

CHAPTER III PERFORMANCE AUDIT

3.1 IMPLEMENTATION OF ADB AIDED KERALA SUSTAINABLE URBAN DEVELOPMENT PROJECT

Highlights

Kerala Sustainable Urban Development Project (KSUDP) is an Asian Development Bank (ADB) loan project of Kerala State, meant to improve the urban environment, economy and living conditions of people living in urban areas covered under the project. The project covered five Municipal Corporations in Kerala, viz., Thiruvananthapuram (TVM), Kollam, Kochi, Thrissur and Kozhikode. Of the total project cost of ₹1422.50 crore, ADB loan was \$221.20 million (₹995.40 crore), and the balance amount was to be provided by GoK \$59.8 million (₹269.1 crore) and the Corporations \$35.1 million (₹158 crore). The effective date of loan was 08 February 2007 with the repayment period stretching over 25 years, including a grace period of five years. The project originally slated to be completed by 30 June 2012 was extended up to 30 June 2016.

The important findings of the Performance Audit are mentioned below:

Out of 24 projects taken up for implementation in five Corporations, only seven projects have been completed.

(Paragraph 3.1.6)

Cancellation of the component 'Part- C Local Government Infrastructure Improvement' due to non-operationalizing Kerala Local Government Development Fund (KLGDF) resulted in forgoing ₹67.50 crore ADB loan meant for financing infrastructure projects in 53 Municipalities in the State.

(Paragraph 3.1.7.1)

Fifteen contracts valuing ₹330.12 crore were short closed rendering the expenditure of ₹77.34 crore incurred on these projects unfruitful.

[Paragraph 3.1.7.2 (a)]

The progress in implementation of Sewerage component was very poor with 96 per cent of the contracts yet to be completed.

(Paragraph 3.1.8.1)

Irregular enhancement of 73 per cent allowed on Kollam sewerage projects against 10 per cent allowable resulted in irregular payment of ₹3.85 crore.

(Paragraph 3.1.9.2)

Decision of Empowered Committee to release the liquidated damages amounting to ₹1.62 crore collected from the contractor, in respect of sewerage package in TVM Corporation, violated contract conditions.

(Paragraph 3.1.9.3)

Lapses in implementing resettlement plan resulted in retracting ADB loan amounting to ₹13.10 crore given for Kollam road improvement work.

(Paragraph 3.1.11.1)

Assets worth ₹37.46 crore acquired in connection with the project were idling.

(Paragraph 3.1.12)

Despite extending the project period by four years, the Corporations could avail only 51.48 per cent of the original loan sanctioned.

(Paragraph 3.1.14.1)

Despite periodical reminders given by ADB, GoK failed to cancel in time the portions of loan relating to projects which were not likely to be completed within the stipulated period, resulting in payment of commitment charges amounting to ₹43.68 crore to ADB.

(Paragraph 3.1.14.2)

The Corporations did not contribute funds for the project and ₹50.67 crore was due from Corporations to GoK towards their share of contribution for the project.

(Paragraph 3.1.14.3)

Kerala Water Authority and PWD retained unused deposits of ₹1.96 crore and ₹17.32 crore respectively given for project implementation.

(Paragraph 3.1.14.4)

Mobilization advances given to contractors amounting to ₹19.46 crore relating to short closed/ongoing works were pending recovery.

(Paragraph 3.1.14.5)

3.1.1 Introduction

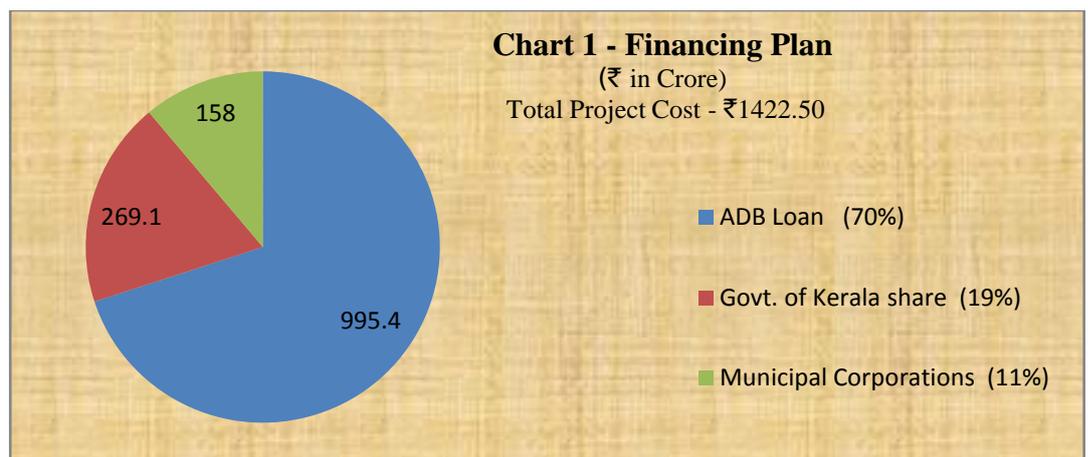
Kerala Sustainable Urban Development Project (KSUDP), a ₹1422.50 crore project substantially funded (₹995.40 crore) by the Asian Development Bank (ADB) was aimed at improving the urban environment, economy and living conditions of people living in five¹ Municipal Corporations (Corporations) of the State. The remaining project cost was to be met by the Government of Kerala (GoK) (₹269.10 crore) and the Corporations (₹158 crore). The loan agreement between Government of India (GoI) and ADB was signed on 8 December, 2006 and GoK ratified (March 2007) the Project agreement to avail the ADB loan for the KSUDP.

Administrative Sanction for the project was accorded by GoK in July 2007. The effective date of loan was 08 February 2007. GoK started repaying the loan amount along with interest² from January 2011 onwards and the repayment had

¹ Thiruvananthapuram (TVM), Kollam, Kochi, Thrissur and Kozhikode

² The principal amount of the loan withdrawn from time to time bears interest at a rate equal to the sum of London Inter Bank Offered Rate (LIBOR) plus 0.60 per cent.

to be made over a period of 20 years. The project originally slated to be completed by 30 June 2012 was extended twice, first up to 30 June 2014 and then up to 30 June 2016³.



3.1.2 Organizational setup

The Local Self Government Department (LSGD) of GoK was the Executing Agency (EA) of the Project. While a State-level Empowered Committee (EC) headed by the Minister, LSGD was fully empowered to decide on all matters related to the Project including according of approvals, sanctions, monitoring implementation of loan covenants agreed with the ADB and issuing covenants, a Project Management Unit (PMU) headed by a Project Director (PD) was responsible for overall project implementation, monitoring and supervision in the State. A State-level Coordination Committee (CC) headed by the Principal Secretary, LSGD was to ensure the smooth functioning of the Project. Municipal Corporations were the Implementing Agencies for the Project. There was also a Project Implementation Unit (PIU) in each Corporation manned by experts in various spheres. The agreement with the ADB also provided for setting up of three consultancy services viz., Technical Support Unit (TSU), Design and Supervision Consultants (DSC) and Project Performance Monitoring System Consultant (PPMS). Constitution of various authorities/consultants and their role in implementation of the projects are detailed in **Appendix IX**.

3.1.3 Audit objectives

The performance audit was conducted to ensure whether

- The institutional arrangements envisaged under the scheme were put in place and effectively utilized for the successful implementation of the scheme; and
- Works were identified and carried out economically, efficiently and effectively in accordance with rules.

³ ADB closed the loan account on 25 November 2016 reimbursing all eligible expenditures incurred up to 30 June 2016.

3.1.4 Audit Criteria

Audit criteria were derived from the following:

- Kerala Municipality Act 1994
- Project Administration Memorandum (PAM) of the ADB Project
- Kerala Public Works Department (KPWD) Manual
- Agreements entered into with the consultants/contractors/ implementing agencies
- Orders and Circulars issued by Government of Kerala

3.1.5 Scope and Methodology of audit

The Performance Audit of the ADB Aided Kerala Sustainable Urban Development Project covering the period 2007-08 to 2016-17 was conducted from June 2016 to December 2016. The Performance Audit commenced with an entry meeting (June 2016) with the Principal Secretary, LSGD where the audit objectives, criteria and audit methodology were discussed in detail. Audit methodology included scrutiny of records maintained in the selected offices and in the departments of Finance, Local Self Government Department (LSGD) and Kerala Water Authority (KWA), site verification etc. All the five Municipal Corporations implementing the scheme were selected for audit. The KSUDP comprised of four components

- A. Urban Infrastructure and Services Improvement like water supply, sewerage and sanitation, urban drainage, solid waste management, etc.,
- B. Urban Community Upgrading⁴,
- C. Local Government Infrastructure Development⁵ and
- D. Support for Capacity Building and Project Management.

