

CHAPTER VI

AUDIT OF TRANSACTIONS

URBAN DEVELOPMENT DEPARTMENT

AMRAVATI MUNICIPAL CORPORATION

6.1 Unfruitful expenditure

Commencement of work of underground drainage system without proper assessment of finance by Amravati Municipal Corporation resulted in unfruitful expenditure of Rs 33.78 crore

In order to overcome the unhygienic living condition created by waste water flowing into the open nallas from the city, the construction of underground drainage system in seven drainage zones with six pumping stations and two sewerage treatment plants in the jurisdiction of Amravati Municipal Corporation (AMC) was administratively approved (November 1997) by Water Supply and Sanitation Department (WSSD) for Rs 123.04 crore. The scheme was technically sanctioned (January 1998) by Chief Engineer, Maharashtra Jeewan Pradhikarn (MJP). The sources of funds were estimated as below :

1.	Government Grant	Rs 28.71 crore
2.	Loan	Rs 82.03 crore
3.	Public Contribution	Rs 12.30 crore

MJP approached (September 1998) the Housing and Urban Development Corporation (HUDCO) on behalf of AMC for sanction of loan of Rs 82.03 crore for construction of the underground drainage system. The work of underground drainage system was divided into seven zones for better implementation of the scheme. The works in Badnera zones and Zone no 5 of Amravati were taken up for execution in anticipation of loan from HUDCO, at a tendered cost of Rs 53.92 crore (estimated cost of Rs 45.38 crore) between February 1999 and November 2004. The Government funds of Rs 28.71 crore and public contribution of Rs 5.08 crore were received by AMC up to March 2004. Meanwhile HUDCO sanctioned a loan of Rs 82.03 crore in April 2001 and an agreement was signed on 19 December 2001. As per the agreement, AMC was required to repay a loan in full taken previously by AMC from LIC. Since AMC did not fulfill the condition of repayment of LIC loan, HUDCO did not release any instalment of the loan sanctioned by it. Finally, the loan

was cancelled by HUDCO (May 2004) and the work was stopped (May 2005) after incurring an expenditure of Rs 33.78 crore.

The AMC stated (August 2006) that it was trying to raise the loan of Rs 82.03 crore step by step by issue of tax free bonds which was permitted by Government in August 2005 and further stated (September 2008) that the proposal to complete the project under Urban Infrastructure Development Scheme for Small and Medium Town (UIDSSMT) at revised cost of Rs 164.04 crore was under consideration of Government of India.

The reply of the AMC was not acceptable as no action was taken by AMC to raise the loan from open market (October 2008) even after obtaining permission for the purpose from Government of Maharashtra as early as August 2005.

Thus, commencement of the work of underground drainage system without ensuring availability of fund to complete the project rendered the expenditure of Rs 33.78 crore unfruitful besides denial of better hygienic living condition to the citizens.

The matter was referred to Government in October 2007; their reply had not been received (January 2009).

AURANGABAD MUNICIPAL CORPORATION

6.2 Avoidable expenditure on payment of electricity duty

Failure of the Aurangabad Municipal Corporation in availing exemption from payment of electricity duty resulted in avoidable payment of Rs 8.60 crore

Paragraph 3 (1) of the Bombay Electricity Duty Act, 1958 provides for levy of Electricity Duty (ED) on the energy consumed by a consumer. However, the Act exempts payment of ED by a Municipal Corporation, if the consumption of energy, *inter-alia* is for the purpose of public water works.

Scrutiny of records revealed that the Aurangabad Municipal Corporation, (AMC) paid bills to the Maharashtra State Electricity Distribution Company Ltd(MSEDCL) inclusive of electricity duty. The total amount of ED paid for the years 2004-05 and 2005-06 was Rs 3.85 crore.

The Executive Engineer, AMC Aurangabad stated (August 2007) that the water supply scheme was earlier under the administration of Maharashtra Jeewan Pradhikaran (MJP). In the year 1998, the scheme was taken over by AMC from MJP, but the change in the name of consumer was not done and hence benefit of exemption of ED was not extended to AMC by MSEDCL.

AMC authorities requested (July 2001) MSEDCL to change the name of consumer to avail exemption from payment of electricity duty. Accordingly the names of five consumer Nos. 1579, 1587, 1889, 4888 and 4896 were changed in the name of AMC in February 2006. It was, however, observed that inspite of change of name, AMC continued to make the payment of ED and an amount of Rs 4.75 crore was paid to MSEDCL during the period April 2006 to March 2008. On being pointed out, AMC stated (January 2008) that even after change in the name of five consumers, the payment of ED was made to avoid the interest payment on arrears and discontinuation of electric supply.

The reply was not tenable as there was no follow up from AMC to get the name changed for five years and avail exemption from payment of ED as per Bombay Electricity duty Act, 1958.

The fact remained that the failure of AMC in getting the name of consumer changed immediately in 1998 and lack of follow up action thereafter resulted in avoidable expenditure of Rs 8.60 crore (including Rs 3.85 crore paid to MSEDCL prior to February 2006) on ED.

