CHAPTER IV

AUDIT OF TRANSACTIONS

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URBAN DEVELOPMENT DEPARTMENT

MUNICIPAL CORPORATION OF GREATER MUMBAI

4.1 Implementation of Brihanmumbai Storm Water Drain Project by Municipal Corporation of Greater Mumbai

4.1.1 Introduction

The Municipal Corporation of Greater Mumbai (MCGM) is governed by Mumbai Municipal Corporation Act, 1888. The city of Mumbai is surrounded by the Arabian Sea. The area receives an average rainfall of 2,400 mm. The Storm Water Drain (SWD) system in Mumbai is more than 100 years old and designed for rain intensity of 25 mm per hour with run-off co-efficient[1] of 0.50.

After heavy rains in June 1985, which caused extensive damage to property and loss of human lives, MCGM decided to carry out the study of SWD system in the city and appointed (1989) M/s Watson Hawksley International as consultant for this purpose. The consultant submitted a report in 1993 named Brihanmumbai Storm Water Drain (Brimstowad) and recommended revision of design criteria of rainfall intensity to 50 mm per hour with run-off coefficient of 1.00 and suggested various SWD improvement works amounting to ₹ 616.30 crore, as per prices prevailing in 1992.

Greater Mumbai area received unprecedented rains in July 2005 which flooded many parts of Mumbai city and suburbs. The rail and road traffic came to halt as shown in the photographs below.

Mahim Railway Station

LBS road in Kurla

GoM appointed (August 2005) a Fact Finding Committee (FFC) to analyse the factors responsible for flooding and suggest remedial measures to avoid such incidents in future. MCGM also appointed (July 2006) M/s Montgomary Watson Hazra (MWH) India Private Limited, Mumbai as consultant to update

1 Run-off is that part of the rainfall which flows over the ground into the stream channels and rivers. The percentage of rainfall that appears as storm water run-off from a surface is called the run-off coefficient

the original Brimstowad Report prepared in 1993 and prepare a Master Plan[2] for the City and Eastern and Western suburbs. Based on the recommendations of the FFC (March 2006), the Brimstowad works for improving the SWD system were undertaken (March 2007) by MCGM at a cost of ₹ 1,200 crore, as per Detailed Project Report (DPR) prepared by the MWH in February 2007.The DPR was approved by the GoI in July 2007. Being an important project, GoI sanctioned100 *per cent* project cost of ₹ 1,200 crore and released ₹ 1,000 crore to MCGM during the period August 2007 to March 2013. The details of works proposed and completed under the project are given in Table 1.

Table 1- Category of works proposed and completed (Phase-I and II)

(Length in meters; ₹ in crore)

Category of Works	No. of Works	Total length as per DPR	Length as per Tender	Actual length executed	DPR Cost	Actual expenditure up to September 2013
Rehabilitation of old SWD system	7	24380	25157	14785	191.61	262.51
Widening, training and remodeling of nallas	47	85986	85776	58078.50	700.11	1322.31
Storm water pumping stations	4[3]	--	--	--	284.00	179.73
TOTAL	**58**	**110366**	**110933**	**72863.50**	**1175.72**	**1764.55**

Source: Table prepared on the basis of Monthly Progress Report for the month of September 2013

As per approved DPR (July 2007), the entire Brimstowad Project comprising of 58 works was divided into two phases. Phase-I included 20 immediate priority works valuing ₹ 356.55 crore and Phase-II contained 38 remaining works valuing ₹ 819.17 crore. The works under Brimstowad Project commenced in December 2006 and was to be completed by November 2014. MCGM has incurred an expenditure of ₹ 1,764.55 crore[4] as of September 2013 but completed only 16 out of 58 works (27.6 *per cent*).

4.1.2 Project implementation

As of September 2013, of the 20 priority works under Phase-I, MCGM completed 14 works and six works were under progress. The delays beyond the stipulated date of completion under Phase-I ranged between three months to seven years. Further, of the 38 works under Phase-II, only two works were completed, 32 works were under progress and tenders for the remaining four works had not been invited (September 2013). The delay in implementation of works under Phase-II was up to three years. Audit observed significant shortfalls in implementation of the project, as indicated below.

- Against seven works of Rehabilitation of old SWD system admeasuring 24,380 meters, only one work admeasuring 1,912 meters was completed (September 2013) by incurring an expenditure of ₹ 48.74 crore against sanctioned DPR cost of ₹ 20.54 crore. The

[2] Master Plan is the detailed planning for a project with proper alignments and contour maps

[3] Eight Storm Water Pumping Stations were clubbed into four works

[4] Expenditure under Phase-I: ₹663.81 crore; Phase-II:₹1,100.74 crore

remaining six works were incomplete after executing works admeasuring 12,873 meters and incurring an expenditure of ₹ 213.77 crore, against DPR cost of ₹ 171.07 crore.

- Of the 47 works of Widening, training and remodeling of nalla length of 85,986 meters (estimated DPR cost: ₹ 700.11 crore), MCGM has completed only 15 works in nalla length of 15,508 meters at an expenditure of ₹ 201.49 crore against sanctioned DPR cost of ₹ 83.42 crore. Further, of the remaining 32 nalla works, 29 works admeasuring 42,570.50 meters was executed at an expenditure of ₹ 1,120.82crore as of September 2013 against sanctioned DPR cost of ₹ 570.17 crore, due to non-removal of encroachments. Tender was not invited in one case whereas, two works were not started.
- Of the eight Storm water pumping stations (these were clubbed into four works), works of setting up two pumping stations were completed in March 2010 and April 2010 (expenditure incurred ₹ 140.42crore). Works of two pumping stations were in progress as of September 2013 and expenditure incurred was ₹ 39.31crore. Setting up of the remaining four pumping stations was not undertaken due to non-selection of sites.

Significant delays in implementation of the project led to cost escalations and shortfalls in achievement of targets. As a result, MCGM in March 2012 submitted a revised DPR to GoI for implementation of Phases-I and II at a revised capital cost of ₹ 3,884.61 crore, which has not been approved by GoI as of September 2013. MCGM also revised the timeline for the project from November 2014 to May 2015. As per the revised DPR, the project cost stands escalated to ₹ 2,708.89 crore[5] *i.e*. an increase of 230.40 *per cent* over the initial estimates. The reasons for increase in project cost were (i) original DPR was prepared based on Schedule of Rates (SoR) of 2004-05 whereas, the tenders were invited at SoR for the years 2007-08 and 2008-09; (ii) change in scope of works due to site conditions during actual execution; (iii) detailed engineering surveys were conducted after approval of original DPR; (iv) delay in acquisition of lands, non-clearance of encroachments and rehabilitation of Project Affected Persons (PAP); (v) change of methodology from pile foundation to meter panelling due to marshy land and tidal zone; and (vi) use of splitter machines[6] instead of rock chiselling for rock breaking *etc*.

Due to delay in implementation of Brimstowad Project, the problem of flooding in Mumbai city and suburban areas continues and flooding of low-lying areas, even when rainfall is less than 50 mm per hour, continues to be a regular feature.

4.1.3 Project management

4.1.3.1 Appointment of consultant

MCGM appointed (July 2006) MWH India Private Limited, Mumbai as consultant at a consideration of ₹ 15.66 crore to update the original Brimstowad Report prepared in 1993 and to include updated hydraulic

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5 ₹ 3,884.61 crore - ₹ 1,175.72 crore

6 Machine used for rock breaking

modelling, flooding solutions and preliminary design, engineering design and preparation of Master Plan and tender documents for taking up works to implement the recommendations of the FFC. The report was to be completed within 21 months (April 2008). The scope of work was further enhanced in February 2008 to include Project Management Consultancy Services for four storm water pumping stations with preparation of basemap[7] at a revised cost of ₹ 38.97 crore and this was to be completed in 41 months *i.e.* December 2009 (counting from July 2006).

