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Report of the
Comptroller and Auditor General of India
(Local Bodies)
for the year ended March 2011

Government of Tamil Nadu

Report No. 5

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PREFACE

1. This Report has been prepared for submission to the Governor under Article 151 of the Constitution.

2. The Report sets out the results of audit under various sections of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971 in respect of financial assistance given to Urban Local Bodies and Panchayat Raj Institutions.

3. Matters arising from the Finance and Appropriation Accounts for the year 2010-11 together with other points arising out of audit of transactions of the Government of Tamil Nadu are included in separate volumes of the Report (Civil) of 2010-11.

4. The Report containing the observations arising out of audit of Statutory Corporations, Boards and Government Companies and the Report containing such observations on revenue receipts are presented separately.

5. The cases mentioned in this Report are among those which came to notice in the course of test check of accounts of Urban Local Bodies and Panchayat Raj Institutions during the year 2010-11 as well as those which had come to notice in earlier years but could not be dealt with in previous Reports on the Government of Tamil Nadu. Matters relating to the period subsequent to March 2011 have also been included wherever considered necessary.

6. In respect of Performance Audit on Implementation of Jawaharlal Nehru National Urban Renewal Mission projects, period upto 31 March 2012 was covered.

OVERVIEW

OVERVIEW

This Report contains five chapters. The first and the fourth chapter contain summary of finances and financial reporting of Urban Local Bodies and Panchayat Raj Institutions respectively. The second chapter contains a performance audit on implementation of Jawaharlal Nehru National Urban Renewal Mission projects in Chennai, Coimbatore and Madurai Corporations. The third chapter contains seven paragraphs based on the audit of financial transactions of the Urban Local Bodies. The fifth chapter contains a paragraph on implementation of Swarnajayanthi Gram Swarozgar Yojana in two districts of Tamil Nadu. A synopsis of some of the findings contained in this Report is given below:-

I An overview of Urban Local Bodies

Transfer of all functionaries to the Urban Local Bodies to carry out the devolved functions had not been made by the Government making the devolution incomplete. Due to non-preparation of the accounts in time by the Urban Local Bodies, correct picture of their financial position could not be ascertained by the councils in time. While three Municipalities did not submit their accounts for the year 2008-09, all the ten Municipal Corporations, 56 Municipalities and 64 Town panchayats did not submit their accounts for the year 2009-10. As of March 2011, audit of two Corporations, 55 Municipalities and 256 Town Panchayats was pending for the year 2008-09. For the year 2009-10, even though 92 Municipalities and 497 Town Panchayats submitted their accounts, audit of 84 Municipalities and 436 Town Panchayats was pending. As of June 2012, 3,440 paragraphs contained in 658 Inspection Reports of the Principal Accountant General for the period 2008-09 to 2010-11 were not settled for want of satisfactory replies.

(Paragraphs 1.1 to 1.12)

II Performance Audit

Implementation of Jawaharlal Nehru National Urban Renewal Mission Projects in Chennai, Coimbatore and Madurai Corporations

The Jawaharlal Nehru National Urban Renewal Mission (Mission) was launched in December 2005 with the objective of reforms driven and fast track development of cities across the country. Construction of underground sewerage system and storm water drains, provision of drinking water, management of solid wastes in the cities, urban transport including metro project, parking lot/space on public private partnership basis, development of heritage areas etc. and construction of houses for the urban poor were some of the major schemes undertaken under the mission. The three Corporations that implemented the Mission in Tamil Nadu incurred an expenditure of ₹ 1,350.44 crore against the outlay of ₹ 2,960.17 crore under the project of "Urban Infrastructure and Governance" and an expenditure of ₹ 376.05 crore against the outlay of ₹ 950.81 crore under the project "Basic Services to the Urban Poor" during 2006-07 to 2011-12.

Performance Audit on implementation of the projects under the Mission in the three mission cities disclosed the following :

The City Development Plans were not prepared in consultation with the stakeholders as envisaged in the Mission guidelines. There were large scale delays in execution of the schemes. Out of 18 Urban Infrastructure and Governance projects, only five were completed by March 2012. The delays not only denied the facilities to the public in time, but would also contribute to cost overruns of the schemes.

Due to defective identification of the beneficiaries at the project approval stage and further delays contributing to cost escalation, only 12,775 (28 *per cent*) out of the targeted 46,366 houses could be constructed, even though the project period expired by March 2012.

The Corporations of the Mission cities contributed only ₹ 237.62 crore (38 *per cent*) against their committed funds of ₹ 618.52 crore for implementation of the approved projects.

Due to shortfall in implementation of the reforms envisaged under the Mission before the due date (December 2010), Government of India withheld grant of ₹ 111.05 crore to the three Corporations.

There were instances of injudicious rejection of tender, failure to integrate execution of the related works, use of higher diameter pipes in water supply scheme than prescribed etc. resulting in avoidable expenditure.

Monitoring and evaluation of the projects were inadequate as the monitoring agencies were appointed long after the start of projects and their meetings did not take stock of progress of the projects.

(Paragraph 2.1)

III Audit of transactions in Urban Local Bodies

Injudicious decision to change the site for construction of a sewage treatment plant by Thoothukudi Municipal Corporation resulted in wasteful expenditure of ₹ 2.64 crore.

(Paragraph 3.2.1)

Failure of the Corporation of Chennai to ensure the load tests before driving the piles for Railway Overbridge resulted in wasteful expenditure of ₹ 2.51 crore.

(Paragraph 3.2.2)

Failure of Madurai Municipal Corporation to recover the central excise duty exemption on use of pipes for the second Vaigai water supply scheme resulted in avoidable expenditure of ₹ 4.74 crore.

(Paragraph 3.3.1)

Failure of Pollachi Municipality to conduct pre-auction to assess the demand before construction of shops in the bus stand resulted in idling of 26 shops constructed at a cost of ₹ 22.84 lakh.

(Paragraph 3.4.1)

Parangipettai and Thirunindravur Town Panchayats constructed market complexes without carrying out the demand survey, which resulted in idling of the complexes constructed at a cost of ₹ 17.72 lakh for over three years.

(Paragraph 3.4.2)

IV An overview of Panchayat Raj Institutions

The Government had given powers to the Presidents of Village Panchayats to assist the line departments in executing their functions and to supervise the works executed by them in the villages. But, in respect of many functions, there was no actual transfer of functions to the Village Panchayats.

The proportion of capital expenditure to total expenditure declined from 24 *per cent* in 2006-07 to 12 *per cent* in 2010-11.

The Government decided to implement the Panchayat Raj Institutions Accounting software in all the Village Panchayats, Panchayat Unions and District Panchayats from 2012-13 instead of their earlier decision to implement in all Panchayat Unions and District Panchayats from 2011-12. As of June 2012, 1,895 paragraphs contained in 394 Inspection Reports of the Principal Accountant General for the period 2008-09 to 2010-11 were pending for settlement for want of satisfactory replies.

(Paragraphs 4.1 to 4.13)

V Audit of Transactions in Panchayat Raj Institutions

Audit of implementation of the Swarnajayanthi Gram Swarozgar Yojana in The Nilgiris and Perambalur Districts disclosed that SGSY Committees at district and block levels were not formed in both the districts for identifying the key activities. The purpose of setting up of the Self Help Groups was not largely achieved as many of them remained without undertaking any economic activity. The extent of money allotted for creation of infrastructure was insignificant and some of the infrastructure already created were not put to use depriving the benefits to the beneficiaries. The banks could not release the loan as envisaged largely due to non-fulfilment of the requirement by the beneficiaries. The Project Officers did not co-ordinate with banks in providing the loan and subsidy to the beneficiaries by collecting the required documents as required for sanctioning the loan and subsidy to the beneficiaries to make the scheme successful.

(Paragraph 5.1)

PART I
URBAN LOCAL BODIES

CHAPTER I
AN OVERVIEW OF URBAN LOCAL BODIES

CHAPTER I

SECTION 'A'
AN OVERVIEW OF URBAN LOCAL BODIES

1.1 Background

The 74[th] Constitutional amendment gave constitutional status to Urban Local Bodies (ULBs) and established a system of uniform structure, regular election, regular flow of funds through Finance Commission etc. As a follow up, the States are required to entrust these bodies with powers, functions and responsibilities so as to enable them to function as institutions of self-government.

Consequent to the 74[th] amendment of the Constitution, the Government of Tamil Nadu amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to ULBs in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution.

1.2 State profile

Tamil Nadu is one of the most urbanised States in India. The urban population of the State as per the 2011 census was 3.49 crore constituting 48.45 *per cent* of the total population (7.21 crore) in the State. The demographic and developmental status of the State is given in **Table 1.1**.

Table 1.1: Important statistics of the State

Indicator	Unit	State statistics
Population	Millions	72.14
Population density	Sq.Km	555
Urban population	Percentage	48.45
Number of ULBS	Numbers	719
Number of Corporations	Numbers	10
Number of Municipalities	Numbers	150
Number of Town Panchayats	Numbers	559
Gender ratio	Per 1,000 males	995
Literacy	Percentage	80.33

(Source: 2011 Census figures and Policy Note of the Municipal Administration and Water Supply Department for 2011-12).

1.2.1 Classification of Urban Local Bodies

The Municipalities and Town Panchayats are classified into different grades by the Government of Tamil Nadu based on their own revenue and population, as given in **Table 1.2**.

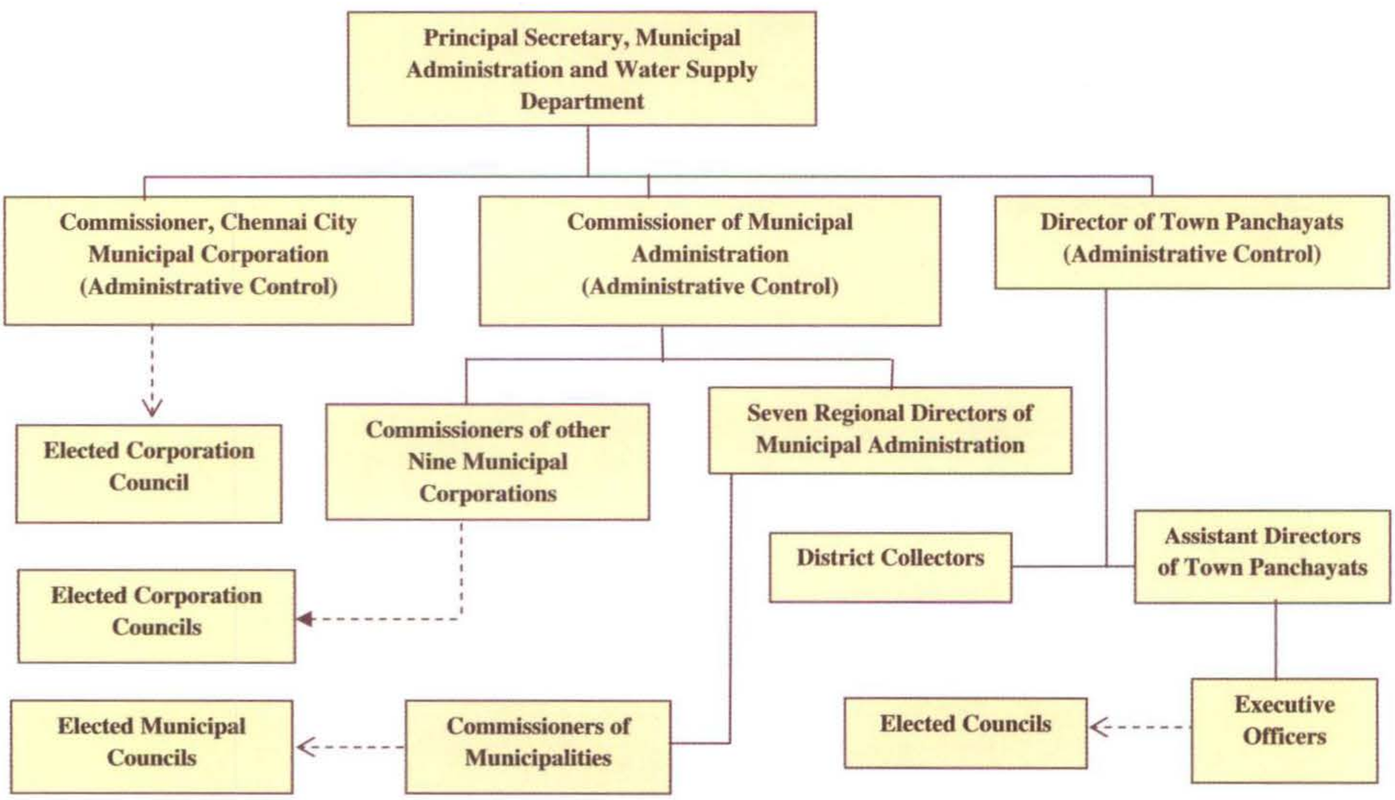
Table 1.2: Income-wise classification of ULBs

Category of ULBs	Grade	Annual income	Number
Municipalities	Special grade	Above ₹ 10 crore	22
	Selection grade	₹ 6 crore and above but below ₹ 10 crore	35
	First grade	₹ 4 crore and above but below ₹ 6 crore	36
	Second grade	Below ₹ 4 crore	45
	Third grade	(Population above 30,000)	12
		Total	**150**
Town Panchayats	Special grade	Above ₹ 20 lakh	12
	Selection grade	Above ₹ 16 lakh but below ₹ 20 lakh	244
	Grade I	Above ₹ 8 lakh but below ₹ 16 lakh	221
	Grade II	Above ₹ 4 lakh but below ₹ 8 lakh	82
		Total	**559**

(Source: Policy Note 2011-12 of the Municipal Administration and Water Supply Department)

1.3 Organisational structure of ULBs

The Organisational structure for administering the ULBs in Tamil Nadu is as under:



(Source: Directorate of Municipal Administration)

1.4 Devolution of functions, functionaries and funds

Consequent to the 74th amendment of the Constitution, the Government of Tamil Nadu amended the Tamil Nadu District Municipalities Act, 1920 for transferring the powers and responsibilities to ULBs. Twelve out of 18 functions enlisted in the Twelfth Schedule of the Constitution have been devolved to the Town Panchayats. As per the information furnished (June 2010) by the Commissioner of Municipal Administration (CMA), 17 functions (except Fire Service) have been devolved to the municipalities and municipal corporations. In respect of Chennai City Municipal Corporation, only 13 functions have so far been devolved and the function of water supply was handled by the Chennai Metropolitan Water Supply and Sewerage Board. As of March 2011, functionaries were not transferred to the ULBs to carry out the devolved functions.

Government reported that plan and non-plan discretionary grants were being transferred to the ULBs in addition to successive State Finance Commission grants. These earmarked grants were intended for specific functions such as water supply, roads, public health, street lighting, sanitation, etc. entrusted to the ULBs. The ULBs were empowered to revise and levy local taxes such as Property/House Tax, Profession Tax, etc. based on the recommendations of State Finance Commissions (SFCs), as accepted by the Government and as per the Local Bodies Acts.

1.5 Decentralised planning

1.5.1 Standing Committees

The ULBs constitute Standing Committees to perform the assigned functions. The list of various committees in the ULBs is given in **Table 1.3**.