The matter was referred to Government in November 2007; their reply had not been received (January 2009).

BRIHANMUMBAI MUNICIPAL CORPORATION

6.3 Non recovery of advances

Non-recovery of advances paid to Ward Officer for demolition of unauthorised structures/removal of unsafe buildings led to accumulation of arrears of Rs 9 crore

Section 378 B and C of the Mumbai Municipal Corporation Act, 1888 empowers the Municipal Commissioner to order demolition of unsanitary/unsafe buildings or unauthorised structures after following the prescribed procedure. As per the procedure, if a building is not demolished by the owner of the building within the stipulated time, the Commissioner can cause the building to be vacated, take measures to demolish the building and sell the materials thereof. The instructions also provide that any expenses incurred by the Commissioner, after giving the credit for the amount realised by sale of salvaged material should be paid by the owner of the building.

Accordingly, in Brihanmumbai Municipal Corporation(BMC), the expenditure incurred towards such demolitions are initially met by the Ward Officers by drawing advances from the Corporation's funds. All such advances drawn are required to be cleared by submitting the final detailed

accounts within three months and no further advances are to be granted till the previous advances are cleared.

The work of demolition is primarily done by the Engineering Units of the Ward offices by incurring expenditure from the amounts drawn by the Ward Officers. Demands for recovery of expenditure incurred on the demolitions have to be issued to the parties within seven days. In case the expenditure incurred on the demolitions cannot be recovered from the owners of the buildings within the prescribed period of one month, the Engineering Units would request the Assistant Assessor and Collectors of the concerned wards to recover the said amounts from the owners treating them as arrears of land revenue. Thus it follows that the Engineering Unit of BMC should take timely action to ensure recovery of expenditure and adjustment of advance.

During a test check of the records of the office of the Chief Accountant (Treasury), (CA (Treasury)), BMC, it was noticed that advances amounting to Rs 9³⁶ crore were outstanding as of May 2008.

Out of the total outstanding amount of Rs 9 crore, as much as Rs 6.59 crore related to Division I City alone. Audit scrutiny also revealed that the Corporation was able to recover only Rs 35.05 lakh during the period 2001-02 to 2006-07 and the average recovery *per annum* during the period was less than one *per cent* of the outstanding amount. Further, audit scrutiny in four³⁷ out of five³⁸ wards which were test checked in audit in BMC revealed that no account of salvaged material and sale proceeds thereof was maintained and so could not ascertain if any revenue had been realised or not from sale of salvaged materials.

On being pointed out, BMC stated (May 2008) that the amount on account of demolition of unauthorised structures and removal of unsafe buildings were to be recovered by the Ward Officers. It was further stated that no communication had been received by the concerned Assistant Assessor and Collectors from the Engineering Units of the concerned wards for recovery of these amounts as arrears of land revenue. The engineering units of five test checked ward offices also accepted the omission for non conveyance of demands to the concerned Assistant Assessor and Collector without specifying any reason. Thus the lack of coordination amongst the various units of BMC led to accumulation of arrears of Rs 9 crore.

The pendency of long outstanding dues also indicated that the CA (Treasury), who was responsible for finalisation of the accounts of BMC, had also not taken effective steps to ensure that the advances were adjusted within the

³⁶ Division I City – Rs.6.59 crore, Division II Western Suburban – Rs.0.80 crore and Division III Eastern Suburban – Rs.1.61 crore.

³⁷ A.C.L and N ward

³⁸ A.C. F (south), L and N ward

prescribed time limit. Failure to initiate timely action for the recoveries was indicative of weak internal controls.

The matter was referred to Government in June 2008; their reply had not been received (January 2009).

6.4 Undue benefit to contractor

Undue benefit of Rs 1.05 crore was extended to contractor due to non enforcement of contractual conditions relating to duty exemption

The Brihanmumbai Municipal Corporation (BMC) invited (February 2002) tenders for a water supply project for Mumbai on turnkey basis. The scope of the work included design, supply, delivery, erection/commissioning and testing of a 455 MLD water treatment plant at Panjrapur, modifications to the existing Pre-chlorination Plant at Pise and maintenance of the plant for one year including three months training to municipal staff for operation and maintenance. The BMC had appointed Tata Consulting Engineers (TCE) for feasibility study and technical consultation of the project. Seven offers were received in June 2002 and after evaluation by TCE, the tender committee treated two of the offers as technically responsive. Based on the recommendation of the TCE, the offer of M/s. VA TECHWABAG of Chennai for Rs 42.86 crore was accepted in December 2002 and work order was issued in March 2003.

As per contract condition, the cost of the work should be amended if subsequent legislation affected the cost of the work. In September 2002 the Central Government exempted items of machinery, appliances and pipes required for water supply projects for human and animal consumption from excise/custom duty.

