

## Chapter III - Results of audit

### Section 'A' – Performance Audit

#### Department of Rural Development and Panchayat Raj

#### 3.1 Implementation of National Rural Drinking Water Programme

##### Executive Summary

The National Rural Drinking Water Programme (NRDWP) aims to provide every rural person with adequate quantity of safe water for drinking, cooking and other domestic basic needs on a sustainable basis while also adopting a decentralised approach involving Panchayat Raj Institutions and community organisations. This basic requirement should meet minimum water quality standards and be readily and conveniently accessible at all times and in all situations.

The implementation of NRDWP for the period 2012-13 to 2015-16 was reviewed through a performance audit during April to September 2016. We observed that implementation of the programme had various shortcomings.

Due to non-establishment of required institutions and deficiencies in those constituted, the envisaged institutional support at various levels was not adequately forthcoming. Projects remained incomplete due to their being taken up without ensuring the sustainability of the water source and availability of land, *etc.* Against the target of providing 55 litres per capita per day of water to 50 *per cent* of the rural population, the State Government could achieve provision to only 14 *per cent* of the rural population.

Though the achievement of the State in respect of improvement in quality of water in affected habitations was appreciable, the number of habitations that slipped back increased. Also, besides some ineligible works being taken up under the sustainability component, the maintenance of sustainability structures was also deficient.

Water Testing Laboratories were not established in 76 out of 176 taluks in the State. The functioning of the taluk and district laboratories were deficient as the tests for all envisaged parameters were not being conducted. There were also irregularities in the tender process regarding the selection of firms for establishing the laboratories. Moreover, only 62 *per cent* of the water purification units were commissioned in the State.

Weak financial management resulted in the operation of many unauthorised accounts. Funds were parked in various bank accounts and transactions made without proper authorisation. Due to absence of proper reconciliation there were variations between the figures uploaded in the Integrated Management Information System, financial statements prepared by the Chartered Accountants and Utilisation Certificates submitted to Government of India, resulting in incorrect reporting to Government of India. The State Government stated (February 2017) that a Committee formed by the Government to look into the opening and operation of all these accounts has submitted a report and action is being initiated by the department for detailed reconciliation.

The department also failed in monitoring the requirement of transferring unutilised funds by the Zilla Panchayats back to the Government, which resulted in retention of huge funds by them. Two of the test-checked ZPs (Dakshina Kannada and Kolar) did not exhibit the details of five bank accounts that had a balance of ₹207.41 lakh as at the end of March 2016 in their annual accounts resulting in concealment of facts and submission of incorrect accounts to the Accountant General and higher authorities.

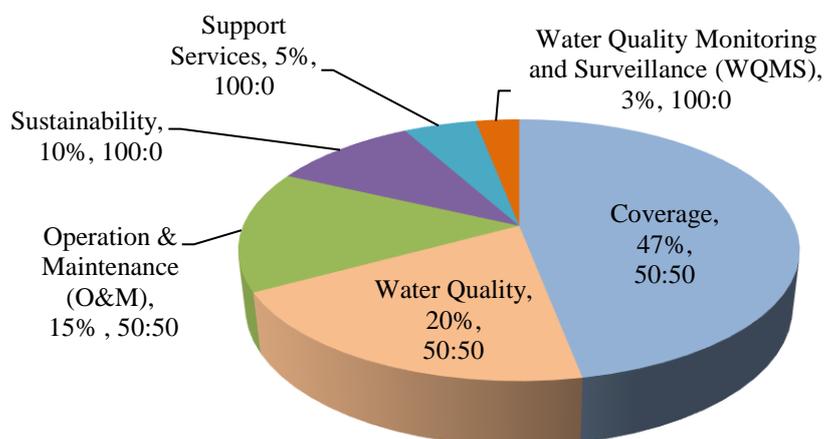
Monitoring and evaluation were not adequate as the Monitoring Cell and Investigation Unit was yet to be set up. None of the six monthly social audits had been done. The evaluation of the implementation of the programme through external agencies, which would enable remedial action on its shortcomings, was also yet to be conducted.

### 3.1.1 Introduction

The Government of India (GoI) launched the Accelerated Rural Water Supply Programme (ARWSP) in the year 1972-73 and renamed it as the National Rural Drinking Water Programme (NRDWP) in 2009. NRDWP visualised safe and adequate water for drinking, cooking and other domestic needs, for all and at all times, in rural India. NRDWP lays major emphasis on ensuring sustainability of water availability in terms of potability, adequacy, and equity while also adopting a decentralised approach involving Panchayat Raj Institutions (PRIs) and community organisations. Adequate flexibility is afforded to the States/Union Territories (UTs) to incorporate the principles of decentralised, demand driven, area specific strategy taking into account all aspects of the sustainability of the source, system, finance and management of the drinking water.

**Components of NRDWP:** There are six components under NRDWP. The extent of allocation of the total funds to each component and the sharing pattern of funds between GoI and Government of Karnataka (GoK) is indicated in **Chart 3.1** below:

**Chart 3.1: Component-wise allocation and sharing pattern (GoI:GoK) under NRDWP**



### 3.1.2 Organisational set up

The Rural Drinking Water and Sanitation (RDWS)<sup>6</sup> Department (department) at the State level is the nodal department from 2014-15 for implementation of NRDWP. The Karnataka Rural Water Supply and Sanitation Agency (KRWSSA) established during August 2001 was identified (September 2009) as the State Water and Sanitation Mission (SWSM) in the State. The SWSM is headed by the Additional Chief Secretary (ACS), Rural Development and Panchayat Raj (RDPR) who is responsible for providing policy guidance and overall implementation of the programme in coordination with other departments. At the district level, the District Water and Sanitation Mission (DWSM) headed by the Chairman of the Zilla Panchayat (ZP) is responsible for formulation, management and monitoring of projects and progress on drinking water security in rural areas. Block Resource Centre (BRC) and Village Water and Sanitation Committee (VWSC) are responsible for providing support in terms of awareness generation, motivation, mobilisation, implementation and supervision of the programme.

### 3.1.3 Audit objectives

The objective of the performance audit was to ascertain whether the rural population has access to safe and adequate drinking water. In this regard we sought to assess whether:

- (i) the institutional mechanism and planning for implementation of the programme were adequate, comprehensive and effective.
- (ii) the programme was implemented on the lines of its stated objectives.
- (iii) the funds provided under the programme were utilised properly.
- (iv) there was an effective inbuilt mechanism in place for monitoring and evaluation of the programme.

### 3.1.4 Audit criteria

The performance audit findings were benchmarked against the following:

- Guidelines for NRDWP – 2013.
- Karnataka Public Works Accounts (KPWA) Code, Karnataka Public Works Departmental (KPWD) Code, Karnataka Financial Code (KFC) and Karnataka Transparency in Public Procurements (KTPP) Act/Rules.
- State Government orders, notifications, circulars and instructions issued from time to time.
- Integrated Management Information System of Ministry of Drinking Water and Sanitation (MDWS) (referred to as IMIS henceforth) hosted on the website ([www.indiawater.gov.in](http://www.indiawater.gov.in)).

<sup>6</sup> Till 2013-14, Department of Rural Development and Panchayat Raj (RDPR) was the nodal department. A separate department was created during March 2014 for effective implementation and efficient monitoring of water supply schemes which were being implemented by RDPR.

### 3.1.5 Audit scope and methodology

The performance audit on implementation of NRDWP was conducted during April to September 2016 covering the period from 2012-13 to 2015-16 (in tune with the Twelfth Five Year Plan) through a test-check of records of the Commissioner, RDWS department and RDWS divisions in eight districts<sup>7</sup>. Probability proportional to size without replacement method was adopted for selection of the sample with total expenditure (2012-13 to 2015-16) as size measure. Joint physical verifications were carried out along with the department's officials. An entry conference was held on 1 April 2016 in which the audit objectives, scope and methodology were discussed. An exit conference was held on 10 February 2017 in which the audit findings were discussed.

### Audit findings

### 3.1.6 Institutional mechanism

The NRDWP guidelines required establishment of institutions at State, ZP (district), Block and Village level for overseeing the implementation of the programme. The functioning of the institutional mechanisms in the State was deficient as detailed below:

- SWSM was to consist of 10 members including the Secretaries of the Departments of Education and Women and Child Development. The KRWSSA, the designated SWSM, did not include them as its members. This resulted in lack of convergence with other schemes/programmes. Further, the guidelines stipulated that the Secretary in-charge of Rural Water Supply (RWS) will be the nodal Secretary for all SWSM activities and be responsible for convening the meetings. We observed that the SWSM did not conduct any meetings during 2012-13 to 2015-16.
- Source Finding Committee (SFC) responsible for clearing the works/projects before approval by the State Level Scheme Sanctioning Committee (SLSSC) was not constituted in the State.
- Water and Sanitation Support Organisation (WSSO) established in November 2013 headed by a Director was responsible for Information, Education and Communication (IEC), Human Resources Development (HRD) and other support to SWSM besides assisting in preparation of water security plans at all levels. However, the WSSO had not taken up any evaluation studies, development of IEC and HRD modules, Geographical Information System (GIS) mapping, etc.
- DWSSMs were constituted only in two<sup>8</sup> of the eight test-checked districts up to the end of 2015-16 but were not involved in formulation and approval of the activities under the programme.

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<sup>7</sup> Dakshina Kannada, Haveri, Kalaburagi, Kolar, Mysuru, Raichur, Shivamogga and Vijayapura

<sup>8</sup> Dakshina Kannada (2013-14) and Vijayapura (2014-15)

- BRC which was to serve as an extended arm of DWSM and act as a link between DWSM and VWSCs was not constituted in any of the taluks in the eight test-checked districts, up to the end of 2015-16.
- VWSCs which were responsible for planning, designing and implementing all village drinking water and sanitation activities *etc.*, though formed in the many of the GPs of test-checked districts were not involved in the process of formulation of activities under the programme. Also, the village level workers of VWSC had not conducted the household survey and sanitary inspections of drinking water sources as required under the guidelines.

The State Government replied (February 2017) that action would be taken to conduct SWSM meetings regularly, constitute SFC, conduct all activities by WSSO as per guidelines and that directions have been issued to all district authorities for constituting DWSM.

**Recommendation-1: The State Government should ensure that the required Committees are established and the existing institutions strengthened as envisaged, for effective implementation of the programme.**

### 3.1.7 Planning

#### 3.1.7.1 Absence of State Sector Policy Framework

The State had not prepared a State Sector Policy Framework on the lines of National Policy Framework, as required under the guidelines, and the programme was implemented in the absence of the policy framework.

The State Government stated (February 2017) that action would be taken to prepare the State Sector Policy Framework.

#### 3.1.7.2 Absence of Water Security Plans at all levels of implementation

The NRDWP guidelines stipulate preparation of the Village Water Security Plan (VWSP) by the village community with the help of Non-Government Organisations (NGOs). These VWSPs had to be analysed and consolidated by the DWSM and District Water Security Plans (DWSPs) prepared for implementation. The VWSPs were not prepared by any of the Gram Panchayats (GPs) in the test-checked districts except Mulbagal<sup>9</sup> Taluk of Kolar district. In the absence of VWSPs, the DWSPs were not prepared in any of the test-checked districts.