Table 1.3: Standing Committees

Category of ULBs	Chief Political Executive	Standing Committees	Political executive of Standing Committees
Corporations	Mayor	Public Health, Town Planning, Works, Taxation and Finance, Education and Accounts	Chairman (elected among the members)
Municipalities	Chairman	Contract Committee, Town Planning Committee and Taxation Appeal Committee	
Town Panchayats	Chairman		

As per Section 241(1) of the Tamil Nadu Panchayats Act, 1994 the State Government constituted a District Planning Committee (DPC) in each of the 28 districts in November 1997. One DPC was formed in 2005 and two more were formed in April 2012 totalling to 31 DPCs. The DPC consists of the following members:

- The Chairman of the District Panchayat;
- The Mayor of the City Municipal Corporation in the district;
- The Collector of the district and

- such number of persons, not less than four-fifths of the total number of members of the committee, as may be specified by the Government, elected in the prescribed manner from amongst the members of the District Panchayat/Town Panchayats and councillors of the Municipal Corporation and Municipalities in the district, in proportion to the ratio between the population of the rural areas and of the urban areas in the district.

The role and responsibility of the DPC is to consolidate the plans prepared by the District Panchayat, Panchayat Union Councils, Village Panchayats, Town Panchayats, Municipalities and Municipal Corporation in the district and prepare a draft development plan for the district as a whole.

At present, the Annual Plans prepared at the Government level are only consolidated and adopted as District plans. No separate inputs are received from the ULBs. Requirements at the grass root level were thus not completely reflected in the District plans.

1.6 Financial profile

1.6.1 Funds flow to ULBs

The major resource base of ULBs consists of State Finance Commission (SFC) grants, State Plan Grants, Central Finance Commission (CFC) grants, Centrally Sponsored Schemes (CSS) grants, Own revenue, Assigned revenue and loans as given in **Table 1.4** below:

Table 1.4: Funds flow mechanism in ULBs

Nature of Funds	Corporations		Municipalities		Town Panchayats	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own revenue	Assessees and users	Bank	Assessees and users	Bank	Assessees and users	Bank
Assigned revenue	State Government	Bank	State Government	Bank	State Government	Bank
SFC grants						
CFC/CSS grants	GoI	Bank	GoI	Bank	GoI	Bank
State Plan grants	State Government	Bank	State Government	Bank	State Government	Bank
Loans	GoI/State Government/ Financial Institutions	Bank	GoI/State Government/ Financial Institutions	Bank	GoI/State Government/ Financial Institutions	Bank

Table 1.5 below shows the details of receipts and expenditure of the ULBs for the period 2006-07 to 2010-11.

Table 1.5: Receipts and expenditure of the ULBs

(₹ in crore)

	2006-07	2007-08	2008-09	2009-2010	2010-2011
Own revenue	2,834	1,511	1,742	1,992	2,174
Assigned revenue	298	453	451	370	372
Grants	1,709	2,000	1,944	2,658	3,969
Loans	151	114	353	428	636
Total receipts	**4,992**	**4,078**	**4,490**	**5,448**	**7,151**
Revenue expenditure	1,709	1,806	2,186	2,558	3,319
Capital expenditure	876	1,395	1,767	1,878	2,514
Total expenditure	**2,585**	**3,201**	**3,953**	**4,436**	**5,833**

(Source: Details furnished by the Commissioner of Chennai City Municipal Corporation; Commissioner of Municipal Administration and Director of Town Panchayats)

The percentage of expenditure and savings to the total receipts during 2006-07 to 2010-11 is given in **Table 1.6.**

Table 1.6: Percentage of expenditure and savings

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue expenditure	34	44	49	47	46
Capital expenditure	18	34	39	34	35
Savings	48	22	12	19	19

While the Capital expenditure over the years ranged between 18 and 39 *per cent* of the total receipts, Revenue expenditure ranged from 34 to 49 *per cent*. The savings were 12 to 48 *per cent* of the total receipts. The ULBs failed to utilize these savings towards Capital expenditure for creating additional infrastructure.

1.7 Accounting framework

Accrual-based system of accounting is being followed in all Municipal Corporations and Municipalities as per the orders of the Government of Tamil Nadu with effect from 2000-01 and in all Town Panchayats with effect from 2002-03. Tamil Nadu State was adopting a State Accounting Manual. Consequent to the introduction of National Municipal Accounting Manual (NMAM) and in order to comply with the condition stipulated by the XIII Central Finance Commission, the State Government initiated action to prepare a new Accounting Manual incorporating the principles laid down in NMAM to suit the requirement of ULBs in Tamil Nadu.

1.8 Audit arrangements

As per the Government Order issued in August 1992, audit of ULBs had been entrusted to the Director of Local Fund Audit (DLFA). The DLFA certifies the correctness of accounts, assesses internal control system and reports cases of loss, theft and fraud to the audited entities and to the State Government. The Principal Accountant General provides technical guidance to DLFA on a continuing basis regarding audit of accounts of the ULBs in terms of Government of Tamil Nadu's order of March 2003.

The Principal Accountant General also audits the ULBs under Section 14(2) of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971.

1.8.1 Audit of ULBs by the Principal Accountant General

Audit of ULBs by test checking of records are followed-up through Inspection Reports issued to the Commissioner of Municipal Administration and to the ULBs concerned. Government issued general orders in April 1967 fixing a time limit of four weeks for response by the authorities for all paragraphs included in the Inspection Reports issued by the Principal Accountant General. As of June 2012, 3,440 paragraphs contained in 658 Inspection Reports for the period 2008-09 to 2010-11 were pending for settlement for want of satisfactory replies.

The Public Accounts Committee (PAC) commenced the process of discussion of the CAG Audit Reports on Local Bodies in January 2012. Audit Reports on ULBs upto 2006-07 were discussed and recommendations of the PAC are awaited. As of June 2012, Action Taken Report on 99 recommendations relating to 1985-86 to 1995-96 of the Municipal Administration and Water Supply Department was pending for final settlement, which *inter-alia* consisted of paragraphs relating to ULBs included in the Audit Reports (Civil).

SECTION 'B' – FINANCIAL REPORTING

1.9 Introduction

Financial reporting in the ULBs is a key element of accountability. Matters relating to drawal of funds, form of bills, incurring of expenditure, maintenance of accounts, rendering of accounts by the ULBs are governed by the respective ULB Acts. A chart depicting various sources of revenue of ULBs is given in **Appendix 1.1**.

1.10 Accounts maintained by Urban Local Bodies

The following accounts are prepared on accrual basis by adopting Double Entry Accounting System as prescribed under the Tamil Nadu Accounting Manual for ULBs in Tamil Nadu by all the municipalities, nine municipal corporations (excluding Chennai) and all the town panchayats:

- Revenue Fund and Capital Fund
- Water Supply and Drainage Fund (except town panchayats)
- Elementary Education Fund (except town panchayats)

The Chennai City Municipal Corporation maintains (i) a General Fund comprising both Revenue and Capital Funds and (ii) an Elementary Education Fund. The cash balance of each of the funds is maintained in separate bank account.

The figures in this Chapter are compiled from the details furnished by the ULBs. However, in the absence of data compiled from the audited accounts of the ULBs by the Department/Government, the accuracy of these figures cannot be authenticated and the data given here are provisional subject to audit by DLFA.

1.11 Financial Reporting Issues

1.11.1 Position of outstanding loans

The position of outstanding loans of ULBs as of March 2011 is given in **Table 1.7**.

Table 1.7: Position of outstanding loans in ULBs

(₹ in crore)

Sl. No.	Category of ULBs	Position of consolidated loan			
		Opening balance as on 1 April 2010	Fresh loans availed during 2010-11	Repayment made during 2010-11	Closing balance as on 31 March 2011
1.	Chennai City Municipal Corporation	153.54	57.95	39.30	172.19
2.	Other municipal corporations	450.13	250.50	79.22	621.41
3.	Municipalities	517.44	296.07	114.92	698.59
4.	Town panchayats	236.85	31.61	35.36	233.10

(Source: Details furnished by the Commissioner of Chennai City Municipal Corporation, Commissioner of Municipal Administration and Director of Town Panchayats)

1.11.2 Arrears in Accounts

While accepting the Third State Finance Commission (TSFC) recommendation, the State Government stated that the accounts would be finalised within three months after the end of the financial year. The due dates for submission of accounts to DLFA by Municipal Corporations, Municipalities and Town Panchayats were 30 June, 15 May and 30 April respectively. The number of ULBs who did not submit their accounts as on 31 March 2011 for the years 2008-09 and 2009-10 are given in **Table 1.8**.

Table 1.8: Position of non-submission of accounts by the ULBs

Category of ULBs	Number of ULBs	
	2008-09	2009-10
Corporations	0	10
Municipalities	3	56
Town Panchayats	0	64

(Source: Details furnished by DLFA in September 2011)

While three Municipalities did not submit their accounts for the year 2008-09, all the ten Municipal Corporations, 56 Municipalities and 64 Town Panchayats did not submit their accounts for the year 2009-10. The pendency in preparation of accounts of ULBs and the eventual delay in audit of their accounts might result in continued existence of deficiencies in the accounts. This also deprived the respective councils of an opportunity to analyse the financial position of the ULBs in time.

1.11.3 Arrears in Audit

The DLFA reported (January 2012) that the audit of accounts of all the ULBs upto the year 2007-08 had been completed. Position of arrears in audit of the ULBs is given in **Table 1.9**.

Table 1.9: Position of non-completion of audit of the ULBs

Category of ULBs	Total number	2008-09 Number of units			2009-10 Number of units		
		Completed accounts (A)	Audit completed (B)	Audit pending (C)	(A)	(B)	(C)
Corporations	10	10	8	2	Nil	Nil	10
Municipalities	148 (2008-09) 148 (2009-10)	145	90	55	92	8	84
Town Panchayats	561 (2008-09) 561 (2009-10)	561	305	256	497	61	436

(Source: Details furnished by DLFA in September 2011)

Though all the Municipal Corporations, Town Panchayats and Municipalities (except three) submitted their accounts for the year 2008-09, audit of two Corporations, 55 Municipalities and 256 Town Panchayats was pending. For the year 2009-10, even though 92 Municipalities and 497 Town Panchayats submitted their accounts, audit of 84 Municipalities and 436 Town Panchayats was pending as on March 2011. The reasons attributed (September 2011) by the DLFA for the arrears in audit was non-submission of annual accounts by all the Corporations, submission of defective accounts by the Municipalities, non-receipt of accounts on due dates and returning of defective accounts by the DLFA to the Town Panchayats for rectification and shortage of staff in certain cadre. The DLFA also stated that the vacancies could not be filled up due to pending court cases.

Based on the recommendations of TSFC, a District High Level Committee (DHLC) for settling the pending paragraphs of DLFA relating to Municipal Corporations and Municipalities and a State High Level Committee (SHLC) for monitoring the functions of DHLC were formed in 2007. A district committee for settling the pending paragraphs was already in existence.

The Director of Town Panchayats stated (January 2012) that 70 DHLC meetings and four SHLC meetings were conducted between January 2008 and December 2011 and 3,172 audit objections relating to town panchayats were settled in those meetings.

The DLFA reported that 2,72,379 paragraphs relating to Municipal Corporations, Municipalities and Town Panchayats included in their Inspection Reports issued upto 2009-10 were pending for settlement as of March 2011. The year-wise and ULB-wise break-up is given in **Appendix 1.2**.

1.12 Conclusion

Transfer of all functionaries to the Urban Local Bodies to carry out the devolved functions had not been made by the Government making the devolution incomplete. Though the savings ranged between 12 and 48 *per cent* of the total receipts during the last five years, the ULBs failed to utilize the savings towards creation of additional infrastructure. Due to non-preparation of the accounts in time by the Urban Local Bodies, correct picture of their financial position could not be ascertained by the councils in time. While three Municipalities did not submit their accounts for the year 2008-09, all the ten Municipal Corporations, 56 Municipalities and 64 Town Panchayats did not submit their accounts for the year 2009-10. As of March 2011, audit of two Corporations, 55 Municipalities and 256 Town Panchayats was pending for the year 2008-09. For the year 2009-10, even though 92 Municipalities and 497 Town Panchayats submitted their accounts, audit of 84 Municipalities and 436 Town Panchayats was pending. As of June 2012, 3,440 paragraphs contained in 658 Inspection Reports of the Principal Accountant General for the period 2008-09 to 2010-11 were not settled for want of satisfactory replies.

CHAPTER II
PERFORMANCE AUDIT
(URBAN LOCAL BODIES)

CHAPTER II

PERFORMANCE AUDIT

This chapter contains the findings of Performance Audit on Implementation of Jawaharlal Nehru National Urban Renewal Mission projects in the three Municipal Corporations of Chennai, Coimbatore and Madurai.

MUNICIPAL CORPORATIONS OF CHENNAI, COIMBATORE AND MADURAI

2.1 Implementation of Jawaharlal Nehru National Urban Renewal Mission Projects

Executive Summary

The Jawaharlal Nehru National Urban Renewal Mission (Mission) was launched in December 2005 with the objective of reforms driven and fast track development of cities across the country. Construction of underground sewerage system and storm water drains, provision of drinking water, management of solid wastes in the cities, urban transport including metro project, parking lot/space on public private partnership basis, development of heritage areas etc. and construction of houses for the urban poor were some of the major schemes undertaken under the Mission. The three Corporations that implemented the Mission in Tamil Nadu incurred an expenditure of ₹ 1,350.44 crore against the outlay of ₹ 2,960.17 crore under the project of "Urban Infrastructure and Governance" and an expenditure of ₹ 376.05 crore against the outlay of ₹ 950.81 crore under the project "Basic Services to the Urban Poor" during 2006-07 to 2011-12.

Performance Audit on implementation of the projects under the Mission in the three Mission cities disclosed the following:

The City Development Plans were not prepared in consultation with the stakeholders as envisaged in the Mission guidelines. There were large scale delays in execution of the schemes. Out of 18 Urban Infrastructure and Governance projects, only five were completed by March 2012. The delays not only denied the facilities to the public in time, but would also contribute to cost overruns of the schemes.

Due to defective identification of the beneficiaries at the project approval stage and further delays contributing to cost escalation, only 12,775 (28 *per cent*) out of the targeted 46,366 houses could be constructed, even though the project period expired by March 2012.

The Corporations of the Mission cities contributed only ₹ 237.62 crore (38 *per cent*) against their committed funds of ₹ 618.52 crore for implementation of the approved projects.

Due to shortfall in implementation of the reforms envisaged under the Mission before the due date (December 2010), Government of India withheld grant of ₹ 111.05 crore to the three Corporations.

There were instances of injudicious rejection of tender, failure to integrate execution of the related works, use of higher diameter pipes in water supply scheme than prescribed etc., resulting in avoidable expenditure.

Monitoring and evaluation of the projects were inadequate as the monitoring agencies were appointed long after the start of projects and their meetings did not take stock of progress of the projects.

2.1.1 Introduction

The Jawaharlal Nehru National Urban Renewal Mission (Mission) was launched in December 2005 with the objective of reforms driven, fast track development of cities across the country, focusing on sustainable development of physical infrastructure in cities and development of technical and management capacity for promoting holistic growth. The Mission period was seven years (2005-06 to 2011-12), which was extended by two years i.e. upto 2013-14. The Mission consisted of four sub-missions: Urban Infrastructure and Governance (UIG) and Basic Services to the Urban Poor (BSUP) for Mission cities, Urban Infrastructure Development for Small and Medium Towns (UIDSMT) and Integrated Housing and Slum Development Programme (IHSDP) for small and medium towns. Sixty three cities were identified by the Mission for implementation of the projects. In Tamil Nadu three cities (Chennai, Coimbatore and Madurai) were identified as Mission cities for implementing the projects.

The projects broadly envisaged construction of storm water drains, underground sewerage system, water supply schemes, management of solid waste in the cities, urban transport including metro project, parking lot/space on public private partnership basis, development of heritage areas besides houses for the urban poor.

