

Chapter – V
Compliance Audit Paragraphs

Municipal Administration and Urban Development Department

5.1 Construction and maintenance of internal roads in Urban Local Bodies

5.1.1 Introduction

As per Twelfth Schedule to the Constitution, ‘roads’ is one of the subjects¹ entrusted to the Urban Local Bodies (ULBs). Roads are necessary for public safety and convenience. For this purpose, ULBs are required to make provision² for construction, maintenance, alteration and improvement of streets, bridges, sub-ways, culverts, causeways or the like within the jurisdiction of the ULB. The function of a network of roads is to ensure safe and efficient circulation of traffic in ULBs.

5.1.2 Organizational set-up

The ULBs function under the administrative control of the Principal Secretary, Municipal Administration and Urban Development (MA & UD) at Government level. The Commissioner and Director of Municipal Administration (CDMA) is the Head of the Department. ULBs are governed by Councils comprised of elected members. Each Council is headed by a Chairperson who shall be nominated by the elected members of the Council. Municipal Commissioner is the executive head of the respective ULB. The ULBs transact their business as per the provisions of the Acts concerned. The Public Health and Municipal Engineering Department is responsible for undertaking all capital works. Maintenance works are looked after by the Engineering wing of ULB.

5.1.3 Audit Approach

Compliance Audit of construction and maintenance of internal roads³ in 11⁴ selected⁵ ULBs (out of 110 Urban Local Bodies) was conducted during the period February-June 2017. Audit covered the period 2014-15 to 2016-17. The audit was carried out with the objective of assessing efficiency and effectiveness of

- i) Utilization of funds; and
- ii) Award and execution of works.

Audit methodology involved scrutiny of relevant records/documents at the office of the Commissioner and Director of Municipal Administration, selected ULBs and the

¹ Article 243W- Twelfth Schedule-Constitution 74th amendment Act,1992

² Sec.112 (15) and Section 374 of Hyderabad Municipal Corporation Act 1955

³ All roads which are constructed and maintained by Urban Local Bodies (ULBs) are called internal roads

⁴ **Municipal Corporation** : (1) Guntur Municipal Corporation

Municipalities : (1) Adoni (2) Bhimavaram (3) Machilipatnam (4) Nandyal (5) Narasapur (6) Proddatur (7) Tenali

Nagar Panchayats : (1) Jangareddygudem (2) Mummidivaram and (3) Tiruvuru

⁵ Sample was selected based on the highest expenditure incurred on construction and maintenance of internal roads in ULBs

concerned engineering divisions of Public Health department. In addition, physical verification of site was also conducted with departmental officials. Photographic evidence was obtained wherever necessary to substantiate audit findings.

Audit findings were benchmarked against the criteria sourced from

- Andhra Pradesh Municipal Corporations Act, 1994⁶, Municipalities Act 1965, Town Planning Act 1920 (AFTP Act),
- A.P. Financial Code & A.P. Public Works Code, A.P. Municipal Accounts & Asset Manual,
- Indian Road Congress guidelines, Road Development Plans (RDPs), Annual Development Plans (ADPs), and
- Orders issued by Central / State Government from time to time.

Audit Findings

5.1.4 Utilization of funds

5.1.4.1 Funding of works

Besides having their own resources, ULBs receive grants from State and Central Governments under Plan/Non-plan, Scheduled Castes Sub-Plan (SCSP)/Tribal Sub-Plan (TSP) for construction and maintenance of internal roads. ULBs also receive grants from Finance Commissions. ULBs provide funds for construction of internal roads in their respective annual budgets. However, Central/State Governments had not released any specific grant for construction and maintenance of internal roads during 2015-17. Eleven test-checked ULBs spent an amount of ₹207.01 crore⁷ on construction and maintenance of internal roads during the review period.

5.1.4.2 Grant under Scheduled Castes Sub-Plan (SCSP)

An amount of ₹54.33 crore was released during the years 2015-17 under Scheduled Castes Sub-Plan to take up works to fill up infrastructural gaps identified in SC habitations in respect of 11 test-checked ULBs. Out of this, an amount of ₹38.79 crore was utilized. Shortfall in utilisation of funds ranged between 17 and 100 per cent in 10 ULBs. Tenali ULB utilized funds in full.

Cases of un-utilised SCSP funds as observed by Audit are detailed below:

1. State Government released ₹2.49 crore (April 2016) to Guntur Municipal Corporation (GMC) towards development works. GMC did not utilize the amount and the same was kept in PD Account.