As of November 2013, the physical progress of consultancy services for updating the original Brimstowad Report and PMC services for storm water pumping stations at four locations was 92 *per cent* and 65 *per cent* respectively. The Master Plan was to be prepared by the consultant by December 2009 but till July 2013 only the draft Master Plan of the city and Eastern suburb has been submitted and not of the Western suburb. The consultant has been paid ₹ 27.29 crore till November 2013.

4.1.3.2 Non-removal of encroachments

The cost of Phase-I work for Rehabilitation of hutment dwellers by training, construction and widening of Shastri Nagar nalla system from Link Road to Creek in catchment area No. 216 in P-South Ward of Goregaon (West) as per the DPR was ₹ 3.47 crore. The scope of the work included widening (15 meters), deepening (3.5 to 4.5 meters) and construction of 840 meters of retaining walls (420 meters on either side) of Shashtri Nagar nalla. The work was awarded (March 2007) to M/s Raj Engineers at a cost of ₹ 6.52 crore to be completed by March 2008.

Encroached Shastri Nagar Nalla, Goregaon (W)

Audit scrutiny revealed that the work was not started till February 2010 due to non-removal of encroachments from the nalla site. Thereafter, the contractor executed work on 140 meters of retaining wall on the upstream of the nalla on the Link Road against the tender quantity of 840 meters and incurred an expenditure of ₹ 5.24 crore. The work was stopped (November 2011) due to non-removal of encroachments. The cost of balance work was ₹ 19.37 crore as per revised DPR prepared in March 2012.As the work was awarded without removal of encroachments, the widening and training work of Shastri Nagar nalla system remained incomplete as of October 2013.

[7] Topographical aerial survey map of Mumbai City and Suburban areas with contour of 0.2 meter interval

MCGM stated that due to resistance from the hutment dwellers, encroachments could not be removed and therefore, the work remained incomplete.

The non-clearance of site before award of work resulted in stoppage of work, non-achievement of objective of increased rain water discharge capacity by widening of nalla and increase in cost of the work by over 200 *per cent* of the awarded cost.

4.1.3.3 Irregular diversion of funds

As per FFC recommendations (March 2006), the work of widening, training and constructing of major nallas and rivers with width above 1.5 meters were to be included for execution under Brimstowad Project so as to discharge storm water into sea, creeks *etc*. with enhanced capacity.

MCGM awarded (May 2006 and March 2007) two nalla improvement works[8] at a tendered cost of ₹ 9.57 crore and ₹ 6.52 crore to two contractors under Phase I. Scrutiny of records revealed that MCGM irregularly diverted ₹ 5.81 crore (₹ 2.34 crore from first work and ₹ 3.47crore from second work) to another minor nalla improvement work not covered under the Brimstowad Project. Besides, undue benefit was also afforded to the contractors as these works of minor nallas was awarded to them without inviting tenders.

MCGM stated that during execution of work no other agency was available and there was an urgent need to carry out the work as the persistent problem of water logging existed in surrounding areas. Also, local Councillors and MLA were pressing hard to carry out these works. Hence, the works of minor nallas were executed from the savings available under Brimstowad Project.

The reply is not acceptable as funds received under the Brimstowad Project for priority works were irregularly diverted.

4.1.4 Contract management

4.1.4.1 Unfruitful expenditure due to change of site

The work of Love Grove storm water pumping station (SWPS) including construction of administrative and workshop buildings at Worli was awarded (November 2007) to M/s Unity-M&P-WPK consortium (contractor) at a total cost of ₹ 89.63 crore, to be completed in 12 months. The site for SWPS was adjacent to Dr. Annie Besant Road and the overhead bridge. The contractor started the work by conducting topographic survey and geotechnical investigation, hydraulic model study of the pumping station and discharge channel, as per scope of work. On approval of the drawings for the administrative and workshop buildings, the piling work for these buildings was commenced and a payment of ₹ 57.30 lakh was made to the contractor.

The work was however, stopped in August 2008 as the existing location of SWPS was found unsuitable because (i) the hydraulic model study had recommended raising of the existing bridge height on Dr. Annie Besant Road,

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[8] (i) Improving/widening/deepening/remodeling of Saphed Pool nalla system in catchment area No. 405 (Kurla-West) and (ii) Rehabilitation of hutment dwellers by training, construction and widening of Shastri Nagar nalla system from Link Road to Creek in catchment area No. 216 in P-South Ward of Goregaon (West)

which was not technically feasible, (ii) shifting of the existing main sewer, which was not considered advisable and (iii) imminent widening of Dr. Annie Besant Road by Roads and Bridges Department of the MCGM. Consequently, the site of SWPS was shifted to another location within the Love Grove complex. However, due to space constraints at the relocated site, MCGM deleted the construction of administrative and workshop buildings from the scope of work. As a result, payment of ₹ 57.30 lakh made to the contractor for survey/investigation/piling work was rendered unfruitful.

MCGM stated (June 2013) that the pile foundation would be utilised for construction of retaining wall/structure in future, whenever possible.

While the reply furnished by MCGM does not render a firm assurance as to how the redundant pile foundation would be utilized in the near future, the fact remained that the SWPS site being adjacent to Dr. Annie Besant road/bridge, adequate surveys/investigations should have been carried out before tendering for the work. Besides, there was lack of planning and coordination between the Departments of MCGM (Storm Water Drain Department and Roads and Bridges Department) in the implementation of this project.

4.1.4.2 Irregular payment of transportation charges

As per Special Condition No. 30 of the contract, the rate of excavation is deemed to have been included in the cost of transportation and disposal of surplus excavated material.

Audit scrutiny revealed that in two works[9] of the Eastern suburb, quantity of hard rock excavated to the extent of 25,000 cum and 27,750 cum was paid to the contractors at the tendered rates. In addition, transportation charges amounting to ₹ 1.27 crore[10] for the excavated material were also paid to the contractors as an extra item, in violation of contract condition.

MCGM stated (June 2013) that as the material excavated was hard rock, it was sanctioned as an extra item and therefore, it was treated as a different material compared to the usual excavated material.

The reply is not acceptable as Special Condition No. 30 of the contract did not permit extra payment for cost of transportation.

4.1.4.3 Non-renewal of bank guarantees

Bank guarantees are taken from the contractors as a security which, in the event of default by the contractors, is encashed by the Department to recover the losses. Scrutiny of bank guarantee register revealed that 78 bank guarantees valuing ₹ 54.30 crore were not renewed by MCGM even after their expiry ranging from two to 65 months.

MCGM stated (July 2013) that letters have been issued to the contractors for renewal of bank guarantees. Non-renewal of bank guarantees in time indicated weak control mechanism in the Corporation to safeguard its financial interests.

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9 (i) Training, widening and deepening of Usha Nagar nalla system upstream of railway line in Bhandup S-Ward and (ii) Improvement of Crompton Kanjurnalla system in catchment No. 306, Vikroli S-Ward

10 ₹ 0.76 crore for 3,700 cum in respect of first work and ₹ 0.51 crore for 13,350 cum for the second work

4.1.4.4 Non-adjustment of advances paid to railway authorities

Work of augmentation and de-silting of railway culverts under Brimstowad Project were to be executed by the railway authorities as deposit works**.** MCGM paid advance of ₹ 32.33 crore to the railway authorities during the period 1996-97 to 2012-13. However, the advance remained unadjusted as of September 2013.

MCGM stated (July 2013) that outstanding advances would be recouped/adjusted at the earliest. Non-recovery/adjustment of advances that date back to 1996-97 indicated lack of internal controls in the Corporation.