In Tamil Nadu 18 UIG projects and eight BSUP projects were sanctioned for the Municipal Corporations in the three Mission cities. Out of 18 UIG projects, only five were completed by March 2012 and all the BSUP projects were in progress as shown in **Appendix 2.1**. The projects commenced in 2006-07 were scheduled to be completed by 2011-12. The outlay for UIG and BSUP projects were ₹ 2,960.17 crore and ₹ 950.81 crore respectively. The expenditure incurred as on 31 March 2012 was ₹ 1,350.44 crore and ₹ 376.05 crore respectively for UIG and BSUP projects. Performance Audit was carried out to assess the progress in implementation of projects in the three Corporations.

2.1.2 Organisational set up

The Additional Chief Secretary, Municipal Administration and Water Supply Department is overall in-charge of the project. The Mission is co-ordinated by the State Level Steering Committee (SLSC) for UIG and BSUP. The SLSC is supported by two State Level Nodal Agencies (SLNA), i.e., Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited (TUFIDCO) for UIG and the Commissioner of Municipal Administration (CMA) for BSUP. To enhance the capabilities of SLNAs and Urban Local Bodies (ULBs), Programme Management Units (PMUs) and Project Implementation Units (PIUs) were established in the SLNAs and ULBs respectively. In order to keep track of the physical and financial progress of the projects, Independent Review and Monitoring Agencies (IRMA) for UIG projects and Third Party Inspection and Monitoring Agencies (TPIMA) for BSUP were appointed as per the requirement of the Mission.

2.1.3 Audit Objectives

The Audit objectives were to assess whether:

- City Development Plans (CDP) were comprehensive and individual projects were planned in accordance with the CDP;
- the funds required for the projects were released in time and used economically;
- the reforms related to the local bodies as envisaged in the Mission were achieved;
- the projects were executed efficiently, economically and effectively and
- there was effective monitoring and evaluation of the Mission activities.

2.1.4 Audit Criteria

The Audit findings were bench marked against the following:-

- Guidelines and orders issued by Ministry of Urban Development (MoUD), Ministry of Housing and Urban Poverty Alleviation (MoHUPA), Ministry of Finance of Government of India (GoI) and Government of Tamil Nadu (GoTN),
- Memorandum of Agreements (MoA) and Detailed Project Reports (DPRs) of the projects,
- Minutes of Central Sanctioning and Monitoring Committees (CSMC), SLSC and National Technical Advisory Group,
- Bureau of Indian Standard codes, Tamil Nadu Tender Transparency Act, 1998 and
- Tamil Nadu Financial Code.

2.1.5 Scope and Methodology of Audit

Performance Audit was conducted between May and October 2011 and in July 2012 covering the Mission period from 2005-06 to 2011-12. All the 18 UIG projects and eight BSUP projects implemented by the Corporations of the three Mission cities were taken up for Performance Audit. City-wise approved list of projects is given in the **Appendix 2.1**.

Besides checking of records in the Municipal Administration and Water Supply Department in Secretariat, records relating to planning and execution of the projects and implementation of reforms under the Mission in the offices of three municipal corporations, TUFIDCO and CMA were test checked. An entry conference with the Principal Secretary, Municipal Administration and Water Supply Department was held on 30 May 2011. Government was addressed in February 2012 for holding the exit conference to discuss the audit findings, but there was no response from them. Draft report was issued to the Government in August 2012. No reply has been received till date (December 2012).

Audit findings

2.1.6 Inadequate Planning and Institutional arrangements

2.1.6.1 Non-formation of Area Sabhas and Advisory Groups

The Mission guidelines stipulated identification of urban needs through consultative process. GoTN enacted Community Participation Law in October 2010, but the rules for enforcing the said law is yet to be approved by the Government (July 2012). Though the ward committees were in existence even before launching of the Mission, the Area Sabhas, a pre-requisite for community participation, are yet to be formed. Further, as per the Mission guidelines, the Mission cities should form a City Technical Advisory Group (CTAG) and City Volunteer Technical Corps (CVTC) for programme implementation at the city level.

It was noticed in audit that CTAG and CVTC were formed only in March 2007 and August 2008 for Madurai and Coimbatore respectively. CTAG and CVTC were not formed for Chennai. Delay in formation of the Area Sabhas and advisory groups led to preparation of the CDP without ensuring participation of community.

2.1.6.2 Delay in appointment of Programme Management Unit and Project Implementation Unit

The Mission guidelines envisaged constitution of SLNA to apprise the GoI of the projects, obtain sanctions from the CSMC, manage Mission funds, operate revolving funds and monitor the progress of implementation of sanctioned projects as well as that of reforms agreed to in the MoA with MoUD in the GoI. To assist the SLNA, a PMU staffed with professionals with the minimum tenure of three years was required to be set up. PMU was also required to provide the technical and advisory support to State Government and ULBs in implementation of the projects and reforms. For assisting three Corporations of the Mission cities, three PIUs were to be constituted at the actual execution level with job description and organisational profile identical to that of PMU.

For assisting SLNA, PMU started functioning from December 2008 for UIG projects and for BSUP projects PMU started functioning from July 2009. Similarly, PIUs for UIG projects for Coimbatore, Madurai and Chennai started functioning from June 2009, December 2009 and January 2010 respectively.

PIUs for BSUP started functioning from July 2009 in all the three Corporations.

Audit observed that as PMUs and PIUs were formed after the commencement of the projects, the technical and advisory support to both SLNA and three Corporations were thus lacking at the beginning of the projects.

2.1.6.3 *Non-preparation of comprehensive City Development plan*

The Mission guidelines envisaged that each city seeking financial assistance under the Mission should prepare a City Development Plan (CDP) focusing the vision plans and proposals for the city by adopting consultative or participatory process involving their citizen. The Mission further specified the preparation of CDP as under:

ULBs should

(i) review and analyse the current status of the city with regard to the state of its development, systems and procedures;

(ii) identify the strengths and weaknesses in the city's development and provide service delivery and management within the existing set-up;

(iii) bring out the unique features of the city that may distinguish it from other cities.

Further, ULBs should in consultations with key stakeholders and civil society, develop a vision for the future development. ULBs should identify the options and strategies where the city needs to decide which programmes would contribute most with appropriate consultative processes, for prioritising the strategies, programmes and projects.

Test check of records of Madurai Municipal Corporation (MMC) revealed that Commissioner of the Corporation conducted only one stakeholders meeting (February 2006) in which 49 members participated. Out of 49 members, Government officials were: 29, Municipal Councillors: 12, General Public: 4 and NGOs: 4, which indicated that there was no adequate participation of stakeholders and civil society. Based on the consultation with above members, Madurai Corporation prepared CDP through a consultant and the CDP was approved by the GoI in June 2006.

Though Madurai is a heritage city, no heritage development projects were included in the CDP. Chairman, Madurai CTAG in a workshop held during May 2008 stated that CDP was finalized before CTAG and CVTC came into existence and a lot of environmental and heritage aspects in relation to the projects were overlooked at that time. He further stated that CTAG had been instrumental in getting the CDP revised.

Based on the recommendation of CTAG and CVTC, heritage development project was included in the CDP and was approved by GoI in December 2008. However, the projects were sanctioned between July 2006 and June 2007 based on the CDP prepared by the consultant much before the revised CDP which included heritage development projects. Thus, the CDP which was the basis for preparation of projects for Madurai Corporation was not comprehensive.

Coimbatore Municipal Corporation (CMC) also conducted only one stakeholders meeting in July 2006, in which nine members participated which included MLAs of Coimbatore District, Ward Committee Chairman, Councillors, Industrialist, official of Confederation of Indian Industry, Chamber of Commerce, Educationalist and two familiar NGOs. This clearly reveals that there was no adequate participation of stakeholders and civil society. Based on the consultation with above members, Coimbatore Corporation prepared the CDP through a consultant and the CDP was approved by the GoI in November 2006.

National Institute of Urban Affairs of GoI who appraised the CDPs of various cities also stated in November 2006 that for Madurai city and Coimbatore city, the stakeholders consultative process were rated as average as public consultation was conducted with Municipal Councillors, Government Officials and identified stakeholders.

The CDP for Chennai city was initially prepared by the Corporation of Chennai (CoC) in April 2006. There were no stakeholders meetings. The appraisal authority (Administrative Staff College of India, Hyderabad) reported in May 2006 and again in October 2006 that no consultative process was involved in preparation of CDP. The CDP was finally revised during September 2009 by engaging a consultant and by adopting adequate stakeholders participation through workshops. However, the projects were sanctioned between March 2007 and February 2009 based on the CDP prepared by the Corporation in April 2006. Thus, the CDP which was the basis for preparation of projects was not comprehensive.

Audit noticed that though the CDPs were revised after involving the stakeholders consultation by the Corporation of Chennai (September 2009) and the CDP was revised based on CTAG advice by MMC (2008), the detailed project reports were prepared and approved based on the original CDPs. The CDPs prepared based on the consultative process had not been acted upon.

2.1.6.4 Non-prioritization of the projects

The Mission guidelines stipulated that the CDPs would be prioritized for execution keeping in view the identified infrastructure gaps. Though the CDPs were not prepared in consultation with key stakeholders and civil society as discussed above, the projects which were taken up for preparation of DPRs were not as per the CDPs. The projects which were included in the CDPs and the projects taken up for preparation of DPRs are given in the **Table 2.1.**

Table 2.1: Projects included in the CDPs and taken up for preparation of DPRs

(₹ in crore)

Name of the Project	Amount allocated in the CDPs		Amount allocated in the DPRs	
	Madurai	Coimbatore	Madurai	Coimbatore
Solid waste management	36.31 (5)	78.74 (6)	74.29 (12)	96.51 (13)
Underground sewerage scheme	91.22 (12)	193.70 (15)	229.34 (37)	377.13 (49)
Storm water drain	156.26 (20)	155.75 (12)	251.81 (41)	180.00 (23)
Water supply scheme	181.11 (23)	76.37 (6)	64.09 (10)	113.74 (15)
Roads and Traffic management	305.37 (40)	795.12 (61)	Nil	Nil
Total	**770.27 (100)**	**1,299.68 (100)**	**619.53 (100)**	**767.38 (100)**

(Source: City Development Plans of Madurai and Coimbatore Corporations)
Figures in bracket denote percentage of allocation to the total allocation

It can be seen from the above table that the CDP of MMC projected the requirement of ₹ 770.27 crore for five components, out of which ₹ 619.53 crore (80 *per cent*) was to be sourced from the Mission funds.

The analysis of the DPRs of MMC by Audit revealed that roads and traffic management was given top priority (40 *per cent*) in the CDP. But it was not taken up for execution in the DPR. Storm water drain, which was given 20 *per cent* priority in the CDP, was taken up in the DPR with 41 *per cent* of the funds allocated for this project. UGSS project which was given 12 *per cent* priority in the CDP was taken up with 37 *per cent* allocation of funds. Similarly, the water supply scheme, which was given 23 *per cent* priority in the CDP, was taken up with only 10 *per cent* allocation of funds in the DPR.

The CDP of CMC projected the requirement of ₹ 1,299.68 crore for five components, out of which ₹ 767.38 crore (59 *per cent*) was to be sourced from the Mission funds.

The analysis of DPR of CMC by Audit revealed that in the CDP top priority was given (61 *per cent*) for roads and traffic management. But this component was not taken up for execution in the DPR. UGSS project which was given only 15 *per cent* priority in the CDP was taken up in the DPR and 49 *per cent* of funds were allocated for this project. Storm water drain with only 12 *per cent* priority in the CDP was taken up in the DPR and 23 *per cent* of the funds were allocated for this project.

It was further noticed that the funds from the Mission were drawn only for the projects having low priority in the CDPs by Madurai and Coimbatore Corporations.

Though both the Corporations had given high priority for roads and traffic management in the CDPs and earmarked a major chunk of the funds for this project, this item was completely neglected and other projects were taken up for execution. This shows that the DPRs were prepared without adequate assessment of the requirements. The reasons for change in the priority were not available on record.

2.1.7 Financial Management

2.1.7.1 Funding Pattern

The projects under the Mission are funded in the form of Additional Central Assistance (ACA) for the Mission period. For CoC, the cost of the projects under UIG is shared between the GoI, GoTN and the Corporation in the ratio of 35:15:50. In respect of CMC and MMC, the cost of the projects under UIG is shared between the GoI, GoTN and the Corporations in the ratio of 50:20:30. The sharing pattern in all the Corporations for the projects under BSUP is 50 *per cent* by GoI and 50 *per cent* by the GoTN/ULB including beneficiary contribution. The share of GoI in the form of grants is released to the State Government. The State Government releases the central fund along with their matching share to the SLNAs, who in turn release the funds to the Corporations. The SLNA sends quarterly progress report to the MoUD as envisaged in the Mission guidelines.

The project cost, funds contributed and reported as utilized by the Corporations during the period 2006-07 to 2011-12 are given in **Table 2.2**.

Table 2.2 : Funds contributed and expenditure during 2006-07 to 2011-12

(₹ in crore)

Name of the Corporation	Project cost	Funds contributed by				Actual expenditure	Funds reported as utilised
		GoI	GoTN	ULB	Total		
UIG Projects							
Chennai	1,573.26	244.12	358.25*	107.55	709.92	541.83 (76)	648.80 (91)
Coimbatore	767.38	207.57	80.51	94.92**	383.00	362.09 (95)	391.04 (102)
Madurai	619.53	242.09	101.62	35.15#	378.86	446.52 (118)	492.94 (130)
Total (A)	**2,960.17**	**693.78**	**540.38**	**237.62**	**1,471.78**	**1,350.44 (92)**	**1,532.78(104)**
BSUP Projects							
Chennai	200.07	76.62	102.90	7.72	187.24	147.60 (79)	147.47 (79)
Coimbatore	443.55	84.32	80.59	0.00	164.91	97.31 (59)	97.31 (59)
Madurai	307.19	113.60	84.01	0.00	197.61	131.14 (66)	132.27 (67)
Total (B)	**950.81**	**274.54**	**267.50**	**7.72**	**549.76**	**376.05 (68)**	**377.05 (69)**
Grand total (A+B)	**3,910.68**	**968.32**	**807.88**	**245.34**	**2,021.54**	**1,726.49 (85)**	**1,909.83 (94)**

(Source: Details furnished by TUFIDCO and three Corporations)

ULB – refers to Municipal Corporations

Figures in the brackets denote percentage of actual expenditure compared to total contribution.

* This includes ₹ 253.64 crore share of State Government for macro drains executed by Public Works Department.

** This includes ₹ 18.33 crore contributed by private developer for solid waste management under PPP.

\# This includes ₹ 12.30 crore contributed by private developer for solid waste management under PPP.

It may be seen from the above table that Corporation of Chennai spent only 76 *per cent* out of the total available fund of ₹ 709.92 crore, while CMC spent 95 *per cent* out of the total available fund of ₹ 383.00 crore under UIG Projects. MMC spent 118 *per cent* of the total available fund of ₹ 378.86 crore under UIG Project. The excess expenditure of ₹ 67.66 crore by MMC was met by diverting the funds meant for BSUP projects and by obtaining bridge loan from TUFIDCO.

2.1.7.2 Poor contribution of funds by the Corporations

The Corporations of the three Mission cities were required to contribute their share of funds at the prescribed percentage in comparison with the amount contributed by GoI and GoTN. Contributions made by the three corporations to the UIG projects during 2006-07 to 2011-12 are given in the **Table 2.3**.