Audit scrutiny (December 2007) revealed that the benefit of exemption of aforesaid duty in September 2002 after submission of tender in June 2002 was not considered for reduction of contract price as provided in the conditions of the contract. The cost of the work should have been arrived at taking into account this reduction, as the same was after submission of the tender in June 2002. As per the details furnished by the contractor and also certified by BMC in April 2008, the contractor had availed the exemption of duty aggregating Rs 1.05 crore in respect of the work.

Although the contractor had been paid 48 Running Account (RA) bills till April 2008 for the work, the BMC had not effected any recovery on account of duty exemption except for withholding an amount of Rs 27.33 lakh till March 2006.

On this being pointed out, the BMC initially stated (April 2008) that the amount to be recovered from the contractor was only Rs 0.36 crore. However, subsequently in October 2008 while accepting the audit contention, BMC informed the contractor that the remaining amount of Rs 0.69 crore would also be recovered from the next bill of the contractor.

The matter was referred to Government in June 2008; their reply has not been received (January 2009).

DHULE MUNICIPAL CORPORATION

6.5 Loss of revenue

Dhule Municipal Corporation failed to frame octroi rules as per the Acts in force resulting in loss of revenue of Rs 3.70 crore

Municipal Corporations are eligible for octroi grants from the Government for two years from the date of their formation. Thereafter, they are required to raise their own revenue by levying octroi within their municipal limits by framing octroi rules as per Section 149, read with Section 457(7) of the Bombay Provincial Municipal Corporation (BPMC) Act, 1949. These octroi rules framed were to be approved by the Government.

The Dhule Municipal Corporation (DMC) was formed on 30 June 2003 and was not eligible for octroi grants from July 2005 onwards as it had completed two years of its formation. It was observed (June 2006) that the DMC had not framed its octroi rules. As the preparation of these rules was delayed, the Government directed (March 2005) the DMC to apply the octroi rules of 1969, which had been framed under the Maharashtra Municipal Council, Nagar Panchayat and Industrial Township (MMC, NP & IT) Act 1965 for the purpose of levy of octroi.

Accordingly, the DMC decided to collect octroi through a collection agent from 10 July 2005 onwards and tenders were invited (June 2005) with a minimum offer price of Rs 18.50 crore per year (50 weeks) with the condition that the collection agent would pay two *per cent* of the offer price every week to the DMC. However, the decision of the DMC to levy octroi under the 1969 Rules was challenged in a writ petition filed in the Aurangabad bench of the High Court of Mumbai. It was decided by the High Court (June 2005) that the DMC was not authorised to levy octroi under the MMC, NP & IT Act, 1965 as the Act had been repealed by the Government by an amendment in 1999. The DMC cancelled the tenders in compliance with the court ruling. The DMC was further directed to frame its own octroi rules under the BPMC Act, 1949 and obtain the prior approval of Government before levying octroi.

Accordingly, the DMC framed octroi rules as per the BPMC Act, 1949 which were approved (11 August 2005) by the Government and were effective from 11 September 2005. Thereafter, after following the prescribed tender procedure, a tender with a maximum offer of Rs 31.69 crore was accepted with a condition for payment of Rs 63.38 lakh per week for 50 weeks. The contract was awarded for one year from 18 September 2005 to 17 September 2006. The octroi for the period from 11 September 2005 to 17 September 2005 was collected departmentally. No octroi could be collected for the period from 1 July 2005 to 10 September 2005.

DMC stated (March 2008) that though it had taken necessary steps to levy the Octroi from 1 July 2005 it could not be implemented as the court directed the DMC (June 2005) to frame Octroi rules under the provisions of BPMC Act, 1949. Failure on part of the State Government in giving guidance to DMC to frame Octroi rules under BPMC Act, 1949 had resulted in loss of revenue. It was also stated that the DMC had requested (March 2007) the State Government to compensate the loss suffered. The State Government's decision in this regard was awaited.

Reply of DMC is not acceptable as there was lapse on their part to frame the Octroi rules under the BPMC Act, 1949. Also there was delay in framing the octroi rules within the first 2 years itself and had this delay been avoided, the non recovery from 1 July 2005 to 10 September 2005 could have been avoided.

Thus, failure of the DMC to frame octroi rules as per the Act in force within two years of its formation and the decision to levy octroi under the repealed Act as directed by the Government, resulted in a loss of revenue of approximately Rs 3.70 crore, calculated on the basis of two *per cent* of the minimum offer price of Rs 18.50 crore per week for ten weeks and two days from 1 July 2005 to 10 September 2005.

The matter was referred to the Government in February 2007; their reply had not been received (January 2009).

DHULE AND MALEGAON MUNICIPAL CORPORATION

6.6 Penalty due to non maintenance of required power factor

Failure to maintain power factor at the required levels in time resulted in avoidable expenditure of Rs 56.01 lakh in Dhule and Malegaon Municipal Corporations

In terms of the tariff for power supply of the Maharashtra State Electricity Distribution Company Limited (MSEDCL) effective from December 2003,

the high tension (HT) consumers were required to maintain their power factor (PF) at 90 *per cent*, failing which, penal charges would be levied.