Further, as per the guidelines, the State was also required to prepare a five year Comprehensive Water Security Action plan (CWSAP) which would form the basis for creation of Annual Action Plans (AAPs). It was observed that CWSAP was not prepared by the State.

<sup>9</sup> VWSP was prepared (2014-15) for GPs in Mulbagal Taluk as a pilot project by GoI.

The State Government stated (February 2017) that action would be taken to prepare VWSPs in all the GPs. The reply was, however, silent on the preparation of the CWSAP.

### 3.1.7.3 Annual Action Plans

The main objective of the AAP is to provide a definite direction to the programme, and ensure regular monitoring of the progress made towards the goal of achieving drinking water security to every rural household. The AAPs prepared in the absence of CWSAP were deficient and lacked an integrated approach in addressing the rural water security issues as detailed below:

- (i) The IMIS provided for updation of data regarding population, Water Supply Scheme (WSS) provided and per capita supply, groundwater level, quality of water, *etc.*, for each habitation<sup>10</sup>, in the Yearly Data Updation (YDU) module. The YDU was the basis for sanction/selection of works under NRDWP to any habitation.

During verification of records at field level, it was stated (May-June 2016) by the Executive Engineers (EEs) that action plans were prepared based on the basic information entered by the field engineers of the department in the YDU. However, we observed that such basic information was not documented in any of the test-checked divisions. Hence, we could not ensure the correctness and authenticity of the details/data uploaded on to IMIS in relation to water supply status/facilities at the grass root level.

- (ii) While preparing AAPs, completion of incomplete works had to be given priority over new works and it had to be ensured that the works taken up were completed as per schedule to prevent cost escalation, non-utilisation of assets created, *etc.* The status of ongoing, new and completed projects in the State as per the IMIS reports during the period 2012-13 to 2015-16 is indicated in **Table 3.1**.

**Table 3.1: Status of ongoing, new and completed projects in the State**

Period	Ongoing (Spillover)	New works	Total	Number of completed works	Works that remained incomplete at the end of the year
1	2	3	4	5	6
2012-13	10,289	54,457	64,746	26,975	37,771
2013-14	19,560	59,051	78,611	38,627	39,984
2014-15	33,425	43,739	77,164	35,051	42,113
2015-16	42,144	21,933	64,077	41,165	22,912

Source: IMIS Reports

It can be seen from the above table that all the works which remained incomplete at the end of the year (column 6) were not carried forward (except 2015-16) as ongoing (spillover) works during the subsequent years (Column 2). On the department being asked to explain the discrepancies, the Chief Engineer, RDWS department (CE) attributed

<sup>10</sup> Habitation is a term used to define a group of families living in proximity to each other, within a village.

(April 2016) the mismatch in figures to lack of knowledge about the software during the early days of IMIS (between 2009 and 2011) and inclusion of the spillover works that had not commenced, as new works in the AAPs by the ground level staff. The reply of the department brings out the fact that data in the IMIS is incorrect/inaccurate. Since the department had already stated that IMIS data is relied upon for their planning and reporting *etc.*, it indicates that the AAPs based on above inaccurate data would be deficient to that extent.

- (iii) The AAPs were to be submitted by the State to MDWS by January every year. We observed that AAPs were submitted with delays ranging from six months to ten months during the review period.

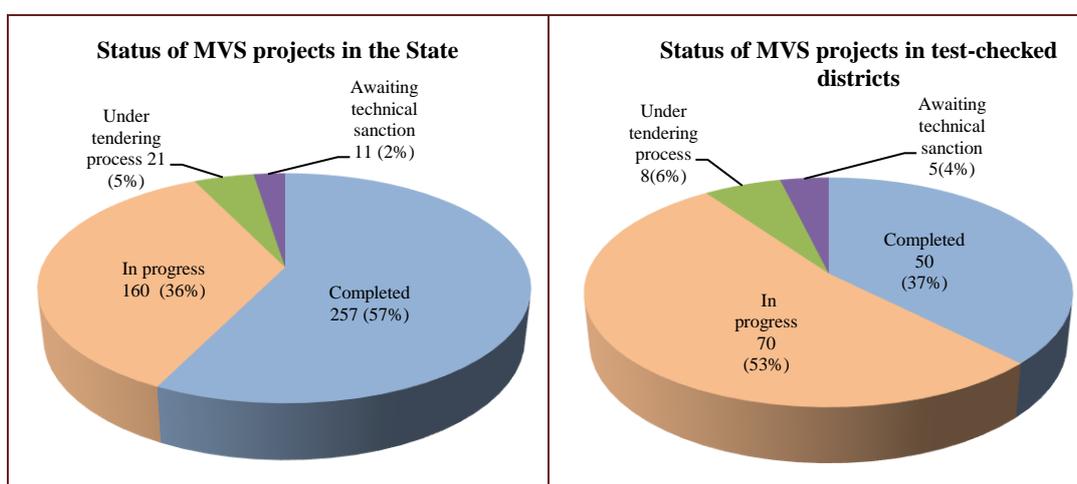
**Recommendation-2:** *The State Government may ensure that required policies and plans are in place and data used for planning and monitoring is accurate.*

### 3.1.8 Programme implementation

#### 3.1.8.1 Implementation of Multi Village Water Supply Scheme (MVS) projects

A total of 449 MVS<sup>11</sup> projects were administratively approved by SLSSC in the State as at the end of March 2016. These projects were aimed at covering a total of 8,131 habitations in the State, of which 3,849 were reportedly affected by water quality problems. The status of MVS projects in the State and in test-checked districts as at the end of March 2016 is given in **Chart 3.2**.

**Chart 3.2: Status of MVS projects in the State and in test-checked districts as of 31 March 2016**



Source: Progress reports furnished by the department

As can be seen from the chart, only 257 projects (57 per cent) were completed while 160 projects (36 per cent) were incomplete for various reasons. We observed that 69 projects approved and awarded prior to the commencement

<sup>11</sup> In addition, MVS are also implemented through funding under 13<sup>th</sup> Finance Commission Grants, *Jal Nirmal* Project (State Sector Scheme) *etc.*

(2012-13) of audit period, with stipulated time period of 11 months for completion, were still incomplete thereby depriving the intended benefits to the target groups.

Audit findings on the implementation of test-checked projects are brought out in the subsequent paragraphs:

### **3.1.8.2 Unfruitful expenditure on MVS to Kudla and four other villages**

The MVS for providing drinking water to Kudla and four other villages of Haveri district was sanctioned (2010-11) at an estimated cost of ₹4.50 crore. As the identified source, River Varada was not perennial, the project envisaged impounding water through an existing surface tank situated at Naregal village for supply during summer. The impounding reservoir (IR) was proposed to be constructed by separating out (bifurcating) the existing surface tank. The work<sup>12</sup> was entrusted (March 2011) to a contractor for ₹4.41 crore. The contractor completed (August 2015) all of the works except for the works relating to IR and an amount of ₹3.07 crore was paid.

We observed that the President of Naregal GP had addressed (April 2011) the Assistant Executive Engineer (AEE), Panchayat Raj Engineering Division (PRED) Hanagal regarding the flow of sewage/waste water from Naregal village into the proposed tank and had objected to the use of the tank for the WSS. Despite this, the project was taken up with a provision to delineate water for irrigation and water supply through an intermediary structure which was not executed till date (November 2016). Consequently, the project remained non-functional. The proposal submitted by the Superintending Engineer (December 2013) to the CE for construction of new IR was also not accepted and the CE instructed (December 2015) to treat the work as closed without the IR. He further instructed to include the construction of new IR in the subsequent years' action plan. The joint physical verification (June 2016) of the project showed that there was no further progress in the work, thus rendering the expenditure of ₹3.07 crore unfruitful.

The State Government stated (February 2017) that it has proposed to construct a separate tank for this WSS now.

### **3.1.8.3 Projects taken up without ensuring availability of resources**

#### **(a) Project taken up without definite water source**

**MVS for Sangabettu and 65 other villages in Bantwal taluk of Dakshina Kannada district** - The work estimated to cost ₹29.01 crore was taken up (January 2015) with River Phalguni as the source. The tapping point was a vented dam constructed earlier by Karnataka Urban Water Supply & Drainage Board (Board) at Pachemogaru for water supply to Moodabidri town. The department had not obtained the required permission from the Board for drawing water from their dam site. Further,

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<sup>12</sup> The work involved construction of jack well, intake well, intake pipe at source, raw water raising main, water treatment plant, construction of IR at Naregal tank, waste weir at IR, construction of jack well/pump house at IR etc.

there were private hydro-electricity generation plants both upstream and downstream of the proposed tapping point that was not considered in the Detailed Project Report (DPR). No agreement/written commitment for ensuring sufficiency of water to the WSS was entered into with the private power generation plants. Hence, the flow of water in the river in the concerned segment and the availability throughout the year was in control of these private agencies. The inspection note of Superintending Engineer, RDWS Circle, Mysuru (February 2015) also expressed concern over sufficiency of water. Also no alternate arrangement had been proposed for summer season when the river dries up. The work stipulated for completion by December 2015 was still in progress (May 2016).

**(b) Projects taken up without ensuring availability of land**

As per the provisions of KPWD Code, no work should be entrusted for execution without ensuring the availability of the entire land required for the work. However, we observed in respect of projects described below that (i) projects were taken up without ensuring the availability of land resulting in delay in completion of the projects and (ii) part of the projects were executed on private land, the possession of which was not taken over by the department and hence, was fraught with the risk of legal disputes.

- **WSS to Tamba and nine other villages in Indi taluk and WSS to Goranal and four other villages in Indi taluk** - Though DPRs clearly mentioned about the requirement of land, works were entrusted without transfer/acquisition of land for construction of IR. The work of IR was yet to be completed (Tamba) and IR was stated (June 2016) to be completed (Goranal). The Water Treatment Plant (WTP), in both the projects, was constructed on private lands, the formal possessions of which had not been taken over by the department (February 2017).
- **WSS to Peerapur and 16 other villages in Muddebihal taluk** - The work required acquisition of land for both IR and WTP. Despite awarding the work for execution in February 2009, the land for IR was obtained only during October 2013. We also observed that WTP was constructed on a private land without formal acquisition. The work of construction of IR was yet to be completed (February 2017).
- **WSS to Hampapura and 22 other villages in KR Nagar taluk** - The work was entrusted (November 2011) without acquiring the required land from Forest and Railway authorities for construction of WTP, jack well and laying of pipelines. The contractor stopped (July 2012) the work demanding cost escalation. The CE rescinded (March 2015) the work without risk and cost after being served with legal notices from the contractor. Permission from Forest Department was obtained only during November 2015. The balance work was retendered and entrusted for ₹9.07 crore during January 2017. The work is stated to be under progress (February 2017).
- **WSS to Kallur and 10 other villages in Manvi taluk** - While preparing the estimate/DPR, 15 acres 36 guntas of Government land was identified

for construction of IR. The work was entrusted (February 2009) to a contractor. The CE, during his visit (December 2009), proposed for change of location of IR from the Government land to a private land located downstream of the source stating that the site identified in DPR was not suitable for IR. The private land had not been formally acquired even as of May 2016, though compensation of ₹0.94 crore was deposited (August 2014) with the Deputy Commissioner towards land acquisition. However, the work of IR was commenced on the private land without formal acquisition and was yet to be completed (February 2017).