4.1.4.5 Non-recovery of mobilization advances

As per General Conditions of Contract No. 84, recovery of mobilization advance(MA) is required to be made from the running account bills of the contractors in suitable percentage based on the progress of work done and is to be fully recovered by the time 80 *per cent* work is completed.

The work of construction of SWPS at Love Grove was awarded in November 2007 and a MA of ₹ 8.96 crore was granted to the contractor. Audit scrutiny revealed that the liability of the contractor towards MA along with accumulated interest till November 2011 was ₹ 12.60 crore. However, instead of effecting recovery from the contractor, MCGM treated the liability of the contractor (₹ 12.60 crore) as fresh MA from November 2011 onwards. Despite non-commencement of work, MCGM did not recover MA amounting to ₹ 15.42 crore from the contractor (principal amount: ₹ 12.60 crore plus interest: ₹ 2.82 crore), resulting in blocking of funds and irregular financial benefit to the contractor.

MCGM stated (November 2013) that MA along with interest would be recovered from the contractor.

4.1.5 Conclusion

The implementation of Brihanmumbai Storm Water Drain project by MCGM was beset with delays and cost escalation. The project management and implementation was weak and there were lapses in internal controls. As of September 2013, the actual expenditure incurred on the project was ₹ 1,764.55 crore against the approved DPR cost of ₹ 1,175.72 crore but only 27.6 *per cent* of the works under the project could be implemented. The project is under revision and the revised cost of the project is estimated to be ₹ 3,884.61 crore *i.e.* a cost overrun of ₹ 2,708.89 crore. Due to delay in implementation of the project, flooding in Mumbai city and suburban areas continues.

4.1.6 Recommendations

- MCGM may ensure that the project is implemented economically, with minimum delays;
- Contracts may be awarded after ensuring availability of sites clear of encroachments and encumbrances; and
- All requisite surveys, investigations and studies of the work sites may be conducted before tendering for the works.

The matter was referred to the Government in August 2013; their reply was awaited as of March 2014.

NANDED WAGHALA CITY MUNICIPAL CORPORATION

4.2 Implementation of developmental projects and schemes by Nanded Waghala City Municipal Corporation

4.2.1 Introduction

Nanded Waghala City Municipal Corporation (NWCMC) was established on 26 March 1997 under the Bombay Provincial Municipal Corporation Act (BPMC), 1949. Nanded city with a population of 4.3 lakh (2001 census) and having total area of 61.44 sq km is the second largest city in the Marathwada region of Maharashtra. The functions of the Corporation include implementation of various Central/State schemes/programmes, management and maintenance of all municipal water works, assets valuation and imposition of property tax, land and building surveys etc. NWCMC is implementing 11 projects under Urban Infrastructure Governance (UIG) component of JNNURM and 12 other developmental projects/schemes (other than JNNURM).

4.2.2 Selection of projects/schemes

Of the 11 projects being implemented by NWCMC under JNNURM (UIG), three projects implemented since 2006-07 were selected for audit **(Table 1)** and of the 12 developmental projects/schemes (other than JNNURM), one project (Gur-ta-Gaddi)[11] being implemented since 2006-07 and one scheme (Backward Regions Grant Fund) being implemented since 2010-11 was also selected for audit **(Table 2)**.

Table 1: Projects selected under JNNURM (UIG) scheme

Sl. No.	Name of the project	Project name
1	NAD[12]-008	Improvement to water supply system in North Nanded
2	NAD-010	Improvement to sewerage system in North Nanded – Zone-II
3	NAD-014	Improvement to movement network in Nanded (Package II, IIIA, IIIB) – Roads

Table 2: Projects/schemes selected (other than JNNURM)

Sl. No.	Name of the project/scheme
1	Gur-ta-Gaddi (GTG)
2	Backward Regions Grant Fund (BRGF)

4.2.3 Grants received and expenditure incurred

Grants received by NWCMC between 2006-07 and 2012-13 and expenditure incurred up to March 2013 in respect of the selected projects under JNNURM (UIG) was as shown in **Table 3** below.

11 The importance of holy city of Nanded is due to presence of Sachkhand Gurudwara, housing Guru Granth Sahib and resting place of last Sikh Guru Shri Gobind Singhji. For providing basic amenities to the devotees attending the GTG tercentenary (October 2008), various developmental works were approved by GoM in Nanded city since 2006-07

12 Project code denoting project sanctioned for NWCMC under JNNURM

Table 3: Grants received and expenditure incurred on selected projects under JNNURM

(₹ in crore)

Project	Approved cost of project	Grant received from start of project till 31-3-2013	Expenditure incurred from start of project till 31-3-2013
NAD-008	90.87	98.82	79.52
NAD-010	42.93	45.91	57.12
NAD-014	214.97	212.17	230.41
Total	**348.77**	**356.90**	**367.05**

(Source: Information furnished by NWCMC)

Note: Excess expenditure met from savings of remaining eight NAD projects

Grants received by NWCMC between 2006-07 and 2012-13 and expenditure incurred up to March 2013 in respect of the selected developmental projects/schemes was as shown in **Table 4** below.

Table 4: Grants received and expenditure incurred on selected projects/schemes (other than JNNURM)

(₹ in crore)

Projects/scheme	Opening Balance as on 1-4-2006	Grants/funds received during 2006-13	Expenditure incurred during 2006-13	Closing balance as on 31-3-2013
BRGF	0	6.90	3.81	3.09
GTG	0	121.98	111.03	2.26*
Total	0	128.88	114.84	5.35

*₹ 8.69 crore surrendered to Collector and₹ 2.26 crore was actual closing balance

(Source: Information furnished by NWCMC)

4.2.4 Implementation of projects/schemes

4.2.4.1 Implementation of projects selected under JNNURM

Three projects selected under JNNURM (UIG) scheme comprised 49 developmental works relating to water supply, sewerage collection and improvement of road network. Two projects (NAD-008 and NAD-010) comprising 26 works and one project (NAD-014) comprising 23 works were sanctioned by the Central Sanctioning and Monitoring Committee (CSMC) of Ministry of Urban Development, GoI between July and October 2006 at a total cost of ₹ 348.77 crore. All the 49 works were to be completed between May 2008 and December 2012.

Audit observed that of the 49 works, only four works were completed within the stipulated period between October 2008 and September 2009 at a cost of ₹ 3.56 crore. Of the remaining 45 works, 37 works costing ₹ 280.46 crore were completed after a delay ranging from two months to 45 months and seven works valuing ₹ 114.98 crore (expenditure incurred: ₹ 68.36 crore) were in progress as of June 2013. One work valuing ₹ 0.35 crore was not executed. Of the 41 completed works (delayed as well as those completed on time), there was an overall cost escalation of ₹ 14.57 crore in 16 works.

Audit also observed the following inadequacies in implementation of the selected projects (NAD-008, NAD-010 and NAD-014):

Extra expenditure due to non-invocation of risk and cost Clause

The work of Providing sewerage collection system for N-II Zone of North Nanded under NAD-010 was awarded (April 2007) to a contractor at a tendered cost of ₹ 31.55 crore for completion by October 2008.

Audit scrutiny revealed that despite several written instructions and meetings, the contractor failed to achieve the stipulated milestones indicated in Clause 2 of the contract. As a result, liquidated damages (LD) amounting to ₹ 1.21crore was recovered from the contractor from 5th, 7th, 9thand 16th running account bills. In September 2008 and June 2009, NWCMC issued two notices under Clause 3(c) of the contract for withdrawal of unexecuted portion of work at the contractor's risk and cost. However, Clause 3 (c) was not invoked and the contractor was granted extension of time up to December 2009. In July 2010, the work was withdrawn under Clause 15[13] of the contract by which time, the contractor had already been paid ₹ 10.73 crore (up to 23rd running account bill). The cost of balance work as per accepted tender was ₹ 20.82crore.