During test check of records of the Water Supply Centres, Dhule Municipal Corporation (DMC) and Malegaon Municipal Corporation (MMC) in April/May 2008, it was noticed that penal charges for HT connections amounting to Rs 56.01 lakh was paid to MSEDCL due to low PF from 2005-06 to 2007-08. These Corporations had not adopted any corrective measures to maintain the PF at 90 *per cent* by installing and upkeeping capacitors and other devices.

The Engineer, DMC while accepting the facts stated (April 2008) that corrective measures such as replacement of damaged capacitors by new capacitors of required rating and standards had been taken up now and the benefit of higher PF was being accrued to Corporation. The Deputy Engineer, Water Supply Department of MMC also stated (May 2008) that quotations for installation of capacitors of required capacity and standards had been called for in January 2007 and the same were under finalisation.

However, the reasons for the delay of 16 months in issue of work order after calling for quotations for replacement of capacitors by MMC were not furnished.

Thus, the fact remains that the failure of the Corporations to take timely action to maintain the PF at the required level by installing and upkeeping capacitors and other devices resulted in avoidable payment of penal charges of Rs 56.01 lakh during 2005-08.

The matter was referred to Government in June 2008; their reply had not been received (January 2009).

JALGAON MUNICIPAL CORPORATION

6.7 Unfruitful Expenditure

Jalgaon Municipal Corporation had taken up the development of an aerodrome, which was neither an obligatory nor a discretionary duty under the BPMC Act and that too without Director General of Civil Aviation's approval resulting in abandonment of work and wasteful expenditure of Rs 3.22 crore besides undischarged liability of Rs 8.71 crore

With a view to increase the tourist inflow to nearby world heritage tourist places, Jalgaon Municipal Corporation (JMC), in its resolution (July 1997), decided to award the work of preparation of a feasibility study report and other consultancy services on the work of development of the existing Jalgaon aerodrome to Rail India Technical and Economic Services, New Delhi

(RITES). The study report submitted by RITES included development of basic strip, runway, approach road, *etc.* The work involved augmentation of facilities for operation of Boeing-737 class of aircraft including night landing facilities.

As per Section 63 and 66 of the Bombay Provincial Municipal Corporation (BPMC) Act 1949, development of an aerodrome was neither an obligatory nor a discretionary duty of a Municipal Corporation. In spite of this, JMC resolved to grant administrative sanction to this project (June 1998). Tenders for the work were invited (December 1998) and the negotiated tender of M/s. Atlanta Infrastructure (Ltd) was accepted at an agreed cost of Rs 8.71 crore. The project was to be funded from JMC's own resources and loans from the Housing and Urban Development Corporation. A work order was issued (July 1999) prescribing the period of completion as 12 months from the tenth day of the date of issue of the work order. The time limit was extended up to 31 March 2002 for various reasons.

Before the commencement of the project, JMC was required to obtain the technical approval of the Director General of Civil Aviation (DGCA) for the site plan of the aerodrome besides clearances from the Ministry of Defence and the Ministry of Environment and Forests. Pending receipt of the clearances from the above authorities, JMC requested DGCA for site inspection (March 2000) after eight months of the issue of the work order. A joint inspection was carried out by the officials of DGCA and JMC (November 2001) following which DGCA requested for action by JMC on 13 issues which included, *inter alia*, (1) providing details of a topographical survey within a radius of 5 km of the Aerodrome Reference Point (ARP) of the aerodrome, depicting the distance/direction/elevation of all the features of the land and buildings/structures presently existing (2) providing details of the proposed runway/taxiway and apron (3) providing the site plan and the total land area in possession of JMC for the aerodrome, *etc.* DGCA also requested JMC to provide their plans for the proposed upgradation of the runway, a taxiway, aprons, lighting system, terminal building, navigational facilities, *etc.* It was observed that JMC did not furnish the plans to DGCA as a result of which DGCA could not give technical approval. In the meanwhile, before taking action on the 13 issues prescribed by the DGCA, JMC had incurred an expenditure of Rs 5.86 crore on the Aerodrome development works. The contractor stopped the work in 2002 because JMC did not supply any ground level drawings, work plans, *etc.* The contractor approached an Arbitrator appointed by the High Court with an additional claim of Rs 8.71 crore based on the contract agreement as the payment of bills and mobilisation advances were delayed by the JMC. The Arbitrator awarded the claim in favour of the contractor but JMC filed (January 2007) an appeal at Jalgaon District Court against this award which was pending. The Government of Maharashtra

informed (May 2007) JMC of their decision to transfer the said aerodrome to the Maharashtra Airport Development Company. The Government also directed (May 2007) JMC to submit a proposal to Chief Secretary, Aviation, General Administration Department, Government of Maharashtra, Mumbai for consideration of the proposal of reimbursement of expenditure of Rs 2.64 crore towards the actual work executed as intimated by JMC. As the total expenditure worked out to Rs 5.86 crore, even if this amount of Rs 2.64 crore is reimbursed by the Government, JMC would still have suffered a loss of at least Rs 3.22 crore paid as mobilisation advance to the contractor who had abandoned the work. Apart from this there is liability of Rs 8.71 crore against JMC, which is still under appeal.