⁶ Section 14 of the Act provides that all the provisions of Hyderabad Municipal Corporation (HMC) Act, 1955 shall be applied *mutatis and mutandis* to Corporations constituted under this Act

⁷ Own funds: ₹168.16 crore, State Grants: ₹38.79 crore, Central Grants: ₹0.06 crore

State Government replied (November 2017) that funds would be utilized for road works after completion of Underground Drainage scheme, which was in progress.

2. During 2016-17, an amount of ₹10.03⁸ crore was allocated to Narasapur Municipality. However, Municipal Council resolved (September 2016 and February 2017) to take up 29 road works⁹ costing only ₹3.26 crore. Even these works were not executed.

State Government replied (November 2017) that the SCSP Grant was released in the last week of February. After obtaining administrative and technical sanctions, the Municipality was to call for tenders. However, due to issue of Council Election Notification, Municipality could not call for tenders as it would violate the Election Rules.

Thus, the Municipality failed to initiate action in time to propose infrastructure, despite availability of funds.

3. Three road works were sanctioned (May 2016) to Bhimavaram Municipality for ₹36.40 lakh. Out of this, only one work (₹10 lakh) was awarded and was under progress. The balance two works were still at tender process stage as of April 2017. Similarly, an amount of ₹2.29 crore was allocated (December 2016) to the Municipality for 21 works to fill up the infrastructural gaps identified in SC localities. Out of 21 works sanctioned (January 2017), 12 were related to roads. The fund lapsed to Government as none of these works were commenced as of 31 March 2017. Further, an amount of ₹50 lakh was allocated (December 2016) to the municipality under Tribal Sub-Plan for one work which was yet to be commenced.

State Government stated (November 2017) that the municipality could not take up the works due to insufficient response from bidders and also due to Election Code of Conduct.

Thus, no amount was utilized by the Municipality as of June 2017.

4. Proddatur Municipality received an amount of ₹1.92 crore under Plan/Non-Plan Grant during 2014-15 for construction and maintenance of roads. However, an amount of ₹14.43 lakh (eight *per cent*) was only utilized as of March 2017. Balance amount of ₹1.78 crore received under the grant was kept in savings bank account instead of remitting to the Government.

State Government replied (November 2017) that delay in selection of works occurred due to non-availability of sufficient engineering staff. State Government further stated that estimates were prepared for 10 works with an estimated cost of

⁸ ₹0.46 crore + additional allocation of ₹9.57 crore

⁹ Three works (September 2016) and 26 works (February 2017)

₹78.57 lakh. Government did not furnish the reply for the balance amount (₹99.43 lakh).

5. State Government allocated an amount of ₹10 crore to Adoni Municipality during the years 2015-17. Municipality proposed 123 works out of which 72 works pertained to roads. State Government released (August 2016) an amount of ₹5.93 crore. The ULB did not ground the works due to delay in finalization of tenders. State Government had withdrawn (March 2017) the allocation as it was not utilized by the ULB. Municipality replied (April 2017) that due to delay in conducting survey, there was delay in starting the works. The reply was not acceptable as survey was completed in September 2015 itself.

State Government while accepting audit observation replied (November 2017) that an amount of ₹six crore had been allocated (2017-18) to the ULB under SCSP grant and the works were under progress.

Thus, objective of providing infrastructure facilities in the ULBs, was not achieved to a large extent, despite availability of funds.

5.1.4.3 Fourteenth Finance Commission Grants

Under 14th Finance Commission, an amount of ₹8.02 crore was released (2015-17) towards 97 road works in five¹⁰ out of 11 test-checked ULBs. ULBs did not utilize the fund as the estimates and tenders were not finalized. Mummidivaram ULB utilized a meagre sum of ₹0.06 crore for one work only.

Thus, the grant received by the ULBs under 14th Finance Commission remained unutilized thereby depriving the public of the intended benefits.

State Government accepted the audit observation and stated (November 2017) that funds would be utilised during 2017-18.

5.1.4.4 Utilization Certificates not submitted

State Government released (2014-15) an amount of ₹4.49¹¹ crore to three ULBs (Bhimavaram, Narasapur and Jangareddygudem) for maintenance of Municipal internal roads. The ULBs were to utilize the amount and submit Utilization Certificates (UCs) within three months. However, UCs were not submitted by the ULBs.

Thus, by not submitting the UCs, it was not known whether the amount was spent for the purpose it was intended to.

¹⁰ Bhimavaram (5 works - ₹2.46 crore), Mummidivaram (14 works- ₹0.95 crore), Narasapur (3 works - ₹0.82 crore), Jangareddygudem (42 works - ₹2.22 crore) and Tiruvuru (33 works - ₹1.57 crore)

¹¹ Bhimavaram Municipality: ₹1.67 crore, Narasapur Municipality: ₹0.69 crore and for Jangareddygudem Nagar Panchayat: ₹2.13 crore

State Government assured (November 2017) that UCs would be obtained from concerned ULBs.

