

CHAPTER IV
COMPLIANCE AUDIT
(URBAN LOCAL BODIES)

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COMPLIANCE AUDIT

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

4.1 Wasteful expenditure

4.1.1 Wasteful expenditure due to non-utilisation of community assets created for public use at a cost of ₹6.33 crore

Community Assets viz., Community Toilets (42), Community Halls (3) and Slaughterhouses (5), created at a cost of ₹6.33 crore by Urban Local Bodies did not reach the public as these assets were not put to use and hence the intended objective of construction and utilisation of these assets by the respective Urban Local Bodies were not fulfilled.

As per 74th Constitutional Amendment¹ Act, 1992, creation and maintenance of Public Toilets and Community Halls under the function ‘Public amenities’ and creation, operation and maintenance of slaughterhouses under the function ‘Regulation of slaughterhouses and tanneries’ are some of the functions out of 18 functions listed for devolution to the Urban Local Bodies (ULBs).

A detailed study on utilisation of the Community assets, viz. Community Toilets, Community Halls and Slaughterhouses was conducted by Audit in 50 ULBs², during the period between December 2022 and February 2023 (**Appendix 4.1**). Joint inspections along with department officials of the respective ULBs were also conducted to ascertain the extent of utilisation of the community assets. The details of the above community assets in the test-checked ULBs are as follows:

Audit observations in utilisation of community assets are given in **Table 4.1**.

Table 2.1: Status of utilisation of community assets in ULBs

Sl. No.	Name of the community asset	Number of ULBs	Total number of assets	Assets in working condition	Assets not in working condition
1	Community Toilet	14	95	53	42
2	Community Hall	3	3	--	3
3	Slaughterhouse	5	6	1	5

(Source: Joint physical inspection)

¹ Recognised ULBs as the third tier of Government by assigning them specific civic functions to empower ULBs ‘to enable them to function as institutions of self-governance.

² Ten City Municipal Corporations, 23 Municipalities and 17 Town Panchayats.

(i) Community Toilets

Audit scrutiny revealed that 42 out of 95 Community Toilets in 14 ULBs constructed at a cost for ₹3.99 crore during the period from 2007-08 to 2018-19 were not put to use, as detailed in **Appendices 4.2 and 4.3**. Audit observed that 11 Community Toilets constructed for ₹2.24 crore in four ULBs were not put into use since construction, whereas 31 Community Toilets constructed for ₹1.75 crore in 10 ULBs that were put into use for the initial periods, were eventually not in use, as on date of physical inspection for the following reasons:

- (a) Non-availability of water,
- (b) Existence of the Community Toilets in remote areas from inhabitations and
- (c) Availability of Individual Household Latrine in the vicinity.

An illustrative case is detailed below:



Exhibit 4.1: Community Toilets in Thisayanvilai Town Panchayat

In Thisayanvilai Town Panchayat, all nine community toilets constructed at a cost of ₹75.10 lakh during 2016-17 were not provided with facilities, viz. wash basin, change room and ramp for differently abled people.

During joint inspection conducted on 16 February 2023, the toilet constructed at a cost of ₹9.75 lakh at Kurugapuram was not put to use since completion in March 2019.

Audit observed that water tank and doors were not available to the toilet. Audit also observed that the location of the toilet was far away from habitation area.

(ii) Community Halls

Community Hall is a building, structure, hall or room which are leased to general public either on charging of fees or free of cost.

Audit scrutiny revealed that three Community Halls in three ULBs³ constructed at a cost of ₹60 lakh during the period from 2007-08 to 2011-12 were not put to use, as detailed in **Appendix 4.4**. Audit observed that one Community Hall constructed for ₹15 lakh in Thiruniravur Municipality was not put to use since constructed in 2009, whereas two Community Halls constructed for ₹45 lakh in the other ULBs that were put into use for some time and eventually not put to use for the reasons, viz., non-provision of water and toilet facilities,

³ Thiruniravur Municipality, Valavanur and Vilampakkam Town Panchayats.

non-availability of dining hall, non-availability of bridegroom/bride room and unwillingness of the general public to take lease of Community halls, etc.