Thus the improper planning of JMC in taking up development of the aerodrome, which was neither an obligatory nor a discretionary function under the BPMC Act, 1949 without DGCA's site approval as well as permission for construction resulted in the abandonment of the work and wasteful expenditure of Rs 3.22 crore from the funds of the JMC, besides an additional liability of Rs 8.71 crore.

The matter was referred to Government in May 2008; their reply had not been received (January 2009).

PIMPRI-CHINCHWAD MUNICIPAL CORPORATION

6.8 Short realisation of revenue

Pimpri-Chinchwad Municipal Corporation failed to recover the octroi in time resulting in short realisation/loss of revenue of Rs 22.91 crore and interest of Rs 6 crore

As per Section 149(1) of the Bombay Provincial Municipal Corporation Act, 1949, the Pimpri-Chinchwad Municipal Corporation (PCMC) framed its own octroi rules titled the PCMC Octroi Rules, 2001 and also amended the same in 2003. Rule 21 of the said Rules stipulated opening and operation of current accounts for crediting octroi by importers whose entire monthly average liabilities of octroi were not less than Rs 25000 per month. They are thus not required to pay octroi on a daily basis at the octroi collection 'naka' but have to pay the octroi due for each month, along with the prescribed forms before the 10th of the following month. If such account holders submit the said monthly statements on any date after the 10th day of the month, they are liable to pay interest at the rate of 12 *per cent per annum* for the entire month on the amount of octroi payable as per the monthly statement. Such importers are also liable to pay interest at the rate of 12 *per cent* on the outstanding amount.

The accounts have to be kept alive until the final assessments are done by the department so that supplementary demands can be raised, if necessary.

Scrutiny of records of PCMC, Pune revealed (August 2006) that assessment of 126 live current account cases were pending as of March 2006. The pendency periods ranged between one month and 13 years.

Further scrutiny of records revealed that the final assessment orders in respect of 116 live current account cases had been passed by the Octroi Department of the Corporation between June 1982 and July 2006 and a total demand for Rs 23.45 crore had been raised against the current account holders, which remained outstanding as on August 2006. As per the amended (May 2003) octroi rules, interest at the rate of 12 *per cent per annum* was leviable on the outstanding amount. Thus the outstanding interest recoverable on octroi dues from 12 May 2003 to 29 February 2008 amounted to Rs 6.21 crore.

The Assistant Commissioner, Octroi Department, PCMC, Pune stated (December 2007) that due to non-availability of sufficient staff, assessments of current account cases were pending on a large scale and would be cleared by engaging personnel on honorarium basis. He further stated (May and June 2008) that out of 126 pending assessment cases, assessment in respect of 110 cases had been completed and demand of Rs 34.59 crore has been raised out of which, an amount of Rs 31.98 crore was recovered. Further an amount of Rs 11.33 crore was recovered from 40 (out of the 116) live current account holders and efforts were being made to recover the balance amounts at an early date.

Reply of the department is not tenable as recovery of Rs 10.79 crore in 5 cases out of Rs 11.33 crore in 40 cases mentioned above pertained to period subsequent to the one pointed out by audit and the amount actually recovered out of Rs 23.45 crore works out to Rs 0.54 crore only.

Thus, due to the failure of the Corporation in passing final assessment orders in time, octroi revenue amounting to Rs 22.91 crore and interest of Rs 6 crore upto February 2008 had not been recovered from current account holders resulting in short realisation of revenue to that extent. This is despite the fact that the Corporation had incurred a loss of Rs 57 crore and Rs 72 crore during the last two years *i.e* 2005-06 and 2006-07 respectively.

The matter was referred to Government in March 2008, their reply had not been received (January 2009).

NAGPUR MUNICIPAL CORPORATION

6.9 Avoidable expenditure on pay and allowances

Non observance of the Government instructions regarding assessment of teaching staff resulted in avoidable expenditure of Rs 20.43 crore on pay and allowances of teaching staff during 2002-03 to 2006-07

According to instructions issued (January 1996) by Primary Education Department, the requirement of teaching staff is to be assessed on the basis of the strength of students on roll as on 30 September of the preceding year.

Scrutiny of records revealed that Nagpur Municipal Corporation (NMC) operated 271 schools with sanctioned strength of 2004 teaching staff during 1996-97. However, there had been gradual decrease in the number of students during 2002-03 to 2006-07 and the number of schools were reduced to 239 in 2006-07. Due to reduction in number of students and closure of schools, the teaching staff were in excess of requirement during the period 2003-07 and an amount of Rs 20.43 crore was incurred on their pay and allowances during the period. The year wise status of excess teaching staff and their pay and allowances is detailed below :

(Rupees in crore)

Year	Sanctioned strength	Number of teachers required	Number of teachers available	Excess teachers	Avoidable Pay and allowance
2002-03	2004	1401	1690	289	2.90
2003-04	2004	1339	1635	296	3.24
2004-05	2004	1277	1592	315	3.81
2005-06	2004	1176	1522	346	4.87
2006-07	2004	1109	1473	364	5.61
Total					20.43

The main reasons attributed by NMC (January 2008) for the reductions in the number of students was more facilities provided in the private schools as compared to Corporation schools and attraction of students and their parents towards English medium schools. It was also stated that necessary action would be taken to utilise the services of the teaching staff in needy areas of the Corporation after taking the approval of the standing committee.