Table 2.3 : Contribution of three corporations for UIG projects as on 31 March 2012

(₹ in crore)

Name of the corporation	Contribution by GoI	Contribution by GoTN	Contribution due by corporation	Contribution made by the corporation including private share under PPP model
Chennai	244.12	104.61	348.73	107.55 (31)
Coimbatore	207.57	80.51	124.54	94.92 (76)
Madurai	242.09	101.62	145.25	35.15 (24)
Total	**693.78**	**286.74**	**618.52**	**237.62 (38)**

(Source: Details furnished by three Corporations and TUFIDCO records)

Three Corporations contributed only ₹ 237.62 crore (38 *per cent*) against their prescribed matching share of ₹ 618.52 crore, which was also one of the reasons for delay in execution of the projects.

2.1.7.3 Project-wise contribution by Corporations

Approved project-wise contributions of the three corporations during 2006-07 to 2011-12 are given in **Tables 2.4, 2.5 and 2.6**.

CORPORATION OF CHENNAI

Table 2.4 : Project-wise contributions by Corporation of Chennai as on 31 March 2012

(₹ in crore)

Name of the project	Number of projects	GoI share	GoTN share	Corporation share		Percentage of funds contributed by the corporation
				Due	Provided	
Bridges	3	26.93	11.54	38.47	69.03	179
Storm water drains	4	203.50	87.21	290.71	13.77	5
Solid waste Management	1	12.77	5.47	18.24	18.24	100
Heritage	1	0.92	0.39	1.31	6.51	497
Total	**9**	**244.12**	**104.61**	**348.73**	**107.55**	**31**

(Source: Details furnished by Chennai Corporation and TUFIDCO)

It can be seen from the above table that CoC contributed only 31 *per cent* of its share to the UIG projects and out of this contribution it allocated funds to projects relating to Bridges and Heritage to the extent of 179 and 497 *per cent* of the required contribution respectively. The Corporation released only five *per cent* in respect of Storm water drains, the most important project for which the contribution of GoI and GoTN was maximum. Due to this short release, there was slow progress in the completion of this project as discussed in subsequent paragraphs of this report.

COIMBATORE CORPORATION

Table 2.5 : Project-wise contributions by Coimbatore Corporation as on 31 March 2012

(₹ in crore)

Name of the project	Number of projects	GoI share	GoTN share	Corporation share		Percentage of funds contributed by the corporation
				Due	Provided	
Water Supply	1	54.60	19.32	32.76	54.82	167
UGSS	1	94.28	37.71	56.57	5.00	9
Strom water drain	1	22.50	9.00	13.50	Nil	Nil
Solid waste management	1	36.19	14.48	21.71	35.10	162
Total	**4**	**207.57**	**80.51**	**124.54**	**94.92**	**76**

(Source: Details furnished by Coimbatore Corporation and TUFIDCO)

The Coimbatore Corporation contributed only 76 *per cent* of its share and out of this, the Corporation released 167 *per cent* and 162 *percent* of the contribution to water supply project and solid waste management project respectively. The Corporation did not release any funds for the Storm water drain and released only nine *per cent* to UGSS project. The contribution of funds by GoI and GoTN were maximum for the UGSS project. Due to this short release, there was slow progress of UGSS and Storm water drain projects. Shortcomings in implementation of these projects are discussed in the subsequent paragraphs of this report.

MADURAI CORPORATION

Table 2.6 : Project-wise contributions by Madurai Corporation as on 31 March 2012

(₹ in crore)

Name of the project	Number of projects	GoI share	GoTN share	Corporation share		Total
				Due	Provided	
Water supply	1	26.69	10.68	16.01	22.85	143
UGSS	1	85.99	34.40	51.59	Nil	0
Storm water drains	1	94.42	37.77	56.65	Nil	0
Solid waste management	1	33.44	14.86	20.06	12.30	61
Check dams	1	1.55	3.91	0.93	Nil	0
Total	**5**	**242.09**	**101.62**	**145.25**	**35.15**	**24**

(Source: Details furnished by Madurai Corporation and TUFIDCO records)

It can been seen from the above table that MMC contributed only 24 *per cent* of its share and out of this, it released 143 *per cent* to water supply project and 61 *per cent* to Solid waste management. The Corporation did not release any amount to other three projects namely UGSS, Storm water drains and Check dams. The contribution of GoI and GoTN to UGSS and Storm water drains were huge. Due to short release of funds by MMC to these projects, the progress of these projects was slow. The shortcomings in implementation of these two projects are discussed elsewhere in this report.

It was observed in audit that the Commissioner, MMC in his letter addressed to the CMA (December 2011) stated that Madurai Corporation could not contribute any amount from its own revenue from the beginning of Mission because of its failure to create surplus over expenditure for a long time. Hence, the Commissioner requested (December 2011) the State Government to sanction loan of ₹ 200.00 crore to the corporation and the request was pending with the Government (March 2012).

2.1.7.4 *Incorrect reporting of expenditure to GoI*

The Mission guidelines for UIG projects envisaged that the SLNA shall send quarterly report on the progress of expenditure to MoUD. SLNA received the quarterly report on the progress of expenditure from the three corporations and forwarded the same to the MoUD without verifying the correctness of the quarterly report furnished by the corporations.

The expenditure reported by the three corporations to GoI as on 31 March 2012 is given in **Table 2.7**.

Table 2.7 : Expenditure reported by the three Corporations to GoI

(₹ in crore)

Name of the Corporation	Actual expenditure as per cash book	Expenditure reported to GoI in Quarterly Progress Report	Excess expenditure reported
UIG Projects			
Chennai	541.83	648.80	106.97
Coimbatore	362.09	391.04	28.95
Madurai	446.52	492.94	46.42
Total	**1,350.44**	**1,532.78**	**182.34**

It was noticed in Audit that the corporations reported an excess expenditure of ₹ 182.34 crore to GoI. SLNA who was responsible for monitoring physical and financial progress failed to verify the correctness of the expenditure furnished by the three corporations.

2.1.7.5 *Delay in release of fund by the State Government*

As per the Mission guidelines, the State share of fund for the approved project along with GoI share were to be released to SLNA for further disbursement to the Corporations immediately. It was noticed that during 2006-07 to 2010-11, GoTN released its share along with GoI share for the schemes under UIG and BSUP to SLNA after delays ranging from 30 to 365 days as given in **Table 2.8**. There was no delay in release of funds during 2011-12.

Table 2.8: Delay in release of fund by GoTN

(₹ in crore)

Name of the Corporation	Delay in release of State share with GoI share				
	30 to 90 Days	91 to 180 Days	181 to 270 Days	271 to 365 Days	More than 365 Days
Chennai	430.87	47.33	0.08	25.36	0.00
Coimbatore	221.27	92.64	22.07	37.58	42.62
Madurai	215.18	194.97	31.09	0.59	0.00
Total	**867.32**	**334.94**	**53.24**	**63.53**	**42.62**

(Source: Details furnished by TUFIDCO)

Out of the delayed release of ₹ 1,361.65 crore, ₹ 159.39 crore was released after a delay of six months. The delay in release of the State Government share forced the Corporations to raise bridge loan from TUFIDCO and also divert funds from one project to another as mentioned in the succeeding paragraph.

On this delay being pointed out, the Government replied (May 2012) that the delay in release of funds to SLNA were due to model code of conduct in vogue during the three elections that took place in the State during the period. The reply is not acceptable as the model code of conduct was applicable to the new projects and not for releasing of funds to the ongoing projects.

2.1.7.6 Scheme funds adjusted against the bridge loan interest

Delay in release of funds by the State Government was one of the reasons which forced the corporations to avail the bridge loan from TUFIDCO. Check of records in two corporations revealed that MMC availed bridge loan of ₹ 160.75 crore between 2009 and 2012 from TUFIDCO, the nodal agency, against the future release of scheme funds by the GoI and GoTN. The nodal agency while releasing the scheme funds deducted the interest of ₹ 1.46 crore towards the bridge loan from MMC.

Similarly, CMC availed bridge loan of ₹ 19 crore in December 2009 from TUFIDCO, the nodal agency, against the future release towards Pillur water supply scheme. The nodal agency while releasing the scheme funds deducted the interest of ₹ 8.60 lakh towards the bridge loan from CMC.

By availing the bridge loan from the nodal agency, there was a shortfall in the scheme funds to the extent of ₹ 1.46 crore for MMC and ₹ 8.60 lakh for CMC, which could have been utilised for executing the projects.

2.1.7.7 Diversion of funds

As per the Mission guidelines, diversion of funds from one project to other project was not permissible.

(i) Test check of records in MMC revealed that Commissioner of Madurai Corporation reported (December 2011) to Government that Madurai Corporation could not contribute any amount from its own revenue from the beginning of the Mission because of its failure to create surplus over expenditure over a long period. Commissioner stated that MMC started diverting funds from one project to other within UIG. Further a sum of ₹ 59.95 crore was diverted from BSUP. Audit scrutiny revealed that MMC diverted ₹ 85.64 crore as on 31 March 2012 from one scheme to another within UIG (₹ 45.08 crore) and from BSUP to UIG (₹ 31.84 crore) and UIG to BSUP (₹ 8.72 crore) as detailed in **Appendix 2.2.** MMC did not contribute its share to the approved projects except for the water supply project and solid waste management.

(ii) MMC diverted ₹ 10.39 crore from the funds meant for the Mission projects and incurred expenditure towards preparation of DPR for the works not taken up under the Mission (₹ 6.63 crore) and for administrative expenses (₹ 3.76 crore). These items of expenditure were not authorized under the Mission.

While accepting the diversion of funds, Government replied (May 2012) that diverted funds would be replenished soon. Government further stated that due to funds constraint in the General Fund account of the corporation, Mission funds were diverted.

The reply of the Government is not acceptable as the diversion of funds is not permissible under the Mission and fact remained that the diverted amount was not replenished as of May 2012.

2.1.8 Withholding of fund by GoI due to non-implementation of reforms

As per the Mission guidelines, the State government and the ULBs were required to implement seven mandatory reforms at the state level, six mandatory reforms and ten optional reforms at the ULBs level before December 2010 to enhance the urban service delivery and civic infrastructure. Out of the seven mandatory reforms at State level, six reforms were achieved except the reform in respect of rent control (March 2012).

The status of reforms carried out at the ULBs level as on 31 March 2012 is given in **Table 2.9**.

Table 2.9: Status of reforms carried out by the ULBs as on 31 March 2012

Status of Reforms	Mandatory	Optional
Implemented	1. E-Governance set up 2. Shift to Accrual based double entry accounting. 3. Property Tax (85 *per cent* coverage and 90 *per cent* collection efficiency) 4. Internal earmarking of funds for services to Urban Poor 5. Provision of basic services to Urban Poor	1. Revision of Building By-laws - streamlining the approval process 2. Provision of rain water harvesting in all buildings to make rain water harvesting mandatory. 3. Simplification of legal and procedural frameworks for conversion of agricultural land for non agricultural purposes. 4. Introduction of computerised process of registration of land and property 5. By-laws on reuse of recycled water 6. Administrative reforms 7. Structural reforms 8. Encouraging public private partnership
Not Implemented	6. Levy and collection of user charges (Water supply achieved and Solid waste not achieved except in Chennai)	9. Introduction of Property title certification system in ULBs. 10. Earmarking of at least 20 to 25 *per cent* of the developed land in all housing projects for EWS/LIG category of beneficiaries.

ULBs have agreed in the Memorandum of Agreement to carry out the reforms between 2005-06 and 2009-10 for optional reforms and between 2006-07 and 2011-12 for mandatory reforms. Non-implementation of the reforms by the Corporations resulted in withholding (December 2010) of project funds by GoI to the extent of ₹ 111.05 crore.

In the sixth Anniversary of the Mission, GoI selected (December 2011) Tamil Nadu Government for awarding the best State in effective enforcement of pro-poor reform under the Mission.

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Chennai city is a Mega city and is one among the 63 cities selected by the Mission for implementation of the projects. The Mission approved nine projects under UIG within Chennai city at a total outlay of ₹ 1,573.26 crore and 1,370 houses and 2,035 infrastructure works under BSUP at a total outlay of ₹ 200.07 crore to be implemented during the Mission period 2005-06 to 2011-12.

2.1.9 Project Implementation

2.1.9.1 Physical and Financial Progress

Corporation of Chennai took up eight bridge works, 1,203 works of storm water drains, two heritage precincts works and one work of solid waste management under UIG at the project outlay of ₹ 940.23 crore and 1,370 housing units and 2,035 infrastructural works under BSUP at the project outlay of ₹ 200.07 crore.

The physical and financial progress of various schemes executed by CoC as of March 2012 is given in **Table 2.10.**

Table 2.10: Physical and Financial progress of schemes executed by the CoC

Sl. No.	Project	Financial (₹ in crore)		Physical	
		Project cost	Expenditure	Target	Achievement
UIG Projects					
1.	Construction of bridges	82.77	99.04	8 Nos.	3 Nos.
2.	Construction of storm water drains (micro)	814.88*	118.72	1,203 Nos. (533.32 km)	251 Nos. (66.37 km)
3.	Solid waste management	36.48	60.11	1 work (Procurement of machineries)	1 work (100 *per cent*)
4.	Construction of heritage precincts	6.10	10.32	2 works (Rippon Building and Victoria hall)	2 works (87 *per cent*)
Total (A)		**940.23**	**288.19**	**1,214**	**257**
BSUP Projects					
1.	Housing	17.81	12.29	1,370 units	846 units (62 *per cent*)
2.	Infrastructure	182.26	135.31	2,035 works	1,839 works (90 *per cent*)
Total (B)		**200.07**	**147.60**	**3,405 works**	**2,685 works**
Grand Total (A+B)		**1,140.30**	**435.79**	**4,619**	**2,942**

(Source: Details furnished by Corporation of Chennai)

Excess expenditure in some schemes was met by the GoTN and CoC.

* Does not include macro drain component executed by Public Works Department (project cost : ₹ 633.03 crore; expenditure : ₹ 253.64 crore)

Out of the total 1,214 works taken up at a cost of ₹ 940.23 crore under UIG project, only 257 works (21 *per cent*) were completed. Under BSUP, out of

1,370 houses and 2,035 infrastructure works taken up, 846 houses (62 *per cent*) and 1,839 infrastructure works (90 *per cent*) were completed. Against the total project outlay of ₹ 1,140.30 crore, ₹ 435.79 crore (38 *per cent*) only was spent by March 2012.

The deficiencies noticed in execution of some of the works are detailed below :-

2.1.10 Bridge works

Under the Mission eight bridge works were approved at a total outlay of ₹ 82.77 crore. Three bridges were completed at a total cost of ₹ 52.97 crore.

The deficiencies noticed in execution of bridges are discussed below :-

2.1.10.1 Avoidable expenditure due to injudicious rejection of tender

Seven bridge works were taken-up for execution under the Mission during 2007 at a cost of ₹ 41.61 crore. The tender for seven under/over bridge works was called for in June 2007 as a single package. Two bidders participated in the tender and the rate quoted by a single qualified bidder was ₹ 58.25 crore, which was 40 *per cent* higher than the departmental rate of ₹ 41.61 crore and 18.52 *per cent* higher than the prevailing market rate of June 2007. The tender was rejected (June 2007) by the Tender Award Committee (TAC) on the ground of high tender rates. Second tender was called for in July 2007 and the same two bidders participated. The single qualified bid for ₹ 65.02 crore, which was 56.24 *per cent* higher than the departmental rate of ₹ 41.61 crore and 22.95 *per cent* higher than the prevailing market rate of July 2007 was again rejected (August 2007) by TAC on the similar ground of high tender rate.