Of the 74 contract packages taken up relating to the Urban Infrastructure Development under Component A viz., water supply, sewerage, solid waste management and urban road transport, we selected 41 packages for detailed scrutiny using Systematic Sampling methodology as detailed in **Appendix X** and conducted a general check in respect of components B, C and D taken up under the Project. An Exit Conference was conducted in March 2017 with the Secretary, LSGD during which the audit findings were discussed in detail.

3.1.6 Overview of status of implementation of KSUDP

Under KSUDP, the five Corporations initiated 24 Projects on activities like construction/rehabilitation and extension of existing sewerage and water supply systems, storm water drainage, solid waste management, improvement of roads and bridges, etc., under 'Part -A Urban Infrastructure and Services Improvement' which were proposed in 102 Packages as shown in **Appendix XI**. We observed

⁴Integrated interventions for basic infrastructure and services improvements and livelihood enhancement for poor communities.

⁵Aimed at providing ULBs in Kerala other than five Corporations, with finance for implementing sub-projects under urban infrastructure

that at the close of the loan period, 55 of the 102 packages were completed and 28 packages were not taken up as discussed in para 3.1.7.3. The number of projects completed by the Corporations during the project period was poor, as shown below.

Table 3.1: Progress of implementation of projects

Name of Corporation	Projects targeted	Projects Completed	Contracted Amount (₹ in crore)	Actual Expenditure (₹ in crore)	Per cent spent
Thiruvananthapuram	3	1	162.07	84.83	52.34
Kollam	6	2	185.52	87.37	47.09
Kochi	5	0	307.09	113.16	36.85
Thrissur	5	3	119.67	104.64	87.44
Kozhikode	5	1	224.79	80.47	35.80
Total	24	7	999.14	470.47	47.09

We observed deficiencies in implementation of the Project resulting in financial loss to GoK, apart from failure to complete the proposed works, as shown in the following paragraphs.

Audit Findings

3.1.7 Formulation and implementation of projects

3.1.7.1 Cancellation of component ‘Local Government Infrastructure Development’

The KSUDP comprised of four components of which the component ‘C - Local Government Infrastructure Development’ was aimed at helping 53 Municipalities in the state other than the five Corporations to develop and finance sub projects on water supply, sanitation, solid waste management, roads, transportation, and other urban infrastructure. It was envisaged that these works would contribute to improvement in the living standards of the urban population. Under the component, it was envisaged that Kerala Local Government Development Fund (KLGDF) would be set up for enabling LSGIs to obtain necessary long term resources for creation and maintenance of quality civic infrastructure and enter into viable and sustainable partnerships with government and non-government agencies for capacity building and sustainable development in their areas. Of the estimated cost of \$54 million for the component, ADB’s share of financing was \$15 million. The balance \$39 million was to be financed by GoK through KLGDF as the financial intermediary.

We observed that even though the KLGDF was constituted (January 2010), a proposal to restructure the existing Kerala Urban and Rural Development Finance Corporation (KURDFC) into an Asset Management Company (AMC) for managing the assets and investments of the KLGDF did not materialize. Failure of GoK to operationalize the KLDGF led to cancellation of the component by

ADB and cancellation of the corresponding loan portion of ₹67.50⁶ crore. Thus, the only component in the KSUDP for improving the living standards of urban population of 53 Municipalities did not materialize.

GoK replied that even though the possibility of channeling ADB funds to ULBs through a simplified mechanism was looked into, the same could not be materialized due to procedural delays.

3.1.7.2 Tardy implementation of projects

Detailed scrutiny of six sub components like water supply, sewerage, storm water drainage, solid waste management, equipment for solid waste management and urban road transport under 'A- Urban Infrastructure and Services Improvement' of KSUDP was conducted by Audit and the status of progress (November 2016) in implementation is as follows.

Table 3.2: Status of items of works undertaken relating to the component 'A-Urban Infrastructure Improvement'

(₹in crore)

Component	Total		Status of Works					Expenditure as on 30 November 2016
			Completed		Ongoing	Deferred ⁷	Short closed ⁸	
	No. of contracts	Estimated Amount	No. of contracts	Per cent completed	No. of contracts	No. of contracts	No. of contracts	
Water Supply	10	103.18	7	70	1	-	2	92.31
Sewerage	21	581.77	2	10	3	7	9	139.39
Storm Water Drainage	11	88.94	9	82	-	2	-	69.98
Solid Waste Management	6	17.99	2	33	-	-	4	10.70
Solid Waste Management equipments	38	27.40	25	66	-	13	-	14.50
Roads & transportation	16	179.86	10	63	-	6	-	143.59
Total	102	999.14	55	54	4	28	15	470.47

⁶\$15 million- at the exchange rate of ₹45 per USD which prevailed at the time of loan agreement.

⁷ Deferred works are projects which are not at all taken up for implementation, since they are either proposed for implementation under some other schemes of the Corporation, or which cannot be implemented due to non implementation of related projects by Corporation.

⁸ Projects terminated due to practical difficulties encountered during implementation like public protests, environmental issues, etc.

It can be seen that of the 102 contracts issued for completion of six sub components under Urban Infrastructure Improvement, only 55 contracts had been completed (November 2016). While four works were ongoing, 43 works were either deferred or short closed. Our observations on the ongoing works which remain to be completed after the loan period, works which were short closed and deferred works are given below.

GoK replied that high tender excess, delay in making available required land by Corporations, delay in decision making by EC, poor performance of certain contractors, frequent change of Project Directors/PIU staff, lack of ownership from KWA, etc., contributed to the tardy implementation of projects.

(a) Works short closed

As per the Project Administration Memorandum (PAM), a Coordination Committee with the Principal Secretary, LSGD as Chairman was entrusted with the task of regular monitoring of Project activities and decision making to facilitate removal of bottlenecks that could arise during the course of Project implementation. We noticed that fifteen contracts valuing ₹330.12 crore were short closed or terminated citing reasons such as public protests, environmental issues, delay in getting road cutting permission, etc. This reflected the failure of the Coordination Committee to discharge its mandated responsibility, rendering the expenditure of ₹77.34 crore incurred on these projects unfruitful, as shown in **Appendix XII**.

(b) Works Ongoing

The following four projects were pending completion at the time of closure of the loan account by ADB.

Table 3.3: Details of ongoing works

(₹ in crore)

Sl. No	Details of work	Contract value	Expenditure	Reason for pendency
1	Kollam - KLM-SS-01 Sewerage	34.05	13.51	Public protest, which is being resolved
2	Kollam – KLM-SS-02 Sewerage	55.91	18.05	
3	Kochi – KCH-WS-01 Water supply	14.35	8.95	Poor performance of the contractor
4	Kozhikode – KZD-SS-03B Sewerage Treatment Plant	29.08	4.68	Involvement of High Court and National Green Tribunal
	TOTAL	133.39	45.19	

Based on the rates at which works were awarded, the cost of completion of the four ongoing and 15 short closed projects would be ₹340.98 crore⁹. The PMU has

⁹ ₹88.20 crore relating to pending projects and ₹252.78 crore relating to short closed projects

estimated that an amount of ₹710 crore would be required for completing all the incomplete/ short-closed works within the next three to five years.

Recommendation –1: Government should chalk out a definite plan to complete all short closed and incomplete projects in a time bound manner identifying proper sources of financing.

3.1.7.3 Works Deferred

Twenty eight out of 102 contracts envisaged for implementation under the component ‘Part A- Urban Infrastructure Improvement’ were not taken up at all and were deferred. Details of deferred packages are given below.