- **WSS to IK Babalad and four other villages in Kalaburagi taluk** – The work was entrusted to the contractor in November 2013. However, the land for WTP was acquired only during January 2016 and the work was yet to be completed (February 2017).
- **WSS to Kallur and seven other villages in Afzalpur taluk** - The DPR does not mention about the availability of land for the work. We observed that private land was obtained on consent basis for the construction of jack well and WTP without any formal acquisition of the same. The work of WTP could not be taken up as the required land was not made available and hence it was proposed (February 2016) to install Lamella Clarifier Platform<sup>13</sup> and chlorinator room. The work was yet to be completed (February 2017).

**Recommendation-3: The State Government should ensure availability and reliability of the water source and availability of land before according project approvals so as to prevent undue delay in completion of the projects.**

#### **3.1.8.4 Inordinate delay in completion of the projects**

##### **(i) MVS for Salikyapur and nine other villages in Devadurga Taluk of Raichur district**

The MVS for Salikyapur and nine other villages in Devadurga taluk of Raichur district estimated to cost ₹2.17 crore was entrusted (August 2002) by the EE, PRED, Raichur to Karnataka Rural Infrastructure Development Limited (KRIDL) with a stipulation to complete the work within 18 months and an amount of ₹1.92 crore was released till December 2007. The work was hampered and could not be completed due to land disputes. Scrutiny of the records showed that the estimate for the project was revised to ₹7.77 crore and approved (February 2013) by the State Government. Consequent on the revision of the estimate, an amount of ₹4.24 crore was released during March 2013. The ACS, RDPR directed (August 2014) the KRIDL to complete the work by December 2014. Despite the non-completion of the work, the balance of ₹1.61 crore was released during March 2015. KRIDL had incurred an amount of ₹4.89 crore on the work till May 2016 and the project was yet to be completed despite the upward revision of estimate by ₹5.60 crore, and delay of over 12 years.

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<sup>13</sup> Lamella Clarifier Platform is a type of settler designed to remove particulates from water.

The State Government stated (February 2017) that the matter will be taken up with KRIDL to complete the work within this year. The reply is, however, silent on the reasons for the delay in completion of the work.

**(ii) MVS for Kinnigoli and 17 other villages in Mangaluru taluk of Dakshina Kannada district**

The MVS for Kinnigoli and 17 other villages in Mangaluru taluk of Dakshina Kannada district estimated to cost ₹16.80 crore was entrusted (June 2010) by EE, PRED, Dakshina Kannada to a contractor with a stipulation to complete the work within 11 months. The progress of the project was behind the prescribed schedule. The EE issued (October 2012 to May 2014) notices to the contractor. As the contractor did not respond to any of the notices, the contract was rescinded (July 2014) by the CE at the risk and cost of the contractor by which time payment of ₹9.56 crore had been made to the contractor. Subsequently, based on the request of the contractor to reconsider rescinding of the contract, the CE cancelled (10 April 2015) his earlier order and extended the time limit up to April 2015 to complete the balance work. The project, however, remained incomplete.

The State Government stated (February 2017) that the contractor defaulted even after the extension of time and that action is being taken to blacklist the contractor. No reply was furnished regarding the action proposed to be taken for early completion of the project.

### **3.1.9 Status of rural water supply**

The Twelfth Five Year Plan envisaged a paradigm shift with emphasis on piped water supply with the goal of providing at least 50 *per cent* of the rural population with at least 55 litres per capita per day (lpcd) within the household premises or at a horizontal or vertical distance of not more than 100 metres from their household without barriers of social or financial discrimination by 2017.

We observed from the analysis of the information available on IMIS that while 96 *per cent* of the rural population in the State was provided with piped water as at the end of March 2016, the stipulated quantity of 55 lpcd of water could be provided to only 14 *per cent* of the rural population. The position in the test-checked districts was 96 *per cent* and 15 *per cent* respectively. However, in the absence of any physical records in the test-checked offices, we could not verify the stated achievement of the test-checked districts/State.

#### **3.1.9.1 Individual household connection**

The NRDWP guidelines envisaged providing piped water supply to at least 35 *per cent* of the households through individual connections by the year 2017.

We observed from the IMIS that the achievement of the State was 37 *per cent* as of February 2017 (30.41 lakh households against 82.09 lakh households). The status of achievement in the test-checked districts ranged between 23 *per cent* (Kalaburagi) and 50 *per cent* (Dakshina Kannada). However, there were

discrepancies in adoption of the total number of households provided with individual connection at the end of the year during the subsequent years as opening balance, thus rendering the accuracy of the information uploaded in the IMIS as doubtful. The status of households provided with individual connections is indicated in **Appendix 3.1**.

The State Government stated (February 2017) that steps would be taken to instruct the district authorities to verify and update actual data in IMIS and whenever, there is shortfall in progress, special drives will be taken up to provide individual household connections.

### 3.1.9.2 Prioritisation of habitations

As per the NRDWP guidelines, during planning, priority is to be accorded to habitations with lower coverage *i.e.* where the coverage of population with water supply within the habitations was only 0-25 *per cent* and 25-50 *per cent*, and quality affected habitations<sup>14</sup>.

The status of habitations in the State with drinking water supply during the period 2012-13 to 2015-16 is indicated in **Table 3.2**.

**Table 3.2: Status of rural habitations in the State with drinking water supply**

Total habitations	59,753	59,753	59,945	60,220
Status of habitations	Number of habitations as at the end of			
	2012-13	2013-14	2014-15	2015-16
0%	(Not exhibited distinctly)			
0-25%	5,223	6,791	5,673	6,166
25-50%	16,161	17,019	18,218	18,762
50-75%	19,469	15,993	15,507	12,778
75-100%	10,112	11,440	11,074	12,170
100%	5,581	6,137	7,108	8,198
Quality affected habitations	3,207	2,373	2,365	2,146
% of 0-25 and 25-50 to total habitations	36	40	40	41

Year	0-25%	25-50%	50-75%	75-100%	100%	QAH
2012-13	5,223	16,161	19,469	10,112	5,581	3,207
2013-14	6,791	17,019	15,993	11,440	6,137	2,373
2014-15	5,673	18,218	15,507	11,074	7,108	2,365
2015-16	6,166	18,762	12,778	12,170	8,198	2,146

Source: IMIS

As apparent from the above, the number of habitations with 0-25 and 25-50 *per cent* population coverage increased from 36 *per cent* to 41 *per cent* over a period of four years (2012-13 to 2015-16), indicating slow progress in supplying water to these habitations. The steep fall in 50-75 *per cent* category (6,691) is not explained fully by the rise in numbers in 75-100 *per cent* (2,058) and 100 *per cent* categories (2,617) indicating that the rest of the habitations (2,016) might have slipped back to the lower categories. We also observed 19 *per cent* increase in habitations with 0-25 and 25-50 *per cent* population coverage in four out of eight test-checked districts as indicated in **Appendix 3.2**.

<sup>14</sup> Habitations where water is chemically contaminated by fluoride, arsenic, iron, *etc.*, are called as quality affected habitations.

As regards quality affected habitations, the achievement of the State was appreciable as the number of quality affected habitations decreased from 3,207 to 2,146 during the review period. Except in Dakshina Kannada and Kolar districts, the number of quality affected habitations decreased in all other test-checked districts.

The State Government stated (February 2017) that due to shortage of rainfall and depleting water table, sufficient water could not be supplied to those habitations. The reply is not satisfactory as 0-25 and 25-50 *per cent* category habitations reflected underachievement whereas the achievement under 50-75, 75-100 and 100 *per cent* category habitations were far in excess of the targets as indicated in **Table 3.3** below.

**Table 3.3: Targets and achievement of prioritisation of habitations**

Category	Status of habitations	2013-14	2014-15	2015-16
0-25 <i>per cent</i>	Number of habitations at the beginning of the year	5,223	6,791	5,673
	Target	4,865	3,162	3,131
	Achievement	2,942	1,854	1,749
25-50 <i>per cent</i>	Number of habitations at the beginning of the year	16,161	17,019	18,218
	Target	6,080	4,993	5,252
	Achievement	5,506	4,409	5,435
50-75 <i>per cent</i>	Number of habitations at the beginning of the year	19,469	15,993	15,507
	Target	1,445	134	488
	Achievement	4,715	4,097	5,380
75-100 <i>per cent</i>	Number of habitations at the beginning of the year	10,112	11,440	11,074
	Target	452	165	429
	Achievement	1,921	2,953	4,055
100 <i>per cent</i>	Number of habitations at the beginning of the year	5,581	6,137	7,108
	Target	65	0	131
	Achievement	490	1,023	2,008
Number of quality affected habitations	Number of habitations at the beginning of the year	3,207	2,373	2,365
	Target	2,568	1,927	1,944
	Achievement	1,948	1,062	1,164

Source: IMIS (Format C-1)

### 3.1.10 Sustainability works

#### 3.1.10.1 Status of works

Sustainable drinking water sources provide safe drinking water in adequate quantity, even during distress periods, through conjunctive use of groundwater, surface water and roof-water harvesting. The main aim of sustainability of drinking water schemes is to ensure that the existing schemes continue to provide for universal access of safe drinking water to the community, throughout the design period of the schemes.

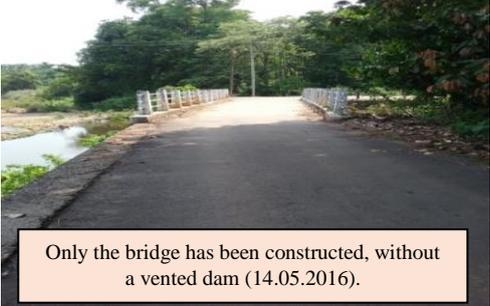
We observed that out of 5,040 (including 916 spillover works at the beginning of 2012-13) works, only 2,934 works (58 per cent) were completed. Further, as per the guidelines, the incomplete works were to be given priority over new works. However, no such prioritisation had been carried out by the department and there existed discrepancies in adopting the closing balances of the previous years during the subsequent years' opening balance, thus rendering the accuracy of the information uploaded in the IMIS as doubtful. The status of sustainability works during the period 2012-13 to 2015-16 is indicated in **Appendix 3.3**.

The State Government stated (February 2017) that all the divisions will be instructed to speed up the works and complete all works on time under sustainability and duly enter correct data in IMIS.

### 3.1.10.2 Ineligible works under sustainability

Any sustainability structure needs water to be impounded and allows for percolation into aquifers recharging the groundwater. Verification of records in test-checked districts disclosed execution of ineligible works under sustainability works as detailed in **Table 3.4**.