5.1.5 Award and execution of works

5.1.5.1 Splitting of works

As per Government orders (July 2003) works are to be technically sanctioned by competent authority¹² based on prescribed monetary limits delegated to them.

Audit noticed that four¹³ test-checked ULBs had split 9¹⁴ and 5¹⁵ works into separate packages so that the estimated cost of the work did not exceed ₹50 lakh and ₹10 lakh respectively (*Appendix- 5.1 a&b*). Thus the ULBs avoided the sanction of higher competent authorities. The ULBs replied that the works were split to complete the works within the stipulated period. Reply was not acceptable as the justification for splitting the works was not recorded and works were generally completed beyond the stipulated time. The works were split to avoid sanction from higher authority.

In Nandyal municipality, the work of ‘Rehabilitation and widening of CC road main gate to cross culvert at vegetable market’ was technically sanctioned (February 2014) for ₹10 lakh for 100 mtrs road length. Audit observed that the original road layout map indicated the road length as 114 mtrs. The work was completed (November 2014) incurring an expenditure of ₹10.94 lakh by covering road length of 116.50 mtrs, i.e., 16.50 mtrs beyond the length of 100 mtrs provided in the estimates. Thus, the Municipality avoided sanction of the Superintending Engineer by restricting the technical sanction for road length of 100 mtrs valuing ₹10 lakh. The ULB replied (March 2017) that the estimation was prepared for ₹10 lakh to avoid administrative delay and the ratification from the higher authorities would be obtained. Thus, the estimate was under-valued to avoid technical sanction from the higher authorities.

State Government accepted (November 2017) audit observations.

5.1.5.2 Award of works on nomination basis

State Government ordered (February 2014) that for all the works costing ₹one lakh and above, e-procurement platform should be adopted to enhance transparency and bring uniformity. Works on nomination basis¹⁶, to private agencies, shall be awarded only for civic works which need to be carried out on emergency basis, but not for works of regular nature. Mummdivaram Nagar Panchayat and Guntur Municipal

¹² **Executive Engineer** - for works costing upto ₹10 lakh , **Superintending Engineer**-works costing upto ₹50 lakh and **Chief Engineer/Engineer-in-Chief**-works costing above ₹50 lakh

¹³ Proddatur, Nandyal, Machilipatnam and Guntur

¹⁴ Valued at ₹8.91 crore

¹⁵ Valued at ₹1.27 crore

¹⁶ Nomination means awarding works to contractors without going for tenders

Corporation (GMC) awarded (2016-17) 26 works (₹3.20 crore) and 18 works (₹79 lakh) respectively, which were of regular nature, on nomination basis.

State Government replied (November 2017) that works were allotted on nomination basis to avoid lapse of funds and assured to avoid such entrustment in future.

5.1.5.3 Publishing of tender notices

As per Government orders (July 2003), tender notices with estimated value of more than ₹50 lakh shall be published one each in Telugu daily and English daily having largest circulation at the State level. Mummidivaram Nagar Panchayat had accorded administrative sanction (January 2016) for 17 road works with an estimated cost of ₹1.21 crore under the SCSP grant. In violation of Government Orders, the Municipality published the tender notice only in the district edition of a local newspaper, which was not a widely circulated Telugu daily. Audit noticed that 11 out of 17 works, with an estimated value of ₹63.03 lakh, were entrusted (June 2016) to a single contractor. The contract was, however, cancelled (December 2016) as the contractor did not come forward to commence the works. The Municipality replied (April 2017) that the newspaper had quoted lesser amount than other newspapers and assured to give advertisements in largely circulated newspapers.

Thus, the ULB lost offers from competitive bidding/qualified bidders for execution of work due to lack of wide publicity. The SC habitations were deprived of the intended infrastructural facilities due to improper action of the ULB.

State Government accepted audit observation and assured (November 2017) that advertisements would be published in widely circulated newspapers henceforth.

5.1.5.4 Delay in execution of works

1. **Delay in concluding agreement:** After issue of Letter of Acceptance (LOA) to the successful bidder, the Agreement is to be concluded within 14/7 days or else the contract would be cancelled and EMD would be forfeited. Audit noticed that Tenali and Bhimavaram ULBs concluded five agreements with abnormal delay of 4-27 months from the date of issue of LOA (*Appendix- 5.2*). ULBs replied (April-May 2017) that works were located in newly developed areas and boundaries of the road were not finalized by Town planning wing of ULB. Further, ULBs stated that contractors did not come forward. Thus, the projects had been delayed, causing inconvenience to the public due to delay in concluding agreements within 14/7 days.