An illustrative case is detailed below:



Exhibit 4.2: Community Hall in Valavanur Town Panchayat

In Valavanur Town Panchayat, a Community Hall constructed at a cost of ₹30 lakh, was not put to use since April 2016. During joint inspection conducted on 19 January 2023, Audit observed that the Community Hall was not auctioned since 2019 and now, the Council proposed to renovate and auction thereon. Audit also observed that the Executive Officer, Valavanur Town

Panchayat had requested⁴ (January 2016) the Executive Engineer, PWD (Construction and Maintenance), Villupuram Division to fix the fair rent for the Community Hall. Pending fixation of fair rent, the Community Hall was not leased out which resulted in loss of revenue to the Town Panchayat (TP) for more than six years.

(iii) Slaughterhouses

Government of India had framed 'Prevention of Cruelty to Animals (Slaughterhouse) Rules, 2001' and laid down regulations to be adopted in the functioning of slaughterhouses⁵. Further, as per the orders of Hon'ble Supreme Court during the year 2000, all the local bodies should maintain Slaughterhouse so as to avoid the slaughtering of animals in public places and improve the infrastructure of the existing slaughterhouses for ethical treatment of animals as insisted by Tamil Nadu Pollution Control Board (TNPCB).

While extracting edible offal⁶ in the slaughtering of animals, wastes consisting of non-edible offal, viz., dung, sludge from wastewater treatment, bones, etc., generated are to be disposed of, as regulated by law to ensure good standards of hygiene, the prevention of the spread of disease and the minimisation of needless animal cruelty.

⁴ Letter number A1/70/2013 dated 06-01-2016.

⁵ A place wherein the killing or destruction of any animal for the purpose of food and includes all the processes and operations performed on all such animals, as regulated by the local bodies.

⁶ Lungs, large intestines, various glands, animal tissues, organs and various body parts of the animals slaughtered.

Audit scrutiny revealed that five out of six Slaughterhouses in five⁷ ULBs constructed at a cost for ₹1.74 crore during the period from 2007-08 to 2018-19 (as detailed in **Appendix 4.5**) were not put to use for the reasons, viz., non-provision of modern infrastructure facilities and non-obtaining of consent from TNPCB respectively.

An illustrative case is detailed below:



Exhibit 4.3: Construction of slaughterhouse in Erode City Municipal Corporation

In Erode City Municipal Corporation, the Slaughterhouse constructed during 2016-17 by incurring an expenditure of ₹52.86 lakh was not put to use since completion in October 2019. Audit observed that permission from TNPCB to ‘operate the slaughterhouse’ was not initially sought and consent applied (June 2019) thereon was awaited.

During joint inspection conducted in the Slaughterhouse on 26 December 2022, the Slaughterhouse was not put to use and machinery/equipment for slaughtering the animals was not provided.

Conclusion

The benefits of the 50 community assets viz., 42 Community Toilets, three Community Halls and five Slaughterhouses, created at a cost of ₹6.33 crore did not reach the public as these assets were not put to use. The intended objective of construction of these assets were not fulfilled, leading to wasteful expenditure of ₹6.33 crore.

The matter was reported to the Government in March 2023 and reminded during May 2023/September 2023.

The Department⁸ replied (November 2023), that out of 50 community assets, they have started utilising 37 assets after being pointed out in Audit and gave reasons⁹ for non-utilisation of the remaining assets, till date. Audit did a test check/verification of the assets put to use in 15 cases¹⁰ (12 Toilets, two Community Halls and one Slaughterhouse) during November 2023. On joint physical verification, Audit noticed that (a) out of 12, three toilets were not functional; (b) both the community halls rented out were being used as godowns

⁷ Thanjavur and Thoothukudi Corporations; Erode, Tiruttani and Tiruvarur Municipalities.

⁸ Director of Municipal Administration and Director of Town Panchayats.

⁹ Damaged conditions accessibility issues for the public, Construction/implementation of IHHL, Non-availability of water, TNPCB consent awaited, Public agitation etc.