The reply is not tenable as no action had been taken by NMC to upgrade the facilities of the corporation schools to attract more children and to utilise the services of surplus teachers in other departments by imparting them training.

The matter was referred to Government in October 2007; their reply had not been received (January 2009).

ULHASNAGAR MUNICIPAL CORPORATION

6.10 Avoidable loss

Ulhasnagar Municipal Corporation failed to revise rates of water charges despite instruction from State Government, leading to accumulation of water charges payable to suppliers. This resulted in avoidable loss of Rs 24 crore *per annum* in addition to accumulated arrears of Rs 140.64 crore

The Government of Maharashtra(GOM) issued (February 2001) directives to all the Urban Local Bodies(ULBs) to revise water charges from time to time so that the water supply schemes are maintained on "No profit No loss" basis. Further, in July 2001, the GOM while emphasizing the need for managing finances judiciously, instructed Ulhasnagar Municipal Corporation (UMC) to fix the water rates in such a manner that 100 *per cent* of the revenue expenditure on water supply is recovered by it. The Maharashtra Industrial Development Corporation (MIDC) supplies potable water to the UMC for supply to consumers.

Scrutiny (June 2006) of the records of UMC revealed that MIDC increased the rates in phases from Rs 4.75 per 1000 litres in June 1999 to Rs 7 per 1000 litres in June 2003. However, the rates for the consumers has not been revised by UMC inspite of the directives from the Government to recover 100 *per cent* revenue expenditure on water supply. As per the proposals put up by UMC to General Body for rate revision in August 2004, UMC was incurring expenditure of Rs 36 crore *per annum* on water supply whereas revenue received out of water supply was only Rs 12 crore *per annum*. Thus the UMC has been incurring an avoidable loss of Rs 24 crore *per annum* due to non compliance of the State Government directives/instructions to recover 100 *per cent* of revenue expenditure on water from its consumers.

It was also noticed that the UMC had to pay Rs 34 crore to MIDC on account of water bills from December 1994 to February 2003 and the issue was settled mutually in July 2003 under the condition that the UMC would pay MIDC Rs 34 crore in 40 quarterly instalments of Rs 85 lakh per quarter from 1 April 2003 for 10 years. However, after payment of Rs 8.50 crore in ten quarterly instalments pertaining to the period from April 2003 to July 2005 with delays

ranging from 16 to 1005 days, the UMC failed to pay any further instalments. By August 2008, the water charge arrears payable to MIDC by UMC had accumulated to Rs 140.64 crore including interest.

The UMC attributed (December 2007) the reasons for not paying instalments to the floods of July 2005, non-receipt of flood relief from Government in time and higher water charges.

The reply of the UMC is not tenable as the floods occurred on 25 and 26 July 2005 and the delayed payments pertained to the period prior to July 2005. As regards the higher water charges compared to other regions, the UMC was well aware of the water charges being levied by other authorities at the time of entering into the agreement with MIDC and no dispute was raised at that time. Further, UMC had not revised the water rates so as to recover the maintenance expenditure as stipulated by Government.

Thus, the failure of the UMC to comply with Government directives/instructions to recover 100 *per cent* of expenditure on water by recovery from consumers resulted in an avoidable loss of Rs 24 crore *per annum* on water supply in addition to accumulated arrears of Rs 140.64 crore payable to MIDC.

The matter was referred to Government in March 2008; their reply had not been received (January 2009).

URBAN DEVELOPMENT DEPARTMENT

6.11 Release and utilisation of Twelfth Finance Commission grants by Urban Local Bodies

6.11.1 Introduction

The Twelfth Finance Commission (TFC) recommended grants to the tune of Rs 791 crore to Urban Local Bodies (ULBs) in Maharashtra state for the years 2005-06 to 2009-10. During 2005-06 to 2007-08 Government of Maharashtra (GOM) received Rs 316.40 crore as grants for ULBs from Government of India (GOI) which was released to the ULBs. The amount utilised till June 2008 was Rs 229.68 crore by ULBs. The allocation amongst various ULBs and also autonomous councils in excluded areas were to be made by the States. A High Level Committee (HLC) with Chief Secretary as Chairman and Principal Secretaries, (Finance) and other related department as members was formed by the State Government in November 2005 to ensure proper utilisation of TFC grants. This committee is required to meet every quarter to review the utilisation of TFC grants.