The revised cost estimates of the balance works was ₹ 22.78 crore which was awarded (December 2010) to another contractor for ₹ 25.03 crore, resulting in an avoidable expenditure of ₹ 4.21 crore[14]. The invocation of Clause 15 instead of Clause 3(c) despite lapses on the part of the first contractor were not available on record but led to an undue financial benefit of ₹ 4.21 crore to the first contractor. The reasons for invoking Clause 15 were also called for (February 2013) from the Corporation but, no reply was furnished.

Loss to Corporation on utility shifting

The Public Works Department (PWD), GoM issued a Circular in March 1998 stipulating that expenditure incurred on utility shifting during road widening works is to be shared equally between Maharashtra State Electricity Distribution Company (MSEDCL) and the agency implementing the road works.

Audit however, observed (March 2013) that the entire expenditure of ₹ 10.89 crore on utility shifting under NAD-14 project was incurred by the NWCMC from JNNURM funds without raising a demand on MSEDCL, thereby resulting in loss of ₹ 5.45 crore to NWCMC.

The audit observation was issued in March and July 2013. The Corporation did not furnish any reply.

Short-recovery of liquidated damages

In works under two projects (NAD-008 and NAD-010), NWCMC did not recover full LD from the contractors in contravention of contract conditions, as discussed below:

- Under NAD-008, the work of Rehabilitation of water supply system for North Nanded (water treatment plant and pumping station) was awarded (February 2008) to contractor at a tendered cost of ₹ 8.57 crore to be completed by December 2008. The work was

[13] The Corporation under Clause 15 may rescind whole or any part of the work specified in the tender without assigning any reasons, other than default on the part of the contractor

[14] ₹ 25.03 crore - ₹ 20.82 crore

however, completed in February 2011 after a delay of 25 months, for which LD of ₹ 2.75 lakh was levied instead of ₹ 85.70 lakh, resulting in short-recovery of ₹ 82.95 lakh and an undue financial benefit of this same amount to the contractor.

The Corporation stated (March 2013) that scope of work included repair/replacement of various components of water treatment plant and pumping machinery which required shutdowns. As a result, the work got extended beyond the stipulated time.

The reply is not acceptable as the relevant LD clause included in the contract did not provide for any concession in respect of levy of LD under any circumstances.

- Under NAD-010, the work of Providing sewerage collection system for North Nanded – Zone N-II was awarded (December 2010) to a contractor at a tendered cost of ₹ 25.03 crore to be completed by December 2011. Though the contractor failed to complete the work within the stipulated period (the work was in progress till May 2013), LD of only ₹ 0.13 crore was levied as against ₹ 2.28 crore recoverable, leading to short-recovery of ₹ 2.15 crore.

The Corporation stated (May 2013) that due to genuine difficulties such as, work in black cotton soil and urban area having continuous traffic, extension with meagre penalty was granted.

The reply is not acceptable as the work in question was the leftover work not completed by the original contractor and therefore, the present contractor was expected to be aware of the site conditions. Under these circumstances, the levy of LD of only ₹ 0.13 crore on the contractor was not in order. This action rendered an undue financial benefit of ₹ 2.15 crore to the second contractor.

Loss on account of non-recovery of exempt excise duty

As per GoI notification of 01 March 2007, pipes of outer diameter exceeding 200 mm was be exempt from payment of excise duty when such pipes are an integral part of the water supply projects.

Under project NAD-008, the work of Providing water supply transmission and distribution system for North Nanded was awarded (December 2006) to a contractor at a tendered cost of ₹ 35.17 crore for completion by June 2008. The estimates of the tender were based on the Schedule of Rates of Maharashtra Jeevan Pradhikaran for the year 2005-06 which included an excise duty element of 16.32 *per cent* for the pipes to be used for distribution network. Tenders for the work were invited in September 2006. In the pre-bid meeting held with the bidders in October 2006, NWCMC clarified that it reserved the rights to recover from the successful bidder the amount equivalent to the excise duty which is exempt based on GoI notification on excise duty exemption from time to time.

Audit observed that the contractor had purchased DI pipes between July and August 2009. However, no excise duty exemption was availed of by the contractor in the light of GoI notification of 01 March 2007.NWCMC paid ₹ 12.32 crore to the contractor for supply of DI pipes of diameter exceeding

200 mm including an excise duty element of ₹ 1.73 crore, which was not recovered from the contractor as per the decision taken in pre-bid meeting.

NWCMC accepted (March 2013) that it did not recover the amount of excise duty from the bills of the contractor stating that had this been done, the amount of exempt excise duty would have to be paid back to the Central Government.

The payment of excise duty back to the Central Government does not arise as duty was exempt for this item for this work. Thus, non-recovery of exempt excise duty from the contractor resulted in loss of ₹ 1.73 crore to the Corporation.

4.2.4.2 Other developmental projects/schemes

Gur-ta-Gaddi

The GoM approved (June 2006) an action plan of ₹ 817 crore for execution of various developmental works in Nanded city for GTG tercentenary. The plan was revised (July 2007) to ₹ 733.11 crore. NWCMC was one of the executing agencies and received a grant of ₹ 121.98 crore from the Collector, Nanded between 2006-07 and 2010-11 and incurred an expenditure of ₹ 111.03 crore up to May 2013 for execution of 14 sanctioned components and surrendered ₹ 8.69 crore to Collector, as detailed in **Appendix XV**.

Non-submission of utilisation certificates and non-closure of accounts

As per sanction orders issued by the Divisional Commissioner/Collector for various works proposed under different components, the implementing agencies were required to submit Utilization Certificates (UC) to the Collector after completion of works within the stipulated period. Scrutiny of records (May 2013) revealed that though NWCMC received a grant of ₹ 121.98 crore during 2006-07 and 2010-11, no UCs were furnished to the Collector as of May 2013.

The GoM in November 2011 directed the Collector, Nanded to surrender all the unspent balances of Personal Ledger Account (PLA) maintained for GTG, to the Consolidated Fund of State and close the PLA by 31 March 2012. Accordingly, the Collector instructed (July 2011, November 2011 and March 2012) NWCMC to finalize the GTG accounts, submit the UCs and surrender the unspent balances. However, NWCMC did not finalise the GTG accounts nor surrendered an unspent balance of ₹ 2.26 crore **(Appendix XV)** lying in the accounts as of May 2013.

The Chief Accounts Officer, NWCMC stated (May 2013) that the GTG accounts would be finalized, UCs would be submitted and unspent balances would be surrendered to the Government in due course.

Poor implementation of a contract

The work of Development of infrastructure at Rehabilitation and Resettlement site at Govindbag, Nanded was awarded (April 2007) to a contractor at a cost of ₹ 7.49 crore for completion by six months (October 2007). Scrutiny of records (June 2013) revealed that the contractor completed only 35 *per cent* of the work up to the stipulated date of completion, for which NWCMC recovered LD of ₹ 24.55 lakh. Despite several extensions and levy of LD, the contractor failed to execute the work within the extended period and NWCMC issued (March 2008) a notice under Clause 3(c) of the contract for withdrawal of the balance work at his risk and cost. But the contractor requested for extension up to 31 May 2008 which was accepted by the Municipal Commissioner.