¹⁰ (a) Community Toilets - Arakkonam, Tenkasi and Vandhavasi Municipalities, (b) Community Hall - Valavanur and Vilampakkam Town Panchayats and (c) Slaughter House - Tiruttani Municipality.

and (c) the slaughterhouse is yet to be put to use. Thus, after being pointed out by Audit, efforts are underway to put the idling assets to use. Further report regarding the utilisation of the remaining 13 community assets is awaited.

The ULBs should conduct a detailed study before creating the assets for their necessity and utility and should also ensure basic facilities such as providing adequate water supply, proper room/door etc., are provided for and duly maintained periodically.

The ULBs concerned should obtain necessary permission from TNPCB for use of the slaughterhouse.

As regards the management of Community Halls and Slaughterhouses in the ULBs, leasing of the assets to third party for better maintenance and realisation of remunerative income thereon to the ULBs should be explored.

4.1.2 Wasteful expenditure of ₹1.05 crore

Construction of Resource Recovery Centre in water body by Dhaliyur Town Panchayat led to demolition of the same on a direction from Hon'ble High Court and subsequent redevelopment of the water body has resulted in wasteful expenditure of ₹1.05 crore.

The Municipal Solid Waste (Management and Handling) Rules, 2000 (SWM Rules) stipulates that the Municipal Authority should organise house-to-house collection of solid waste and segregate it as biodegradable and non-biodegradable. As per Schedule II of the Rules *ibid*, the wastes should be collected and processed by composting, vermin-composting, anaerobic digestion or any other appropriate biological processing for stabilisation. Schedule III of the Rules *ibid* envisages that the landfill site shall be away from habitation clusters, forest areas, water bodies, monuments, national parks, wetlands and places of important cultural, historical or religious interest.

Government of Tamil Nadu (GoTN) issued (February 2011) orders about availability of lands for creation of compost yard to local bodies at free of cost.

Audit scrutiny at Kalinganaickenpalayam Village of Dhaliyur Town Panchayat (TP) revealed (December 2021) that a site¹¹ was identified by the TP itself for Solid Waste Management Resource Recovery Centre (RRC) and it was constructed at a cost of ₹56.09 lakh. The details of expenditure being ₹20.07 lakh for construction of Windrow Platform (2014-15) and ₹36.02 lakh towards construction of Vermi-composting centre, compound wall, watchman room, road work and lighting facility in 2018-19. After construction, the RRC was being utilised for segregation of waste and production of vermin-compost since 2019 by the TP.

¹¹ Survey Nos.862/A2, 862/3, 863/IA, 863/7A2 and 863/IA3.

However, it was observed that the RRC was constructed on a water body (*Kuttai*) as per the land revenue records. The Hon'ble High Court of Madras, based on a Writ Petition, ordered (April 2021) the TP to remove the RRC and redevelop the water body. Based on the Hon'ble Court order, the RRC was demolished on 16 July 2021. The redevelopment of the water body has been undertaken at an estimated cost of ₹49 lakh and the work is in progress (March 2023).

Exhibit 4.4: Demolition of Constructed Resource Recovery Centre



In this connection, Audit observed the following:

- (i) The Dhaliyur TP while identifying the site for RRC violated the Rules *ibid* envisaging that the landfill site shall be away from habitation clusters, forest areas, water bodies, monuments, national parks, wetlands and places of important cultural, historical or religious interest.
- (ii) The local bodies shall maintain a register containing the details of grazing grounds, threshing floors, burning and burial-grounds, cattle-stands, cart-stands and water bodies like tanks/ponds. Though the TP maintained the Register of *Poramboke*¹², it was outdated without any updation after 2001-02.
- (iii) These failures led to TP constructing the RRC in a water body without adhering to the norms as per SWM Rules which led to wasteful expenditure of ₹56.09 lakh and avoidable expenditure of ₹49 lakh for redevelopment of the water body after demolition. In addition, the TP would also incur an additional expenditure on creation of a new RRC on identification of the site.