**Table 3.4: Execution of ineligible works under sustainability works**

Name of the work	Audit observations	Photograph of the works with brief explanation
Construction of a bridge-cum-vented dam at Shishila under Shishila GP in Belthangadi taluk of Dakshina Kannada district across River Kapila during 2013-14 at an expenditure of ₹44.40 lakh	<ul style="list-style-type: none"> <li>♦ The structure was being used only as a bridge without storing water.</li> <li>♦ No provision was made in the work to store water.</li> <li>♦ A huge vented dam exists in the vicinity for the purpose of storage and recharge of groundwater.</li> <li>♦ Expenditure was incurred on construction of approach road on both sides of the bridge.</li> </ul>	 <p data-bbox="975 1294 1433 1350">Only the bridge has been constructed, without a vented dam (14.05.2016).</p>
Improvements to vented dam at Nekkere in Manjanadi GP of Mangaluru taluk completed during 2014-15 at a cost of ₹46.69 lakh	<ul style="list-style-type: none"> <li>♦ The vented dam was constructed across the stream earlier (year not on record).</li> <li>♦ Water is not being stored in the structure.</li> <li>♦ The “improvement works” to the vented dam, instead of aiding percolation which enhances sustainability, resulted in reducing percolation due to the construction of concrete retention walls.</li> <li>♦ The works were therefore unnecessary as they did not serve the purpose of enhancing sustainability.</li> </ul>	 <p data-bbox="975 1771 1433 1827">The “improvement work” was only concrete retention walls on the sides (16.05.2016).</p>

Source: Records furnished by department and joint physical verification

As these works did not serve the purpose of sustainability, the expenditure of ₹91.09 lakh incurred on these ineligible works was unwarranted. The State Government stated (February 2017) that the details would be obtained from the divisions and reply would be submitted thereafter.

### 3.1.10.3 Defective construction/non-maintenance of structures

We conducted joint physical verification (May-June 2016) of 58 sustainability works executed during 2012-13 to 2015-16 and observed defects, either due to improper planning, sub-standard quality of work or non-maintenance in respect of 10 structures constructed at a total cost of ₹87.53 lakh (detailed in **Appendix 3.4**). The department did not adequately monitor and maintain the structures which may render the expenditure incurred wasteful.

The State Government stated (February 2017) that suitable instructions will be issued to all the districts to hand over all the structures to the concerned GPs with documentation and proper maintenance.

### 3.1.10.4 Construction of Injection wells - violation of KTPP norms

The EE, RDWS division, Mysuru entrusted (January 2015) 60 works of ‘Construction of injection well to recharge drinking water bore well through V-Wire Technology<sup>15</sup>’ at a total cost of ₹1.20 crore (each work costing ₹2.00 lakh) to an agency. Though it was proposed to construct injection wells in large numbers with substantial expenditure of more than ₹1.00 crore, tenders were not invited and all the 60 works were entrusted to a single agency as piece-meal contracts. This violated the provisions of KTPP Act. A total payment of ₹1.09 crore was made to the agency as of March 2016.

Scrutiny of the records and joint physical verification (May 2016) of 10 structures revealed that feasibility of the structures was not evaluated prior to taking up the work. The division also did not monitor/maintain the structures and out of 10 structures inspected, we observed that the inlet for water was blocked with silt/vegetation in five of the structures. The data on groundwater table was also not recorded to ensure optimum utility of the structures.

Thus, in the absence of water table data either prior to commencement of the work or after execution of work and non-maintenance of structures, the entire expenditure of ₹1.09 crore was likely to be wasted.

The EE replied (May 2016) that tenders were not invited as each work was considered as individual work. The reply is not tenable as the action of the EE was in violation of the provisions of KTPP Act and work costing ₹1.20 crore was awarded to a single agency without calling for tenders.

### 3.1.10.5 Execution of rainwater harvesting projects

Rainwater harvesting is an important method of ensuring sustainability of water. We noticed that this work was included/executed in only five districts<sup>16</sup> in the State. Out of the targeted 99 rainwater harvesting works, only 10 works (10 per cent) were executed during 2012-13 to 2015-16. The department did

<sup>15</sup> The methodology involved construction of pits fitted with concrete rings as percolation tank and injection tube well through which flowing rainwater slowly percolates into the ground and reaches the dry joints, cracks and aquifer and recharges the groundwater source.

<sup>16</sup> Chikkaballapura, Dakshina Kannada, Dharwad, Koppal and Mandya

not spell out the reasons for setting such a low target and the negligible achievement thereon indicated the lack of prioritisation of water harvesting by the department.

Scrutiny of IMIS data showed that one work of rainwater harvesting was executed in Dakshina Kannada district. We sought the details of the work such as estimate, work order, expenditure incurred and photographic evidence but the same was not made available by the EE, RDWS division, Dakshina Kannada. Consequently, in the absence of these details, the genuineness of execution of the work was doubtful.

The State Government stated (February 2017) that more thrust will be given to include and execute rainwater harvesting structures under sustainability component in the subsequent years. The reply was, however, silent on the single work that was indicated in the IMIS.

### **3.1.11 Water Quality Monitoring & Surveillance Programme**

The National Rural Drinking Water Quality Monitoring & Surveillance Programme (WQMSP) was launched (February 2006) with the prime objective of institutionalisation of community participation and involvement of PRIs for water quality monitoring & surveillance of all drinking water sources. The programme fully funded by GoI provided for all allied activities like IEC, HRD, outsourcing of services, strengthening of district level laboratories, procurement of field test kits, *etc.*

Though the WSSO was to prepare a Master Plan for the WQMSP activities, no such Master Plan had been prepared for the State indicating lack of defined vision towards water quality issues.

#### **3.1.11.1 Establishment of laboratories**

The NRDWP guidelines stipulated establishment/strengthening of water testing laboratory at State, district and sub-division level duly equipped for conducting tests on water samples for physical, chemical and bacteriological parameters utilising the funds provided under WQMSP component. The status of laboratories in the State is as below:

- The State level laboratory which was required for the purpose of testing water samples was not established. The State level laboratory was responsible for cross verification of samples found contaminated at lower level laboratories, testing concentrations of rare elements and providing water quality testing reports to the State Government.
- The State Government established laboratories in all the districts of the State. While laboratories in 20 districts were being managed departmentally, the laboratories in 10 districts were outsourced to a private agency for maintenance. The reason quoted for outsourcing the district laboratories was shortage of staff.

- Taluk level laboratories were established in 100 out of 176 taluks in the State.

The Director, WSSO replied (September 2016) that a Memorandum of Understanding (MOU) for establishing the State level laboratory was signed (June 2016) with the Karnataka Pollution Control Board to utilise the services of Central Environmental Laboratory.

### **3.1.11.2 Functioning of laboratories**

As per guidelines, 100 *per cent* of the sources at sub-divisional laboratories are to be tested both for bacteriological and chemical/physical parameters and 10 *per cent* of samples (which include positively tested samples) are to be tested by the district laboratories apart from routine cross verification by the State laboratory. While water samples were to be examined for chemical/physical parameters once a year, tests were to be conducted for bacteriological parameter like Most Probable Number (MPN) counts, E-Coli and Faecal Coliform twice a year (pre-monsoon and post-monsoon).

During joint physical verification of eight district laboratories and 18 taluk level laboratories under the test-checked districts, we observed (May-October 2016) that the laboratories were deficient in their functioning. They were not adequately staffed and the existing staff were not trained and hence could not conduct tests for all the envisaged parameters particularly for bacteriological contamination. Record maintenance was poor, all the equipment were not put to use and the laboratories did not submit the test-results and monthly progress reports to the EE/AEE concerned who were responsible for ensuring testing of water samples from all the sources and entering data in IMIS *etc.* The details of deficiencies are exhibited in the **Appendix 3.5**.

Further, during verification of records in Haveri district, we noticed that the taluk laboratory, Ranebennur resorted to making fraudulent claims regarding water sample testing and reporting as illustrated below:

#### **Illustration**

*A total of 30 bore wells were stated (July 2015) to have been drilled in Ukkunda village of Ranebennur taluk under Haveri district, of which 23 failed due to non-availability of yield and only seven were functioning. However, the taluk laboratory reported (December 2014 to May 2015) having tested the water samples from all the 30 bore wells. Though the AEE reported (July 2015) to the EE on the issue of fraudulent reporting, no action was taken against the taluk laboratory.*

Thus, the establishment of laboratories at district/taluk level did not adequately serve the intended purpose of testing water quality for all the envisaged parameters.

The State Government stated (February 2017) that the performance of taluk and district level laboratories is being assessed by the department and bills are being held up till the evaluation is complete. Reply was, however, silent on fixing of responsibility for fraudulent reporting.

**Recommendation-4: The State Government should ensure that the Water Quality Testing Laboratories are functioning effectively at both the District and Taluk levels, and that periodic testing of samples from all the required sources are conducted so that preventive action can be taken with regard to availability of safe drinking water.**

### **3.1.11.3 Contract management in establishment of laboratories**

The CE invited tenders and entered into agreement with private agencies for (i) supply, delivery and installation of bacteriological testing equipment including training to end users at the district level laboratories, and (ii) establishment and maintenance of sub-divisional water quality testing laboratories including supply, installation of equipment, maintenance of laboratory, collection and analysis of samples, and supply of consumables. Irregularities observed in tendering and management of these two contracts are detailed below:

#### ***i. Supply, delivery and installation of bacteriological testing equipment including training to end users at the district level laboratories***

In order to strengthen the district level laboratories, the CE proposed (February 2012) procurement of required equipment which was approved (March 2012) by the State Government for an estimated cost of ₹88 lakh. Tenders were invited (May 2012) and work order was issued (June 2013) to the firm M/s Global Technologies, Bengaluru at the negotiated cost of ₹84 lakh and equipment were supplied and installed (August-October 2013). Scrutiny of the documents revealed the following:

- The clause that ‘bidder must have been a manufacturer or an authorised representative’ was not complied with.
- Tender conditions were flouted during pre-qualification, as the successful bidder had not fulfilled the requirement of having satisfactorily completed (at least 90 *per cent* of the contract value), as prime contractor, at least one similar work with value not less than ₹81 lakh.
- Though the tender notification was for supply, installation and maintenance for three years, the work order was issued only for supply and installation and excluded the maintenance clause. This violated the spirit of tendering besides defeating the purpose of approval by SLSSC and Government. It also resulted in undue advantage to the firm and consequent absence of periodic maintenance of equipment.
- Though the nomenclature of the contract, *inter alia*, included ‘training to end users’, the work order did not include the schedule, total sessions of training, venue, total proposed participants, *etc.*, and hence, no training was imparted to any user.

ii. ***Establishment and maintenance of sub-divisional water quality testing laboratories including supply, installation of equipment, maintenance of lab, collection and analysis of samples, and supply of consumables***

The State Government proposed (June 2013) for establishment of laboratories at taluks for which tenders were invited by CE in December 2013. Of the two bidders, the negotiated offer of M/s Prasad Raypati of Ray Environ, Bengaluru for ₹68.40 crore was accepted. Work order for establishment of 80 laboratories (one in each taluk) was issued on 4 March 2014. Major lacunae observed in tendering and management of sub-divisional water testing laboratories, *inter alia*, included:

- The Transaction of Business Rules 1977, requires that works estimated to cost ₹5.00 crore and above were to be got approved by the Cabinet. However, this tender was approved (February 2014) by State Level Empowered Committee (SLEC) which had been constituted (March 2013) to approve only the multi village water supply projects. In the instant case, the tender had to be approved by the Cabinet and SLEC was not competent to approve the tender.
- No documentary evidence was forthcoming on record against the clause ‘bidder must have been a manufacturer or an authorised representative’.
- Solvency certificate from bankers, as required under tender conditions, was not furnished.
- The registration certificate to the claim that the bidder was ‘Class-I contractor for establishment of water quality testing laboratories’ was not forthcoming from the records.
- As per clause, the bidder was required to have an average annual turnover of not less than ₹57 crore. The selected bidder obtained a ‘Power of Attorney’ from a civil contractor and submitted the financial statements pertaining to the civil contractor. On comparison of the financial statements and corresponding income tax returns filed by the selected bidder and the civil contractor, we noticed that the financial statements furnished along with the tender varied with the financial statements furnished to income tax authorities.
- The bidder was required to furnish certificates for having supplied, installed and commissioned water quality testing laboratory equipment similar to the type specified in the schedule of requirements in any State/Central Government departments in India. We observed that the certificates furnished by the bidder were certificates of other firms which had made such supplies. Since the supplies were not made by him, these certificates were not valid. Moreover, there was no evidence on record to show that the bidder had executed such works earlier.