State Government attributed (November 2017) delay to non-removal of encroachments and site disputes.

2. **Delay in completion of works:** The contractors have to complete the work within the time stipulated in the agreement conditions. As per para 154 of APPWD Code,

delay, if any, has to be condoned by way of granting Extension of Time (EOT) by the concerned competent authority. Liquidated damages have to be levied as per the conditions of Agreement, if the delay is on the part of the contractor. Audit observed delays in completion of 30 works in six test-checked ULBs, for which EOT was not granted (*Appendix- 5.3*). Audit could not assess liquidated damages leviable in the absence of records to show the delays attributable to the contractor/department. Three¹⁷ test-checked ULBs attributed the delay to shortage of sand and encroachments.

In Guntur Municipal Corporation (GMC), for 31 road works (*Appendix- 5.4*) though agreements were concluded with the contractors during 2014-17, none of the works were commenced as of June 2017.

Thus, delays in executing the work deprived the habitations of connectivity.

State Government accepted and replied (November 2017) that in Guntur Municipal Corporation, 6 out of 31 works were completed and balance works were stopped as UGD works were under execution. In other six ULBs, the delay occurred due to shortage of sand and removal of encroachments.

5.1.5.5 Poor planning

Guntur Municipal Corporation (GMC) proposed (May 2016) “Construction of 36 metres bridge at Ankireddypalem”, to provide connectivity between the SC colony and burial ground in Ankireddypalem area. The work was awarded (October 2016) to a contractor for ₹38.05 lakh and the same was completed in March 2017. The total value of work done as per final bill (March 2017) was ₹38.15 lakh.



Bridge constructed at Ankireddypalem (Guntur district) without approach roads.

Audit noticed that provision was not made for laying approach road connecting the newly constructed bridge in the estimate. A physical verification of work site also

¹⁷ Adoni, Proddatur and Tiruvuru

confirmed that there was no approach road to the bridge. As such, people of the habitation were unable to utilize the bridge. GMC replied (June 2017) that due to insufficient funds, approach road was not proposed in the estimate. Thus, failure of GMC to provide approach road indicated defective planning and resulted in unfruitful expenditure of ₹38.15 lakh as the bridge constructed was not serving the intended purpose.

State Government replied (November 2017) that estimates were submitted subsequently for permanent approach roads to the bridge, which were pending approval.

5.1.5.6 Asset inventory

As per provision in the Manual¹⁸, the Engineering section of the Municipality is responsible to make an inventory of all assets owned/held by a municipality. The inventory also includes various types of roads within the municipality. None of the test-checked ULBs maintained Asset register in respect of road works. Since asset register facilitates the ULBs to (i) plan properly for new roads, (ii) prepare a maintenance schedule for existing roads (iii) detect duplication of road works, etc., audit could not vouchsafe the justification on expenditure incurred towards various road works.

State Government replied (November 2017) that Government Project Monitoring System (GPMS) has been introduced (November 2017) in MA & UD department for capturing all assets. However, necessary evidence in support of maintaining assets inventory in GPMS mode was not furnished to audit.

5.1.5.7 Non-collection of road cutting charges

Road cutting and restoration charges are to be levied and collected from service providers for laying of optical fibre cable duly notifying rates per running meter as per Government Orders (September 2014). Further, Commissioner and Director, Municipal Administration had instructed (May 2012), to monitor the work of laying cables and supervise the restoration work as per specifications. In such cases permission will come into force only after payment of charges and subject to fulfilment of the conditions.

In Nandyal municipality, one agency¹⁹ sought permission for laying optical fibre cable to an extent of 17,017 meters. ULB accorded permission for laying 13,260 meters only and collected (June 2014) road cutting and restoration charges amounting to ₹2.20 crore. Municipal Commissioner found (August 2015) that the agency had dug

¹⁸ Andhra Pradesh Municipal Asset Management Manual (2008)

¹⁹ M/s. Reliance Jio Infocomm Limited (RJIL), Hyderabad

excess length of road to an extent of 5,750 meters and issued notices to the agency for remitting ₹94.61 lakh to ULB. However, the agency had not remitted the amount.

State Government assured (November 2017) that the amount would be collected from the agency at the earliest.

In three other ULBs (Bhimavaram, Narasapur and Guntur), Audit noticed that certificate in support of satisfactory completion of laying of optical fibre cable was not on record. Details of supervision of road cutting and restoration as per specifications by the service providers were also not recorded.

