occupied (June 2012) as the vendors were not willing to occupy the market complexes due to their remote location.

On being pointed out, the Executive Officers (EO) of both the TPs stated (June 2012) that no demand assessment was made before construction of the market complexes. The EO, Thirunindravur TP further stated that six shops in the complex leased out in March 2012 were yet to be occupied by the lessees for want of shutters to be provided by the TP.

Thus, construction of shopping complexes without assessing the demand and permitting the street vendors to continue their operation by collecting toll by Thirunindravur TP and inaction by Parangipettai TP to make use of the newly constructed market complex resulted in idling of the complexes constructed at a cost of ₹ 17.72 lakh for over three years.

The matter was referred to Government in February and June 2012. Government in their reply (November 2012) *inter alia* stated that all the six shops in Thirunindravur TP were put to use and in Parangipettai TP the weekly shandy shops were functioning from 1 April 2012. Further, inspection by Audit in November 2012 revealed that the six shops in Thirunindravur were allotted to the tenderers in October 2012. In the case of Parangipettai, the complex has not yet been started functioning and hence the reply is not acceptable.