The matter was reported to the TP (March/April 2022) and to the Government (November 2022). The Government while accepting (April 2023) the audit observation stated that restoration of water body has commenced and an expenditure of ₹11.53 lakh was incurred up to October 2022. Further it also stated that the TP is taking follow-up action in obtaining the land from

¹² Government land.

Animal Husbandry Department for construction of RRC. Further reply is awaited (June 2023).

The Government should fix responsibility for the wrong selection of land and ensure restoration of water body, strict adherence to the Rule provision with regard to identification of land for such projects. The Government should also ensure that alternative site for RRC be identified at the earliest to avoid dumping of waste in unscientific manner.

4.2 Loss of revenue

4.2.1 Non-collection of profession tax by ULBs to the tune of ₹7.04 crore

Tax on profession though payable as per the provisions of the Act was not paid to the ULBs by M/s. Tamil Nadu State Transport Corporation Limited even though the same was collected by them from their employees. Further, the ULBs also failed to take effective action to collect the same resulting in non-remittance of tax on profession of ₹7.04 crore

The District Municipalities Act, 1920 and the concerned City Municipal Corporation Act, provides for levy of tax on profession, trade and employment. The tax on profession shall be paid on half-yearly basis at the rates specified by the Council of the local bodies concerned.

Government ordered¹³ (January 1999) that the Drawing and Disbursing officer of Central or State Government Departments, undertakings and private companies, etc., shall recover the half-yearly tax as fixed by the municipality in the pay bill of the employee for the months of August and January of every year. Drawing and Disbursing officer shall make arrangements to remit the tax amount in full to the municipality before the 15th September and 15th February of every year along with the details as in Form 1, including those of self-drawing.

Any amount remaining unpaid after the dates specified for its payment, the employer shall pay, in addition to the amount due, interest at one *per cent per mensem* of such amount for the entire period of default.

Scrutiny of records in five test-checked Urban Local Bodies¹⁴ (ULB) revealed that M/s. Tamil Nadu State Transport Corporation Limited (TNSTC), a State Public Sector Undertaking, had not remitted the tax on profession for a period

¹³ G.O. Ms. No.11, Municipal Administration and Water Supply (Elect) Department, dated 12-1-1999.

¹⁴ Coimbatore City Municipal Corporation, Hosur Corporation, Pallipalayam Municipality, Pollachi Municipality and Salem City Municipal Corporation.

between 2005-06 and 2021-22. Further, scrutiny of the TNSTC Auditor's Report revealed that the TNSTC had indeed recovered/collected the tax on profession from the respective employees. However, it failed to remit the same to the ULBs concerned.

Thus, failure on the part of ULBs to ensure timely collection of tax on profession from TNSTC and also by the TNSTC to remit the tax so collected promptly had resulted in non-collection of tax on profession to the tune of ₹7.04 crore. **(Appendix 4.6)**. It is pertinent to mention that interest at 12 *per cent* is also leviable for the period of default.

After this was pointed out to the Government (March 2023), the Government accepted (April 2023) the Audit observation and stated that instructions were issued to the Drawing and Disbursing Officers to recover the profession tax from the salary and remit it to the concerned ULBs before 15th of September or 15th February of each of the half-year. It further stated that in case of non-remittance, it should be recovered with interest, up to date assessment should be done and ensure settlement of previous arrears of profession tax if any in a week's time. Further report is awaited (May 2023).

The Department should take up the issue of non-payment of profession tax to the Transport Department and to the concerned TNSTCs to recover the amount due from the Transport Corporations.

The Department should institute a mechanism for ascertaining collection of tax on profession by the employers and ensure timely remittance to the concerned ULBs and periodically assess the accounts of PSUs for status of collection of tax on profession.

4.2.2 Non-levy of vacant land tax amounting to ₹3.95 crore

Vacant land tax amounting to ₹3.95 crore was not levied by two City Municipal Corporations between the period 2007-08 and 2021-22 in respect of land held by M/s. Electronics Corporation of Tamil Nadu Limited.

As per Section 121 (4) (a) of the Salem City Municipal Corporation Act, 1994, the Council shall, in the case of lands which are not used for agricultural purposes and are not occupied, levy the property tax on such lands at such rates as it may fix, having regard to its location and subject to the minimum and maximum rates per square feet as may be prescribed by the Government.