Table 3.4: Details of deferred works

Name of Corporation	Total Original Packages	Deferred packages	
		Numbers	Estimated amount (₹crore)
Thiruvananthapuram	9	3	19.52
Kollam	30	7	29.31
Kochi	24	5	60.67
Thrissur	13	3	4.02
Kozhikode	26	10	65.36
Total	102	28	178.88

The works were deferred due to including them under other schemes of the Corporations, land acquisition problems, resettlement/environmental issues etc. On account of deferring these packages, GoK lost the opportunity to avail ADB loan of ₹125.22 crore (70 per cent ADB share).

3.1.8 Status of Implementation of Sewerage works

Of the total contracted amount of ₹999.14 crore under ‘Part A- Urban Infrastructure Improvement’, ₹581.77 crore (58 per cent) was envisaged to be expended on sewerage works. The implementation of the works was not satisfactory as shown in the following paragraphs.

3.1.8.1 Entrustment of sewerage works to incompetent agency

The PAM provided for rehabilitating and expanding sewerage networks in four¹⁰ Municipal Corporations as also construction of Sewage Treatment Plants (STP). As per Memorandum of Understanding entered into with KWA (November 2007), GoK entrusted the implementation of works relating to rehabilitation of existing sewages/water supply schemes under KSUDP to KWA. From the following table it can be seen that the progress in implementation of Sewerage component was very poor with 96 per cent of the contracts yet to be completed (November 2016).

¹⁰Thiruvananthapuram, Kollam, Kochi and Kozhikode

Table 3.5: Progress of implementation of sewerage packages

Name of the Corporation	No. of packages taken up	Contract Amount (₹ in crore)	No. of packages Completed	No. of packages Short closed	No. of ongoing packages	No. of packages deferred	Total Expenditure (₹ in crore)
Thiruvananthapuram	5	109.40	1	2	-	2	52.12
Kollam	3	107.91	-	0	2	1	28.41
Kochi	7	223.65	1	4	0	2	41.18
Kozhikode	6	140.81	-	3	1	2	17.68
Total	21	581.77	2	9	3	7	139.39

Out of 21 sewerage contracts involving ₹581.77 crore, only two contracts relating to the construction of STP at Muttathara (TVM Corporation) valuing ₹42.70 crore and land filling work for STP at Mundanveli, West Kochi valuing ₹2.87 crore were completed. In the other 12 sewerage contracts (including three ongoing and nine short closed/terminated contracts), the progress in physical implementation ranged between zero *per cent* and 40 *per cent* (December 2016). We observed that even though expenditure on Sewerage was very high as compared with the other components, 78 *per cent* of the expenditure actually incurred for sewerage projects related to purchase of pipes, mobilization advance and payment of road cutting charges while only 22 *per cent* was spent on civil works like laying pipes, giving sewerage connection etc (**Appendix XIII**).

We also observed from the Minutes of a review meeting convened by the Chief Secretary (July 2016) that GoK was aware that KWA did not possess the technical capability to implement sewerage projects. The Minutes reveal that the fact of deficient technical ability and inexperience of KWA in executing sewerage projects was admitted by the Managing Director, KWA during the meeting. Review reports of ADB as well as PPMS had also pointed out various lapses committed by KWA in reviewing designs, reporting field problems in time, synchronizing water supply/sewerage works with road works of PWD, etc. The imprudent decision of GoK to entrust sewerage packages to KWA despite being aware of its bad track record to implement them also contributed to short closing of more than 75 *per cent* of the sewerage projects under KSUDP.

GoK stated that Water Supply and sewerage projects were entrusted to KWA since all existing water supply/sewerage networks and pump houses were owned and managed by KWA, and also since KWA volunteered to implement these projects under KSUDP. The reply is not tenable because initially itself GoK was aware that the track record of KWA in implementing these schemes was poor. Also the PMU/PIUs constituted under KSUDP were equipped with necessary experts in respective fields backed by consultants, for implementing the schemes successfully.

3.1.8.2 Works hindered due to environmental issues

We observed major lapses in conducting detailed site analysis and surveys at the project formulation stage and in getting necessary clearance from environmental agencies. This resulted in certain projects getting located in Coastal Regulation Zone (CRZ)/environmentally sensitive areas, leading to intervention by environmental/judicial authorities and resultant stoppage of works as shown below.

(a) Sewerage Treatment Plant, Kochi

A sewerage project for Kochi was conceived to address the sanitation problems of Mattancherry, Fort Kochi and Pallurthy areas of West Kochi. The project comprised of six packages involving a total contract amount of ₹168.98 crore. The works included construction of sewerage system and pump houses with electrical/mechanical works for five zones of West Kochi, land filling works for STP at Mundanveli and Construction of STP. Construction of a STP in five acres of low lying land at Mundanveli was central to the entire sewerage works since all other works were dependent on it.

The Corporation awarded (April 2011) the land filling work for STP to 'M/s Deens Constructions' for ₹3.60 crore. But the work had to be stopped after one month (May 2011) as Kerala Coastal Zone Management Authority (KCZMA) observed that the site for the proposed STP was situated on the banks of the Vembanad backwater system and fell within the prohibited area, marked as such in the Coastal Zone Management Plan (CZMP) of Kerala. Pointing out large scale destruction of mangroves, the Honorable High Court of Kerala directed (August 2011) to keep the works pending till final orders were issued by the National Green Tribunal (NGT) in this regard.

In view of the uncertainty regarding construction of STP, the EC decided (April 2012) to close the contract for land filling. By the time, the contractor had completed 80 *per cent* of the land filling work for which the Corporation had paid ₹2.87 crore. Subsequently, based on the clearance received (December 2012) from KCZMA, the Corporation initiated procedures for constructing the STP costing ₹19.04 crore in the land already reclaimed, after doing necessary mangrove afforestation as suggested by KCZMA. But the NGT, observing that the land reclaimed fell within the prohibited area CRZ-IV of CRZ Notification 2011 (January 2011)¹¹, directed the Corporation (February 2016) not to proceed with the construction work without getting clearance from Ministry of Environment Forests and Climate Change (MoEF&CC).

We observed from the Report of the Expert Committee constituted by KCZMA that an Initial Environmental Examination (IEE) and Environmental Management

¹¹CRZ Notification 2011 is only a modification of the original CRZ notification issued in 1991 (19 February 1991). The status of land and provisions have no change in the light of notification issued in 1991 also.

Plan (EMP) prepared by the Design and Supervision Consultant of KSUDP (M/s WAPCOS) prior to finalization of the site, contained factual errors, especially on CRZ status and Wetland Rules 2010 of GoI. The work continues to remain at a standstill. The defective reports submitted by the consultant, had resulted in KSUDP incurring wasteful expenditure of ₹2.87 crore on land filling besides failing to complete the sewerage work and address the sanitation problems of identified areas.

The Government contended that since CRZ authority had given clearance for the site, the consultant (M/s WAPCOS) cannot be held liable for preparing faulty environment reports. The contention is not acceptable as the Expert Committee constituted by KCZMA itself had pointed out (June 2011) that environmental reports prepared by the consultant prior to finalization of the site contained factual errors, especially on CRZ status and Wetland Rules 2010 of GoI. It was also noticed that on account of faulty environmental reports prepared by the consultant, the Corporation had not made any application to KCZMA for CRZ clearance initially. KCZMA took up the matter *suo moto* and issued (May 2011) stop memo for the project, even though later permitted to continue with the project on condition of doing afforestation. The above order of KCZMA was stayed by NGT which directed the Corporation to refer the case to MoEF&CC, which is competent to decide the case.

(b) Solid Waste Management – Kollam

The Project Administration Memorandum provided for Municipal Corporations to increase the solid waste collection and treatment capacity. It provided for (i) provision of dumpers, refuse collectors and compactors (ii) provision of community waste collection containers and (iii) civil works to develop sanitary landfill sites.

The proposed solid waste processing facility of Kollam Corporation at Kureepuzha comprised of three packages with an estimated contract value of ₹9.71 crore for construction of compost plant, Leachate Treatment Plant (LTP), sanitary land fill, reengineering of existing dumped waste, and construction of other infrastructures.