State Government replied (November 2017) that certificate in support of satisfactory completion of the work would be recorded henceforth.

Thus, ULBs failed to collect necessary charges prior to according permission and also failed to effectively supervise the works.

5.1.5.8 Pedestrian facilities

Indian Road Congress²⁰ stipulates that pedestrian facilities should be planned in an integrated manner to ensure a safe and continuous pedestrian flow. Sidewalks/footpaths on either side of the road and pedestrian crossings should be provided in every ULB to reduce pedestrian conflict with vehicular traffic to the minimum. However, none of the test-checked ULBs included pedestrian facilities in the estimates and, therefore, the facilities were not provided. Absence of provision of pedestrian facilities would jeopardize pedestrian safety.

State Government agreed (November 2017) with audit comment about lack of provision for pedestrian facility and assured that necessary instructions would be issued to all the ULBs to provide the same wherever it would be feasible and necessary.

5.1.5.9 Non-conducting of monthly review meetings

As per the manual²¹, Municipal Commissioners have to conduct review meetings once in a month and issue minutes of the review meeting and ensure follow up action on the said minutes. However, no review meetings were held in any of the test-checked ULBs. Thus, the purpose of effective monitoring was not achieved.

State Government accepted (November 2017) audit observation and assured that necessary instructions would be issued to all the ULBs for conducting monthly review meetings.

²⁰ IRC103-1988

²¹ Manual of Roles and Responsibilities of various functionaries in Urban Local Bodies in Andhra Pradesh

5.1.5.10 Third Party Quality Control (TPQC)

As per the Government Orders (October 2004), TPQC is mandatory for works costing ₹one lakh and above. The objective of TPQC is to ensure/improve the quality of the executed works. Payments should be made only after third party inspection is done and works are found satisfactory as per the prescribed standards. All the test-checked ULBs entrusted the TPQC works to Third Party Quality agencies. Audit observed that except in Guntur and Bhimavaram ULBs, the TPQCs did not make adverse remarks on the quality of the works.

Tiruvuru Nagar Panchayat accorded administrative sanction for the work of 'providing CC road to MDO Office road to SR towers in 8th ward'. The ULB entered into agreement on 30 September 2016 and work order was issued on the same day. TPQC report was, however, issued on 26 September 2016. Similarly, TPQC report for another work²² was given in the month of September 2016 before the commencement (October 2016) of work by the contractor.

Submission of TPQC report even before commencement of work was not proper and it reduced the whole exercise to a farce.

State Government assured (November 2017) that instructions would be given to the concerned officials for ensuring the genuineness of the TPQC reports before passing the bills.

5.1.6 Conclusion

Funds available under Scheduled Castes Sub-Plan (SCSP) and 14th Finance Commission grants were not effectively utilised. The objective of providing infrastructure facilities in the ULBs was not achieved despite availability of funds. Works were split to avoid technical sanction from the higher authorities. Works were allotted on nomination basis to avoid lapse of funds. Delay in execution and completion of works deprived the habitations of road connectivity. There was no provision of pedestrian facilities in the estimates. There was no mechanism of maintenance of Asset inventory to plan for new road works and maintenance schedule. Collection of necessary charges prior to according permissions was not efficient. Supervision of the road works was not effective.

²² Providing CC road from Gunjapalli Venkateswara Rao house to Manne Satyam house in 9th ward

5.2 Wasteful expenditure of ₹2.35 crore

Failure of Pulivendula Municipality to ensure source of continuous water supply to the swimming pool resulted in wasteful expenditure of ₹2.35 crore

The Council of Pulivendula Municipality had passed (August 2008) resolution for the construction of Recreation and Remunerative Complex²³ in the premises of Missamma Bungalow²⁴ with an estimated cost of ₹2.24 crore. The scope of this work included the construction of swimming pool. The work was awarded (January 2009) to a private contractor with stipulation to complete the work in nine months. Subsequently, State Government accorded (March 2009) administrative sanction for taking up the work. Municipality planned Summer Storage (SS) Tank under Pulivendula Branch Canal as source of water for supplying clear water to operate swimming pool.

During scrutiny of the records (November 2016) of the Pulivendula Municipality, audit observed that the construction of swimming pool was completed in May 2011 at an expenditure of ₹2.35 crore²⁵. After lapse of six months from the date of completion of the work, the swimming pool was leased out (November 2011) at a monthly rent of ₹27,000. As per the lease agreement²⁶, the municipality had to supply clear water to the swimming pool and the contractor had to maintain the swimming pool neat and clean on daily basis. However, the contractor stopped (August 2012) operating the swimming pool as municipality had not provided regular water supply since March 2012. The municipality issued (November 2012) notice to the agency demanding payment of monthly rents due from September 2012. The contractor requested (October 2013) the Municipal Commissioner for payment of compensation for the loss sustained by him as he could not operate swimming pool without supply of water from municipality. The contractor approached the Honourable District Court, Kadapa in December 2014 for the loss suffered by him. The case was decided (March 2015) ex-parte against the Municipality with costs²⁷ to the contractor.