6.11.2 Audit scope and methodology

Audit of the release and utilisation of TFC grants by local bodies in Maharashtra from 2005-06 to 2007-08 (up to November 2007) was conducted between November 2007 and April 2008 by test check of records of ULBs, Urban Development Department (UDD), and the Director and Commissioner of Municipal Administration (DMA). Eleven out of 22 Municipal Corporations and all the 222 Municipal Councils in the State received TFC grants during the period. Three³⁹ Municipal Corporations and seven⁴⁰ Municipal Councils were selected to ascertain whether the TFC grants were being utilised as per the guidelines issued by GOI. The audit findings are detailed in the succeeding paragraphs.

6.11.3 Release of TFC grants

The position of receipt of TFC grants by the State Government from GOI for ULBs during the period 2005-06 to 2007-08 is as follows :

Year	Amount of TFC grant received from GOI (Rupees in crore)	Date of receipt by State Government
2005-06 (I st and II nd Instalment)	158.20*	01.06.2006
2006-07 I st Instalment	79.10*	22.11.2006
2006-07 II nd Instalment	79.10*	22.06.2007

* Including Rs 6.40 crore allotted to the Chief Fire Advisor for fire prevention measure

6.11.3.1 Non-drawal of grants

The State Government declared (31 March 2006) the DMA as the drawing, disbursing and controlling officer for effective distribution and monitoring the utilisation of TFC grants. The State Government sanctioned Rs 155 crore to the DMA for distribution amongst the various ULBs and another Rs 3.20 crore to the Chief Fire Advisor (CFA) to the GOM from their own funds in anticipation of the first instalment of TFC grants from GOI. Scrutiny of records of DMA revealed that while the CFA drew the grant in 2005-06 itself, the DMA failed to draw the above grant from PAO Mumbai on 31 March 2006. As a result, the grant remained undrawn and had to be surrendered at the end of the financial year 2005-06. This grant was re-allotted in June 2006 by GOM and was drawn by the DMA during the period from

³⁹ Dhule, Sangli-Miraj Kupwad and Malegaon

⁴⁰ Daryapur, Ichalkaranji, Jaisingpur, Jalna, Latur, Nilanga and Sangamner

June 2006 to August 2006. Thus there was a delay of two to five months in drawal of the grant delay in its distribution to the ULBs and its utilisation by ULBs as indicated in Para 6.11.3.2 below :

6.11.3.2 Delay in distribution of grants

As per TFC guidelines, the grants should be distributed to ULBs within 15 days of the dates of receipt by the State Government and in cases of delay, interest at Reserve Bank of India rate on delayed payments was to be paid to the ULBs by the DMA. TFC grants for the year 2005-06 received on the 1 June 2006 were drawn by the DMA on 13 June 2006 and cheques for the grants were issued in September 2006, after a delay of three months. Further cheques issued by the DMA were dishonoured due to insufficient balance in the DMA's saving bank account as the amount was invested in fixed term deposits. These cheques were finally cleared in October-November 2006. This resulted in blockage of funds and delays in execution of developmental works. Audit also noticed delays in distribution of grant for the year 2005-06 and 2006-07 as detailed in **Appendix XIII**. The interest payable on the delays worked out to Rs 1.50 crore. However, the same had not been paid to the ULBs so far. Reasons for non-payment of interest were not furnished to Audit.

6.11.3.3 Opening of bank account in private bank by DMA in violation of TFC guidelines

As per the TFC guidelines, bank accounts were to be opened only in nationalised banks. However, scrutiny of records revealed that in violation of these guidelines the DMA had opened an account in Axis Bank (not a nationalised bank) in June 2006 and had deposited the funds received as TFC grants.

6.11.3.4 Utilisation of TFC grant

As per State Government instructions, the TFC grants were to be utilised within one year of their receipt. As per information furnished by UDD, the position of grants received, utilised and unspent balances as of June 2008 was as follows:

(Rupees in crore)

Year	Instalment number	TFC grants received	Amount of expenditure incurred	Unspent balance
2005-06	I st and II nd	158.20	229.68*	86.72
2006-07	I st	79.10		
2006-07	II nd	79.10		
Total		316.40	229.68	86.72

* year wise breakup not made available to audit

Out of seven selected Municipal Councils, test check of records of Jalna Municipal Council revealed that it had received grants of Rs 3.19 crore under

TFC. Out of this, only Rs 51 lakh had been utilised upto March 2008 and the balance amount of Rs 2.68 crore remained unspent (March 2008). The grant remained unutilised due to non-approval of project proposals by the Divisional Commissioner. This resulted in blocking of funds and non-accrual of benefits to the intended beneficiaries.

6.11.3.5 Diversion of grants

As per Government Resolution dated 31 March 2006, TFC grants were required to be utilised for the purposes specified. The DMA had to ensure that the grants were utilised only for the specified purposes and there was no diversion of funds. Cases of diversion of grants noticed during the test check of the selected ULBs are discussed below :

- The TFC had stressed the importance of public private partnership in the delivery of Solid Waste Management (SWM) in urban areas. The State Government was directed to make it mandatory for Municipal Councils having populations of over one lakh to prepare comprehensive schemes for SWM. Fifty six *per cent* of the TFC grants were required to be utilised for such projects so as to create durable assets and the remaining 44 *per cent* for other developmental works as per the TFC guidelines. Test check of the records of Malegaon Municipal Corporation and Sangamner and Latur Municipal Councils revealed that in disregard to the guidelines, these ULBs had utilised Rs 4.42 crore for payment of labour contract bills towards labour engaged in transportation of solid waste which was a day to day activity of the ULBs.