Audit observed that the contractor could not complete the work even by the extended date (May 2008). NWCMC paid (October 2009) the 17th running account bill of the contractor amounting to ₹ 5.99 crore relating to civil and electrical works. After a long gap of almost three years, the Executive Engineer, JNNURM (Roads) submitted (August 2012) a proposal to the Municipal Commissioner to treat the 17th running account bill of the contractor as 'final' enclosing therewith a 'No Due Certificate' and a 'Completion Certificate of Original Work' indicating that the work had been completed by the contractor on 17 March 2009. The Municipal Commissioner did not approve the proposal as of June 2013. A part of the balance work estimated at ₹ 5.50 lakh was clubbed with another work and awarded to a different contractor in January 2010 at a total financial consideration of ₹ 69.39 lakh. The estimates for the remaining balance work were not prepared by NWCMC as of June 2013.

The action of the Corporation to grant extension of time to the contractor after issue of notice Clause 3 (c) followed by releasing his dues amounting to ₹ 5.99 crore was highly irregular. In fact, when the contractor failed to complete the work even by May 2008, the Corporation should have invoked Clause 3 (c) and awarded the balance incomplete works to another contractor at the risk and cost of the original contractor. The 17th running account bill of the original contractor should have been held in abeyance and settled after following due procedure[15] envisaged under Clause 3 (c).

Backward Regions Grant Fund

BRGF, a Centrally Sponsored Scheme, was introduced in Nanded district in 2010-11.The District Collector, Nanded, being the funding and sanctioning authority for BRGF, granted Administrative Approvals(AA) to 44 works at a cost of ₹ 690.54 lakh and released ₹ 690.36 lakh to NWCMC during 2010-13 as shown in **Table 5** below.

Table 5: Details of AA granted, funds released, works completed and expenditure incurred (Status as on March 2013) (₹ in lakh)

Sl. No.	Year	AA accorded by Collector, Nanded		Number of works completed	Fund released	Expenditure incurred on completed and ongoing works	Remarks
		No. of works	Date of AA				
1.	2010-11 (Ist spell)	13	21.3.2011	11	214.00	204.91	One work was cancelled due to opposition from the local residents and one work is in progress.
2.	2010-11 (IInd spell)	9	3.3.2012	8	100.00	89.78	Due to an ongoing work under another scheme, one work could not be started.

15 Recovery of excess cost due to re-tendering of the balance incomplete works from the original contractor

3.	2011-12 (I[st] spell)	11	31.3.2012	6	175.68	85.98	Three works could not commence due to non-availability of clear sites and two works were in progress.
4.	2011-12 (II[nd] spell)	11	6.2.2013	0	200.68	0.01	Tendering process was in progress in respect of all the 11 works.
5.	2012-13	0	0	0	0.00	0	No funds were released during 2012-13.
Total		**44**		**25**	**690.36**	**380.68**	

Audit observed that work orders for 33[16] out of 44 works valuing ₹ 489.68 lakh were issued between 2010-11 and 2012-13 to be completed within the same financial years. Of the 33 work orders issued, 23 works were completed within the same financial years (expenditure incurred: ₹ 152.13 lakh); two works were completed after delay ranging from two to three months (expenditure incurred: ₹ 33.95 lakh); three works were in progress (expenditure incurred: ₹ 32.45 lakh); one work valuing ₹ four lakh was cancelled due to opposition by local residents; and of the remaining four works (estimated cost: ₹ 87.56 lakh), three works could not commence due to non-availability of clear sites and one work could not commence due to an ongoing work under another scheme.

Issue of work orders without ensuring availability of clear sites in four cases and cancellation of one work resulted in blocking of funds of ₹ 91.56 lakh, as these funds were retained by NWCMC.

4.2.5 Conclusion

There were significant time and cost overruns in implementation of projects under the UIG component of JNNURM. The contract Clauses/Government orders were not followed during implementation of works, resulting in extra expenditure or losses. Of the 44 works sanctioned under BRGF, only 25 works were completed and 11 works were not tendered. Of the remaining eight works, three works were under progress, one work was cancelled and four works could not commence due to non-availability of clear sites. The Corporation neither submitted utilization certificates for grants received under Gur-ta-Gaddi nor did it finalise the accounts and surrender the unspent balances.

4.2.6 Recommendation

- Implementation of projects and schemes should be carried out in a time bound manner to avoid cost overrun;
- The contract Clauses should be followed diligently during implementation of works; and
- Work orders should be issued only after ensuring availability of clear sites.

The matter was referred to the Government in August 2013; their reply was awaited as of March 2014.

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[16] 44 sanctioned works minus 11 works for which tendering process was in progress as of March 2013

Mira Bhayandar Municipal Corporation

4.3 Loss of revenue

Non-implementation of outsourcing contract for collection of escort fee through a private agency for 22 months resulted in loss of revenue of ₹ 39.62 crore to Mira Bhayandar Municipal Corporation.

Section 147 read with Section 466 (1) (A) (f) of The Maharashtra Municipal Corporations Act, 1949 (MMCA Act, 1949) authorises Municipal Corporations, through its Commissioner, to impose transit fee (escort Fee) from vehicles passing through the Corporation area. Mira Bhayandar Municipal Corporation (MBMC) levied[17] escort fee on vehicles passing through the Corporation area and collected ₹ 80.93 lakh[18] during the period October 2007 to August 2008 (11 months) by deploying their own resources[19]. Thereafter, the operation was discontinued as a municipal employee sustained serious injuries while stopping a vehicle.

In November 2010, MBMC invited tenders for outsourcing the collection of escort fee. Accordingly, a work order was issued (May 2011) to the highest bidder M/s Konark Infrastructure Limited (contractor) for collection of escort fee for a period of seven years. As per the escort fee payment schedule, the contractor was liable to pay to MBMC two instalments in advance *i.e.*₹ 83.42 lakh at the time of issue of order and ₹ 41.71 lakh per week thereafter for 50 weeks for the first year of operations. The schedules for subsequent years were to be issued one month prior to commencement of the next contract year. Before commencement of the work by the contractor, MBMC was required to obtain no objection certificates (NOC)[20] from Maharashtra State Road Development Corporation (MSRDC), National Highway Authority of India (NHAI) and Traffic Police.

Scrutiny of records (January 2013) maintained by the Chief Accounts Officer (CAO), MBMC revealed that though the work order was issued in May 2011, it took five to 12 months to get NOCs from the respective authorities. Even after obtaining NOCs from NHAI (October 2011), MSRDC (January 2012) and Traffic Police (May 2012), MBMC did not issue instructions to the contractor to commence operations for collection of escort fee from June 2012 onwards. Consequently, there was loss of revenue of ₹ 39.62 crore[21] to MBMC due to non-collection of escort fee for the period from June 2012 to March 2014 (22 months or 95 weeks).

The Municipal Commissioner, MBMC stated (May 2013) that the levy and collection of escort fee through appointment of an agent (outsourcing agency)

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[17] *Vide* Standing Committee Resolution No. 220 and General Body Resolution No. 97 of March 2006

[18] Net collection was ₹ 45.45 lakh after deduction for salaries, expenditure incurred on Police protection, Home Guard deployment *etc.*

[19] Municipal employees were deployed for collection of escort fee

[20] NOC is required from different authorities for construction of collection booths, proper regulation of traffic, other safety measures *etc.*

[21] June 2012 to March 2013 = 43 weeks
April 2013 to March 2014 = 52 weeks
Loss of revenue = ₹ 41.71 lakh per week × 95 weeks = ₹ 39.62 crore

was authorized by the Municipal Commissioner by issue of Standing Order on 04 November 2010 and approved by the Standing Committee in December 2010. These decisions of the Corporation were forwarded to the Urban Development Department, GoM but, no approval was conveyed. The Commissioner added that in the Corporation area, octroi has been abolished and local body tax (LBT) was introduced from 01 April 2010 and there is no specific provision in the MMCA Act, 1949 for levy and collection of escort fee where LBT is applicable.