The Commissioner of Municipal Administration (CMA) instructed (July 1998) vide Circular¹⁵ that all vacant lands other than agricultural lands within

¹⁵ CMA circular Roc.No.69517/97/R1 dated 1 July 1998.

Urban area have to be assessed to property tax and ₹0.10 per sq.ft was fixed as the basic tax for vacant land. Government issued orders¹⁶ (August 2009) for levy of property tax on vacant lands with reference to its location.

As per Section 168 of the Act (as amended in 1997), if any person liable to pay any tax or fees has escaped assessment, the Commissioner may, at any time within six years from the date on which such person should have been assessed, serve a notice for assessing him to tax or fee. The CMA issued circular¹⁷ (April 2009) clarifying that in case of escapement of any assessment, tax should be levied for 13 previous half-years.

(a) Salem Municipal Corporation, had issued resolution¹⁸ (October 2009) to adopt the August 2009 G.O thereby fixing the vacant land tax rates at ₹0.40 per sq.ft (Zone C), ₹0.30 per sq.ft (Zone B) and ₹0.20 per sq.ft (Zone A).

Audit scrutiny of Salem Municipal Corporation revealed that the Government of Tamil Nadu had alienated¹⁹ (March 2007) land measuring 164.26 acres²⁰ in Salem in favour of M/s. Electronic Corporation of Tamil Nadu (ELCOT) for formation of Information Technology Park. ELCOT was permitted (March 2018)²¹ to retain 53.33 acres (23,23,055 sq.ft) of land and surrender 110.93 acres out of 164.26 acres back to the Government. Out of the total extent of 23,23,055 sq.ft, an extent of 1,08,867 sq.ft lies in Zone B and the rest in Zone C.

Audit observed that vacant land tax was not/short levied from ELCOT for the 23,23,055 sq.ft from April 2007 to 2022 as detailed in **Appendix 4.7**. The non-levy/short collection of vacant land tax amounted to ₹2.33 crore.

After this was pointed out (March 2020), the Department levied ₹68.33 lakh and collected ₹19.80 lakh from ELCOT (January 2021).

The Government, in its reply (July 2022) accepted the audit observation for levy of vacant land tax from the period 2015 to till date. In respect of the period from April 2007 to 2014, it stated that as per records, the land was converted to other purpose only after approval of Directorate of Town and Country Planning. Hence vacant land tax during this period was not levied by Salem Municipal Corporation.

¹⁶ G.O (Ms.) No.151 Municipal Administration and Water Supply (Election) Department dated 20 August 2009.

¹⁷ CMA circular Roc.No.38714/2009/R1 dated 2 April 2009.

¹⁸ Salem City Municipal Corporation resolution No. 223 dated 30 October 2009 (A1/16079/2009).

¹⁹ G.O. Ms. No. 114 Revenue Department LD (7) dated 07 March 2007.

²⁰ In S.F.No.1/1, 2/1 and 163/1 of Jagirammalayam Village, Omalur Main Road (Zone C and B).

²¹ G.O.Ms. No. 102 Revenue and Disaster Management Department, Land Disposal Wing LD (7) (1) section dated 12 March 2018.

The Government reply is not acceptable since as per the G.O²² dated March 2007, the land was transferred to ELCOT from April 2007 and as such vacant land tax is leviable from that year onwards.

The Government should assess, vacant land tax in respect of cases pointed out by Audit and also in respect of similar cases that are yet to be assessed and evolve a system to avoid omission in future.

(b) Vilankurichi Village Panchayat was added (August 2011) to Coimbatore City Municipal Corporation (CCMC) and there was no system to levy vacant land tax in the village prior to 2011. CCMC resolved²³ (October 2017) to levy uniform rate²⁴ of ₹0.60 vacant land tax in respect of all wards of CCMC citing the reasons to meet out the expenditure incurred in respect of road works, street lighting, water supply and drainage.