We, further, observed that the State Government extended (March 2015) the scope of the work for an additional 20 laboratories at a total cost of ₹23.70 crore without ensuring proper functioning of the laboratories established earlier, which was not prudent.

The State Government stated (February 2017) that action will be taken as per tender conditions after obtaining legal opinion for breach of contract.

#### ***3.1.11.4 Establishment of Water Purification units***

The State Government planned to establish water purification (WP) units in a phased manner from 2011-12 to combat the water quality problem faced by the rural population and to provide safe drinking water. The status of units sanctioned, installed and commissioned out of NRDWP funds as of November 2016 is indicated in **Appendix 3.6**.

We observed that as against the total 9,519 units sanctioned (2012-13 to 2015-16) for the State, 6,907 units (72 *per cent*) were installed and 5,941 units (62 *per cent*) commissioned. In test-checked districts, out of 2,437 units sanctioned, 66 *per cent* of the units were installed and 57 *per cent* were commissioned. However, the details of units actually working in the State/districts were not furnished to audit. The delay in commissioning of units resulted in depriving safe drinking water to the needy population besides rendering the expenditure on installed units unfruitful.

The State Government replied (February 2017) that action will be initiated to speed up installation and commissioning of RO units and information of the units actually working will be obtained from divisions and furnished to audit.

#### ***3.1.11.5 Improper agreements with agencies***

The department empanelled certain firms in the State for installation of WP units. Apart from placing orders directly with the empanelled firms, the district offices were also allowed to invite tenders locally for installation of WP units. In both the circumstances, agreements were required to be entered into with the firms. The CE communicated the model agreement format to the districts but at the same time allowed the district authorities to draft their own agreement formats, which were approved by the CE. This facilitated arbitrary insertion/modification of certain contract clauses which resulted in undue benefits to firms. Illustrative instances are listed below.

The clause for collection of 'Contract Performance Security' by selected firms was not uniformly incorporated in all the agreements. In Shivamogga district, though the agreement provided for collection of performance security, the rate at which the same was to be collected was not indicated. This resulted in awarding of contract without obtaining performance security.

In Raichur and Vijayapura districts, the agreement with the firm M/s SMAAT India Private Limited, Hyderabad included a clause that allowed the firm to obtain loan from financial institutions by mortgaging the land/buildings of WP

units. When the firm defaulted, the bank served (May 2016) notices to the EEs for seizure of the government property.

The State Government stated (February 2017) that instructions will be issued to divisions and ZPs to follow model agreement without any modifications.

#### **3.1.11.6 Short collection of performance security**

As per the contract agreement entered into with the firms by the EEs, 20 per cent of the capital cost was to be obtained from the firms in the form of bank guarantee towards 'contract performance security' before entrustment of work. We noticed short-collection of performance security to the tune of ₹0.33 crore in two districts (Kalaburagi and Mysuru). The State Government stated (February 2017) that recovery particulars will be called from concerned divisions and intimated to audit.

#### **3.1.11.7 Blocking of funds**

- (i) The WP units were to be installed through cooperative societies wherein a sum of ₹5.00 lakh was paid from NRDWP funds and the balance was to be met out from the cooperative society concerned. We observed in two test-checked districts (Mysuru and Shivamogga) that though an amount of ₹2.37 crore was released (January 2016) for installation of 95 units, there was no progress in the works as of June 2016, resulting in blocking of NRDWP funds.
- (ii) In Kalaburagi district, the work of providing basic infrastructure civil works for 41 WP units was entrusted (November 2014) to KRIDL at a unit cost of ₹5.33 lakh and the EE, RDWS division, Kalaburagi released an amount of ₹164 lakh to KRIDL as advance (@ ₹4.00 lakh each for 41 units). KRIDL, as against the allotted 41 WP units could only complete the work in respect of 38 units, as sites were not identified by the EE for the other three WP units. We also noticed that the EE released balance amount of ₹53.20 lakh as against ₹50.54 lakh (@ ₹1.33 lakh each for 38 units), resulting in excess release of ₹2.66 lakh. This resulted in blocking up of a total amount of ₹14.66 lakh (₹2.66 lakh + ₹4 lakh\*3) with KRIDL.

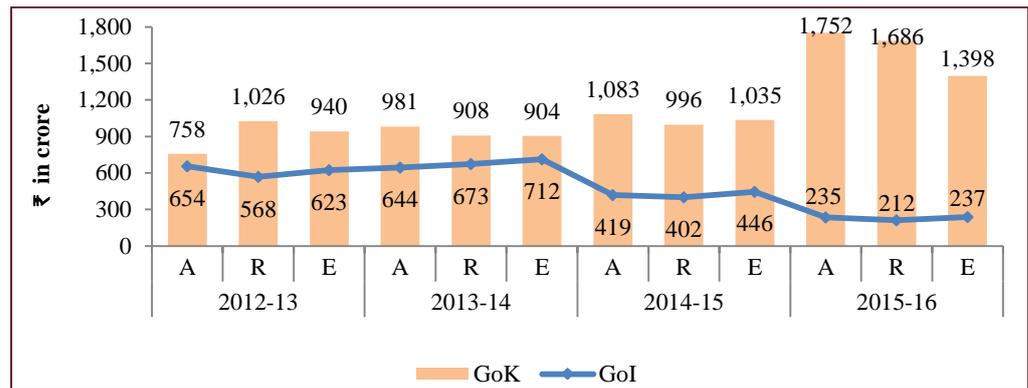
Further, the EEs did not comply with many of the conditions laid down by the Government such as inspection of WP units, testing of raw water samples before designing the treatment system, establishment of WP units only in quality affected habitations *etc.* The details of conditions and their compliance are indicated in **Appendix 3.7**.

### **3.1.12 Financial Management**

#### **3.1.12.1 Financial position**

The component-wise allocation, releases and expenditure during the period 2012-13 to 2015-16 under NRDWP is detailed in **Appendix 3.8**. Total allocation, releases and expenditure by GoI and GoK are exhibited in **Chart 3.3**:

**Chart 3.3: Allocation, releases and expenditure by GoI and GoK under NRDWP**



Source: IMIS (D-13)

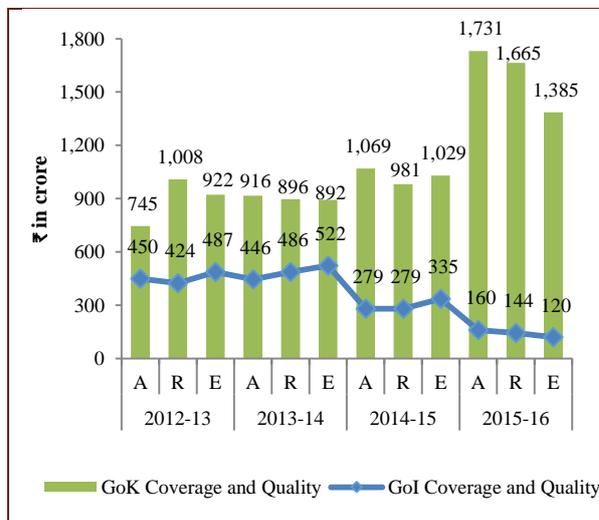
A- Allocation R- Release E- Expenditure

As can be seen from the above chart, there was shortfall in release of funds against the allocation by GoI during the audit period except during 2013-14 where there was excess release. The shortfall in release was due to non-fulfilment of the prescribed conditions such as excess opening balance, excess expenditure on O&M, etc. We observed that GoI reduced an amount of ₹65.68 crore while releasing the grants during the period 2012-13 to 2015-16. The department did not explain the reasons for not adhering to the guidelines and conditions for release of funds.

**3.1.12.2 Release of funds in excess of matching grants**

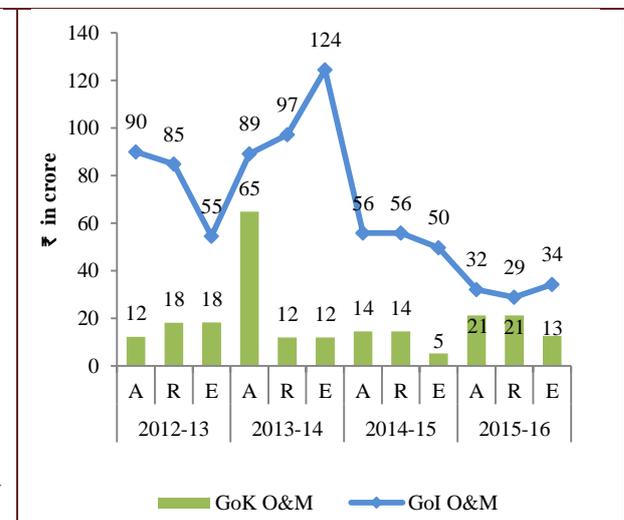
The State Government had to provide matching grants under Coverage, Quality and O&M components. We observed that the State Government provided excess allocation under Coverage and Quality (**Chart 3.4**) and less than the required allocation for O&M (**Chart 3.5**). Correspondingly, the funds released by the State Government were in excess of its share by ₹3,217 crore during the period from 2012-13 to 2015-16 under Coverage and Quality. The excess release of funds was injudicious in view of the huge outstanding balances in bank accounts as described in *Paragraphs 3.1.12.3 and 3.1.12.6*.

**Chart 3.4 – Coverage and Quality**



Source: IMIS (D-13)

**Chart 3.5 – Operation & Maintenance**



A- Allocation R- Release E- Expenditure

### 3.1.12.3 Operation of unauthorised bank accounts

As per the NRDWP guidelines, the SWSM is to operate two accounts in a branch of any public sector bank for maintaining the Programme account<sup>17</sup> and Support Activity account<sup>18</sup>. These accounts were to be savings accounts and once selected, these accounts were not to be changed without the concurrence of MDWS. Accordingly, two savings accounts, one each in Syndicate Bank, BWSSB Branch (Programme Fund account - 04462010091577) and Corporation Bank, Malleswaram Branch (Support Activity account – SB01038111) were opened and communicated (August 2009) to MDWS.