Scrutiny of records revealed that CoC decided (August 2007) to execute six works in two packages and to take up one work at a later date as Railways modified the alignment of the Korukkupet Railway Under Bridge. The tenders for both the packages were called for in October 2007. The same pair of two bidders participated for both the packages and both the packages were awarded to the lowest bidder at a cost of ₹ 60.81 crore (₹ 29.36 crore for one Package and ₹ 31.45 crore for the other package). The works commenced in January 2008 and scheduled for completion in October 2009, were still in progress in respect of four bridges. Two bridges were completed in 2010 and an expenditure of ₹ 58.54 crore had been incurred as of March 2012.

Audit scrutiny revealed that there was increase in tender rates by 16.24 *per cent* from first tender call to second tender call and even market rate increased from 18.52 *per cent* in June 2007 to 22.95 *per cent* in July 2007. This shows that there was increase in tender rates and market rates within a month. In view of the increasing trend, CoC could have accepted the qualified bids for six bridge works at a cost of ₹ 59.74 crore[1] received at the time of second tender. The injudicious decision of TAC to reject the tender received

[1] Tendered cost of seven bridges on second call - ₹ 65.02 crore less tendered cost of Korrukupet bridge ₹ 5.28 crore

in July 2007, despite the increasing trend in the quoted rates and market rates resulted in avoidable expenditure of ₹ 1.07 crore (₹ 60. 81 crore *minus* ₹ 59.74 crore) as the works had to be executed at higher rates in the subsequent tender.

CoC replied (February 2012) that only one tender was technically qualified and so price discovery could not be made. The reply is not acceptable as in the context of increasing rate quoted by the bidders, the works should have been awarded to the lowest bidder at the time of second tender itself.

2.1.11 Storm Water Drain

Under the Mission storm water drain projects were approved at cost of ₹ 814.88 crore in April 2009 for a length of 533.32 kms comprising 1,203 works. The schemes for storm water drains were divided into 17 packages in four basins *viz.,* North, Central, East and South. The works were taken up between March 2010 and January 2011 with schedule date of completion between November 2011 and March 2013.

2.1.11.1 Poor status of execution of storm water drains

The status of storm water drains executed under UIG project is given in **Table 2.11**.

Table 2.11: Status of execution of storm water drains as on 31 March 2012

Name of the basin	Number of packages	Sanctioned project cost (₹ in crore)	Number of works	Current status of the works		
				Works completed	Works in progress	Works not yet taken up
North	5	277.17	384	117	60	207
Central	5	261.11	388	57	65	266
East	4	140.40	274	61	67	146
South	3	136.20	157	16	35	106
Total	**17**	**814.88**	**1,203**	**251**	**227**	**725**

(Source: Details furnished by Corporation of Chennai)

Out of 1,203 works sanctioned in April 2009, only 251 works were completed as of March 2012.

Audit scrutiny revealed that CoC did not hand over hindrance free sites to the contractors in time for execution of the works. This resulted in not taking up of 725 works (60 *per cent*) for execution. Further, scrutiny of records of Superintending Engineer (Storm Water Drains) of CoC disclosed that the following factors hindered the progress of works:

- non-removal of 3,569 encroachments, 1,022 illegal service connections in the storm water drains, 55 chronic sewer overflow locations and 108 sewer mixing locations obstructing execution of the works by the contractors.
- non-shifting of Tamil Nadu Electricity Board (TNEB) utilities in 289 locations for which ₹ 7.40 lakh was paid by CoC,

- non-regulation of the traffic and slow progress of works by the contractors.

Despite the apprehension raised by SLSC, at the time (June 2007) of recommendation of the storm water drain schemes for Chennai city about eviction of the encroachments along the canals, CoC did not take effective steps to remove the encroachments. There were no records to show that CoC took up the case with the TNEB authorities to shift their utilities. It was noticed that CoC took up the matter with the traffic police only in July 2011. Failure of the CoC to coordinate with the other departments for ensuring hindrance free site and for other utilities resulted in large scale non-completion of the works exposing the city to the risk of flooding besides the imminent cost overrun of the schemes.

2.1.11.2 Unnecessary provision of wet mix macadam

The storm water drainage project for CoC included the work of construction of retaining wall along the sides of the canals and lining the bed. As per Clause 4.3 of IS:3873:1993 - code of practice of lining of canal, the sub-grade of the surface on which bed lining proposed should be prepared, dressed with graded filter materials and rolled back so as to form a firm compacted sub-grade for receiving lining.

It was noticed in audit that CMC adopted stone dust and MMC adopted sand as filter material for preparation of sub-grade for lining the bed in the storm water drain projects. However, CoC adopted a layer of 30 cm thick of wet mix macadam for preparation of sub-grade for lining the bed instead of filter materials such as sand/stone dust as adopted by MMC and CMC. The adoption of wet mix macadam instead of sand/stone dust for preparation of sub-grade had resulted in an avoidable liability of ₹ 16.18 crore on the total agreed quantity and avoidable expenditure of ₹ 23.41 lakh on the actual quantity of works executed so far (March 2012).

2.1.12 Solid Waste Management

Under the Mission, solid waste management project was approved at a cost of ₹ 255.32 crore for CoC. CoC decided to go in for Public Private Partnership (PPP) for the project and did not avail the full amount allocated.

The deficiencies noticed in implementing the project are discussed below:-

2.1.12.1 Unfruitful expenditure on payment of professional charges

Solid waste management project at a cost of ₹ 255.32 crore was approved by the CSMC for CoC. CoC decided to go in for PPP mode for the project at a cost of ₹ 208.42 crore. Therefore, CoC informed GoI (August 2001) that it did not require further fund for the solid waste management project as PPP operator would bring the fund for the entire project.

CoC engaged (March 2007) Tamil Nadu Industrial Development Corporation Limited (TIDCO) and paid ₹ 61.35 lakh as professional charges for identification of the developers for this project under PPP mode.

TIDCO identified two developers for the project at two dumping grounds at Kodungaiyur and Perungudi. Since both the dumping grounds were falling under Category-'A'[2] as per the Ministry of Environment and Forests Notification dated 14 September 2006, prior environmental clearance was required from GoI.

Scrutiny of records in CoC revealed that State Level Environment Impact Assessment Authority (SLEIAA) approved (June 2010) the proposal submitted for Perungudi dumpsite. However, this approval was set aside by the National Green Tribunal in February 2012 due to incorrect approval accorded by SLEIAA. The proposal for environmental clearance for Kodungaiyur dumpsite submitted to GoI in June 2009 was yet to be approved.

The developers could not commence the works and the contract of the developer for Kodungaiyur dumping ground was terminated in October 2011 and the contract of the developer for Perungudi dumping ground was terminated in February 2012. Thus, CoC selected the dumping site without assessing the environmental risk requiring the approval of environmental clearance from the GoI. This hampered the objective of safe and scientific disposal of solid waste. CoC continued to dump the solid waste in open yards at Kodungaiyur and Perungudi polluting the ground and air, besides exposing to the risk of fire. Professional charges of ₹ 61.35 lakh paid to TIDCO also became unfruitful.

2.1.13 Basic Services to the Urban Poor

In order to cope with massive problems that have emerged as a result of rapid urban growth, the Mission decided to draw up coherent urbanization policy/strategy to implement projects in select cities on Mission mode. Basic Services to the Urban Poor was one of the sub-missions under the Mission for providing houses and create infrastructure facilities to the urban poor.

Under the sub-mission, the beneficiaries who own land in their name (*in situ* beneficiaries) were to be given financial assistance of GoI and State Government for construction of houses in four equal instalments on completion of basement level, lintel level, roof level and on full completion of the housing unit. The scheme guidelines further envisaged that financial assistance was to be provided with 10 *per cent* beneficiary contribution for SC/ST/BC/OBC/PH and weaker sections and 12 *per cent* beneficiary contribution for others.

CoC proposed to take up the sub-mission in two phases. Detailed Project Report of CoC identified 1,370 beneficiaries for construction of houses at a total outlay of ₹ 17.81 crore, 1,542 infrastructure works at a total outlay of ₹ 109.63 crore under Phase-I of the project and 493 infrastructure works with total outlay of ₹ 72.63 crore under Phase-II.

The deficiency noticed in implementing the project is discussed below:-

[2] Projects falling under Category-'A' mentioned in the schedule appended to the Notification dated 14 September 2006 of Ministry of Environment and Forests

2.1.13.1 Failure to identity the beneficiaries under BSUP

CSMC approved the project proposal of CoC (October 2007) at a total outlay of ₹ 17.81 crore for construction of houses for 1,370 identified beneficiaries.

Audit scrutiny revealed that out of 1,370 beneficiaries only 304 beneficiaries were found eligible and work orders were issued to eligible beneficiaries to complete the houses within four months from the date of issue of work order. Others were not found eligible as they were not having their own land or were having pucca house etc., CoC identified 730 alternate beneficiaries in the identified slums and 336 beneficiaries in the other slums not covered under the project during 2008 to 2011. Out of 1,370 housing units taken up under the project, 846 housing units were completed.

Scrutiny of records further revealed that 408 beneficiaries did not complete construction of houses even after six to 18 months of receipt of the financial assistance, 73 beneficiaries received first instalment of ₹ 0.21 crore, 109 beneficiaries received first and second instalments of ₹ 0.64 crore and 226 beneficiaries received first, second and third instalments of ₹ 1.98 crore. Work orders were not issued to the remaining 116 beneficiaries.

To an audit enquiry regarding the non-completion of houses by the beneficiaries and non-issue of works to 116 beneficiaries, CoC did not furnish reply.

COIMBATORE MUNICIPAL CORPORATION

Coimbatore city is one among the 63 cities selected by the Mission for implementation of the projects. The Mission approved four projects under UIG for the Coimbatore Municipal Corporation (CMC) within Coimbatore city at a total outlay of ₹ 767.38 crore and infrastructure works and housing projects under BSUP at a total outlay of ₹ 443.55 crore to be implemented during the Mission period 2005-06 to 2011-12.

2.1.14 Project Implementation

CMC took-up six packages under water supply project, six packages under UGSS, 10 packages under solid waste management and seven packages under storm water drains under UIG and 22,230 housing units and 284 infrastructural works under BSUP.

2.1.14.1 Physical and Financial Progress

The physical and financial progress of various schemes executed by CMC as of March 2012 is given in **Table 2.12**.

Table 2.12 : Physical and Financial progress of schemes executed by CMC

Sl. No.	Project	Financial (₹ in crore)		Physical	
		Project cost	Expenditure	Target	Achievement
(A)	**UIG PROJECTS**				
1.	Pillur water supply scheme	113.74	126.37@	6 Packages	5 Packages completed 1 Package under progress
2.	Underground Sewerage Scheme	377.13	128.10	6 Packages	1 Package completed 4 Packages under progress 1 Package was yet to commence
3.	Solid waste management	96.51	83.96	10 Packages	7 Packages completed 2 Packages under progress 1 Package was yet to commence
4.	Storm water drains	180.00	23.66	7 Packages	7 Packages under progress
	Total of (A)	**767.38**	**362.09**		
(B)	**BSUP PROJECTS**				
1.	Housing	347.47	79.32	22,230 houses	4,377 houses completed
2.	Infrastructure	96.08	17.99	284 works	259 works completed
	Total of (B)	**443.55**	**97.31**		

(Source : Details furnished by Coimbatore Municipal Corporation)

@ The excess expenditure was met by the corporation

It was noticed in audit that out of 29 packages of UIG projects taken up for execution, only 13 packages (43 *per cent*) were completed as on 31 March 2012, 14 packages were under progress and two packages were yet to commence. Non-commencement of the two packages was due to non-acquisition of land for the Ondipudur sewage treatment plant under UGSS project and due to deferment of work relating to Solid wastage management. The overall expenditure incurred under UIG was ₹ 362.09 crore (47 *per cent*) as against the project outlay of ₹ 767.38 crore. The progress of the schemes particularly construction of storm water drains and construction of houses for the urban poor was not very encouraging.

Some of the deficiencies noticed in the implementation of the schemes in CMC area are discussed below :-

2.1.15 Water supply scheme

A combined water supply scheme implemented by the Tamil Nadu Water Supply and Drainage (TWAD) Board in 1995 under Pillur water supply scheme Phase-I was providing 65 million litres per day (mld) of water to CMC. To augment water supply level from 65 to 125 mld, CMC proposed (December 2006) Pillur water supply scheme Phase-II under the Mission at a cost of ₹ 166.50 crore. The project envisaged a dedicated water supply to CMC with separate collection well and by utilising the existing raw water and clear water tunnels created under Pillur water supply scheme Phase-I.

2.1.15.1 Avoidable expenditure on Pillur water supply scheme

CSMC of the Mission approved (December 2006) Pillur water supply scheme Phase-II at a cost of ₹ 113.74 crore for drawal of water of 125 mld. The scheme included construction of pumping main from raw water tunnel exit point to water treatment plant, construction of water treatment plant, pumping mains from the water treatment plant to clear water tunnel and from clear water tunnel point to master service reservoir and construction of master service reservoir. As per the approved project, the existing collection well created under Phase-I of the Pillur water supply scheme was to be used for the collection of additional water from the source.

Audit scrutiny revealed that in an inter-departmental meeting (July 2007) it was decided to construct a separate collection well and to construct pumping main from head works to the raw water tunnel entry point. The work of construction of the collection well and pumping main from the source to the raw water tunnel entry point was allotted to TNEB in November 2007 as deposit work at a cost of ₹ 13.80 crore. It was noticed that the forest land to the extent of 1.83 hectare required for the work was acquired only in June 2010. The work of construction of collection well and laying of pumping main commenced in July 2010. The work is yet to be completed (July 2012). All components of the scheme except collection well was completed in March 2011 at a cost of ₹ 112.57 crore.

Scrutiny of records in CMC revealed that GoI, TWAD Board and CMC had concurred that the existing collection well with pumping arrangements created under the Pillur Water Supply Scheme Phase-I of TWAD Board was quite adequate. TWAD Board confirmed that entire requirement of 125 mld of water for the Pillur Water Supply Scheme Phase-II of CMC could be supplied from the existing collection well. CMC was already getting 65 mld of water from the Pillur water supply scheme Phase-I and also drawing additional 30 mld for augmenting the additional requirement. It could draw another 30 mld to meet its requirement of 125 mld from the same Phase I scheme of TWAD Board. Hence, there was no necessity for construction of another collection well and the dedicated water supply scheme for CMC would not be ensured upon as even if collection well was constructed still there would be common components of raw water and clear water tunnels. Injudicious decision of CMC to opt for construction of a new collection well, despite adequacy of the existing collection well resulted in avoidable expenditure of ₹ 13.80 crore paid as deposit to TNEB.

2.1.16 Under Ground Sewerage scheme

The entire area of CMC was divided into eight sewerage zones with three Sewage Treatment Plants (STPs) systems at Ukkadam, Nanjundapuram and Ondipudur. Out of three STPs, only one STP at Ukkadam was completed. One STP at Nanjundapuram was stopped due to public protest. One STP at Ondipudur was not taken up due to non-acquisition of land.

2.1.16.1 Non-completion of UGSS

The sewage was disposed off at the sewage farm that existed in the Ukkadam area in Coimbatore city. CMC decided to construct the STP at Ukkadam and took up the work under the Mission. CSMC sanctioned UGSS for Coimbatore city in June 2007 at a cost of ₹ 377.13 crore. The work was divided into six packages. The works relating to three packages for laying of sewer lines and collection system and two packages for construction of STP at Ukkadam were entrusted to five contractors at a cost of ₹ 336.62 crore between April 2008 and April 2010.