Audit scrutiny of CCMC revealed that the Government of Tamil Nadu had alienated²⁵ (June 2005 and May 2007) land measuring 61.59 acres²⁶ (26,82,860 sq.ft) in Vilankurichi Village, Coimbatore North in favour of ELCOT for setting up Information Technology Park. ELCOT leased (February and March 2008) an extent of 9.5 acres each (8,27,640 sq.ft) to two firms and transferred (May 2015) 17.77 acres (7,74,061 sq.ft) through a gift deed to CCMC.

The remaining parcel of land measuring 24.82 acres (10,81,159 sq.ft) of vacant land is in possession of ELCOT Ltd. However, this extent was not assessed to vacant land tax by passing a resolution to the effect. It is pertinent to mention that in a similar situation, the Thoothukudi City Municipal Corporation resolved (April 2012) to levy vacant land tax in respect of vacant lands situated in added areas immediately on merger of new areas (January 2011). Instead the CCMC merely addressed the Government²⁷ for clarification in regard to levy of vacant land tax.

However, the CCMC did not levy vacant land tax even after passing of resolution during October 2017 which resulted in non-realisation of revenue amounting to ₹58.38 lakh from 2017-18 to 2021-22 (nine half-years). Further failure to pass timely resolution had resulted in loss of revenue of ₹1.04 crore for the period from 2009-10 to 2016-17 (16 half-years).

The matter was referred to Government in November 2022. The Government accepted (April 2023) the audit observation and stated that demand notice for

²² G.O.Ms.No.114 Revenue Department dated 7 March 2007.

²³ Coimbatore City Municipal Corporation resolution No. 237 dated 16 October 2017.

²⁴ Earlier CCMC resolved (Resolution No.208 dated 29 December 2011) to continue the existing rate of vacant land tax viz., between Nil rate to ₹0.40 per square foot per half-year for the added areas with CCMC.

²⁵ G.O. Ms. No. 353 Revenue Department LD 5(2) dated 07 June 2005 and G.O.Ms.No.230 Revenue LD(5) Department dated 02 May 2007.

²⁶ 29.08 acres in S.F.No.426 and 32.51 acres in S.F.Nos. 458, 459 and part of 461, 462, 463, 465 and 466 of Vilankurichi Village, Coimbatore North.

²⁷ Coimbatore City Municipal Corporation resolution No. 208 dated 29 December 2011.

vacant land tax of ₹1.88 crore has since been issued up to 2022-23 (II half-year). The Government further stated that the matter is being pursued with ELCOT for collecting the amount. Further reply is awaited (May 2023).

The Government should ensure collection of the amount of demand raised and to assess, vacant land tax in respect of similar cases that are yet to be assessed and evolve a system to avoid omission in future.

4.2.3 Loss of revenue on property tax- ₹1.61 crore

Failure on the part of the Coimbatore City Municipal Corporation to assess the Super Speciality Hospital under Special Buildings as envisaged by the Government of Tamil Nadu guidelines resulted in loss of revenue on property tax amounting to ₹1.61 crore for six half-years.

Under Section 121 of Coimbatore City Municipal Corporation Act, 1981 (Act), property tax should be levied on all buildings and lands within the city. Government of Tamil Nadu (GoTN) ordered (November 2007) revision of property tax in all the Municipal Corporations, Municipalities and Town Panchayats with effect from 01 April 2008. Instructions issued (February 2008) by GoTN *inter alia* provided for fixation of separate basic value by the concerned local body in respect of buildings coming under Specialised Category such as star hotels, theme parks, multiplexes, shopping malls, air conditioned wedding halls, super speciality hospitals etc.

Accordingly, Coimbatore City Municipal Corporation (CCMC) resolved (May 2008) to revise the property tax with effect from 01 April 2008 and fixed the basic value for various categories. However, it failed to include Super Speciality Hospitals along with the 'Specialised category' as envisaged by the GoTN guidelines of February 2008.

It is pertinent to mention that Salem City Municipal Corporation has resolved (March 2008) to adopt the specific guidelines issued (February 2008) by GoTN and fixed the basic value for 'Specialised Category' (including Super Speciality Hospitals) of buildings at four times of the basic value applicable to the area in which the property lies for arriving at the annual value for 'Specialised Category' for assessing property tax.