The site proposed for the project at Kureepuzha was located on the banks of Ashtamudi Lake and was being used by the Corporation for dumping waste since the last two decades. As per CRZ notification 1991/2011, coastal area up to 100 m from the bank of Ashtamudi Lake falls in CRZ II where disposal of waste is prohibited, and the existing dumping of waste or land filling had to be phased out within three years from the date of the notification. We noticed that the Detailed Project Report (DPR) prepared (April 2007) for this project by the consultant specified that the project area was within the area specified in CRZ II and that disposal of waste in the area was a prohibited activity. Even though these facts were mentioned in the DPR, the Corporation did not initiate action to relocate either the project site or the dumping yard outside the CRZ and

continued dumping of waste in the area. The Corporation awarded (July 2008) the work for the installation of the solid waste management facilities and sanitary landfill to 'M/s Jamshedpur Utilities & Services Company Ltd (JUSCO)'. However, after executing 90 per cent of Compost Plant, 75 per cent of Land fill and 95 per cent of infrastructure, the contractor stopped the work (July 2011) due to public protest citing CRZ violation and pollution caused due to dumped waste and leachate generation. Even though, in April 2012, KCZMA gave permission to construct the plant outside the CRZ area with instructions to relocate the landfill area and dumping site, two writ petitions against the project were filed before the Honorable High Court of Kerala. As the petitions dealt with environmental issues, these were subsequently transferred to the NGT, where it is pending (December 2016). The EC, therefore, decided¹² (February/June 2015) not to proceed with the project.

Laxity of the Corporation in complying with the provisions contained in the DPR and to the CRZ rules has resulted in the expenditure of ₹6.26 crore already incurred on the project becoming infructuous.

(c) Construction of Sewerage Treatment plant, Kozhikode

As part of the sewerage project for construction of STP, Sewerage Networks, Wet Wells, Pumping Stations and Pumping Mains and Rehabilitation of existing sewerage system and extension of sewerage system, the Kozhikode Corporation formulated (October 2010) a project for construction of an STP (27 MLD¹³) in 6.76 acres of land at Vengeri Village. The Corporation entrusted (June 2012) the work relating to the construction of approach road and land development to 'M/s SELMEC Engineering Construction Ltd.', Kozhikode for ₹7.49 crore. Even though the contractor commenced the work after getting permission (June 2013) for tree cutting from the Forest Department, the work was halted due to public protest alleging that the proposed site was 'wet land' and also in view of a litigation pending (March 2014) in the Honourable High Court of Kerala. The EC, therefore, decided¹⁴ (August 2014 & April 2015) to pre close the contract by paying compensation of ₹60 lakh to the contractor which was not reimbursed by the ADB (Appeared as Paragraph in AR LSGIs 2014-15).

Later, the Corporation awarded (March 2015) the work for construction of STP (13.5 MLD) at an alternate site comprising 2.60 acres in Vengeri village to 'M/s UEM India Pvt Ltd.' for ₹29.08 crore. The project site was on the banks of tidal influenced Canoly Canal, and certain portions of the proposed site for STP came within CRZ area categorized as CRZ II. The EC accorded approval for the construction of an STP at the site which was situated near the Sarovaram Biopark, in its 46th meeting held on 12 May 2014. However, the work could not be commenced as all construction activities were stayed (December 2015) by the

¹² As per the decision of 49th and 51st EC meetings

¹³ Million Litres per Day

¹⁴ As per 47th & 50th EC meetings

NGT, citing violation of Wet Land (Conservation and Management) Act 2010. We observed that the Project Director, KSUDP sought CRZ status reports and maps to facilitate CRZ clearance for the proposed STP, from the National Centre for Earth Science Studies, Thiruvananthapuram, only in May 2016. The matter is pending before the NGT and the up to date expenditure for the project is ₹4.68 crore. The failure of the Project Director, KSUDP to obtain clearance from environmental agencies before award and commencement of work had rendered the total expenditure of ₹5.28 crore, infructuous.

The Government replied that the case under the consideration of NGT is based on certain false documents relating to the site, and the Corporation is taking efforts to get the stay vacated.

(d) Construction of Leachate Treatment Plant, Kozhikode

Kozhikode Corporation awarded (June 2008) the work relating to the solid waste Management project, to ‘M/s Ramky Enviro Engineers Ltd’, Hyderabad for ₹3.88 crore. The project included design, construction and commissioning of 145 CMD¹⁵ capacity Leachate Treatment Plant costing ₹0.32 crore and securing consent to operate from the Kerala State Pollution Control Board (KSPCB). The contractor completed all works in December 2010 for which Corporation paid (June 2011) ₹0.26 crore. But KSPCB refused to give consent to operate the LTP since the effluents discharged from the plant did not meet the prescribed quality parameters. Since the contractor did not respond to the requests of the Corporation to make the plant compliant with KSPCB norms, the Corporation terminated (October 2012) the contract at the risk and cost of the contractor.

Subsequently, the Corporation awarded (January 2016) fresh work relating to design, supply, construction, erection, testing and commissioning of LTP (75CMD) to ‘M/s Ionex Envirotech Pvt Ltd’, Thane for ₹0.75 crore.

Though the construction of the new LTP was completed in June 2016, it was not commissioned due to withholding of permission by the KSPCB due to deviation from the original proposal submitted for construction of plant and major deficiencies like non construction of sludge drying beds, entire amount of leachate from the Municipal Solid Waste plant not reaching the treatment plant, etc. These defects remain to be rectified and consent of KSPCB is yet to be obtained for the commissioning of the plant (December 2016).



L T P in Kozhikode not yet commissioned

We observed that since the Leachate Treatment Plant was an important component relating to the solid waste management project, the inability of the

¹⁵ Cubic meter per day

Kozhikode Corporation to get the LTP commissioned posed grave threat of contamination to the surface and ground water, and rendered expenditure of ₹0.92 crore¹⁶ incurred for the project unfruitful.

GoK stated (March 2017) that the work done by original contractor was terminated at the risk and cost of the contractor, even though the actual liability of the firm in this regard has not been ascertained and an amount of ₹0.41 crore had been withheld from the performance guarantee furnished by the contractor. The reply is not tenable because there is uncertainty regarding the amount realizable, as the main lapse is on the part of Corporation which not only failed in rectifying the defects of the original plant and secure the clearance of KSPCB, but also delayed the construction of new plant by more than three years. In the case of new plant, the Corporation stated (November 2016) that the treated effluent had shown satisfactory results when tested and that some procedural delay with KSPCB was the issue. But we found that KSPCB has pointed out various defects in the new plant including the fact that the entire leachate from the Municipal Solid Waste plant was not reaching the treatment plant, indicating leakage and resultant contamination.

3.1.9 Laxity in enforcing contractual provisions

3.1.9.1 Unfruitful expenditure incurred on bio-gas plants

As part of ‘Urban Infrastructure Development’ under KSUDP, Kollam Corporation constructed eight biogas plants incurring an expenditure of ₹89.76 crore, as detailed in **Appendix XIV**. As per the contract, after completing construction and trial run for two months, the contractor had to undertake the Operation and Maintenance (O&M) of the plants for three years besides training 50 personnel in each plant for its operation. During the O&M period, the contractor was bound to maintain the plant in good condition, rectifying any defects noticed during the period.

We conducted site verification (November 2016) of all the eight plants and found that other than the plants at Kadappakkada and Town Hall, no other plants were working. Records revealed that the plants stopped functioning immediately after being taken over by the Corporation, due to accumulation of sediments in the plants and absence of effective mechanism to remove the sludge. We noticed that in the case of defunct plants, the contractors did not conduct trial run or undertake O&M works as required.

The Corporation released the Security Deposits amounting to ₹4.97 lakh¹⁷ (five per cent of the total contract amount) collected in the above cases, before the expiry of contract without ensuring the proper functioning of plants. Thus, failure

¹⁶ Payment of ₹0.26 crore made to the first contractor and ₹0.66 crore to the second contractor.

¹⁷ Moonamkutty Market – ₹65000, Pallimukku Market- ₹65000, Thevally- ₹65000, Eravipuram Market – ₹65000, QSS Karithas Colony – ₹57500, Kadappakkada Market – ₹81500, Municipal Town hall- ₹55000, Collectorate compound – ₹42700

of the Corporation to strictly enforce contractual provisions resulted in unfruitful expenditure of ₹0.63 crore¹⁸ spent on the project.

GoK has stated that it was the failure of the Corporation not to appoint skilled persons to operate the plants after taking over their charge, which had been brought to the notice of Corporation on various occasions.