It was noticed in audit that the site for the proposed STP at Ukkadam was shifted 1.5 km away from the original location as the same site was allotted for construction of housing tenements under BSUP project in February 2007. However, no revised estimate was prepared for the conveying main for connecting the originally proposed site to the new STP site. Tenders were called for based on the original estimate. The work of STP was taken up in March 2008 in the new site and completed in January 2011 at a cost of ₹ 55 crore.

Audit scrutiny further revealed that the conveying main for connecting the originally proposed site to the new STP site was taken up only in September 2010 as supplementary item and was still in progress (June 2012). As a result, the entire sewage was let into the STP inlet through open channel and only nine to 20 mld were received at the STP inlet for treatment. Thus, the STP having a capacity of 70 mld could treat only nine to 20 mld from January 2011 to April 2012 as against 33 mld of sewage generated in the erstwhile sewerage network which was to be linked to this system.

Failure to revise the estimate after change of site by including provisions for linking old location with the new STP inlet at Ukkadam and not taking up revised work along with the original work resulted in non achievement of the objective of scheme even after incurring an expenditure of ₹ 55 crore on the STP.

2.1.17 Storm water drain project

Under the Mission, Storm Water Drain Projects were approved at cost of ₹ 180.00 crore in August 2009 for CMC for a length of 731.47 km. The schemes for storm water drains were divided into seven packages. Works were taken-up in October/November 2010 with schedule date of completion between September 2011 and May 2012.

2.1.17.1 Delay in construction of storm water drains

CSMC of the Mission approved (September 2009) the project for construction of storm water drains of 731.47 km. at a cost of ₹ 180.00 crore. CMC entrusted the work in September and October 2010 to three contractors in seven packages and the works were scheduled to be completed in 12 to 20 months.

Hindrance of tree in the storm water Drain at Selvapuram

Scrutiny of records revealed that CMC did not hand over the site for a length of 150.30 km. to the contractors due to hindrances in shifting of the service utilities of TNEB, telephone cables, removal of trees etc. It was further noticed that CMC had not taken up the matter with the respective departments so far (June 2012) to clear the hindrances. Due to slow progress of the works, construction of storm water drains to a total length of 153.14 km. out of 731.47 km. (21 *per cent*) alone could be completed as of March 2012. During the joint inspection by audit team with Engineers of CMC, it was observed (July 2012) that there were incomplete works not connecting the completed portion due to hindrances such as poles and trees in the executed portion of the drains affecting the flow of drain water.

When this was pointed out, CMC replied that as and when hindrances were brought to the notice of the corporation by the contractor they were solved by contacting the other departments. It was further stated that hindrances could not be foreseen because of the impracticability especially with regard to underground utilities.

The reply of CMC is not acceptable as the permission for laying the underground utilities were accorded by the corporation and it should be aware of the hindrances. There were hindrances such as transformers, electric post which could have been assessed before the commencement of work and taken up with the TNEB authorities. Thus, failure of CMC to co-ordinate with the other departments to clear the hindrances resulted in non-completion of the work and delay in achieving the objective.

2.1.18 Basic Services to the Urban Poor

CMC proposed to take up the sub-mission of BSUP in three phases. DPR of CMC identified 22,230 beneficiaries in three phases under the sub-mission BSUP (Phase-I: 2,707, Phase-II: 9,923, Phase-III: 9,600). Phase-I and Phase-II were for *in situ* beneficiaries (beneficiaries having own land) and Phase-III for beneficiaries who are land less. CSMC sanctioned the project at a total outlay of ₹ 443.55 crore.

The deficiencies noticed in implementing the project are discussed below:-

2.1.18.1 Incorrect identification of the beneficiaries for housing scheme

Based on the DPR prepared by the consultant, CMC proposed the construction of houses for 22,230 houses in three phases at a cost of ₹ 347.47 crore and got approval of CSMC between February and October 2007.

While executing the project under Phase I, CMC noticed that 1,757 beneficiaries were ineligible as the beneficiaries were not having the land in their name, living in objectionable areas like water course, highway land and Railway land. Hence, CMC identified 1,757 alternate beneficiaries and work orders for all the 2,707 were issued under Phase-I. Out of 2,707 beneficiaries to whom the work orders were issued, 1,963 beneficiaries completed the houses and 571 did not complete the houses. The progress of work in respect of 173 beneficiaries was not available on record.

When the work under Phase-II was taken up, CMC noticed that out of 9,923 beneficiaries 7,116 beneficiaries were ineligible due to the above reasons and only 463 alternate beneficiaries were identified. Balance 6,653 beneficiaries were yet to be identified. All the 3,270 beneficiaries (2,807 plus 463 alternate beneficiaries) were given work order. Out of 3,270 beneficiaries 2,414 beneficiaries completed the work and balance 828 beneficiaries did not complete the work. The progress of work in respect of 28 beneficiaries was not available on record.

CMC informed (November 2011) the consultant that beneficiaries in 18 slums identified in the DPR for Phase I and II were not found eligible as per the norms fixed by the GoI and SLNA. Therefore, the Corporation had to identify the beneficiaries from the omitted slums within the Corporation limits to make up the deficiency in the number of beneficiaries.

Audit scrutiny revealed that 1,399 beneficiaries (Phase-I: 571 and Phase-II: 828) did not complete construction of the houses even after six to 18 months of receipt of financial assistance. Out of the above, 272 beneficiaries received first instalment of ₹ 0.94 crore, 381 beneficiaries received first and second instalments of ₹ 2.57 crore and 746 beneficiaries received first, second and third instalments of ₹ 7.57 crore. The work in progress in respect of 201 beneficiaries (Phase-I: 173 and Phase-II: 28) were not available on record.

When this was pointed out, CMC replied that non-construction of houses by the beneficiaries was due to cost escalation and non-affordability by the beneficiaries.

The reply is not acceptable as CMC failed to check the correctness of DPR prepared by the consultant and had to identify alternate beneficiaries. This resulted in delay in awarding the work orders to beneficiaries and consequent cost escalation.

2.1.18.2 Non-starting of the Phase-III housing scheme

CSMC sanctioned (October 2007) 9,600 housing units at a cost of ₹ 184.80 crore to be constructed as slum tenements for beneficiaries not having own land. Government released ₹ 42.62 crore to CMC in March 2009.

It was noticed in audit that CMC did not select the site for constructing housing complex as of June 2012. As CMC did not have required expertise in construction of multi-storied housing complex, the work was transferred to Tamil Nadu Slum Clearance Board (TNSCB) in October 2010 after a delay of 18 months. However, the funds received from the Government (₹ 42.62 crore) for the construction of tenements was not transferred to TNSCB. TNSCB requested (May 2011) CMA to get revised administrative sanction for ₹ 435.43 crore due to increase in cost. The sanction of government was awaited (March 2012).

The delay of 18 months in transferring the work to TNSCB and non-identification of the site resulted in cost overrun of ₹ 250.63 crore at the estimate stage itself and non-commencement of the work. The objective of resettling slum dwellers along the natural drains in Coimbatore city could not be achieved even after four years of sanctioning of the project.

MADURAI MUNICIPAL CORPORATION

Madurai is a Heritage city and is one among the 63 cities selected by the Mission for implementation of the projects. The Mission approved five projects under UIG at a total outlay of ₹ 619.53 crore and construction of 22,766 houses and 107 infrastructure works under BSUP at a total outlay of ₹ 307.19 crore.

2.1.19 Project Implementation

The Madurai Municipal Corporation (MMC) took up three packages under water supply project, three packages under UGSS, seven packages under solid waste management, seven packages under storm water drains and one package under check dam under UIG at the project outlay of ₹ 619.53 crore and 22,766 housing units and 107 infrastructural works under BSUP at the project outlay of ₹ 307.19 crore.

2.1.19.1 Physical and Financial Progress

The physical and financial progress of various schemes executed by MMC as of March 2012 is given in **Table 2.13.**

Table 2.13 : Physical and Financial progress of schemes executed by MMC

Sl No	Project	Financial (₹ In crore)		Physical	
		Project Cost	Expenditure	Target	Achievement
(A) UIG PROJECTS					
1.	Second Vaigai water supply scheme	59.32	80.17 *	3 packages	3 packages completed
2.	Underground Sewerage Scheme	229.34	145.26	3 packages	2 packages completed 1 package is under progress
3.	Solid waste management	74.29	60.60	7 packages	6 packages completed 1 package is under trial run.
4.	Storm water drains	251.81	151.08	7 packages	1 package completed 6 packages under progress
5.	Check Dam	4.77	9.41	1 package	1 package completed
Total of (A)		**619.53**	**446.52**		
(B) BSUP PROJECTS					
1.	Housing	250.06	95.88	22,766 houses	7,552 houses completed
2.	Infrastructure	57.13	35.26	107 works	107 works completed
Total of (B)		**307.19**	**131.14**		

(Source: Details furnished by Madurai Municipal Corporation)

* Increase in expenditure was due to the use of higher size pipes, change in pipe and supplementary items of work

Out of 21 packages taken up by MMC under UIG projects, 13 packages (62 *per cent*) were completed and eight packages were under progress. Under BSUP, out of 22,766 houses sanctioned, 7,552 houses (33 *per cent*) were completed. As against the total outlay of ₹ 619.53 crore, ₹ 446.52 crore (72 *per cent*) was spent under UIG projects. Against the total outlay of ₹ 307.19 crore, ₹ 131.14 crore (40 *per cent*) was spent under BSUP projects as of March 2012. Besides denying the facilities in time to the public, the delays would scale up the cost of the projects.

The deficiencies noticed in implementing some of the above mentioned schemes are discussed below:

2.1.20 Underground sewerage scheme

Under UGSS scheme, two STPs at Avaniapuram and Sakkiamangalam and laying of sewer lines in unsewered areas were taken up at a cost of ₹ 229.34 crore.

2.1.20.1 Failure to integrate the underground sewerage systems

Under the National River Conservation Plan (NRCP) UGSS work was executed at a cost of ₹ 111.86 crore in 2001, which included collection system, pumping stations and conveying mains. The work of construction of two Sewage Treatment Plants (STPs) at Avaniapuram and Sakkiamangalam contemplated in the project was dropped. The UGSS project sanctioned in June 2007 under the Mission at an outlay of ₹ 229.34 crore included construction of the above two STPs and laying of sewer lines of 72 km in new areas.

It was noticed in audit that the DPR for the UGSS project under the Mission did not provide for connecting the completed works of NRCP with the proposed STPs at Avaniapuram and Sakkiamangalam. These two STPs were completed at a cost of ₹ 111.03 crore and commissioned in March and April 2011 respectively at Avaniapuram and Sakkiamangalam.

Audit scrutiny revealed that failure to connect the completed components of NRCP with the STP at Avaniapuram, the sewage generated from the areas south of the river Vaigai and collected through the pumping stations at Sandaipettai, Jaihindapuram, Keerathurai and Muthupatti could not be fed into the STP at Avaniapuram for treatment. Therefore, nearly 88 *per cent* of the collected sewage was disposed off without treatment.

Release of untreated sewage from Avaniapuram Booster Station into open drain

Similarly the sewage generated in the areas north of the river Vaigai and collected through two main pumping stations viz. Mundurithope and Sellur could not be fed into the STP at Sakkiamangalam due to non-enhancement of pumping capacity. Nearly 76 *per cent* of the sewage was released to sewage farm without treatment. The above picture shows release of untreated sewage water into the open drain.

Thus, failure of MMC to connect the completed components of NRCP with the newly constructed STPs resulted in treating only 12 *per cent* of the sewage generated at Avaniapuram and only 24 *per cent* of sewage generated at Sakkiamangalam despite incurring an expenditure of ₹ 111.03 crore.

On being pointed out, MMC replied (July 2011) that the entire sewage would be treated only after improving the pumping capacity in both the booster stations and laying of additional mains connecting the pumping mains with the Avaniapuram collection well. However, the fact remains that untreated sewage was let out into the nearby water bodies causing environmental pollution.

2.1.21 Second Vaigai Water Supply Scheme

MMC was allowed (1985) to draw 1,500 million cubic feet (mcft) of water annually from Vaigai dam directly. Out of this, MMC was drawing 900 mcft from the Vaigai dam under first Vaigai water supply scheme. The request of MMC to increase the drawal of water from 1,500 mcft to 2,500 mcft from the dam was turned down by GoTN (February 1998). The proposed second Vaigai water supply scheme to draw the available balance 600 mcft of water from Vaigai dam by MMC was sanctioned (July 2006) by CSMC at an estimated cost of ₹ 59.32 crore. The work was divided into three packages and awarded to a contractor during February to October 2007 at a total cost of ₹ 71.20 crore. The works were completed in March 2009 at an expenditure of ₹ 80.17 crore.

The following points were noticed on execution of this scheme.

2.1.21.1 Avoidable expenditure due to use of higher diameter pipes

The consultant for the Second Vaigai water supply scheme recommended 800 and 900 mm diameter pre stressed concrete pipes (PSC) 12 Ksc for raw water main and 700 and 800 mm diameter PSC 12 Ksc pipes for clear water main included in the first package.

Audit scrutiny revealed that MMC in the DPR proposed 1,100 mm diameter PSC 12 Ksc pipes for raw water main and 800, 900 and 1,000 mm diameter PSC 12 Ksc pipes for clear water mains for carrying 900 mcft instead of available balance allotment of 600 mcft of water from the dam. To an audit enquiry, MMC stated (July 2011) that DPR was revised as it would not be possible to lay another pipeline within the available width of land at a later date. The pipeline work commenced in March 2007 was completed in December 2008 by incurring an expenditure of ₹ 55.79 crore. Thus, 64.55 kilometer of pipeline having higher capacity than that required was laid, which resulted in extra expenditure of ₹ 10.10 crore on account of difference in the price of pipes.

When pointed out, the Commissioner of Municipal Administration replied (January 2012) that pipeline with higher diameter was laid so that when Government allotted additional quantity of water it could be carried in the same pipeline without laying additional pipeline and without any extra cost. The Commissioner further stated that in case of any pipeline burst, the second line could be used as an alternative line without affecting regular water supply and acquiring private land all along the alignment for laying another main would be tedious and costly, which had been avoided.

The reply is not acceptable as Government had already rejected (February 1998) the drawal of additional water from the Vaigai river, hence the question of carrying additional water or acquiring land does not arise. In the absence of assured additional water availability from the Vaigai river, the decision of the departmental officers to use higher diameter pipes in water supply scheme resulted in avoidable expenditure of ₹ 10.10 crore.

2.1.21.2 Avoidable expenditure on laying of AC pipes

The DPR approved (July 2006) by GoI for the second Vaigai water supply scheme provided for laying of PVC pipes of 140 mm to 300 mm diameter for the distribution system at a cost of ₹ 2.64 crore. The TWAD Board issued circular (October 2005) for use of PVC pipes instead of AC pipes on techno-economic consideration.

Scrutiny of records revealed that the technical estimate sanctioned by the Superintending Engineer in the office of CMA provided for laying of AC pipes instead of PVC pipes without recording any reasons for the deviation. The work was executed with AC pipes for a length of 1.21 lakh meter at a cost of ₹ 4.62 crore. This resulted in extra expenditure of ₹ 1.66 crore. MMC should have used PVC pipes more advantageously as approved by GoI and also as per direction of TWAD Board. Failure to use the PVC pipes instead of AC pipes resulted in extra cost of ₹ 1.66 crore on account of difference in prices.