The reply is not acceptable for the following reasons:

- Under Section 466(1)(A)(f) of the MMCA Act, 1949, the Commissioner is empowered to issue Standing Orders to impose escort fee on vehicles passing through the Corporation area. As such, the approval of the State Government was not required.
- Information available with Audit revealed that Kalyan Dombivili Municipal Corporation collected escort fee (₹ 11.24 crore) along with LBT (₹ 86.10 crore) during 2012-13; Nashik Municipal Corporation collected escort fee (₹ 12.57 crore) along with LBT (₹ 444.51 crore) between 22 May 2013 and 31 March 2014; and Thane Municipal Corporation collected escort fee (₹ 46.61crore) along with LBT (₹ 370.01 crore) during 2013-14. Thus, there were no valid reason(s) for MBMC for not levying escort fee along with LBT.

The matter was referred to the Government in June 2013; their reply was awaited as of March 2014.

Municipal Corporation of Greater Mumbai

4.4 Irregular payment of consultancy fee

Municipal Corporation of Greater Mumbai made irregular payment of consultancy fee amounting to ₹1.19 crore to a consultant on the projected delivery of 4,26,024 Certified Emission Reductions (CER) up to April 2015, instead of 14,477 CERs actually generated by the project.

For scientific closure of the dumping ground at Gorai, Municipal Corporation of Greater Mumbai (MCGM) appointed (March 2008) M/s Infrastructure Leasing and Financial Services Limited (IL&FS) as consultant for providing environmental consultancy and project development and advisory services for developing an Integrated Solid Waste Management Plan for the metropolitan city under Clean Development Mechanism (CDM[22]). The capture and combustion of methane gas was expected to result in substantial reduction of greenhouse emissions and it was envisaged that the Gorai Project had the potential to earn carbon credits under CDM.MCGM signed (September 2008) a concession agreement with IL&FS and as per terms of payment, IL&FS was to be paid consultancy fee of five *per cent* of the total revenue received by MCGM from the sale of Certified Emission Reductions (CERs). IL&FS

[22] The CDM allows emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one tonne of carbon dioxide. The CERs can be traded and sold and used by industrialized countries to meet part of their emission reduction targets under Kyoto Protocol

estimated generation of 12,40,289 CERs during the 10 year period from 2009-10 to 2018-19, after scientific closure of the dumping ground.

IL&FS prepared the Project Design Document (PDD) and submitted it to United Nations Framework Convention on Climate Change (UNFCCC) for CDM registration. During the process of registration, MCGM entered into an Emission Reductions Purchase Agreement (ERPA) with Asian Development Bank (ADB) in February 2009 for forward sale of carbon credits to be generated from the project. MCGM received an advance payment of US$ 5.16 million equivalent to ₹ 24.51 crore from ADB in October 2009 for delivery of 4,26,024 CERs between June 2011 and April 2015.

Audit scrutiny revealed (December 2012) that the project failed to generate CERs as per the agreement with ADB and the estimates prepared by IL&FS. As per Schedule I of ERPA, of the 4,26,024 CERs, MCGM was required to deliver 2,74,500 CERs by June 2012 and 3,00,235 CERs (cumulative) by June 2013. However, due to lack of sufficient gas generation from the dumping ground, the project could generate only 14,477 CERs till December 2011. On the other hand, IL&FS in the PDD had estimated generation of 4,44,775 CERs till the end of December 2011.One of the major reasons for significant shortfall in delivery of contracted CERs was the huge difference between the quantity of Municipal Solid Waste (MSW) estimated before closure (10.03 million tonnes) and the actual quantity of MSW scientifically closed (2.34 million tonnes). Despite inadequacies in implementation of the agreement, MCGM paid (October 2009) the entire consultancy fee of ₹ 1.23[23]crore upfront to IL&FS on the projected delivery of 4,26,024 CERs up to April 2015, instead of ₹ 4.16 lakh[24]payable on 14,477 CERs actually generated. This resulted in irregular payment of consultancy fee of ₹ 1.19 crore[25]to IL&FS.

MCGM accepted the facts and stated (May 2013) that due to failure to deliver CERs to ADB as per Schedule of ERPA, it opted to deliver replacement CERs from international market. Accordingly, the total contracted CERs were purchased from international market at a total cost of ₹ 11.23 crore and delivered to ADB and the contract with ADB was closed. By delivering replacement CERs to ADB, MCGM earned a net revenue of ₹ 13.28 crore[26]. MCGM added that show-cause notices were issued to IL&FS in July 2012, August 2012 and February 2013 for recovery of consultancy fee but, no response was forthcoming. Further, if IL&FS does not show any response and refund the consultancy fee, legal action as per concession agreement, including blacklisting of the firm, would be initiated.

Reply furnished by MCGM is not relevant as the issue here relates to irregular payment of consultancy fee upfront to the consultant even before fulfilment of contractual obligations. Further, the consultant has not responded to the show-cause notices till December 2013.

The matter was referred to the Government in June 2013; their reply was awaited as of March 2014.

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[23] 5% of ₹24.51 crore = ₹ 1,22,55,000

[24] ₹ 24.51 crore ÷ 426024 CERs = ₹ 575.32 per CER × 14477 CERs = ₹ 83.29 lakh × 5%

[25] ₹ 1.23 crore – ₹ 0.0416 crore

[26] Advance received from ADB (₹ 24.51 crore) – ₹ 11.23 crore

Nagpur Improvement Trust

4.5 Infructuous expenditure

Failure of Nagpur Improvement Trust to properly plan the development of IT Park through Public Private Partnership rendered an expenditure of ₹ 1.83 crore infructuous.

Nagpur Improvement Trust (NIT) proposed (November 2005) construction of an Information Technology (IT) complex at Gayatri Nagar, Nagpur in a phased manner at an estimated cost of ₹ 2.77 crore A consulting architect was appointed (May 2006) for preparation of drawings, designs and estimates at a remuneration of three *per cent* of the total cost of the work. Under Phase I, tenders for the work of basement, ground floor and first floor were invited in July 2006. The work was awarded (November 2006) to a contractor at a cost of ₹ 2.88 crore to be completed in 15 months (February 2008).

Scrutiny of records (September 2010) revealed that the contractor executed the work of basement excavation and reinforced cement concrete (RCC) columns by June 2008 at a cost of ₹ 1.78 crore. An amount of ₹ 4.86 lakh was also paid to the consulting architect towards architectural fees. During the progress of work, NIT observed that the buildings constructed by other private operators in the adjoining area of the IT zone had beautiful elevations. The private operators had employed modern techniques of construction and used latest construction material. The buildings had all the modern facilities as per requirements of the IT sector. The NIT further observed that the Nagpur city, being one of the cities included under JNNURM[27], was committed to implement the mandatory reforms, one of which was to encourage the Public Private Partnership (PPP). On the above considerations, the NIT decided (August 2009) to terminate the ongoing contract and implement the project through PPP on Design, Build, Own, Operate and Transfer (DBOOT) basis.

Tender notice inviting Request for Proposal (RFP) for development of IT Park on DBOOT basis was issued in October 2011 and the work was awarded to a concessionaire in February 2012 at a financial consideration of ₹ 15.05 crore[28] plus an annual ground rent of ₹ 30.10 lakh for a concession period of 30 years, extendable up to 90 years. Audit observed that NIT did not work out any mechanism to secure its financial interest caused by termination of first contact. The RFP document prepared by NIT for the DBOOT project only mentioned that the site possessed a partially built foundation structure of RCC covering approximately 1,400 sqm, without indicating any financial details. As a result, an expenditure of ₹ 1.83 crore[29] initially incurred by NIT on partial structures was rendered infructuous.