In response to Audit Enquiry (November 2016), the Municipal Commissioner replied that the source of water was planned to be drawn from SS tank. Water could not be provided to the swimming pool due to severe drought condition from 2011 onwards. Efforts were made to supply water by digging of bore wells in the premises of swimming pool. The idea was shelved due to less yield. The municipality further stated

²³ Swimming pool and Shopping complex

²⁴ The bungalow belongs to Pulivendula Municipality

²⁵ ₹1.91 crore for construction of swimming pool plus ₹0.44 crore for erection of pressure sand filters with pump sets

²⁶ Clause 17 and 18 of agreement dated 18-11-2011

²⁷ A sum of ₹5.68 lakh towards security deposit and salaries of watchman, ₹10 lakh towards compensation and ₹0.36 lakh towards cost of suit

that it did not represent its case as it was sure that water could not be provided for swimming pool even if court gave directions for the same.

Thus, Pulivendula Municipality failed to adhere to lease agreement condition of providing continuous clear water supply. This had resulted in the swimming pool remaining inoperative for a period of five years, besides causing wasteful expenditure of ₹2.35 crore on construction.

State Government accepted (November 2017) that due to severe drought conditions, the Municipality could not supply water to swimming pool and that the Municipality was planning to drill two bore wells to supply water to swimming pool exclusively to put the same into use.

5.3 Avoidable cost overrun and infructuous expenditure

Delay in deciding the design and technology of STP resulted in cost overrun of ₹38.77 crore besides infructuous expenditure of ₹66.48 lakh and delay of nine years

Government of Andhra Pradesh (MA & UD)²⁸ had accorded (February 2007) administrative sanction for the project 'Narsaraopet Sewerage Scheme under UIDSSMT²⁹' for ₹30.99 crore. The work was awarded (August 2007) to Contractor 'A' for ₹25.88 crore with a stipulation to complete within 24 months. The scheme included laying of all sewer lines, construction of manholes, road restoration and construction of Sewerage Treatment Plant (STP) with Waste Stabilization Pond (WSP)³⁰ technology.

Audit scrutiny (February 2016 and June 2017) of the records of Narasaraopet Municipality showed that Municipality acquired (May 2009) land admeasuring 42.42 acres for construction of STP. Department appointed consultancy reported (December 2009) that soil of the acquired land was not suitable for WSP technology and suggested alternate technology³¹. Based on the department Consultancy report, Municipality requested (June 2010) the Government to accord sanction for revised estimate. However, the Government appointed (October 2010) a committee for finalisation of method of technology. The committee had instructed (May 2011) the Municipality to adopt the traditional WSP technology. Accordingly, Municipality gave clearance to the contractor for execution of work of STP in May 2011. However, the contractor, after completing all works except STP, requested (June 2011) to close the contract due to delay in finalisation of technology and abnormal increase in rates. State

²⁸ Municipal Administration and Urban Development

²⁹ Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT)

³⁰ WSP is a shallow man made basin into which waste water flows and from which after retention time of several days a well-treated effluent is discharged

³¹ Alternate technology included SBR (Sequencing Batch Reactor)

Government permitted (January 2013) to close the contract and also permitted to call fresh tenders for STP with same technology. Accordingly, the contract was closed in January 2013. Municipality revised (May 2013) the project cost from ₹30.99 crore to ₹44.01 crore. ENC (PH) awarded (August 2013) the balance work of construction of STP to Contractor 'B' for ₹8.63 crore with stipulation to complete the work in 12 months. Contractor 'B' executed only earthwork valuing ₹66.48 lakh and discontinued the work stating that gravel quarries were not available in and around Narasaraopet. Municipality closed (May 2015) the contract without STP being constructed as the contractor had not resumed the work even after expiry of extension of time.

Later, the Municipality changed (June 2015) the design of the STP from originally proposed WSP technology to SBR (Sequencing Batch Reactor)³² technology. Accordingly the project cost was revised (December 2015) from ₹44.01 crore to ₹69.76 crore. ENC/PH in September 2016 awarded the work of construction of STP to Contractor 'C' for ₹34.65 crore with stipulation to complete in 24 months. The work was in progress as of June 2017.