Scrutiny of records (March 2022) relating to CCMC revealed that in respect of one assessment *viz.*, a Super Speciality Hospital, property tax from 1 April 2019 was to be levied at the rates applicable to 'Specialised Category' for arriving at annual value. Instead it was assessed under Commercial Category. This was due to the failure on the part of the CCMC to categorise the Super Speciality Hospital under 'Specialised Category' as envisaged by the GoTN guidelines of February 2008. This had resulted in loss of revenue on property tax amounting

to ₹1.61 crore for the period from the first half-year of 2019-20 to the second half-year of 2021-22. (Appendix 4.8).

The matter was referred to Government in October 2022; The Government replied (April 2023) that the Council in their discretion resolved (May 2008) on the subject to fix the property tax for hospitals, marriage halls and shops at ₹10 per sq.ft, and the Commissioner is under obligation to give effect to the resolutions passed by the Council.

The reply is not acceptable as CCMC had failed to categorise the Super Speciality Hospital under ‘Specialised Category’ as envisaged in the Government guidelines. Had the categorisation been enforced, appropriate rates applicable to the special category building could have been levied. Further reply is awaited (May 2023).

The Government should issue suitable instructions to all the ULBs to take into consideration, the recommendations/guidelines issued periodically and to evolve a system wherein such cases pertaining to generation of revenue are referred to the appropriate Board/Committee before implementation of the same.

4.3 Undue favour to contractor

4.3.1 Procurement of Battery Operated Vehicles

The State High Powered Committee (SHPC), under Swachh Bharat Mission, approves projects including procurement of Battery Operated Vehicles (BOVs) for Solid Waste Management by the Urban Local Bodies. The estimated cost per BOV was ₹1.80 lakh. SHPC through its meetings sanctioned purchase of 5,492 BOVs to 647 ULBs at a cost of ₹98.79 crore.

Section 171 of the Central Goods and Services Tax Act, 2017 provides that any reduction in rate of tax on any supply of goods or services or the benefit of tax credit shall be passed on to the recipient by way of reduction in prices. The Goods and Services Tax (GST) rate on electrically operated vehicles was reduced from 12 to 5 *per cent* with effect from 01 August 2019.

(a) Undue benefit to the suppliers - ₹57.76 lakh

Reduction in rate of Goods and Services Tax of seven *per cent* was not passed by the suppliers to ULBs, for 524 Battery Operated Vehicles, resulting in undue benefit of ₹57.76 lakh to the suppliers.

Audit of 59 ULBs was conducted from February 2020 to October 2021. It was observed that in 36 ULBs, work orders for purchase of 524 BOVs were issued

between October 2018 and July 2019, when the GST rate was 12 *per cent*. The supplies were effected between August 2019 and January 2020, when the GST rate was reduced to five *per cent*. However, the suppliers did not pass on the benefit of reduced GST of seven *per cent* to the ULBs, but instead increased the base price of the BOVs and showed the reduced rate of five *per cent*. This resulted in undue enrichment to suppliers by ₹57.76 lakh (**Appendix 4.9**) at the cost of Government exchequer.

The Government replied (June 2022) that notice has been issued (March 2022) to the suppliers of 18 Town Panchayats of Madurai Zone to repay the excess payment. Further replies in respect of other zones are still awaited (May 2023).

Government should include a suitable provision in all the tenders for passing on the benefits of reduction of the statutory levies to the procurement agencies of the Government. Recovery from other zones should also be effected under intimation to Audit.

(b) Cost difference due to supply of different batteries as against order - Undue benefit ₹51.56 lakh

Cost difference due to supply of Lead Acid Battery instead of Lithium Ion Battery in nine ULBs for 334 BOVs purchased resulted in undue benefit of ₹51.56 lakh to the contractor.

As per the purchase orders of ULBs, specification for the supply of BOVs indicated that the BOVs should be fitted with 60V 40AH²⁸ Lithium-ion battery (LIB)²⁹.