The Superintending Engineer (SE), NIT while accepting the fact that the cost of work done by the first contractor was not included in the RFP document, stated (March 2013) that the land was allotted to the successful bidder on 'as is where is basis' and there was no compulsion for the successful bidder to develop the IT Park using the existing RCC construction. The SE added that

[27] Jawaharlal Nehru National Urban Renewal Mission
[28] The reserve price fixed by NIT was ₹ 14.70 crore
[29] Including ₹ 4.86 lakh paid to the consulting architect

the successful bidder was to carry out the construction as per drawings, designs and specifications approved by NIT.

The NIT was aware of the presence of a large number of IT-ITES establishments[30]with beautiful elevations and modern facilities before it took up the construction of the IT complex through the first contractor and clearly showed that the planning for development of the IT Park was *ab initio* faulty leading to infructuous expenditure of ₹ 1.83 crore.

The matter was referred to the Government in June 2013; their reply was awaited as of March 2014.

4.6 Blocking of funds and avoidable cost escalation

Failure of Nagpur Improvement Trust to appropriately plan the construction of a swimming pool not only led to blocking of funds of ₹ one crore for more than six years but also increased the project cost by ₹ 1.72 crore.

In order to extend recreational facilities to the residents of North Nagpur, Nagpur Improvement Trust (NIT) resolved (July 2004) to construct a swimming pool at Vaishali Nagar at an estimated cost of ₹ 175 lakh. For this purpose, the Urban Development Department (UDD), GoM earmarked ₹ one crore under Special Government Grant subject to condition that the GoM and the NIT would contribute ₹ 50 lakh each for the project. The GoM released its share of ₹ 50 lakh to NIT in August 2004.

Scrutiny of records (September 2010) and information furnished (October2013) by NIT revealed the following inadequacies in implementation of project:

- NIT did not contribute its share of ₹ 50 lakh due to financial crunch.
- NIT awarded four contracts between December 2004 and September 2007 for construction of four components[31] of swimming pool at a total cost of ₹ 107.10 lakh to be completed between June 2005 and January 2008 (two to six months). Of the four components, only two components were completed in January 2007 (within the extended period) and July 2009 (one year after the expiry of extended period). Of the remaining two components, one was partially completed in April 2006 and the other was stopped due to change in design. As of October 2013, a payment of ₹ 100.10 lakh was made to the contractors **(Appendix XVI).**
- The construction of swimming pool tank was initially estimated at ₹ 76.63 lakh and the accepted tender cost was ₹ 76.54 lakh. However, work order was issued to the contractor with the condition that the expenditure would be restricted to ₹ 50 lakh only. As a result, the contractor executed only 20 out of 95 items of work included in the

[30] Infospectrum, Infocepts, Arcon, Lighthouse Systems, Persistent Systems, Zeta Softech, Trust Systems *etc.*

[31] (i) Construction of swimming pool tank, (ii) cement concrete pavement, (iii) bath houses and other civil works and (iv) installation and commissioning of a filtration plant

tender and his final bill was settled for ₹ 49.95 lakh *i.e.* within the limit of the₹ 50 lakh contributed by GoM in August 2004. The rest of the expenditure of ₹ 50.15 lakh (₹ 100.10 lakh - ₹ 49.95 lakh) was met from the grants released by the GoM under Dalit Vasti Sudhar Yojana (DVSY) between 2005-06 and 2007-08.

- No water supply connection was established for the swimming pool as of October 2013. Though NIT had laid pipeline up to a well located approximately 500 meters from the pool, no water could be drawn from the well as the land adjacent to the well was under unauthorized possession of a temple trust.
- While the work of swimming pool remained incomplete, the Board of Trustees of NIT resolved (September 2011) to construct a club house within the pool premises under Public Private Partnership (PPP). The consulting architect estimated the cost of project including completion of swimming pool at ₹ 11 crore. The UDD, GoM released Special Government Grant of ₹ 1.35 crore to NIT which remained unutilized as of October 2013, as the elevation and design prepared by the consulting architect for the club house, by demolishing the already constructed bath houses, was not approved by NIT.

NIT stated (October 2013) that the proposal for club house has been cancelled. The work of incomplete swimming pool would be taken up shortly and accordingly, revised estimates of ₹ 246.57 lakh has been prepared for approval of GoM. A provision of ₹ 100 lakh has also been made under DVSY 2011-12. NIT added that arrangements for water for the pool would be made through two bore wells at different locations in the same premises, after verification by the Ground Water Survey and Development Agency.

The sequence of events clearly showed that planning for implementation of swimming pool project was seriously flawed. The project was undertaken without any feasibility study/survey or ensuring availability of funds, leading to blocking of funds of ₹ one crore for more than six years (up to October 2013) besides increasing the project cost by ₹ 1.72crore[32].

The matter was referred to the Government in July 2013; their reply was awaited as of March 2014.

Navi Mumbai Municipal Corporation

4.7 Avoidable increase in project cost due to non-enforcement of tender condition

Failure of Navi Mumbai Municipal Corporation to enforce the tender condition led to an avoidable increase of ₹ 4.86 crore in implementation of two hospital projects at Airoli and Nerul.

Navi Mumbai Municipal Corporation (NMMC) awarded (August 2009) two works of construction of 100 bedded General Hospitals at Airoli (work-I) and at Nerul (work-II) to M/s Supreme Infrastructure India Limited (first

[32] (Expenditure already incurred ₹ one crore + revised estimates of ₹ 2.47 crore) minus original estimates of ₹ 1.75 crore

contractor) at a cost of ₹ 34.69 crore and ₹ 33.75 crore respectively. The stipulated date of completion of work-I was 12 April 2011 while work-II was to be completed by 12 February 2011. Extension was granted up to 30 November 2012 for both the works.

As per condition 101 of the tender document, the variation/deviation in carrying out the items of work was not to exceed plus or minus 25 *per cent* of the contract sum. The deviation/variation in the quantity of individual items was not to be taken as deviation/variation in the contract. For increase up to 25 *per cent* over the quantities shown in the Bill of Quantities (BOQ), the contractor was to be paid at the rates mentioned in the BOQ. However, if quantities increased beyond 25 *per cent* of the quantities shown in BOQ, the excess quantities beyond 25 *per cent* were to be priced based on schedule rates with the contractor's quoted percentage or as per current District Schedule of Rates (DSR) without contractor's quoted percentage, whichever was less.

Audit scrutiny revealed that the estimates of both the works were based on sample bore data[33]. However, during actual execution, drastic changes were observed in the strata of the plot. The Project Management Consultant (PMC) subsequently suggested changes in foundation methods of both the works due to poor load bearing capacity of the strata which not only resulted in an increase in tendered quantities and extra items but also led to an upward revision (September 2010) in the project cost (₹ 53.33 crore for work-I) and (₹ 56.07 crore for work-II). However, citing condition 101 of the tender, the contractor expressed his unwillingness (December 2011) to execute the works beyond 125 *per cent* of the contract sum *i.e.*₹ 43.36 crore for work-I and ₹ 42.18 crore for work-II due to increase in cost of labour and material. NMMC, on advice of the PMC, relieved (February 2012) the contractor of his liabilities in terms of condition 101 of the tender, after execution of works up to 125 *per cent* of contract sum. NMMC awarded (November 2012)the balance quantities beyond 125 *per cent* of the contract sum (in respect of both the works) to M/s Amit Constructions (second contractor) at a total cost of ₹ 23.79[34]crore to be completed by May 2013.

Audit observed that the then current DSR (2011-12) for the quantities beyond 125 *per cent* of the contract sum/BOQ were less than the first contractor's quoted rates. Therefore, the balance quantities awarded to the second contractor for ₹ 23.79 crore could have been executed by the first contractor at a cost of ₹ 18.93 crore[35], as indicated in the table below.