2.1.22 Storm water drains

The project of storm water drains for Madurai city sanctioned (April 2007) at an estimated cost of ₹ 251.81 crore by CSMC was split into seven packages and one package was completed at a cost of ₹ 0.70 crore.

The irregularities noticed in award of contract are discussed below:-

2.1.22.1 Award of work to an ineligible contractor

Tenders were invited for the six packages under the storm water drains project in February 2008. One of the qualification criteria included in the tender document was that the bidders should have achieved the annual financial turnover for a prescribed value (twice the bid value) provided in the bid document for atleast two financial years during the last five years. The tender documents further provided that qualified bidder should also possess the bid capacity more than the bid value for which he was tendering.

As per the tender conditions, evaluation of the tender has to be done for each package separately. Accordingly, tenders were evaluated separately and the works relating to six packages were awarded (July and October 2008) to M/s VDBPL and M/s Harvin Constructions, a joint venture company (75 *per cent* holding by M/s VDBPL and 25 *per cent* by M/s Harvin

Constructions) at a cost of ₹ 347.61 crore with stipulated date of completion in January 2010 and April 2010.

Audit scrutiny of evaluation of tender by MMC revealed that the above joint venture company did not fulfil the qualification criteria individually or as a joint venture. The joint venture company achieved the prescribed annual financial turnover for one year only instead of two years in the last five years as stipulated in the tender conditions.

Audit scrutiny further revealed that all the six packages were awarded to the single joint venture company and the total assessed bid capacity of the joint venture was ₹ 205.75 crore only as against total bid value of ₹ 271.58 crore for the six packages.

As all the six packages were awarded to single joint venture company, MMC should have evaluated the bids considering the bid capacity required for all six packages.

The erroneous evaluation of bid resulted in awarding of all the six packages to a single contractor who did not have the prescribed financial capacity. This resulted in slow progress of work as the percentage of completion of work in respect of four packages ranged between 17 and 49 only and between 58 and 89 in respect of two other packages as of July 2012.

2.1.23 Solid Waste Management

MMC entered into a PPP mode for construction of processing unit of solid waste and sanitary land fill at a cost of ₹ 57.30 crore.

The deficiencies noticed in implementing the PPP are discussed below:-

2.1.23.1 Delay in completion of the solid waste processing unit

The work of construction of processing unit of solid waste and sanitary land fill under PPP mode commenced in March 2008 and scheduled for completion in March 2009.

Scrutiny of records revealed that the work was delayed as No Objection Certificate (NOC) from the Airport Authorities could not be obtained. MMC approached the Airport Authorities only in January 2009 and NOC was issued by the Airport Authorities in July 2009. It was further noticed that the contractor did not complete the work as of March 2012 even after receipt of NOC from the Airport Authorities in July 2009.

The solid waste generated at the rate of 450 MT per day in the city was dumped inside the compost yard. It was noticed that the study undertaken by the Madurai Kamaraj University in 2010 revealed ground water pollution in and around Avaniapuram town where the solid waste was being dumped. The delay in obtaining NOC from the Airport Authorities and also inaction of the contractor in completing the work for more than 31 months after getting the NOC from the Airport Authorities resulted in non-completion of the processing unit of solid waste, causing water pollution.

2.1.24 Basic Services to the Urban Poor

MMC proposed to take up the sub-mission in three phases. MMC identified 22,766 beneficiaries in three phases at a total outlay of ₹ 250.06 crore.

The deficiencies noticed in implementing the project is discussed below:-

2.1.24.1 Defective identification of the beneficiaries

MMC proposed construction of 22,766 houses for the urban poor in three phases (Phase-I: 2,515, Phase-II: 9,563 and Phase-III: 10,688). The proposal of MMC for housing component of BSUP was approved in 2007 by CSMC at a total outlay of ₹ 250.06 crore.

Scrutiny of records revealed that out of 22,766 beneficiaries identified only 11,893 beneficiaries were found eligible and out of this 7,552 housing units were completed as on 31 March 2012. It was further noticed that 4,341 beneficiaries did not complete construction of houses even after delay of six to 18 months on receipt of the financial assistance. Out of these, 674 beneficiaries received first instalment of ₹ 1.33 crore, 832 beneficiaries received first and second instalments of ₹ 3.20 crore and 2,835 beneficiaries received first, second and third instalments of ₹ 16.54 crore.

To an audit enquiry, MMC replied (July 2011) that the beneficiaries were identified based on the ration cards and election voters identity card. However, during personal enumeration and identification, it was found that beneficiaries were residing in the various Government land and in many cases slum dwellers were not having ownership rights in which they dwell. MMC further stated that due to escalation in the cost of house, beneficiaries could not construct the houses and MMC arranged the financial support through loan to the beneficiaries from the bank and 1,139 beneficiaries were benefited in this scheme.

The reply is not acceptable as proper identification of beneficiaries was not made at the time of preparation of DPR. MMC conducted proper survey only during implementation of the scheme instead of doing at the beginning which resulted in identification of the beneficiaries not eligible for the assistance under the scheme. MMC could not take up the remaining 10,873 housing units so far (June 2012).

Thus, due to failure in conducting detailed survey to identify the eligible beneficiaries, objective of the project could not be achieved.

2.1.25 Monitoring

2.1.25.1 Monitoring by SLSCs and SLNAs

As per the Institutional framework guidelines prescribed by the Mission, both SLSC and SLNA constituted at the State level should periodically monitor the physical and financial progress of works taken up under the Mission, besides reviewing the progress of implementation of urban reforms.

It was observed that the SLSCs constituted in February 2006 for each sub-mission *viz.*, UIG and BSUP had conducted nine and seven meetings respectively till November 2011. Meetings were conducted mainly to accord approval for taking up of new projects. Exclusive meeting for review of work was not conducted periodically. In respect of UIG, the last SLSC meeting was conducted in October 2009 and thereafter no meeting was conducted. In respect of BSUP, the last meeting was conducted in September 2011 after a gap of nearly three years. Absence of effective monitoring was evident from the delay in completion of various projects as discussed above.

2.1.25.2 Appointment of third party monitoring Agencies

The Mission envisaged a state level mechanism for monitoring and reviewing the progress of both the sub-mission projects by third party monitoring agencies *viz.*, IRMA for UIG projects and TPIMA for BSUP projects. These agencies were to be appointed by the respective SLNAs (TUFIDCO and CMA). Mission issued guidelines (August 2007) for appointing IRMA/ TPIMA.

It was noticed in audit that in Tamil Nadu, IRMA and TPIMA were appointed in September and October 2009 only. The delayed appointment of the monitoring agencies, after commencement of most of the projects also affected the progress of work.

2.1.26 Conclusion

Performance Audit disclosed that there was no consultation process with the stakeholders for preparation of CDPs in the initial stages. The three Corporations viz. Chennai, Coimbatore and Madurai contributed only ₹ 237.62 crore (38 *per cent*) as against their committed matching share of ₹ 618.52 crore in respect of the Urban Infrastructure and Governance (UIG) projects. Shortfall in implementation of the committed reforms relating to the local bodies by the three corporations before December 2010 resulted in withholding of grant of ₹ 111.05 crore by Government of India. Out of the 18 UIG projects, only five (three projects in Chennai and two projects in Madurai) were completed at a cost of ₹ 197.86 crore. Some of the projects worst affected by the delays were construction of storm water drains, underground sewerage and houses for the urban poor. Failure of the three corporations to identify the correct list of beneficiaries before commencing the projects for provision of houses to the urban poor resulted in completion of only 12,775 houses (28 *per cent*) out of the targeted 46,366 houses under Basic Services to the Urban Poor (BSUP) as of March 2012. The State Level Steering Committees constituted in February 2006 for UIG and BSUP conducted nine and seven meetings respectively till November 2011, though periodical meetings were to be held for reviewing the progress of work.

2.1.27 Recommendations

- The Mission cities need to be compelled or facilitated to contribute their required percentage of matching funds in order to complete the envisaged schemes.
- The State Government should expedite action on the pending reforms relating to local bodies so as to avail full eligible assistance from the Government of India.
- Delays/shortfall in completion of the schemes such as storm water drains, solid waste management and provision of shelters to the urban poor and their causes need to be specifically addressed.
- Proper identification of beneficiaries of the housing schemes needs to be ensured in advance and the construction of houses by the beneficiaries be closely monitored.
- Regular and effective monitoring and evaluation of the schemes should be done to expedite completion of the pending schemes and avoid time and cost overrun of the schemes, besides denial of benefits envisaged under the Mission.

The matter was referred to Government in August 2012; reply has not been received (December 2012).

CHAPTER III

AUDIT OF TRANSACTIONS

(URBAN LOCAL BODIES)

CHAPTER III

AUDIT OF TRANSACTIONS

Audit of transactions in the Municipal Administration and Water Supply Department, Municipal Corporations, Municipalities and Town Panchayats brought out instances of lapses in management of resources and failures in observance of regularity, propriety and economy. These have been presented in the succeeding paragraphs.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

3.1 Losses noticed in audit

MADURAI CITY MUNICIPAL CORPORATION

3.1.1 Non-levy of the annual license fee

Non-levy of the annual license fee on Tamil Nadu State Marketing Corporation Limited for running the retail business of sale of liquor within the area of Madurai Corporation resulted in loss of revenue of ₹ 19.18 lakh.

Madurai City Municipal Corporation notified in 1999 *inter alia* annual license fee for running of liquor shops under Section 360 of the Madurai City Municipal Corporation (MCMC) Act, 1971. Running a business without valid license attracted levy of penalty under Section 442 of the MCMC Act. The license fee payable was ₹ 1,000 per year upto 31 March 2009 and ₹ 2,000 per year from 1 April 2009 with penalty of ₹ 400 per year if valid license was not obtained.

Tamil Nadu State Marketing Corporation Limited (TASMAC) was entrusted with the retail sale of Indian Made Foreign Liquor in the State from November 2003. TASMAC had 169 retail outlets in 2004 in the Madurai Corporation area and it came down to 131 in March 2011. Scrutiny of records revealed that none of the retail outlets operated by TASMAC in the Corporation limits had obtained license from the Corporation for running the business as required under the MCMC Act. The Corporation did not initiate action in collecting the annual license fee from the retail outlets of TASMAC as required under the MCMC Act. This resulted in loss of revenue of ₹ 19.18 lakh (license fee: ₹ 14.82 lakh and penalty for running the outlets without valid license: ₹ 4.36 lakh) during the period April 2004 to March 2012.

The matter was referred to Government in January 2012. Government replied (March 2012) that as per Section 348 of the MCMC Act, 1971, the Government market committees need not obtain license and permission, hence

Madurai Corporation was not in a position to levy the annual license fee on TASMAC for running the retail business within its jurisdiction. The reply is not acceptable as the said provision was applicable only to the marketing committees established under the Tamil Nadu Agricultural Produce Act, 1959 and for any property belonging to the State Government or Central Government. As TASMAC was registered under the Companies Act, 1956 and running on commercial basis, justification given for non-levy of the license fee on TASMAC treating it as a market committee was not valid. Further, as TASMAC was doing retail business of liquor by storing in the retail outlets, the company was liable to obtain the annual license by paying the prescribed license fee.

3.2 Wasteful expenditure

THOOTHUKUDI CITY MUNICIPAL CORPORATION

3.2.1 Wasteful expenditure in construction of sewage treatment plant

Injudicious decision to change the site for construction of a sewage treatment plant resulted in wasteful expenditure of ₹ 2.64 crore.

Based on the Detailed Project Report (DPR) prepared by a consultant in July 2004, Government of Tamil Nadu (GoTN) accorded (October 2005) administrative sanction to Thoothukudi City Municipal Corporation (Corporation) for implementing the Phase-I of Underground Sewerage Scheme at an estimated cost of ₹ 46.40 crore. The scheme was divided into four packages and entrusted to Tamil Nadu Water Supply and Drainage (TWAD) Board for implementation. The first three packages consisted of sewage collection system and laying of sewer network and the fourth package was for construction of Sewage Treatment Plant (STP).

After taking into consideration the availability of land, scope for future modifications, ease of operation and maintenance and affordability, DPR envisaged reconstruction of the STP at a cost of ₹ 3.23 crore at Tharuvaikulam (7.5 kilometres away from the town), where there was an STP already installed in 1985 to serve the existing sewerage system.

Scrutiny of the records revealed that the Technical Standing Committee[1] visited (September 2007) the STP site at Tharuvaikulam and recommended shifting of the STP to Pulthottam, within the town limits of Thoothukudi on the ground that the site at Tharuvaikulam was far away from the town. Therefore, the work for the fourth package i.e. construction of STP was awarded only in October 2009.

[1] Officials of TWAD Board, Chennai Metropolitan Water Supply and Sewerage Board, Commissioner of Municipal Administration, Commissioner and Engineer of Thoothukudi Municipal Corporation.

Commissioner of Municipal Administration (CMA) instructed (13 November 2008) all the Urban Local Bodies that before identification of site for STP, preliminary assessment of opinion of the public/nearby residents should be made and the STP site should be atleast 500 metres away from any public utility area such as parks, temples, educational institutions, etc. The STP work at Pulthottam was awarded (October 2009) for ₹ 17.99 crore fixing the completion period as 24 months. However, the work had to be stopped in July 2010 after incurring an expenditure of ₹ 2.64 crore due to public protest as the site was adjacent to residential/public utility area and there was also a school within the radius of 250 metres.

The Municipal Council therefore resolved (December 2010) to shift the STP from Pulthottam to the originally proposed site at Tharuvaikulam. The Municipal Council also resolved (January 2011) to pay the amount of ₹ 2.64 crore incurred on the works at Pulthottam STP site to TWAD Board from its General Fund as GoTN did not accede to its request for allocation of this sum as grant. The scheme is yet to be completed (June 2012).

Thus, the injudicious decision of the Corporation to change the STP site without ascertaining the public opinion in advance and not reviewing the decision of the Technical Standing Committee after receipt of the CMA circular resulted in wasteful expenditure of ₹ 2.64 crore, besides cost and time overrun.

The matter was referred to Government in January and June 2012. Government in their reply (November 2012) stated that the work was stopped in July 2010 due to public protest and the District Collector conducted peace committee meeting on various occasions to convince the agitated public. Government further stated that a joint inspection was also made by the then Joint Managing Director, TWAD Board and the then CMA, Chennai on 11 November 2010. But, the nearby residents had strong objections to continue the work and hence alternate locations for shifting the STP were explored by the Corporation.

The reply is not acceptable, as the public consultation and joint inspection should have been conducted before commencement of the work in October 2009 and not after incurring an expenditure of ₹ 2.64 crore.

CORPORATION OF CHENNAI

3.2.2 Wasteful expenditure in construction of a Railway Overbridge

Failure of the Corporation of Chennai to ensure the load tests before driving the piles for Railway Overbridge resulted in wasteful expenditure of ₹ 2.51 crore.

Government of Tamil Nadu sanctioned (June 1998), construction of a Railway Overbridge (ROB) at Perambur at a cost of ₹ 21 crore[2]. Based on the detailed project report submitted by the consultant, Indian Institute of Technology, Madras (IITM) in 1997, Corporation of Chennai (CoC) awarded (January 1999) the contract for construction of the ROB to National Building Construction Corporation Limited (NBCC) for ₹ 10.69 crore.

As per clause 4.1 of IS 2911 (Part IV), an initial load test was required to be conducted for pile constructions so as to get an idea of piling system and to determine the safe load capacities by application of factor of safety. The above clause was incorporated in the agreement which also stipulated the condition that no work was to be commenced before the Engineer's decision as to capacity of the pile. The load tests were to be conducted under the direct supervision of the Engineer of CoC.