We observed that the department was operating as many as 106 accounts in different banks<sup>19</sup> apart from the two main accounts. The department neither furnished the reasons for opening these accounts with different banks nor provided the necessary documents in this regard. The permission of GoI for opening and operating these accounts was not made available to audit, due to which audit had to conclude that these accounts were unauthorised. The Assistant General Manager, Syndicate Bank, BWSSB Branch (AGM) stated (January 2017) that the accounts were opened on the oral instructions of the department.

Out of these 106 accounts, six accounts were opened (August 2010) in Syndicate Bank, BWSSB Branch on the request of Director, RWS, GoK. Two<sup>20</sup> of these six accounts were not operated since the beginning for reasons not forthcoming from the records. Funds were transferred to the other four accounts<sup>21</sup> from the Programme Fund account periodically for further release to ZPs, making payments to contractors, *etc.* One more account (04462010009305) was opened (January 2011) in the same branch. However, the same was also not operated since the beginning.

Further, 97 accounts were opened (31 March 2011) in Syndicate Bank, BWSSB Branch, of which 96 accounts had only one credit transaction each (totalling ₹525 crore), by way of transfer from the four accounts stated above. The entire amount along with interest was re-credited back to the four accounts on 11 April 2011. Thereafter, no transactions took place in these accounts except for one account-“Tumakuru Sustainability account”. This account had a credit of ₹60.04 crore on 3 December 2014, of which ₹48.46 crore was transferred from KRWSSA 2010-2011 account. The source from which the balance of ₹11.58 crore was transferred could not be traced to the other existing accounts. However, the same was debited on the same day

<sup>17</sup> Programme Fund account comprises funds received for Coverage and Quality, O&M and Sustainability components.

<sup>18</sup> Support Activity account comprises funds received for Support Activity and WQMSP.

<sup>19</sup> Syndicate Bank, BWSSB Branch – 104 accounts; Andhra Bank – one account and Dena Bank – one account.

<sup>20</sup> Calamity account (04462010094553) and Normal Programme-Submission Programme account (04462010094607).

<sup>21</sup> Desert Development Programme (DDP) Areas account (04462010094568), Normal Programme account (04462010094572), O & M account (04462010094591) and Sustainability account (04462010094587)

indicating possibility of existence of more unauthorised accounts linked to this account. The balance in the account as at the end of March 2016 was ₹35.03 crore.

The other account (KRWSSA 2010-2011 account) was the main parking account and was credited with ₹73 crore on 31 March 2011 by way of transfer from the Programme Fund account. The details of transactions in this account are indicated in **Appendix 3.9**. Analysis of the transactions revealed a pattern of transfer of funds from the four accounts stated above to this account during the end of March 2011, March 2012 and March 2013 followed by re-credit of the funds back to the four accounts during April 2011, between April and November 2012 and April and June 2013 respectively. These inter account transfers were not supported by any authorisations from the competent authority and cannot be classified as direct transactions under the programme. The AGM admitted (January 2017) that the transfers were effected on the oral instructions of the RDPR department. The specific reasons for operation of this account needs to be investigated.

These apart, the department operated another account with Andhra Bank which was opened on 26 March 2011 without any recorded authorisation. An amount of ₹90.42 crore drawn on treasury (cheque number 724463) under the head of account 4215-01-102-9-04-132 (Capital Expenses) was deposited to this account as per the orders (26 March 2011) of the Government. This amount related to the unutilised funds under NRDWP and earlier Jalmani scheme released to various ZPs. The same was renewed and funds provided (February 2011) by the Finance Department through Supplementary Estimate-III for the year 2010-11. The amount was required to be released in turn to the ZPs for utilisation under the respective components based on the approved action plans.

Scrutiny of the bank pass sheets revealed that the amount of ₹90.42 crore was not released to the ZPs but continued to remain in the bank account. However, the entire amount was booked as expenditure in the books of accounts of the State Government (Detailed Estimates of Expenditure for the year 2012-13 (Volume V)). This was irregular and defeated the very purpose for which the funds were drawn from treasury. Further, the pass sheets indicated mostly credits since the opening of the account indicating that this account is also a parking account. The details are exhibited in **Appendix 3.10**. The amount that was withdrawn from the account during the period of three years from November 2011 to April 2014 was ₹5.73 crore of which only ₹0.73 crore pertains to payments made to contractors and releases to ZPs.

The balance ₹5.00 crore was transferred to another account in Dena Bank on 30 March 2013 with the approval of the RDPR department. The Chief Manager, Dena Bank stated (November 2015) that account opening form for this account was not found in their records. The sole transaction in the account was the credit of ₹5.00 crore from Andhra Bank. No other transactions took place in this account other than credit of interest half yearly raising serious concerns over the purpose behind opening this account. The balance accumulated as at the end of March 2016 inclusive of interest was ₹5.61 crore.

Thus, opening of the 106 accounts after 2010 was against the guidelines and most of them were not authorised by the appropriate authority. Moreover, the complicated inter-bank account transactions between these accounts around the end of each of the financial years in 2011, 2012 and 2013 point towards serious lapses of financial prudence, violation of the instructions of the Government and a possible attempt to conceal several irregularities. In the absence of a valid justification for opening of these accounts, the possibility of existence of more such accounts cannot be ruled out. Hence reconciliation of these accounts and a thorough investigation needs to be carried out.

The State Government stated (February 2017) that a Committee formed by the Government to look into the opening and operation of all these accounts has submitted a report and action is being initiated by the department for detailed reconciliation. It further stated that the balances amounting to ₹612 crore in these accounts (except the two main accounts) as of May 2016 were remitted back to Government but the accounts were not closed as enquiry was still continuing.

#### ***3.1.12.4 Short credit of interest***

As per the guidelines, a tripartite MOU had to be entered into between the bank, SWSM and MDWS. Accordingly, an MOU was entered into between Syndicate Bank, SWSM and MDWS on 14 October 2010.

As per the MOU, Syndicate Bank is required to automatically invest funds in excess of ₹500 lakh in the Programme Fund in its Fixed Deposits of maturity of one year in units of ₹25 lakh and the rate of interest on fixed deposits would be the rate of interest last notified by the Headquarters of the bank. It would pay interest on the balances in the Savings Bank account of NRDWP fund at the prevailing savings bank interest rate. The bank had to submit a certificate each year that the investments were made.

We observed that the bank had not invested the amounts in excess of ₹500 lakh under any of the accounts including the programme fund account, in contravention of the MOU resulting in short credit of interest to the NRDWP programme. Consequently, it had not furnished the required certificate about making the investments, to the department, during any of the years. The department also failed to monitor the investment of funds as per MOU. Thus, the failure of the bank to comply and the department to monitor adherence to the MOU resulted in a financial loss of ₹237 crore<sup>22</sup> approximately to the exchequer. The department stated (September 2016) that despite repeated letters, the bank had not adhered to the provisions of the MOU and that legal action was being initiated against the bank, the details of which were not furnished.

The State Government while reiterating the reply of the department stated (February 2017) that from the year 2016-17 onwards, the bank is following the provisions of the MOU.

<sup>22</sup> As per the claim (September 2016) of the department up to end of July 2015.

### **3.1.12.5 Loss of interest**

#### **(a) Andhra Bank and Dena Bank**

The Savings Bank accounts in Andhra Bank and Dena Bank were unauthorised accounts as detailed in *Paragraph 3.1.12.3*. Funds that were in normal course required to be credited to the Programme Fund account in Syndicate Bank, with which an MOU was in place, were diverted to these accounts. As these accounts were savings accounts fetching interest at the rate of four *per cent*, the parking of funds in these accounts resulted in approximate loss of interest revenue of ₹25.49 crore<sup>23</sup> to the department.

The State Government stated (February 2017) that action is being initiated regarding these deposits.

#### **(b) Corporation Bank**

The “Support Activity Fund” was being operated through a Savings Bank account in Corporation Bank and was an authorised one as per records. We observed that no MOU for keeping the amount in fixed deposits had been entered into with Corporation Bank with respect to this account. In the absence of the MOU, we could not quantify the loss of interest revenue due to the department. The balance in this account was in excess of ₹500 lakh during the period January 2011 to November 2012, August 2013 to December 2014, February 2015 to May 2015 *etc.*

**Recommendation-5 (a):** *The State Government should devise adequate controls in consultation with the concerned department, Finance Department and the banks involved to ensure that no unauthorised bank accounts can be opened and operated.*

**Recommendation-5 (b):** *The enquiry under process may be expedited and responsibility fixed on those persons who have caused loss to Government.*

### **3.1.12.6 Submission of Utilisation Certificates and incorrect adoption of closing balances**

The State Government (SWSM) had to furnish the Utilisation Certificate (UC) in the format as prescribed under the NRDWP guidelines. We observed from scrutiny of the UCs that the information regarding the coverage of quality affected habitations had not been furnished by the State Government. The opening balance, expenditure and closing balance figures indicated in the UCs varied with the figures uploaded in the IMIS and the financial statements of the Chartered Accountants (CAs) as detailed in **Appendix 3.11**. The records based on which the UCs were stated to have been prepared were not made available to audit for verification and scrutiny. Therefore, since the figures were not reconciled, the figures reported to GoI cannot be relied upon.

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<sup>23</sup> ₹50.98 crore (worked out at fixed deposit interest rate of eight *per cent* per annum) *minus* ₹25.49 crore earned at savings bank rate of four *per cent*

Further, we also observed from the financial statements prepared by the CAs that the closing balances of cash at bank adopted in the financial statements were incorrect and did not tally with the closing balances as per the bank pass sheets made available to audit. The variations between the two are indicated in **Table 3.5**.

**Table 3.5: Status of closing balance at banks**

(₹ in crore)

Balance held as at 31 <sup>st</sup> March of	In 108 bank accounts	As per CA report	Difference
2012	1,497.64	524.27	973.37
2013	1,385.34	385.03	1,000.31
2014	1,140.95	283.96	856.99
2015	760.96	236.42	524.54
2016	1,073.54	232.63	840.91

Source: Bank accounts pass sheets and Financial Statements

The above variations could be on account of not including the closing balances of the unauthorised accounts amongst other reasons, since the details of the unauthorised accounts were not accounted for by the CAs.

Reasons for non-furnishing of full information need to be investigated especially in view of the fact that several bank accounts were operated and huge closing balances were retained in these accounts, besides incorrect reporting of the financial status of the programme to GoI.

The State Government stated (February 2017) that the CA reports were prepared based on balances in the main component accounts. It further stated that action is being initiated for detailed reconciliation on the difference between the UCs and the actual figures. It also stated that the accounting procedure is being streamlined as per the guidelines from the year 2016-17.

### **3.1.12.7 Inadmissible expenditure under Support Activity**

As per NRDWP guidelines, the expenditure towards Support Activity was to be met entirely out of the Central share. The Support Activity Fund was to be used for different support activities such as establishment of WSSO, administrative expenditure and salary to staff provided on outsourcing to DWSSMs/BRCs (which is at district/taluk level), creation of Computing Environment and Management Information System, Research and Development, establishment of Monitoring Cell and Investigation Unit, Quality Control Unit, IEC, capacity building and HRD, Monitoring and Evaluation, etc.