3.1.9.2 Irregular grant of Enhancement for Kollam Sewerage projects

Kollam Corporation awarded (June 2012) the Sewerage works relating to construction of pumping stations, laying of pumping mains and sewer network including rehabilitation of existing sewer lines in the city as two packages¹⁹ to 'M/s TOMCO Engineering Pvt. Ltd' for ₹24.01 crore (19.36 per cent above SoR²⁰ 2010) and ₹36.35 crore (14.13 per cent above SoR 2010) with time limit of 18 months and 24 months respectively for completing the works. Despite giving extended time for completing the works up to December 2014 and March 2015 respectively, the contractor could not do any major work apart from supplying the pipes required for the project and laying pipes in a few stretches, due to delay in getting road cutting permission and public protest. The contractor demanded price escalation of 81.70 per cent and 78.42 per cent respectively on the packages and the 49th EC (February 2015) granted price enhancement of 73 per cent over quoted rates on balance work²¹ relating to both packages. The enhancements granted amounted to ₹10.04 crore and ₹19.75 crore respectively.

We noticed that as per the conditions of contract, price adjustment was applicable only on the cost of cement and steel in cement concrete/reinforcement works. Also, the price enhancement should be limited to 10 per cent of contract amount. Thus, the maximum price enhancements allowable in the above cases were only ₹2.40 crore and ₹3.63 crore respectively. Irregular enhancement allowed in the above cases worked out to ₹23.76 crore (₹7.64 crore + ₹16.12 crore). The actual enhancement paid to the Contractor so far (September 2016 and October 2016) on the two packages was ₹4.46 crore, which was in excess by ₹3.85 crore. Despite granting the above enhancement and extending the time for completion up to 30 June 2016, the contractor could not make considerable progress in implementation due to public protest. In the wake of ADB loan closure, the work has been at a standstill from October 2016 onwards.

GoK stated that justification for giving the enhancement had been mentioned in the agenda note, based on which the 49th EC approved the enhancement. The reply is not tenable since the justification given was not in conformity with the agreement conditions.

¹⁸Expenditure incurred on two plants at Kadappakkada and Town Hall, which were working, were excluded

¹⁹KLM-SS-01 & KLM-SS-02

²⁰ Schedule of Rate under KPWD

²¹ Value of balance works ₹13.75 crore and ₹27.06 crore respectively

3.1.9.3 Irregular release of Liquidated damages

The TVM Corporation awarded (March 2009) the work relating to STP at Muttathara to 'M/s UEM India Ltd', with a stipulated time of 18 months for completion (October 2010). Since the contractor could not complete the work within the time allotted, the EC allowed extension of time up to March 2011 by imposing Liquidated Damages (LD) with the condition that imposition of LD could be reviewed if at least one stream of the entire work was completed and substantial progress in the work was achieved within the extended period. Since the contractor could not achieve the above bench mark within the extended time, LD amounting to ₹1.62 crore was recovered from fourth to eighth part bills of work.

The EC extended the time for completion of work, five²² more times up to 30 June 2013, by invoking LD clause. The contractor completed majority of the works by December 2012 and conducted trial run of the plant in June 2013. Later, the EC accorded sanction (February 2015) to waive the imposition of LD, based on which ₹1.62 crore already collected from the contractor in this regard was released (May 2015).

We noticed that the contractor had not fulfilled the conditions stipulated by the EC for reviewing the LD imposed. Moreover, the EC had to give extensions five more times for the work to be completed. Thus, it was evident that the work was delayed due to the lapse on the part of the contractor. The EC decided to waive the partially imposed LD due to the reason that the same contractor had to perform the O&M of the plant for five years, for which their cooperation was essential, and imposing LD on the contractor might create a negative impact among contractors.

We observed that since the original agreement required the contractor to ensure O&M services for five years, he was bound to adhere to the terms of the agreement and perform all work related to the O&M of the STP. Also, the *General* and *Particular* conditions of contract did not make provision for offering relaxation on LD to contractors for extraneous reasons in cases where delay occurred due to the lapse of the contractor. Hence, the decision of the EC to waive imposition of LD, amounting to ₹1.62 crore, on the contractor was irregular.

3.1.9.4 Loss due to failure of the Corporation to invoke risk and cost-Rehabilitation of distribution and service connections in SA Road' - Kochi

The water supply project formulated by Kochi Corporation included the component for 'rehabilitation of distribution and service connections in SA Road'. The Corporation awarded (December 2011) the work to 'M/s Premier

²² Up to 26 March 2011, 31 October 2011, 31 March 2012, 30 June 2012, 31 December 2012 and 30 June 2013

Plastics’ for ₹3.65 crore, with time up to 07 August 2012 for completing the work. Despite several extensions of time allowed, the contractor could not execute any work except supplying (February 2012) 3230 meters of pipe required for the project. Based on the decision (August 2013) of EC to pre-close the work, the Corporation rearranged (November 2013) the work through KWA for ₹73.36 lakh by inviting tenders, and paid (February 2015) ₹1.14 crore to the contractor towards the cost of pipe as final settlement.

We examined the correctness of the payment made to the contractor. It was seen that the contract provided for the employer to get the works done at the risk and cost of the contractor if the contractor had delayed the work as per the schedule with no justifiable reasons in support of the contractor and the Project Manager appointed another contractor to complete a portion of, or complete balance work. It was provided that 30 *per cent* and 20 *per cent* of the cost of remaining work shall be realized from the contractor towards ‘risk and cost’ and ‘additional administrative cost’ respectively as provided in KPWD Manual and the conditions of contract respectively, which work out to ₹1.26 crore.

We observed that the approval was accorded by the EC and consequent payment was made to the Contractor by the Corporation without invoking provisions of risk and cost, and the lapse on the part of the EC and the Corporation in not invoking the provision of risk and cost had resulted in loss of ₹1.26 crore to GoK and unintended benefit to the contractor for which responsibility needs to be fixed.

The Government stated that the work was hindered due to delay on the part of Corporation in giving road cutting permission. Risk and cost was not realized because the work was terminated on employer’s convenience and not on account of any breach of contract.

The reply is not tenable because we noted that based on the authorization given by the 40th EC (August 2013), the MD (KWA) negotiated with the contractor (August 2013) and the contractor orally agreed to execute the work at 22 *per cent* above SoR 2012. Since the contractor did not respond to subsequent notices issued for resuming the work, there is breach of contract and the *risk and cost* provision applies.

3.1.9.5 Wasteful expenditure due to faulty design

Kochi Corporation awarded (August 2012) the work relating to water supply project for strengthening the distribution networks in Kochi city (KCH-WS-02C) to ‘M/s Paulson Chacko’ for ₹2.54 crore and the same was completed in March 2014. The work included providing 1200 mm MS Casing pipe (25m) for the full length of culvert. At the time of execution it was found that the diameter of the culvert was less and it would not be possible to push the casing pipe through the culvert. The work was, therefore, carried out after changing the specification of MS Casing pipe to 800mm. As a result 24.20 meter length of 1200mm MS

Casing pipe procured by the contractor for ₹10.66 lakh could not be used. We noticed that the consultant prepared the preliminary design for the project without assessing actual field realities and hence the purchases made by the contractor were not in conformity with actual requirement, which made the purchase of 1200 mm casing pipe wasteful.

The Government replied that payment for the surplus pipe purchased has not been made since the material was mis-procured by the contractor without proper site investigation and the contractor had filed a writ petition before Honorable High Court of Kerala in this regard.

The reply is not tenable, as the contractor had purchased the pipes as per the design and it was the fault of the consultant to prepare a faulty design without ascertaining the site conditions.

3.1.9.6 Excess payments made

- We observed that in respect of Kochi water supply package KCH-WS-02C while preparing the fourth and final bill of the contractor, an earlier payment of ₹24.81 lakh effected vide third part bill was omitted to be considered for reckoning the net amount payable to the contractor, which resulted in excess payment of ₹24.81 lakh to the contractor.

- Also, in the case of Kochi water supply package KCH-WS-02A, while computing the amount payable to the contractor 'M/s M.V Viswanathan' as per second part bill, deduction allowable on amount as per first part bill was taken as ₹2.49 crore against ₹2.53 crore, resulting in excess payment of ₹4.39 lakh.