State Government accepted (November 2017) the delay in deciding the technology for STP and stated that requirement of more land was saved. The reply is not acceptable as the Department appointed consultancy recommended SBR technology in December 2009 itself. Timely decision on technology was not taken.

Thus, awarding the first contract without acquisition of suitable land and delay in deciding the design and technology of STP resulted in cost overrun of ₹38.77³³ crore. Further, there was an infructuous expenditure of ₹66.48 lakh and delay of nine years. The intended users continue to be deprived of the facility which should have been ideally available to them by August 2009.

5.4 Avoidable expenditure of ₹71.99 lakh

Failure of the Municipality to register with the Central Excise and Service Tax Department in time and to collect Service Tax from the tenants resulted in avoidable expenditure of ₹71.99 lakh

Section 69(1) of the Finance Act, 1994 provides that it is mandatory for every person liable to pay service tax to get registered with department of Central Excise and Service Tax. Registration has to be done within a period of 30 days³⁴. Section 68 (1) of the Act

³² SBR technology provides highest treatment efficiency possible in a single reactor within which all biological treatment steps take place sequentially
Whereas WSP is a shallow man made basin into which waste water flows and from which after retention time of several days a well-treated effluent is discharged. WSP comprise a series of ponds requiring large extent of land.

³³ ₹69.76 crore minus ₹30.99 crore

³⁴ Service tax procedures-section 69 of the Finance Act

provides that every person providing taxable service to any person shall pay service tax. Renting of immovable property was brought under service tax net with effect from 1 June 2007³⁵. The term 'renting of immovable property' includes renting, leasing or other similar arrangements of immovable property for use in the course or furtherance of business or commerce³⁶.

Scrutiny of records of Tuni Municipality (February 2017) showed that the Municipality had been letting out its own shops on rental basis. However, the Municipality neither registered with the Superintendent of Central Excise and Service Tax nor discharged its service tax liability. Municipality stated that the registration with the Central Excise department was taken belatedly (October 2014) after getting notice (January 2011) from the said department. Due to delay in obtaining registration, the Assistant Commissioner of Service Tax, Kakinada recovered (February 2015) an amount of ₹8.16 lakh³⁷ after issuing notice under Section 87 of the Finance Act.

Municipality was authorised to alter the conditions of agreement³⁸ with tenants. However, Municipality served (August 2014) only notices to tenants. It failed to collect the Service Tax including the arrears stating that the tenants were reluctant to pay service tax. After receiving the notices from the Central Excise department, the Municipality paid an amount of ₹63.83 lakh towards service tax for the period from June 2007 to March 2015 from its General Fund (*Appendix- 5.5*). Service tax was recovered from the tenants from April 2015 only.

Thus, failure of the Municipality to register with the department concerned in time and also its failure to collect service tax from the tenants resulted in avoidable expenditure of ₹71.99 lakh³⁹.

State Government accepted and assured (November 2017) that the expenditure incurred by the Municipality from its General Fund would be recovered from the tenants.

5.5 Infertuous expenditure of ₹29.91 crore

Failure of the department to ensure adoption of approved designs by the contractor resulted in infertuous expenditure of ₹29.91 crore

Government of Andhra Pradesh had accorded (January 2008) administrative sanction for the project - 'Water Supply Scheme under UIDSSMT⁴⁰ in Piduguralla Municipality' for ₹36.07 crore. Engineer-in-Chief (PH) accorded technical sanction in August 2008. The work included investigation, survey, design, preparation and execution of

³⁵ Inserted (w.e.f 01.06.2007) by section 135 of the Finance Act

³⁶ As per section 65 (90a) of the Finance Act, as amended

³⁷ ₹3.76 lakh towards penalty and ₹4.40 lakh towards interest

³⁸ Gazette no. 521(dated 08th November 2006) of Tuni Municipality

³⁹ ₹63.83 lakh and ₹8.16 lakh

⁴⁰ Urban Infrastructure Development Scheme for Small & Medium Town (UIDSSMT)

Piduguralla Water Supply Scheme. It was entrusted to a contract agency in December 2008 for ₹37.35 crore with a stipulation to complete the work in 15 months (i.e. by March 2010). Krishna River at Govindapuram was proposed as source for drawal of water for the scheme. According to agreement the contractor should submit the detailed designs after duly conducting survey. The department should approve the design for all the components. Public Health Division, Narasaraopet was the executing agency on behalf of Piduguralla Municipality for execution of Water Supply Scheme.