We observed that the department had incurred an expenditure of ₹3.02 crore during the period 2012-13 to 2015-16 on ineligible items such as rent, hiring/repairs to vehicle, fuel expenses and salaries to outsourced employees at the State level, etc., as detailed in **Appendix 3.12**. Further, two test-checked districts (Kolar and Shivamogga) did not furnish the cashbook of transactions under Support Activity Fund for the years 2012-13 and 2013-14 and in Mysuru district, the information furnished was partial. In the absence of records, audit could not obtain assurance about the correctness of expenditure shown in IMIS.

The State Government stated (February 2017) that the expenditure was met out of Support Activity as sufficient funds for revenue expenditure were not provided to the department consequent on its creation. The reply is not tenable as the Support Activity was fully funded by GoI and expenditure was to be incurred only on such activities as stipulated in NRDWP guidelines. Thus, utilisation of central funds for meeting revenue expenditure was irregular.

### **3.1.12.8 Funds lying in bank accounts of ZPs**

GoK issued (March 2011 and May 2011) instructions to all the Chief Executive Officers/Chief Accounts Officers of ZPs to remit the unutilised amounts under Sustainability component to Sustainability account (04462010094587) and under other components/various other WSS to Andhra Bank account. Prior to implementation of NRDWP, the State Government was releasing funds to ZPs for implementing RWS programmes like Swajaldhara, Jalmani *etc.* These funds were maintained in the bank accounts at district level by ZPs. Under NRDWP also, funds were released to the ZPs for implementation of projects under various components.

We noticed that 30 ZPs had incurred an expenditure of ₹131.10 crore during the period 2012-13 to 2014-15 from these funds despite instructions to transfer the unutilised funds to the above accounts and an amount of ₹41.63 crore was lying with the ZPs. We also observed that two of the test-checked ZPs (Dakshina Kannada and Kolar) did not exhibit the details of five bank accounts that had a balance of ₹207.41 lakh as at the end of March 2016 in their annual accounts resulting in concealment of facts and submission of incorrect accounts to the Accountant General and higher authorities. Thus the failure of the RDPR department to monitor the bank accounts held with ZPs resulted in non-remittance of unutilised amounts in violation of Government instructions and non-accounting of transactions/funds in IMIS.

The State Government stated (February 2017) that despite issuing instructions regularly, few of the ZPs are continuing operating these bank accounts. It further stated that instructions will be issued once again to such ZPs.

**Recommendation-6: The State Government should ensure that all unutilised funds are transferred from the ZPs to the NRDWP account and action taken against defaulting officials.**

## **3.1.13 Monitoring and evaluation**

### **3.1.13.1 Evaluation of implementation of the programme**

The NRDWP guidelines prescribed the following for monitoring and evaluation of implementation of the programme.

- **Field inspections and Review by SWSM** - The monitoring of the programme was to be done through regular field inspections by State/district level officers. The SWSM was required to conduct review of the programme in the districts once in six months. SWSM had not

conducted any review of the programme, nor were field inspections done, but CE conducted meetings with district level authorities. The programme was being monitored by the Superintending Engineers of the respective circles and EEs of divisions. However, no records of the meetings were furnished to audit. The State Government stated (February 2017) that action will be taken to document the proceedings of the meetings conducted.

- **Constitution of team of experts** - A team of experts was to be constituted in the district by the DWSM to review the proper implementation of the NRDWP in different blocks, at least once in a quarter. However, such team of experts was not constituted in any of the test-checked districts.
- **Vigilance and Monitoring Committees** - A Vigilance and Monitoring Committee (VMC) was to be constituted at State, district and village level to regularly meet and monitor the progress of implementation and exercise vigilance in respect of NRDWP. We observed that VMCs were constituted at the district level in four of eight test-checked districts and no VMC was constituted in any of the GPs in the test-checked districts. No information was furnished to audit about the constitution of the VMC at the State level.
- **Nomination of Jal Surakshak** - For data collection at the household level and at the habitation level one person, preferably a woman member of VWSC was to be nominated and designated as “Jal Surakshak”. However, the envisaged *Jal Surakshak* was not nominated under any of the VWSCs. The Director, WSSO replied (April 2016) that action would be initiated to nominate the *Jal Surakshaks*.
- **Evaluation of the programme** - The State Government was required to arrange for evaluation of implementation of the RWS programmes, with the approval of SLSSC. The evaluation reports were to be used for initiating immediate remedial action as a follow-up to improve the quality of programme implementation. We observed that no evaluation study of the implementation of NRDWP was taken up though the programme was in operation for over seven years.

The State Government stated (February 2017) that evaluation study will be taken up on NRDWP through Karnataka Evaluation Authority during the current year. Thus it is observed that there has been no overall evaluation of implementation of the programme due to non-constitution of monitoring institutions at the State, district and GP levels.

### 3.1.13.2 Community monitoring and Social Audit of NRDWP

As per NRDWP guidelines, the community organisations were to provide regular and systematic information about the community needs as inputs for planning, to provide feedback for monitoring as well as for measuring the consumer’s satisfaction. Effective community monitoring especially by the VWSC members was envisaged for changing the status of community members from being passive to active partners in the planning, implementation and management of RWS services.

The community organisations were also required to conduct social audit of NRDWP once in every six months at each GP/village to ensure that the works undertaken by the PRED/related department and PRIs were as per the specifications and funds utilised were appropriate to the works undertaken. We, however, observed that social audit was not conducted at GP/village level in any of the test-checked districts. The department had released in December 2014 a sum of ₹76 lakh to the Director of Social Audit but had not ensured conducting of Social Audit on the implementation of NRDWP in the GPs/villages of the State.

### **3.1.13.3 Monitoring of water quality**

- **Lack of monitoring of functioning of laboratories** – The EEs/AEEs at the district and taluk level failed to monitor the functioning of the laboratories with regard to the testing of samples for all parameters and from all sources. Failure of the laboratories to conduct essential tests for bacteriological and chemical contaminants reflected poor monitoring of quality of water supplied.
- **Monitoring Cell and Investigation Unit with Quality Control Unit** - The NRDWP guidelines stipulated setting up of a special Monitoring Cell and Investigation Unit (MIU) at the State level headed by a senior officer. Apart from supporting staff, the MIU consisted of technical posts of hydrologists, geophysicist, computer specialists, etc. The expenditure towards MIU had to be shared in the ratio of 50:50 between GoI and the State Government. Further, it was stipulated to have a Quality Control Unit (QCU), as an integral part of the MIU.

The Director, WSSO replied (April 2016) that MIU and QCU were not established in the State as the department was newly formed and these would be formed in due course at the State level. The State Government replied that MIU and QCU will be formed in the State in the current year.

- **Surveillance Coordinators** - It was required under WQMSP to engage the surveillance coordinators at the district/GP level on honorarium basis. The Director, WSSO confirmed (April 2016) that no instruction had been issued to districts/divisions for engaging surveillance coordinators.

### **3.1.13.4 Grievance redressal mechanism**

To ensure transparency and effective delivery of services, it is imperative to put in place a suitable and effective grievance redressal mechanism at all levels of implementation of the programme, which provides for recording and acknowledging all the grievances/complaints for investigation and their timely disposal.

We observed that such a mechanism was not in place in any of the test-checked districts. At the State level, it was stated (April 2016) that the grievance redressal mechanism was being maintained through online 'call centres' and physical records were not maintained for the purpose. The call centre was, however, established only during March 2014 through outsourcing

and mechanism to record and acknowledge the written grievances/complaints was still absent.

Scrutiny of the agreement with the outsourced firm and the statement of complaints received online revealed that the nodal department had not adhered to the contract clauses with reference to number of persons to be hired for the call centre based on the calls received/attended. As per the agreement, an amount of ₹15,954 was to be paid per person per month (25 days) for 100 calls attended per day. We observed that a total of 7,383 calls were received during the period March 2014 to March 2016 and four persons were placed for the purpose as against the requirement of one person<sup>24</sup>. Consequently, the department incurred an avoidable extra expenditure of ₹11.97 lakh<sup>25</sup>.

The above shortcomings reveal weaknesses in establishing robust institutions for monitoring and evaluating the programme as well as to ensure community participation which goes against the spirit of 'demand driven' service delivery strongly advocated in the NRDWP guidelines.

**Recommendation-7:** *The State Government may ensure constitution of the Team of Experts and the Vigilance and Monitoring Committees and also establish the Monitoring Cell and Investigation Unit for enabling effective monitoring of the programme. It should also conduct social audit and ensure evaluation of the implementation of the programme so that remedial action can be taken wherever necessary.*

### 3.1.14 Conclusion

The State was deprived of the envisaged institutional support at various levels. Planning was deficient in the absence of water security plans. Projects taken up without ensuring the sustainability of the source, availability of land, etc., remained incomplete resulting in unfruitful expenditure on these projects. The State Government achieved providing 55 lpcd of water to only 14 per cent as against the envisaged 50 per cent of the rural population. Though the achievement of the State in respect of quality affected habitations was appreciable, the number of habitations that slipped back increased. Ineligible works under sustainability component were taken up and the maintenance of the sustainability structures was also deficient.

Water testing laboratories were not established in all the taluks of the State. The taluk and district laboratories were deficient in functioning as the tests for all envisaged parameters were not conducted. There were irregularities in the tender process for selection of firms for establishing of laboratories. Only 62 per cent of the water purification units were commissioned in the State.

Weak financial management resulted in the operation of many unauthorised accounts. Funds were parked in various bank accounts and transactions made without proper authorisation. Retention of huge balances and incurring of excess expenditure under O&M resulted in shortfall in release of central share.

<sup>24</sup> 7,383 calls/25 months\*25 days\*4 persons = 2.95 calls per day.

<sup>25</sup> ₹15,954 \*3\*25 months = ₹11,96,550 or ₹11.97 lakh.

Absence of proper reconciliation led to (i) variation between the figures uploaded in the IMIS, financial statements prepared by CAs and UCs submitted to GoI and consequent incorrect reporting to GoI and (ii) unnecessary transfer of funds within the various accounts maintained under the programme. Failure of the department to monitor the transfer of unutilised funds by the ZPs resulted in retention of huge funds by them. Two of the test-checked ZPs (Dakshina Kannada and Kolar) did not exhibit the details of five bank accounts that had a balance of ₹207.41 lakh as at the end of March 2016 in their annual accounts resulting in concealment of facts and submission of incorrect accounts to the Accountant General and higher authorities.

Monitoring of the programme was inadequate as SWSM had not conducted any review of the programme. The Vigilance and Monitoring Committees were not constituted in all the districts or in the GPs in the test- checked districts. Social audit was yet to be taken up and Monitoring Cell and Investigative Unit and Quality Control Units were not yet established. The evaluation of the programme through external agencies had also not been carried out.

## Section 'B'- Compliance Audit

### Department of Rural Development and Panchayat Raj

#### 3.2 Non-utilisation of funds meant for emergency works in rehabilitated villages

**The Zilla Panchayat, Ballari failed to utilise ₹13.83 crore to provide emergency basic infrastructure facilities to 16 villages rehabilitated due to floods.**

In order to provide emergency basic infrastructure facilities such as roads, drains and concrete drain works to 18 villages<sup>26</sup> in Ballari district which were rehabilitated due to floods during 2009, the State Government released ₹4.12 crore (September 2010) and ₹9.89 crore (February 2011) as first and second instalments respectively to Zilla Panchayat, Ballari (ZP) with instructions that the works to be taken up were compulsorily integrated with Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and funds were to be utilised only for material component.