3.1.10 Suspected fraud in the implementation of drainage project in Thiruvananthapuram

The TVM Corporation awarded (June 2012) the work relating to 'Improvement to Pazhavangadi Thodu²³' forming part of the Storm Water Drainage project to 'Sri. Nizamudeen A, Thoppil Constructions India Ltd' for ₹9.37 crore. The work included installation of stainless steel bar screens at a cost of ₹0.28 crore (61.38 sq.m @ ₹4500) at selected locations across the drain to arrest debris. The contract also included Operation and Maintenance (O&M) of Pazhavangadi Thodu for two years after completing the drain work.

The terms of the O&M included the following:

1. Removing silt from Pazhavangadi Thodu (2063.70 cu.m @ ₹1000) for ₹0.21 crore.
2. Cleaning of screens fixed across Pazhavangadi Thodu two times a day in non-monsoon period and three times a day in monsoon period (1460 days @ ₹3000) for ₹0.44 crore.

²³ 'Pazhavangadi Thodu' is the main drain forming part of TVM drainage system

It was seen from the minutes of a meeting (January 2015) convened by the PD that a decision was taken to omit the item for providing silt pit and screening as it was felt that chances for flooding would be more if the debris clogged the screens. The Contractor also agreed with the same and agreed to do maintenance all through the drain during the O&M period. The PD, KSUDP, accordingly granted approval to a Variation Order wherein the work of installation of stainless steel bar screens was removed from the scope of the contract.

We observed that after completing the original work, the Corporation additionally paid (June 2016) ₹6.09 lakh as O&M charges towards cleaning of debris in bar screens for the period 01 December 2015 to 20 June 2016 (203 days @ ₹3000), as claimed by the contractor. Payment of O&M charges by the Corporation to the contractor, towards cleaning of bar screens, when these were not installed, was fraudulent and merits investigation.

The Corporation replied (July 2016) that temporary bar screens were installed at three places subsequently and the claim related to cleaning of those bar screens. The Corporation also stated that the screens were removed due to public protest.

Even though we requested for the work order or proof of incurring expenditure for installing the temporary bar screens, these were not produced by the corporation for scrutiny. Physical verification conducted by audit party proved that no bar screens were installed and hence the reply was not tenable in the absence of any evidence to show that the screens had been installed.

3.1.11 Withdrawal of ADB assistance due to lapses in implementing resettlement plans

We came across instances of excess expenditure on project implementation and also ADB retracting already sanctioned loans, due to failure of Corporations to implement resettlement plans, as discussed in the succeeding paragraphs.

3.1.11.1 Kollam Corporation - Upgradation of KMK Road

The Project Administration Memorandum required GoK to prepare and implement a Resettlement Plan in the event of involuntary resettlement arising consequent to land acquisition or temporary disruption of income generation. The Resettlement Plan was to be framed in accordance with relevant norms and ADB's policy on Involuntary Resettlement. It was specifically mentioned in the PAM, that in the case of Kollam, ADB's approval of the Short Resettlement Plan (SRP) would be a pre-condition for the award of related civil work contracts.

The work relating to 'Upgradation and Junction improvement of KMK Road' (length 3.440 km) under KSUDP was completed by the Kollam Corporation (August 2010) at a cost of ₹17.10 crore with the ADB reimbursing ₹13.10 crore to GoK. Against the width of 13.5 meter proposed in the DPR for the first 300 meter the Corporation constructed the entire stretch of road with width 18 meter which necessitated acquisition (2009) of 144.92 m² of private land by way of voluntary surrender by eight households and one religious institution. The

modification was effected without the approval of ADB and without carrying out the SRP as required. We observed that even though the Corporation had initially conducted a survey in 2011 for implementing the SRP, detailed proposal thereof was not prepared and submitted to ADB. Though the land required for widening the road had been taken possession of by the Corporation through voluntary donations in 2009 itself, the voluntary surrender was not documented and land transfer process not initiated, to have the land transferred to the Corporation.

In the absence of evidence regarding voluntary surrender, ADB insisted on complying with its involuntary resettlement safeguards for implementing the SRP, which required every person who parted with land to be adequately compensated. Even though the Corporation started survey procedures for this in early 2014, due to problems in coordination with the Revenue Department, the survey could be completed only in February 2016.

The compensation payable to land owners as per the provisions of LARR Act 2013²⁴ worked out to ₹33.30 lakh and GoK accorded sanction for meeting the expenditure from the State share of KSUDP, on the condition that the entire amount would be recouped to Government from the General Purpose Grant of the Corporation.

We observed that had the Corporation documented and legally transferred the land voluntarily surrendered by parties in 2009 itself, the liability of ₹33.30 lakh would not have arisen. We further observed that in addition to the aforesaid liability on compensation payable to land owners, ADB retracted the assistance of ₹13.10 crore already given for the project due to non-submission of SRP in time, and the burden of meeting the above project cost also fell on the Corporation.

3.1.11.2 Thiruvananthapuram Corporation - Storm Water Drainage project

As part of the Improvements to Pazhavangadi Thodu -Storm Water Drainage project in TVM, the Corporation decided to construct covered box conduit for the drain near KSRTC terminal and allowed the contractor time up to 31 March 2014 for completing the work at the agreed rate of ₹3.07 crore. Even though the implementing agency issued the structural drawing for box conduit to the contractor in December 2013, the site was handed over free from all utilities and after evicting the shops/occupants only in May 2014. The EC extended the time for completion of the work up to May 2015. However, citing delay in handing over of site, the contractor demanded enhancement of 80.09 *per cent* above the existing rate for the box conduit. The Project Director sanctioned (August 2015) the enhanced rate of ₹4.29 core (39.5 *per cent* above existing rate) for the box conduit, thus allowing an enhancement of ₹1.22 crore.

Though the Corporation was aware at the DPR stage itself that two shopkeepers had to be evicted for carrying out the work, the Corporation took no fruitful

²⁴Land Acquisition Rehabilitation and Resettlement Act, 2013

action to evict the occupants till April 2014. Even though the resettlement plan was formulated in January 2013 envisaging compensation of ₹54100, the Corporation failed to do it in time which resulted in additional burden of ₹1.21 crore on account of enhanced project cost.

3.1.12 Idling of Assets

We noticed that apart from the assets constructed as part of projects which have become unfruitful, items valuing ₹37.46 crore purchased for the project viz., pipes, vehicles, equipments etc., were lying idle due to short closure of projects or due to mismanagement, as shown in **Appendix XV**. Majority of assets like vehicles and equipments were in a deteriorated condition not fit for use, resulting in considerable loss of money.

- Pipes purchased for Kochi sewerage projects valuing ₹18.81 crore were lying idle (December 2016) without being utilised for the project. Though the work relating to Kochi sewerage was not executed, the contractor removed pipes worth ₹1.81 crore from the stock yard at Nettoor without the concurrence of KWA or other concerned authorities. Even though KWA had lodged a complaint with the police and filed writ petition in the Honourable High Court of Kerala, removal of considerable quantity of pipes from the stock yard points to the lack of monitoring on the part of KWA.



Pipes for Kochi sewerage project lying idle

- Thrissur Corporation purchased 48000 primary storage bins and other articles for solid waste management which was not recorded in the stock register. On pointing this out (November 2016), the Corporation recorded the receipt in the stock register and showed the entire items as issued to the Circles, however the records of Circles disclosed that majority of items were lying unutilized. We conducted the physical verification and found that considerable stock of items were lying idle in Corporation premises.



Storage bins lying idle in Thrissur Corporation

Recommendation – 2:

All assets created under the project should be enumerated and utilized effectively.

3.1.13 Lapses in utilizing funds for Part B - Urban Community Upgrading

The Kerala Municipality Act, 1994 required the Urban Local Bodies to provide basic facilities in slum areas as a mandatory function and to organize neighbourhood groups and self-help groups with a focus on the poor, as a general function. The component 'Urban Community Upgrading' was therefore included in the ADB scheme in line with the above provisions of the Act. This component targeted the poor by combining improvements to basic infrastructure and services with livelihood promotion. The PAM required a Civil Society Organization²⁵ (CSO) to be formed in each Corporation which would establish consensus on the sub-components to be included under 'Urban Community Upgrading'.

Financing was made available to the component 'Urban Community Upgrading' through two funds – (i) Community Infrastructure Fund (CIF) intended for improving basic infrastructure (including water supply, sanitation, local drainage etc.) and services for women and children slum dwellers (community halls, day care centers, physical infrastructure for primary health care and education, etc.) and (ii) Poverty Social Fund (PSF) for financing programs of income generation for confederations of self-help groups, and for micro-enterprise development in line with the norms prescribed for SJSRY²⁶.