Audit test-checked 59 ULBs³⁰ involving 1,350 BOVs and noticed in one Corporation and eight Municipalities that 334 BOVs supplied to ULBs were fitted with four or five 12V 80AH Lead Acid Battery (LAB) as against the specified one 60V 40AH Lithium-ion battery. The difference in cost per BOV on account of supply of different type of batteries are detailed below:

²⁸ V-Volt, AH- Amp hours.

²⁹ Lithium-ion battery is preferred over Lead Acid Batteries (LABs) for the reason that it has longer life, gets charged quickly.

³⁰ Dindigul Corporation, Regional Director of Municipal Administration, Tirunelveli (19 Municipalities), Regional Director of Municipal Administration, Chengalpet (18 Municipalities), Dharapuram, Tiruvarur, Vandavasi Municipality, ADTP Madurai (18 TPs).

- In Dindigul Corporation, even though the battery type included in the bid was LIB, 100 BOVs were supplied with four 12V 80AH LABs instead of one LIB in each BOV. The difference in battery cost works out to ₹19,500³¹ per BOV. This led to supply of batteries of lower standard and life as against the specified higher type of battery and also undue benefit to the contractors of ₹19.50 lakh (**Appendix 4.10**).
- Similarly, in five³² Municipalities, even though the bid included only LIBs, 149 BOVs were supplied with five LABs in each BOV. The difference in battery cost worked out to ₹13,700 per BOV and consequently resulted in undue benefit to the contractors of ₹20.41 lakh (**Appendix 4.10**).
- Further, in violation of the specifications for battery in BOV mentioned in the proceedings, three more ULBs³³ procured 85 BOVs with LABs only instead of LIBs. Due to this, there was similar undue benefit to the contractors to the tune of ₹11.65 lakh (**Appendix 4.10**).

It is pertinent to mention that Joint Physical Verification (JPV) was conducted in respect of 54 BOVs in three ULBs³⁴ (Tirunelveli region). The JPV revealed that while it was certified that the BOVs received by the ULBs were fitted with LIBs whereas the BOVs were actually fitted with LABs. Thus the certificate issued by the ULBs were factually incorrect.

Thus, the contractors supplied BOVs fitted with LABs instead of LIBs in nine ULBs for 334 BOVs which resulted in undue benefit of ₹51.56 lakh to the contractors.

The matter was reported to the Government in January 2022. The Government replied (June/September 2022) that entire amount of ₹51.56 lakh was recovered from the contractors in all the nine ULBs. In this regard, it was further noted that the State High Power Committee sanctioned purchase of 5,492 BOVs for 647 ULBs. Out of these, Audit test check revealed that 59 ULBs had procured 1,350 BOVs. Considering the fact that 334 BOVs (25 per cent) procured by nine ULBs had LAB instead of LIBs, the Government may examine these issues in the remaining 4,142 BOVs procured in all ULBs.

Further, no responsibility was fixed on the concerned officials and contractors for purchase of BOVs with LABs instead of LIBs even though the recovery was made.

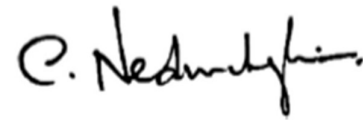
Further report from Government is awaited (May 2023).

³¹ Difference in cost is worked out based on the actual cost paid for one Lithium-ion battery (₹42,712) and the market price @ ₹5,800 for one LAB.

³² Ambasamudram, Kayalpattinam, Rajapalayam, Tiruvarur and Vickramasingapuram. Chengalpattu, Cuddalore and Nellikuppam.

³⁴ Ambasamudram, Kayalpattinam and Vickramasingapuram.

The Government should evolve a suitable monitoring mechanism to ensure that the ULBs purchase only those models/specification of components that are approved and tendered. Responsibility should be fixed against the concerned officials and the contractors who received/supplied lower standard items other than specification prescribed in tenders.



(C. NEDUNCHEZHIAN)
Principal Accountant General (Audit-I),
Tamil Nadu

Chennai
The 17 April 2024

Countersigned



(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

New Delhi
The 26 April 2024