(₹ in crore)

Particulars of balance work	Accepted tender cost of contractor-II	Cost as per current DSR (2011-12)	Difference	Accepted tender cost of contractor-II	Cost as per current DSR (2011-12)	Difference
	Work-I			Work-II		
Civil works[36]	5.31	4.09	1.22	6.50	5.17	1.33
Electrification works	4.17	3.48	0.69	4.51	3.91	0.60
Elevator	1.27	0.88	0.39	2.03	1.40	0.63
Total	**10.75**	**8.45**	**2.30**	**13.04**	**10.48**	**2.56**

33 Details of earth strata obtained by drilling into the earth
34 Work-I: ₹ 10.75 crore; Work-II : ₹ 13.04 crore (refer table)
35 Work-I: ₹ 8.45 crore, Work-II : ₹ 10.48 crore
36 Excavation; RCC work; paving, flooring and dado; water proofing; fire-fighting; painting (internal and external); water supply and drainage; doors and windows *etc.*

Thus, failure of NMMC to enforce the tender condition led to an avoidable increase in project cost by₹ 4.86 crore[37]. NMMC also did not invoke the risk and cost clause and provided an easy escape route to the first contractor by restricting the contract to plus 25 *per cent* of the contract sum. As of March 2014, the second contractor has completed only 90 *per cent* of the balance works, against the target date of May 2013.

The Commissioner, NMMC stated (September 2013) that condition101 is a general condition of contract of NMMC tenders and action was taken as per the provisions contained therein.

Reply is not acceptable as tender condition 101 was not enforced leading to increase in project cost by ₹ 4.86 crore.

The matter was referred to the Government in August 2013; their reply was awaited as of March 2014.

Pimpri Chinchwad Municipal Corporation

4.8 Cost and time overrun and loss of revenue

After spending ₹ 85 lakh on construction of a commercial complex, Pimpri Chinchwad Municipal Corporation stopped the work in January 2008 due to paucity of funds. The work was incomplete as of March 2014 resulting in cost overrun of ₹ 3.19 crore, besides blocking ₹ 85 lakh for more than seven years and recurring loss of revenue of ₹ 1.52 crore *per annum* on account of lease rent.

Pimpri Chinchwad Municipal Corporation (PCMC) accorded administrative approval (June 2003) for construction of a commercial complex on a reserved plot at Chinchwad for relocating the shop owners affected by road widening. The work was awarded (October 2005) to a contractor at a tendered cost of ₹ 1.42 crore for completion by April 2007. Extension was granted to the contractor up to November 2007. However, after completion of 70 *per cent* of the work and incurring an expenditure of ₹ 0.85 crore, the work was stopped (January 2008) by PCMC citing shortage of funds.

Subsequently, PCMC took a decision to complete the balance work on Built Operate and Transfer (BOT) basis, which was approved by the BOT Committee in July 2009. As M/s International Conveyers Limited, Kolkata (developer) was the highest bidder at ₹ 5.95 crore to the tenders , Letter of Allotment (LoA) was issued to the developer in October 2010 and a development agreement was to be signed between PCMC and the developer within 15 days of receipt of LoA by the developer. The BOT project was awarded to the developer for a lease period of 70 years.

Audit scrutiny revealed that the BOT project could not progress due to strong opposition from the local residents, legislators and an ex-Councillor. The Urban Development Department (UDD), GoM advised (November 2010 and January 2011) PCMC to work out the comparative benefits of the project if

37 ₹ 23.79 crore - ₹ 18.93 crore

developed using Corporation's own funds or through BOT and take a decision accordingly. PCMC informed (February 2011) UDD that the development of complex on BOT basis was more beneficial (as the contractor was to pay the quoted premium upfront) and requested for further guidance. Audit observed that instead of communicating its decision, the UDD, after a time lapse of nearly 19 months, raised more queries in September 2012 which were addressed by PCMC in January 2013.

In March 2013, PCMC noted that (a) there had been delay on the part of UDD in decision making, (b) a period of two years and five months had elapsed since the issue of LoA in October 2010 but, no development agreement was signed with the developer, (c) in view of new regulations framed under The Maharashtra Municipal Corporations Act, 1949, all Municipal properties given on lease was to be restricted to a maximum period of 30 years whereas, the BOT project was awarded for a lease period of 70 years, and (d) there had been increase in the cost of land in the intervening period. In view of the above disabling factors, PCMC proposed cancellation of LoA which was ratified by the BOT Committee in July 2013. It was also decided to rehabilitate the shop owners affected by road widening work at the earliest by taking up the remaining construction work from the Corporation's own funds.

The cost of balance work, as estimated by PCMC in January 2013, was pegged at ₹ 3.76 crore and the work has not been tendered as of March 2014. This cost is likely to increase further once revised plans and estimates are drawn up and tenders invited. As of March 2014, the project has already registered a cost overrun of ₹ 3.19[38]crore, besides blocking ₹ 0.85 crore for more than seven years (January 2008 to March 2014) and recurring loss of revenue of at least ₹ 1.52 crore *per annum* from lease rent, as per Corporation's own estimation.

The Commissioner, PCMC accepted the facts and stated (July 2013) that appropriate directions from GoM were not received and therefore, it could not take a final decision in the matter.

The matter was referred to the Government in July 2013; their reply was awaited as of March 2014.

Pune Municipal Corporation

4.9 Short-levy of property tax

Non-observance of provisions of Bombay Provincial Municipal Corporations Act, 1949 while determining the rateable value of properties resulted in short-levy of property tax of ₹ 43.96 crore and consequential loss of revenue to Pune Municipal Corporation.

Rule 7(1) of Chapter VIII (Taxation Rules) under Schedule 'D' of Bombay Provincial Municipal Corporations (BPMC) Act, 1949 provides that in order to fix the rateable value (RV) of any building or land assessable to a property tax, there shall be deducted from the amount of the annual rent for which such land or building might reasonably be expected to be let out from year to year a

[38] (₹ 0.85 crore + ₹ 3.76 crore) - ₹ 1.42 crore = ₹ 3.19 crore

sum equal to 10 *per cent* of the said annual rent and the said deduction shall be *in lieu* of all allowances for repairs or on any other account whatever. Rule 9(b) of the said Schedule of BPMC Act further provides that the RV of each building and land shall be determined in accordance with the provisions of the Act.

Scrutiny of records of Property Tax Department for the period 2010-11 to 2012-13 revealed that Pune Municipal Corporation (PMC), while determining the RV of the properties, allowed 15 *per cent* deduction for repairs instead of 10 *per cent* permissible under the Act, resulting in short-levy of property tax of ₹ 43.96 crore and consequential loss of revenue to PMC to that extent. The details are as under:

Year	RV fixed @ 85 *per cent* of annual rent (₹ in crore)	RV to be fixed @ 90 *per cent* of annual rent (₹ in crore)	Short-fixation of RV (₹ in crore)	Rate of property tax (in *per cent*)	Short- levy of property tax (₹ in crore)
2010-11	443.60	469.69	26.09	39.75	10.37
2011-12	508.42	538.33	29.91	50.75	15.18
2012-13	560.01	592.95	32.94	55.90	18.41
Total					**43.96**

On being pointed out in audit, PMC stated (June 2013) that 15 *per cent* deduction was allowed as per resolution (No. 5) passed by the General Body of the PMC in its meeting held on 03 April 1970.

The reply is not acceptable as the rate of RV cannot be changed without an appropriate amendment to the Act

Thus, non-observance of the existing provisions of the BPMC Act, 1949 resulted in short-levy of property tax of ₹ 43.96 crore.

The matter was referred to the Government in July 2013; their reply was awaited as of March 2014.

(MALA SINHA)
Principal Accountant General (Audit)-I,
Maharashtra

Mumbai,
The 18 August, 2014

Countersigned

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

New Delhi,
The 20 August, 2014