Instances of violation of project guidelines noticed during Audit are given below.

3.1.13.1 Projects implemented in places other than slums identified based on survey

We found that no CSO has been formed in any of the Corporations for establishing consensus on community upgrading sub components and for identifying projects. GoK issued directions (January 2008) to conduct a detailed survey based on certain poverty/vulnerability criteria, for identifying and short listing slums. The Corporations formulated projects deviating from the primary objective of providing community infrastructure services to women and children slum dwellers, and also implemented projects in slums which were not identified and shortlisted in the baseline survey²⁷, as required by GoK. Projects were also implemented in public places which were not envisaged either under PAM or GoK guidelines as shown below.

²⁵ CSO comprising of city-level stakeholders viz., Municipal Corporation, business groups, resident welfare associations, NGOs, Kudumbashree, etc

²⁶ Swarna Jayanti Shahari Rozgar Yojana

²⁷ In Thrissur one slum from each Division was selected based on the recommendation of the Councilors without any survey.

Table 3.6- Projects implemented in public places other than slums*(₹ in crore)*

Corporation	Details of work	Expenditure
Thiruvananthapuram	Constructed two bio-gas plants in market places and six bio-gas plants in schools/other public places.	1.02
	Renovation of Vattiyoorkavu Market	0.52
	Renovation of Konathukulam pond	0.50
	Girl friendly toilets in schools	0.95
Thrissur	Seven biogas plants constructed in areas other than slums	0.07
Kozhikode	Four biogas plants constructed in public places	0.10

We conducted physical verification (January 2017) which revealed that in TVM Corporation, two biogas plants costing ₹17.04 lakhs were non-functional. Similarly, three out of four biogas plants were not functional in Kozhikode. Since these projects were formulated without participatory planning and were implemented outside identified slum areas, the primary objective of providing basic facilities in slum areas, in line with the provisions of KM Act 1994, could not be achieved.

3.1.13.2 Utilization of Poverty Social Fund in violation of norms

As per guidelines, Poverty Social Fund (PSF) was aimed at financing programs of income generation for confederations of self-help groups and for micro-enterprise development, in line with the norms prescribed for SJSRY. We noticed that, based on the guidelines²⁸ issued by GoK, the Corporations utilized PSF for unproductive purposes like giving assistance to ‘Ashraya’²⁹ beneficiaries, Ayurvedic geriatric programmes, etc., which was against the spirit of the scheme. Further, we observed that the Corporations transferred funds to the ‘Ashraya’ accounts when surplus amounts were already available in the accounts. Instances of utilizing PSF for non productive purposes are shown in **Appendix XVI**. Also the Corporations did not follow SJSRY norms while implementing schemes, as shown in **Appendix XVII**.

3.1.13.3 Unfruitful expenditure on installation of CCTV cameras

The TVM Corporation formulated a project to install 37 CCTV cameras at selected locations along ‘Amayizhanjan Thodu’ utilizing Community Infrastructure Fund, for the purpose of Solid Waste Management and to prevent people from dumping waste in the drain. The Corporation awarded (March 2014) the work relating to supply, installation, testing and commissioning of CCTV system with 37 cameras to M/s KELTRON Ltd for ₹54 lakh, and paid (April 2014) the entire amount to the firm as advance. Even though the cameras were

²⁸ G.O No.26/08/LSGD dated 24.01.2008

²⁹ Ashraya is the project formulated by GoK for identifying the poorest people of the society and providing them basic amenities like food, shelter, medicines etc.

installed in March 2015 (except two, which could not be installed due to public protest), these were found to be defective. The cameras were reinstalled by M/s KELTRON after rectifying the defects and the entire assets were transferred to the Corporation (April 2016).

On seeking the current functional status of these cameras, the TVM Corporation stated that none of the cameras installed were working from the very beginning itself, rendering expenditure of ₹54 lakh incurred for the project unfruitful.

3.1.14 Financial management

Against the total project cost of ₹1422.5 crore, it was envisaged that 70 per cent (₹995.40 crore) would be met by ADB as loan while GoK and five Corporations would meet the remaining 19 per cent (₹269.10 crore) and 11 per cent (₹158 crore) respectively from their own resources. KSUDP Guidelines stipulated that GoI would make available the ADB loan proceeds to GoK to form part of the Consolidated Fund of the state. GoK was to release funds to PMU for disbursement to PIUs for incurring expenditure. Statements of Expenditure (SOE) were to be forwarded to ADB by PMU for reimbursement of eligible expenditures³⁰ for the project.

Against ADB share of \$221.20 million (₹995.40 crore)³¹ receivable towards project cost, GoK spent ₹745.57 crore and obtained \$113.88 million (₹607.37 crore) as reimbursement from ADB up to November 2016³², when the loan account was closed by the ADB. The balance ₹138.20 crore was met by GoK out of its own funds. Consultancy and incremental administration accounted for 17.46 per cent of the loan availed, against 5.52 per cent envisaged as per loan agreement. Instances of financial lapses noticed during the course of our Audit, are brought out below.

3.1.14.1 Poor utilization and resultant non-availing of ADB loan by GoK

The PAM provided for downsizing and partial cancellation of the loan in the event of poor utilization of the loan amount due to severe delays in the procurement process, poor progress of works due to lack of requisite environmental clearances, local protests and mounting commitment charges³³ on the State. We noticed that out of the total loan amount of \$221.20 million, two partial loan cancellations of \$25 million and \$27.80 million were effected by

³⁰ ADB reimbursed Consultancy, interest and Commitment charges (100 per cent), Civil works (82 per cent), equipment, vehicle (80 per cent), local training, surveys etc (73 per cent), livelihood promotion and local Government Infrastructure Development (70 per cent).

³¹ At the exchange rate of ₹45 per dollar prevailing at the time of loan agreement.

³² Includes interest and commitment charges capitalised ₹20.35 crore and ₹42.27 crore respectively.

³³ Commitment charges accrue on quantum of Loan to be availed less amounts withdrawn from time to time, during successive periods commencing 60 days after the date of loan agreement (08 December.2006) as follows: during the first twelve-month period, on \$33,180,000; during the second twelve-month period, on \$99,540,000; during the third twelve-month period, on \$188,020,000; and thereafter, on the full amount of the Loan.

ADB in August 2013 and in May 2014 respectively³⁴. A third partial loan cancellation of \$45 million was effected (May 2016) by ADB on an assessment that the amount would remain unutilized by the loan closing date. Apart from this, at the time of closure of loan account (25 November 2016), ADB cancelled loan of \$9.52 million which remained unutilized. Thus, failure to implement the project as envisaged, led ADB to cancel loan totalling \$ 107.32 million, leaving only loan of \$113.88 million to GoK for implementation of projects. Thus the Corporations could avail only 51.48 *per cent* of the original loan sanctioned. As the ADB loan has been closed, GoK will now have to complete the incomplete works using its own resources.

3.1.14.2 Payment of Commitment Charges to ADB for loan un-availed

The Loan Agreement entered into with the ADB required GoK to pay Commitment charges in the event of the quantum of loan withdrawn being less than the prescribed bench marks. The Commitment charges were fixed at the rate of 0.75 *per cent* per annum on the loan amounts less amounts withdrawn from time to time. In the event of cancellation of any portion of the loan, the amount of principal loan attracting Commitment charge each year was also to be proportionately reduced. We observed that failure of GoK to ensure completion of projects on time led to payment of commitment charges of \$8.37 million (₹43.68 crore) to the ADB (December 2016).

The Loan Agreement also provided for cancellation of any portion of the loan amount so as to minimize the commitment charges payable to ADB. We observed that the advice rendered by ADB (April 2011) in the face of mounting commitment charges to cancel the component ‘Local Government Infrastructure Development’ and the corresponding loan portion of \$15 million due to practical difficulties in implementation, was effected by GoK only in August 2013. Also, the ADB advised GoK (March 2012) to seriously consider downsizing and partially cancel the loan due to the severe delay in project implementation. Subsequent failure of GoK to make timely cancellation of the unavailed loan component is significant in view of the fact that ADB had itself, earlier estimated the loan savings on works not likely to be completed by the loan closing date as \$16.3 million (September 2013), \$35 million (May 2015) and \$45 million (January 2016), and each time advised GoK to seriously consider partial cancellation of loan. The misplaced decision of GoK not to accept the advice of the ADB has resulted in further avoidable payment of Commitment Charges of \$4.13 million.