Scrutiny of the records (March 2016) and additional information sought for during August 2016 showed that the first instalment was released (November 2010) by the Chief Executive Officer, ZP, Ballari (CEO) to Panchayat Raj Engineering Divisions (PREDS), Ballari (₹3.72 crore) and Hadagali (₹0.40 crore). The PRED, Ballari utilised an amount of ₹2.14 crore for the work of construction of culverts (towards material component) and remitted the balance of ₹1.58 crore to ZP in September 2016. The PRED, Hadagali had utilised ₹0.40 crore on rehabilitation works.

Consequent on release of second instalment to ZP, the CEO addressed (23 March 2011) the PREDS, Ballari and Hadagali, asking them to confirm that the funds would be utilised, if released, before 31 March 2011. As the action plans for these works were pending approval in respect of PRED, Ballari and due to paucity of time, the PREDS, Ballari and Hadagali expressed (24 March 2011) their inability to utilise the funds within the stipulated date. Notwithstanding this, the CEO ordered (29 March 2011) the transfer of ₹9.89 crore to Nirmithi Kendra, Ballari (NK) for execution of the above works. Accordingly, the funds were transferred (31 March 2011) to the Project Director, NK. We observed that the CEO had not issued any directions/action plans to the NK about the nature of works to be taken up and their period of completion.

In the absence of specific instructions, the NK did not utilise the funds except for an amount of ₹0.26 crore spent on drain works in T.S. Kudlur village of Siruguppa taluk. The CEO instructed (August/November 2012 and January 2013) the NK to either give details of the progress of work or return the balance amount to the ZP. The NK returned (March 2013) the funds amounting to ₹10.66 crore (along with interest of ₹1.03 crore and after deducting ₹0.26 crore ) to the ZP.

<sup>26</sup> sixteen villages of Siruguppa taluk and two villages of Hadagali taluk

CEO *vide* his letters addressed (June/August 2013) to the Secretary, Rural Development and Panchayat Raj Department (RDPR) requested for modification of the earlier instructions and permission to include labour component also. The RDPR permitted (January 2014) the CEO to complete the emergency rehabilitation works by utilising the funds even for the labour component. We observed that the revised action plan was approved (October 2016) after a delay of more than two years from the date of obtaining RDPR's permission (January 2014) and funds of ₹13.83 crore<sup>27</sup> continued to remain in the bank accounts of ZP even as of date (October 2016).

Thus, the action of the CEO to release funds at the fag end of the financial year to NK without specific directions as to how it was to be utilised and delay in approval of the action plan resulted in an amount of ₹13.83 crore lying unutilised and parked outside the State Government account for more than five years. The objective of providing emergency basic infrastructure facilities to the rehabilitated 16 villages remained unfulfilled.

The State Government stated (February 2017) that the works are being taken up as per the revised action plan and the funds will be utilised as per the norms. The reply is not satisfactory as it does not address the audit observation regarding release of funds at the fag end of the financial year to NK without specific directions and delay in approval of the action plan. The fact remains that despite the availability of funds, 16 flood-affected villages have been deprived of the emergency basic infrastructure facilities for more than five years.

### **3.3 Loss to Government due to non-availing of central excise duty exemption**

**Non-availing of the benefit of central excise duty exemption available on pipes supplied for eight test-checked water supply schemes in ChamaraJanagar, Mandya and Dakshina Kannada districts resulted in loss of ₹8.91 crore to the Government.**

As per the Government of India notifications<sup>28</sup>, pipes of any diameter needed for delivery of water from its source to the plant (including the clear treated water reservoir, if any, thereof) and from there to the first storage point and pipes of outer diameter exceeding 200 millimetre (mm) (100 mm with effect from December 2009), being integral part of the water supply projects, were exempted from payment of central excise duty (CED). In order that a contractor may avail of the benefit of CED exemption, a certificate was to be issued by the jurisdictional Deputy Commissioner (DC). The contract prices should, therefore, exclude the CED element. In cases where the prices were inclusive of CED, a clause should have been included in the agreements, making it mandatory for the contractor to pass on the benefit of CED exemption to the department.

<sup>27</sup> ₹1.58 crore of first instalment + ( ₹10.66 crore returned by NK + ₹1.59 crore as interest earned at ZP up to October 2016)

<sup>28</sup> Notification No. 47/2002-Central Excise dated 6.9.2002; No. 6/2006 dated 1.3.2006; No. 6/2007 dated 1.3.2007; No. 26/2009 dated 4.12.2009 and No. 12/2012 dated 17.3.2012

Test-check of records (December 2014 and May 2015) of six water supply works (estimated cost-₹59.54 crore) in Mandya and Dakshina Kannada Rural Drinking Water and Sanitation Divisions<sup>29</sup> (RDW&SD) revealed that the Executive Engineers (EEs), while preparing (2005-06 to 2010-11) the estimates, did not consider the CED exemption available on the pipes to be utilised in these water supply works. The rates adopted were as per the prevalent Schedule of Rates (SRs) which were inclusive of taxes and duties leviable, including the CED. The bid documents also did not specify that the tender (item-rate) prices should be exclusive of CED for pipes used for conveyance of water and the employer would arrange for the issue of requisite exemption certificate. The works were technically sanctioned during August 2007 to December 2010 and the Chief Engineer, Panchayat Raj Engineering Department had approved (June 2008 to August 2011) the tenders without considering this aspect.

It was seen that the EEs had arranged (February 2009 to November 2011) the CED exemption certificates for 56,893 running metres (rmt) of pipes of various sizes (100 mm to 700 mm), enabling the contractors to procure the pipes free of CED. As the rates quoted by the contractors were inclusive of CED, the EEs should have recovered the CED exemption availed of by the contractors by adjusting the same in their work bills. It was, however, seen that the EEs had failed to include appropriate clause in the contract documents that would bind the contractors to pass on the CED exemption to the department. The CED recoverable from the contractors worked out<sup>30</sup> to ₹1.34 crore (detailed in the **Appendix 3.13**).

Similarly, in Chamarajanagar district, two<sup>31</sup> water supply works (estimated cost-₹261.05 crore) were awarded (March 2014) to a contractor on Design, Build, Operate and Transfer (DBOT) basis. As per the information furnished (February 2017) by the EE, RDW&SD, Chamarajanagar, 5,90,480 rmt of pipes (excluding pipes less than 100 mm) were required, out of which 5,31,828.74 rmt of pipes were supplied up to December 2016 and the CED payable was ₹9.76 crore. Against this, a sum of ₹2.19 crore was recovered (June and July 2015) from the running account (eighth and part) bills (detailed in the **Appendix 3.14**) and balance of ₹7.57 crore was yet to be recovered (December 2016).

Thus, the failure of the EEs to avail the benefit of CED exemption and non-insertion of specific clause in the contract documents regarding refund of the same resulted in loss of ₹8.91 crore to the Government.

The State Government accepted the audit observation and stated (February 2017) that action would be taken to recover the CED amounts from the running account bills/bank guarantee. The status of recovery was awaited (March 2017).

<sup>29</sup> A separate Rural Drinking Water and Sanitation Department was created *vide* Government Order dated 4.3.2014 for effective implementation and efficient monitoring of water supply schemes which were being implemented by Panchayat Raj Engineering Department

<sup>30</sup> In the absence of purchase invoices, the rates of pipes have been adopted as per the SR (2008-09) of Karnataka Urban Water Supply and Drainage Board. The EEs need to work out the exact amount after obtaining the purchase invoices.

<sup>31</sup> Water supply scheme to 131 villages in Gundlupet Taluk and Water supply scheme to 166 villages in Chamarajanagar Taluk

### 3.4 Short recovery of liquidated damages

**Incorrect adoption of rates resulted in short recovery of liquidated damages of ₹27.14 lakh from contractors of tank rejuvenation works executed by the Panchayat Raj Engineering Division, Hassan.**

The provisions<sup>32</sup> of contract for procurement of works provide for levy of liquidated damages (LD) for delays attributable to the contractors. The LD was to be recovered at the rate of 0.1 *per cent* of the contract price per day, subject to a maximum of 10 *per cent* of the contract price. The amount had to be specified as a round figure nearest to the hundred.

During audit scrutiny (April 2016) of records in Panchayat Raj Engineering Division (PRED), Hassan for the period 2013-14 to 2015-16, pertaining to the works of rejuvenation of tanks in Hassan district, it was noticed that there were delays ranging from 28 to 532 days in completion of 14 test-checked works. These works were taken up between December 2011 and May 2012 with stipulated time of completion being 45 days from the date of commencement as per the agreements. Further, the State Government directed (September 2012) all the Deputy Commissioners and Chief Executive Officers of Zilla Panchayats not to take up, until further orders, such rejuvenation works for which work orders were yet to be issued. Despite the above Government instruction we observed that PRED, Hassan entrusted two works (tendered cost-₹33.87 lakh) during December 2012 and October 2013. The delays in completion of these two works were 654 and 351 days respectively.

The delays in completion of these 16 test-checked works were attributable to the contractors and according to the terms of the contract, LD amounting to ₹27.70 lakh was to be levied and recovered. However, as seen from the final running account bills, the LD levied and recovered on these 16 works was ₹0.56 lakh (at the rates of ₹12/₹15 for each day of delay). This resulted in short recovery of LD of ₹27.14 lakh as detailed in the **Appendix 3.15**.

The Executive Engineer, PRED, Hassan replied (July 2016) that the tank rejuvenation works were stopped as per the directives issued (January 2014) by the Principal Secretary, Rural Development and Panchayat Raj Department (RDPR) to the Deputy Commissioner, Hassan.

The State Government stated (January 2017) that work orders for these works were issued during the months of June and July 2011, which was almost the monsoon season. The contractors found it difficult to start the work in monsoon season. After the monsoon season, there were further delays due to standing water in tanks, standing crops in the surrounding lands of the tanks which hindered the vehicle movements around the tank and as flow of the funds was not commensurate, a nominal fine was imposed.

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<sup>32</sup> Clause 36 of the Conditions of Contract read with Section 5: Contract data of the Panchayat Raj Engineering Department (K/W-1 and K/W-2) as per GO dated 06.08.2005.

The replies are not satisfactory for the following reasons:

- (1) The work orders were not issued during June and July 2011. As per the departmental records, the work orders were issued during December 2011 (one case), February 2012 (one case), March 2012 (six cases), April 2012 (four cases), May 2012 (two cases), December 2012 (one case) and October 2013 (one case).
- (2) The directives issued by the RDPR in January 2014 were not applicable to these works since the work orders for these works were issued between December 2011 and October 2013.
- (3) As per the departmental records, the delays in all these cases were solely attributable to the contractors.
- (4) In the absence of extension of time for completion of these works, the imposition of nominal fine instead of the prescribed rates of the LD was contrary to the provisions of the contract.

Thus incorrect adoption of rates resulted in short recovery of LD of ₹27.14 lakh on these works.