Audit scrutiny (April 2016 and May 2017) of the work records in Public Health Division, Narasaraopet showed that the work was not completed as on date. An amount of ₹29.91 crore was paid to the contractor for the work executed as of May 2017. Agreement conditions stipulated that field engineers should check the measurements of the work done as per codal provisions and rules in vogue. The Engineer-in-charge shall recommend for release of payment duly considering the department quality control reports. However, it was only during the trial run (September 2014) that the Division noticed and reported that raft top level of the intake well⁴¹ was constructed at +42.95 mtr as against the approved top level of +39.00 mtr. As a result water could not enter into intake well, even though sufficient water was available in Krishna River. The same position was confirmed by the Superintending Engineer, Public Health Quality Control Circle during his inspection (November 2014) of the site. As per agreement conditions, the agency was responsible to execute the scheme as per the approved designs. However, the agency did not rectify the defects though it had the responsibility to maintain the scheme for the defect liability period of 24 months.

Department closed the contract⁴² and submitted (May 2015) proposal to Government for ₹43.03 crore (₹6.96 crore above the original sanction) for which sanction was awaited (May 2017). The proposals again included construction of intake well cum pump house and other balance works.

The implementing agency⁴³ and the State Government accepted (April 2016 and November 2017 respectively) the fact that the discrepancy in the level of intake well was noticed during the trial run. The water could not enter into intake well due to faulty construction. Government stated that as the agency did not come forward to rectify the defects, construction of intake well with other ancillary works was proposed. It was assured that recoveries would be made from the contractor for the components of faulty execution. Necessary steps would be taken for the optimum use of the scheme.

⁴¹ The minimum level where water enter into the intake well

⁴² Under Clause 61 of Andhra Pradesh Standard Specifications (APSS) which provides for termination of the contract if the Contractor stops work for 28 days and the stoppage has not been authorised by the Engineer-in-Chief

⁴³ Public Health Division, Narasaraopet

Thus, failure of the department to arrange timely supervision of the work at appropriate stages to ensure proper adoption of approved designs resulted in infructuous expenditure of ₹29.91 crore. Department needs to fix responsibility on the officials responsible for faulty execution of the work which resulted in infructuous expenditure. Further, the project also could not be commissioned even after lapse of nine years of awarding of the work.

5.6 Unfruitful expenditure of ₹1.97 crore

Failure of Pulivendula municipality to install water meters in households resulted in unfruitful expenditure of ₹1.97 crore. The objective of minimizing wastage and economic pricing of water was not achieved.

State Government had accorded (September 2007) sanction for the work 'Water Supply distribution network in the entire area of Pulivendula municipality' for ₹11 crore. The estimate included provision towards supply and fixing of water meters (15,000) for ₹2.21 crore to minimise wastage of water and to maintain economic pricing of water.

Scrutiny of records of the Pulivendula Municipality (November 2016) revealed that contract was awarded (November 2007) to an agency by the Engineer-in-Chief (Public Health). Supply and fixing of water meters for all House Service Connections was included in the work estimate. During the execution of work, the contractor supplied (August 2008) 15,000 water meters for the purpose of House Service Connections. Public Health Division, Kadapa⁴⁴ paid (June 2009) an amount of ₹1.97 crore to the agency for supply of water meters. However, Public Health Division failed to ensure that the contractor installed the same as per agreement condition. Hence, it handed over (July 2013) the entire stock of water meters to Pulivendula municipality. Water meters were lying in stock for more than eight years as of March 2017. The municipality incurred (2013-17) O&M charges of ₹2.82 crore towards cost of water supply. The municipality, however, collected only ₹1.83 crore during the period towards water charges from consumers at a uniform rate⁴⁵. The deficit in collection worked out to ₹0.99 crore.

Pulivendula municipality attributed (March 2017) failure to fix water meters in the households to public not coming forward for fixing water meters. However, the municipality did not initiate action to create public awareness. Municipality further stated that the gap between the revenue realization and O&M expenditure was due to water meters not being installed and drought conditions in the last five years.

Thus, failure of Pulivendula municipality to install water meters in households resulted in unfruitful expenditure of ₹1.97 crore besides the objective of minimizing wastage of

⁴⁴ Public Health Division, Kadapa was the executing agency on behalf of Pulivendula Municipality

⁴⁵ ₹100 per month per consumer

water not being achieved. Economic pricing of water was also not achieved since O&M expenditure exceeded (2013-17) cost of water supply by ₹0.99 crore.

State Government replied (November 2017) that necessary steps would be taken to install the water meters at the earliest.



(L.TOCHHAWNG)

Principal Accountant General (Audit)

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The

Countersigned



(RAJIV MEHRISHI)

Comptroller and Auditor General of India

New Delhi

The