³⁴ The cancellation included \$15 million relating to the component ‘Part C- Local Government Infrastructure Development’, \$20 million relating to civil works and \$17.8 million relating to proportionate allocations for interest during construction.

3.1.14.3 Failure of Local bodies to contribute to projects

The amount of ₹138.48 crore released by GoK as state share and utilized for the project included ₹50.67 crore³⁵ realisable from the Corporations towards their share of contribution for the project. However, we noticed that none of the five Municipal Corporations contributed their share for the project.

GoK replied (March 2017) that the Corporations did not contribute their share for projects due to paucity of funds and the Government would recover the amount in installment from the funds to be devolved to the Corporations in future.

Recommendation – 3:

In the case of projects requiring local body contributions, it has to be ensured that the local bodies concerned have adequate resources for meeting the expenditure and funds have been set apart in advance for meeting the expenditures.

3.1.14.4 Unutilized amounts parked with various authorities

As a part of setting up institutional arrangements for implementation of KSUDP, GoK decided (May 2005) that rehabilitation of existing sewages/water supply would be done by KWA. Municipal Corporations which were the implementing agencies deposited funds with KWA for carrying out water supply and sewerage projects. Money was also deposited with PWD for securing road cutting permissions. Details of amounts remaining unutilised with KWA/PWD are shown below.

Table 3.7: Amounts remaining unutilised with KWA/PWD

(₹in crore)

Corporation	Unutilized Amount with KWA	Unutilized Amount with PWD
TVM	0.35	0.75
Kollam	0.01	6.57
Kochi	0.23	10.00
Thrissur	0.46	0
Kozhikode	0.91	0
Total	1.96	17.32

We observed that out of the funds deposited by the five Corporations for implementing 14 sewerage and 10 water supply works, ₹1.96 crore remained unutilized with KWA at the time of closure of the project, and the Corporations failed to claim refunds of those amounts. Similarly, deposits made with PWD for obtaining road cutting permissions totalling ₹17.32 crore relating to projects which were later short closed/terminated, continued to be retained by the PWD, without refund to the Corporations. No efforts were seen to be taken by these Corporations to recover the unutilised amount from various agencies.

³⁵ Amount of ₹138.48 crore met by GoK has been apportioned in the ratio 11:19

3.1.14.5 Non-recovery of mobilization advance and interest

The Central Vigilance Commission guideline (April 2007) stipulate that in order to avoid undue benefit to the contractor, mobilization advance should bear interest and the recovery shall be time based and not linked with the progress of work. The CPWD Manual also specifies that mobilization advance shall be granted only in special cases and should bear simple interest of 10 *per cent*. The Bank Guarantee submitted by the contractor should be encashed if the contractor's money on account of work bills was not available.

In the case of all civil works taken up under KSUDP the implementing agencies gave mobilization advance (10 *per cent* of contract amount) to contractors, based on the bank guarantee for equal amount furnished by them. Apart from the stipulation that recovery of the advance shall be effected in 10 equal installments from the work bills submitted, the agreements entered into did not specifically provide for any recovery of interest on these advances. So, the Corporations did not recover any interest on the mobilization advances given to contractors and also did not encash the bank guarantees to realize the mobilization advances pending in respect of short closed/ongoing works. Mobilization advances still pending adjustment in eight short closed and four ongoing works amounted to ₹19.46 crore, and interest due thereon worked out to ₹6.22 crore³⁶, as shown in **Appendix XVIII**.

The Project Director (KSUDP) replied that in a few cases recovery of mobilization advance by forfeiting bank guarantee has been stayed by Court. It was further stated that all mobilization advances pending will be recovered either by adjustment against bank guarantees or while making future payments to contractors in settlement of their claims.

3.1.15 Monitoring

3.1.15.1 Functioning of Committees

The Empowered committee constituted was to enable quick decision making on matters related to the project including progress review and project implementation. It was the responsibility of EC to monitor and review progress of project implementation and take appropriate decision to speed up the project. Taking in to account the size of project and amount involved, proper monitoring was necessary to see that projects were implemented in a judicious way with maximum economy, adhering to the time schedule. The number of extensions given for implementing a package is an indicator of project management efficiency. We noted that the EC gave time extensions in a routine manner without giving any fruitful direction for solving the basic problems which hindered the implementation of projects. Out of total 74 packages, the EC allowed extensions in 43 packages which indicate the inadequacy of project

³⁶Calculated @ 10 *per cent* as stipulated in CPWD Manual

management. We noticed that 12 extensions were granted for completing the work on Kollam- Chinnakkada Underpass alone.

It was the responsibility of City Level Steering Committees (SC) to review the progress of projects, resolve local issues and provide guidance on policy matters. Though several works involving huge amounts were hindered due to public protest and local issues rendering the expenditures unfruitful, none of the Corporations maintained any records including minutes book to show that the SCs worked efficiently.

3.1.15.2 Project Performance Monitoring System (PPMS) Consultants

It was envisaged that an adequately developed monitoring and evaluation system, PPMS, will be installed in the PMU to monitor and evaluate implementation performance, improve management information and assess the impact of the project. The activities under PPMS were to be undertaken by a domestic firm/individual consultant who was to measure the benefits of the project at the initial, middle and final stages. LSGD undertook the baseline survey under PPMS through Technical Support Unit (TSU) who engaged an independent consultant 'Interventions', for undertaking the survey in 2009. The midterm and final analysis was entrusted to TSU in May 2015, i.e, towards the close of the project. We noticed that the mid-term analysis report of the PPMS was received only in May 2016, one month before the closure of the project. The final survey was completed in December 2016 and report submitted to PMU in February 2017.

3.1.15.3 Frequent change in critical staff

The PAM stipulated that a full time Project Director shall head the PMU. Also the PMU shall be staffed with senior level technical, financial, social, capacity building/governance and procurement officers to manage the project. The personnel hired for PMU and PIU were expected to work for an average period of five years.

We noticed that the PD had been changed 11 times during the entire loan period of nine years, and the officers of other departments were given additional charge of PD four times in violation of the stipulation in PAM that a full time PD shall be appointed. Also the Project Managers who head the PIUs and other critical staff of PMU and PIUs were changed frequently as shown in **Appendix XIX**. Frequent change of staff of PMU and PIUs result in lack of continuity which in turn affects the implementation of projects. ADB had also pointed out the adverse effect on implementation of projects due to the absence of a full time PD and vacancies in the case of other critical staff.

3.1.16 Conclusion

There were many lapses in the formulation and implementation of projects utilizing the loan amount. In spite of extending the project period to nine years from the original five, out of total envisaged loan amount of \$221.20 million, the Corporations could utilize only \$113 million which was only 51.48 *per cent* of

the original loan sanctioned. Due to not achieving the bench marks fixed for availing loan amounts, ₹43.68 crore was paid towards commitment charges. There was lapse on the part of Government in not cancelling the loan portion relating to projects which could not be implemented within the specified time which led to avoidable payment of commitment charges. The entire component part C – Local Government Infrastructure Development meant to help ULBs develop and finance infrastructure projects was cancelled due to lapses in making KLGDF operational. Out of 24 projects initiated by the five Corporations on activities like Construction/rehabilitation and extension of existing sewerage and water supply systems, storm water drainage, solid waste management, improvement of roads and bridges, etc., only seven were completed. The Corporation of Kochi could not complete even a single of these projects. Out of 74 contract packages taken up for implementation, 15 packages were short closed due to public protest, environmental issues, delay in land acquisition, delay in getting road cutting permissions etc. The Corporations did not charge interest on the mobilisation advances given to contractors. Though major portion of the expenditure was proposed to be incurred on sewerage projects, the progress of implementation of sewerage projects was very slow and majority of these were short closed. Out of ₹573.09 crore utilized for actual implementation of projects, ₹86.77 crore turned out to be unfruitful. A considerable portion of assets generated as part of implementation were remaining idle prone to deterioration. The performance of the Corporations vis-à-vis the assistance received under KSUDP therefore was far from satisfactory.