Latur Municipal Council stated (February/March 2008) that proposals for implementation of SWM forwarded to the DMA for approvals were pending.

- Ichalkaranji Municipal Council invested Rupees one crore out of TFC grants in fixed deposit during July 2007 instead of utilising the funds promptly as per the guidelines.
- Test check of records of DMA revealed that grants of Rs 310 crore were received during June 2006 to July 2007 of which Rs 16 crore was irregularly invested in fixed term deposits in ICICI Bank during March-April 2007. The interest amounting to Rs 10.60 lakh earned on the fixed deposit was irregularly utilised by DMA for purchase of furniture and other office purposes during 2006-07. Unauthorised investment of grants of Rs 16 crore in violation of TFC guidelines resulted in funds being not available for intended purposes.

The diversion of grants in the above cases in violation of TFC guidelines indicates that there was no proper monitoring and control on utilisation of grants.

6.11.3.6 Irregularities in utilisation of grants

Cases of irregularities in utilisation of grants noticed during the test check are discussed below:

- **Unfruitful expenditure of Rs 91.08 lakh on hardware**

The State Government decided (March 2006) to convert the accounting of ULBs to the double entry system including computerisation and the DMA received TFC grant of Rs 80 lakh for 2005-06 and 2006-07 for the purpose. In addition, grant of Rs 9.60 crore *per annum* was kept at the disposal of DMA for 2005-06 and 2006-07 to be expended as per the discretion of the DMA. As per the proposal, the DMA was to supply computers to the Municipal Councils along with customised software to enable them to maintain their accounts in the double entry system. The DMA procured 225 desktop computers with accessories costing Rs 91.08 lakh, meeting the extra expenditure of Rs 11.08 lakh from discretionary grant available with DMA. The computers were supplied and installed in 225 Municipal Councils during October–November 2006. The DMA was required to procure the software and supply it to Municipal Councils. However, even after 17 months, the required software was not supplied to the Councils and the computers were lying idle.

The Project Co-ordinator, DMA stated (March 2008) that customised accounting software was intended to be developed. However, since the State Government has not yet developed State Specific Accounting Manual based on National Municipal Accounts Manual, customization of the accounting software could not be done.

Thus improper planning for computerisation rendered the hardware worth Rs 91.08 lakh idle for the past 17 months and the switch over to double entry accounting remained unaccomplished.

- **Non-adherence of priority in selection of work by ULBs**

As per the orders of the State Government, 56 *per cent* should be utilised for SWM and balance 44 *per cent* of TFC grants were to be utilised as per the priorities mentioned below :

- Fire fighting and other disaster management.
- Rain water harvesting (old municipal buildings)
- Development of reserved plots under the Development Plan
- Development of other projects as per local urban requirements

It was clearly stated that after undertaking the first two categories of work, ULBs could undertake the third and fourth category of works. Test check of records of the selected ULBs revealed that the Sangli-Miraj Kupwad Municipal Corporation, Sangamner Municipal Council and Daryapur Municipal Council had not adhered to the priorities mentioned above and had taken up work under the fourth category.

On being pointed out, Sangamner Municipal Council stated (February 2008) that works under rain water harvesting would be taken up subsequently. Sangli-Miraj Kupwad Municipal Corporation and Daryapur Municipal Council stated that works were taken up as per local requirement. The replies are not tenable since priorities were fixed by the State Government and the ULBs should have obtained approval of the State Government for any deviation.

The irregularities in utilisation of grants in the above cases in violation of TFC guidelines also showed lack of proper monitoring by the DMA.

6.11.4 Monitoring

As indicated in the audit observations relating to utilisation of TFC grants by PRIs, the cases of delay in distribution of grants to ULBs and its utilisation, diversion of grants, irregularities in utilisation of grants *etc.* pointed out earlier indicates lack of proper monitoring mechanism in spite of constitution of HLC.

6.11.5 Conclusion

There were delays in release and distribution of TFC grants at all levels. Amounts were kept in bank deposits instead of utilizing them for the intended purposes. Delay in completion of work resulted in non-utilisation of the funds within prescribed time. Irregularities in diversion of funds and utilisation of grants were also noticed.

6.11.6 Recommendations

- Delay in release of TFC grants to ULBs must be avoided.
- Advance planning should be done by ULBs so as to ensure that the grants are utilised within the prescribed time and funds do not remain parked in banks accounts.
- Diversion of grants should be avoided through effective monitoring and deterrent measures.
- It should be ensured that grants are utilised within the time frame.
- High Level Committee should meet every quarter to review the utilisation of grants and progress of work.

- It should be ensured that TFC grants are invariably deposited in nationalised banks and unauthorised investment should be discouraged.

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