Audit scrutiny revealed that NBCC constructed 67 piles of 750 mm and 900 mm dia between March 1999 and September 1999. Initial load test for 750 mm dia pile was conducted in July 1999. Two initial load tests for 900 mm pile bores were conducted by NBCC in October 1999 and December 1999 and one more test was conducted in June 2000. During the tests, it was found that 900 mm dia piles did not have adequate bearing capacity as the results of the three load tests were 125 MT, 67 MT and 200 MT respectively as against the required design load of 450 MT.

Twenty one additional piles of 750 mm dia were constructed between October 2000 and March 2001 based on the recommendations of the IITM. However, the structure had sunk to the ground during 2001. The work of ROB was stopped in August 2001 and an enquiry commission was appointed by Government in September 2001 to probe into the alleged irregularities in the construction. Subsequently, the design and drawings made by IITM were referred to Anna University in June 2006 as it was felt that proof checking of design by another agency was required. Anna University recommended (January 2008) open foundation instead of pile foundation.

As the scope of work was entirely changed from pile foundation to open foundation and the 88 piles already constructed would not be safe to bear the design load, the contract with NBCC was terminated in January 2008, after incurring an expenditure of ₹ 3.05 crore.

[2] Includes estimated cost ₹ 4.90 crore relating to Railway portion to be executed by the Railways and the cost to be borne by the Corporation of Chennai.

The revised work with open foundation was awarded to another contractor in June 2008 and completed in March 2010 at a cost of ₹ 35.22 crore. The revised work included the cost of dismantling of all the 88 piles constructed under pile foundation except the retaining wall constructed at a cost of ₹ 54 lakh.

The CoC allowed the NBCC to drive 67 piles even before conducting the initial load tests and did not stop the pile work. The CoC's laxity in allowing NBCC to drive the piles before conducting the pile tests resulted in wasteful expenditure of ₹ 2.51 crore besides time and cost overrun.

The matter was referred to Government in February 2012. Government replied (June 2012) that as per the guidance of the premier institution IITM, the Perambur flyover work was carried out. The sub soil investigations were done by IITM and the CoC did not check the soil investigation carried out by the IITM as the institution itself had the experts in all fields and their experience had not been doubted. The reply is not acceptable as the CoC failed to ensure the conduct of initial load tests by NBCC before the construction of piles as required under the contract agreement. CoC also did not stop the pile work and allowed the contractor to construct 67 piles without conducting the load tests, which led to demolition of the piles resulting in wasteful expenditure of ₹ 2.51 crore.

3.3 Avoidable expenditure

MADURAI CITY MUNICIPAL CORPORATION

3.3.1 Non-recovery of central excise duty exemption availed by the contractor

Failure of Madurai City Municipal Corporation to recover the central excise duty exemption on use of pipes for the second Vaigai water supply scheme resulted in avoidable expenditure of ₹ 4.74 crore.

During 2006-09, Madurai City Municipal Corporation (Corporation) implemented the Second Vaigai Water Supply Scheme under the Jawaharlal Nehru National Urban Renewal Mission at a cost of ₹ 78.45 crore. The estimate for pipeline work prepared (₹ 48.87 crore) by the Corporation, adopting the Tamil Nadu Water Supply and Drainage Board schedule of rates for the year 2006-07 *inter alia* included the central excise duty component. While according technical sanction (November 2006) by the Superintending Engineer in the Office of the Commissioner of Municipal Administration, it was specifically mentioned that if any excise duty exemption was possible that should be recovered from the contractor. But while entering into agreement with the contractor, the Corporation failed to include this condition in the agreement. The work was awarded to M/s P&C Constructions (Private) Limited in January 2007 at a tendered cost of ₹ 49.28 crore, which was 4.94 *per cent* in excess of the estimated cost. The Central Excise Notification No.47/2002 dated 6 September 2002, exempted excise duty for pipes needed for delivery of water from its source to water treatment plant and from there to the storage facility in respect of water supply scheme.

It was observed during audit that the District Collector, Madurai had in December 2008 issued certificate to the contractor duly endorsing a copy to the Commissioner of the Corporation for availing central excise duty exemption for supply of pipes to the treatment plants and from there to the storage points of Second Vaigai Water Supply Scheme. The Central Excise Department, Erode-I Range Office confirmed in September 2011 that the contractor had actually availed duty exemption for supply of pipes for the Second Vaigai Water Supply Scheme between May 2007 and March 2009. The contactor had been paid an amount of ₹ 11.19 crore in three bills in January 2009 and May 2009 subsequent to the issue of certificate by the Collector of Madurai for availing central excise duty exemption. While making payment to the contractor, the Corporation, however, failed to deduct the exempted amount from the payments made to him. Failure of Executive Engineer of the Corporation to deduct the central excise duty exemption on the value of pipes laid by the contractor resulted in undue benefit to the contractor and avoidable expenditure of ₹ 4.74 crore to the Corporation as detailed in the **Appendix 3.1.**

The Commissioner of the Corporation replied (December 2011) that the contractor had informed that only an amount of ₹ 63.41 lakh was availed as exemption of excise duty for the pipes supplied to the Second Vaigai Water Supply Scheme – Package-I. The Commissioner further stated that the Central Excise Department had been addressed in December 2011 and on receipt of confirmation from the department, the actual amount availed by the contractor would be recovered.

The matter was referred to Government in November 2011; reply has not been received (December 2012).

TIRUPPUR CITY MUNICIPAL CORPORATION

3.3.2 Avoidable payment of sewage treatment charges

Failure of the Tiruppur City Municipal Corporation to synchronize provision of house connections for sewage disposal with the completion of infrastructure for sewage collection and treatment resulted in avoidable payment of ₹ 2.07 crore as charges for the period when the infrastructure were idling.

Government of Tamil Nadu, Tiruppur City Municipal Corporation (TCMC) (erstwhile Municipality) and New Tiruppur Area Development Corporation Limited (NTADCL) entered into an agreement in February 2000 to provide water supply and sewage facilities in the service area[3] of Tiruppur for 33 years. As per the agreement, NTADCL was to finance, develop, design,

[3] Service area means, in relation to water supply services, area within Tiruppur City Municipal Corporation as well as outside the municipal area covered by Tiruppur Local Planning Area and way side villages and in relation to sewage service means the area within Tiruppur City Municipal Corporation where NTADCL off takes the sewage from the Tiruppur City Municipal Corporation for purposes of treatment and disposal at the sewage treatment facility.

construct, operate, maintain and transfer all the facilities relating to water treatment, sewage treatment, water distribution system and sewerage system in the service area strictly on commercial principles. The agreement stipulated that the TCMC should initiate its activities in tune with the project plan of NTADCL and install such number of connections from households within 28 months of the commencement of the construction of the facilities. The sewage treatment facilities were established by NTADCL in October 2007 and were ready for operation with a capacity to treat 15 mld of sewage.

Scrutiny of records revealed that the TCMC failed to provide the desired number of service connections simultaneously with readiness of the sewage treatment facilities. The process of giving house service connections was initiated only in November 2007 i.e. after establishment of the sewage treatment facilities. It was also noticed that the TCMC had published the by-laws providing for levy and collection of the deposit amount and monthly user charges in May 2006. Delay in this regard resulted in failure to mobilize people for availing the house connections for sewage discharge. House connections were given and the sewage collection and treatment facilities were put to use only by September 2009. Thus, the facilities remained idle for about two years.

The TCMC made payment (September 2011 and November 2011) of ₹ 6.62 crore to NTADCL towards the sewage treatment charges for the period September 2007 to October 2011. This included ₹ 2.07 crore towards electricity charges, insurance charges and expenditure for cleaning of the sewer for the period of non-operation (October 2007 to September 2009) of the sewage facilities.

The Commissioner of TCMC replied (January 2012) that during the process of giving house service connections, it was noticed that the dummies provided at the time of laying of the sewer lines was not removed in many places. There were omissions of interconnection of sewers at street junction. Use of damaged sewer pipes led to blockages in the systems. Due to these problems, while giving house service connections, there was over flow of sewage from the manhole and spread over the streets. As the toilets were situated at the backyard of the houses, expenditure to connect the toilets to the main sewer line was high which the house owners were not willing to incur. Due to non-co-operation from the public to take sewer connections to their houses, there was slow progress in providing the house connections.

Reply of the Commissioner, TCMC is not acceptable as TCMC and NTADCL were to coordinate to ensure that the schedule of the TCMC integrated with the project plan of NTADCL. TCMC should have taken advance action as stipulated in the agreement and convince the public on house connections before October 2007, when the facilities were ready for commissioning. TCMC should have avoided this lacuna by better supervision of the work of NTADCL.

Thus, failure of TCMC in synchronizing provision of the house service connections with establishment of the Under Ground Sewerage Scheme resulted in avoidable payment of ₹ 2.07 crore towards electricity, insurance and cleaning of the sewer during the period of non-operation of the sewage facilities.

The matter was referred to Government in December 2011; reply has not been received (December 2012).

3.4 Idle investment

POLLACHI MUNICIPALITY

3.4.1 Idling of shops in the bus stand

Failure of Pollachi Municipality to conduct pre-auction to assess the demand before construction of shops in the bus stand resulted in idling of 26 shops constructed at a cost of ₹ 22.84 lakh.

Government of Tamil Nadu accorded administrative sanction (March 2006) for ₹ 1.75 crore for construction of an additional bus stand at Pollachi Municipality (Municipality) with cent *per cent* funding from Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL). The sanction was subject to commencement of the work only after pre-auction of 75 *per cent* of the proposed 34 shops and one restaurant in the bus stand. Revised administrative sanction for the work with funding arrangement of 90 *per cent* contribution from TNUIFSL and 10 *per cent* from the Municipality was accorded in November 2007.

The work was awarded to Sree Raagavendra Constructions, Erode in August 2007 at a cost of ₹ 2.27 crore for construction of the bus stand with eight shops, one restaurant and one pay and use toilet on the ground floor and 26 shops on the first floor. The work was completed in October 2009 at a cost of ₹ 2.15 crore and the additional bus stand was inaugurated in November 2009.

It was noticed in audit that pre-auction of 75 *per cent* of the shops were not conducted as stipulated in the administrative sanction. Eight shops, the restaurant and the pay and use toilet on the ground floor were auctioned and handed over to the lessees in November/December 2009. However, the 26 shops built on the first floor in October 2009 at a cost of ₹ 22.84 lakh remained unoccupied for want of offer from the tenderers (December 2011), though the deposit amount for the tender was reduced four times and auction was conducted 30 times. Had the demand for shops been assessed before construction, the present idling of the shops could have been avoided.

Thus, failure of the Municipality to conduct pre-auction of the shops as stipulated in the sanction order, before commencement of the work to assess the demand resulted in idling of 26 shops constructed at a cost of ₹ 22.84 lakh on the first floor of the bus stand.

The matter was referred to Government in January 2012. Government replied (March 2012) that in spite of calling tenders for the 26 shops constructed on the first floor of the complex, tenders were not received since the rate quoted was lower than the rate fixed by the Municipal Engineer.

The reply is not convincing as Government is silent on the failure to conduct pre-auction by the Municipality to assess the demand for shops in advance of commencement of the work.

PARANGIPETTAI AND THIRUNINDRAVUR TOWN PANCHAYATS

3.4.2 Idling of market complexes

Two Town Panchayats constructed market complexes without carrying out the demand survey, which resulted in idling of the complexes constructed at a cost of ₹ 17.72 lakh for over three years.

For strengthening of existing civic infrastructural facilities and creation of requisite amenities in Town Panchayats (TPs) under the Anaithu Peruratchi Anna Marumalarchi Thittam, Government of Tamil Nadu issued (July 2007) guidelines to all town panchayats to propose works only after carrying out detailed investigation and if necessary after seeking the help of consultant. Audit scrutiny revealed that despite this instruction, TPs constructed shopping complexes without assessing demand, leading to their idling as described in the following two cases:

(i) Parangipettai TP in Cuddalore District proposed setting up of a weekly market complex for augmenting its revenue in July 2007 and completed construction of the complex in July 2009 at a cost of ₹ 7.35 lakh.

Idle market complex at Parangipettai

(ii) Thirunindravur TP in Thiruvallur District proposed (February 2008) setting up of a daily market complex to avoid traffic problems in the roads by relocating the street vendors to the proposed market and to earn revenue. The complex consisting of six shops was completed in February 2009 at a cost of ₹ 10.37 lakh.

Idle market complex at Thirunindravur

Audit scrutiny revealed that both the market complexes were not occupied (June 2012) as the vendors were not willing to occupy the market complexes due to their remote location.

On being pointed out, the Executive Officers (EO) of both the TPs stated (June 2012) that no demand assessment was made before construction of the market complexes. The EO, Thirunindravur TP further stated that six shops in the complex leased out in March 2012 were yet to be occupied by the lessees for want of shutters to be provided by the TP.

Thus, construction of shopping complexes without assessing the demand and permitting the street vendors to continue their operation by collecting toll by Thirunindravur TP and inaction by Parangipettai TP to make use of the newly constructed market complex resulted in idling of the complexes constructed at a cost of ₹ 17.72 lakh for over three years.

The matter was referred to Government in February and June 2012. Government in their reply (November 2012) *inter alia* stated that all the six shops in Thirunindravur TP were put to use and in Parangipettai TP the weekly shandy shops were functioning from 1 April 2012. Further, inspection by Audit in November 2012 revealed that the six shops in Thirunindravur were allotted to the tenderers in October 2012. In the case of Parangipettai, the complex has not yet been started functioning and hence the reply is not acceptable.

PART II
PANCHAYAT RAJ INSTITUTIONS

CHAPTER IV
AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

CHAPTER IV

SECTION 'A'
AN OVERVIEW OF PANCHAYAT RAJ INSTITUTIONS

4.1 Background

The 73rd Constitutional amendment gave Constitutional status to Panchayat Raj Institutions (PRIs) and established a system of uniform structure, election, regular flow of funds through the Finance Commission etc. As a follow up, the States were required to entrust the PRIs with powers, functions and responsibilities to enable them to function as institutions of self-government.

Consequent to the 73rd amendment of the Constitution, the Government of Tamil Nadu (GoTN) enacted the Tamil Nadu Panchayats Act, 1994. Under this Act, a three tier system of PRIs *viz.*, Village Panchayats at the village level, Panchayat Unions or Block Panchayats at the intermediary level and District Panchayats at the apex level were established.

4.2 State profile

The demographic and developmental status of the State is given in **Table 4.1** below:

Table 4.1: Important statistics of the State

Indicator	Unit	State statistics
Population	Millions	72.14
Population density	Sq.Km	555
Rural population	Percentage	51.55
Number of PRIs	Numbers	12,940
Number of District Panchayats	Numbers	31
Number of Panchayat Unions	Numbers	385
Number of Village Panchayats	Numbers	12,524
Gender ratio	Per 1,000 males	995
Literacy	Percentage	80.33

(Source : 2011 Census figures and Policy Note of the Rural Development and Panchayat Raj Department for 2011-12)

4.2.1 Classification of the Panchayat Raj Institutions

As mentioned above, the PRIs are classified into three tiers *viz.,* District Panchyats, Panchayat Unions and Village Panchayats. There are 31 District Panchayts, 385 Panchayat Unions and 12,524 Village Panchayats in Tamil Nadu.

The categorisation of the Village Panchayats based on population is given in **Table 4.2.**

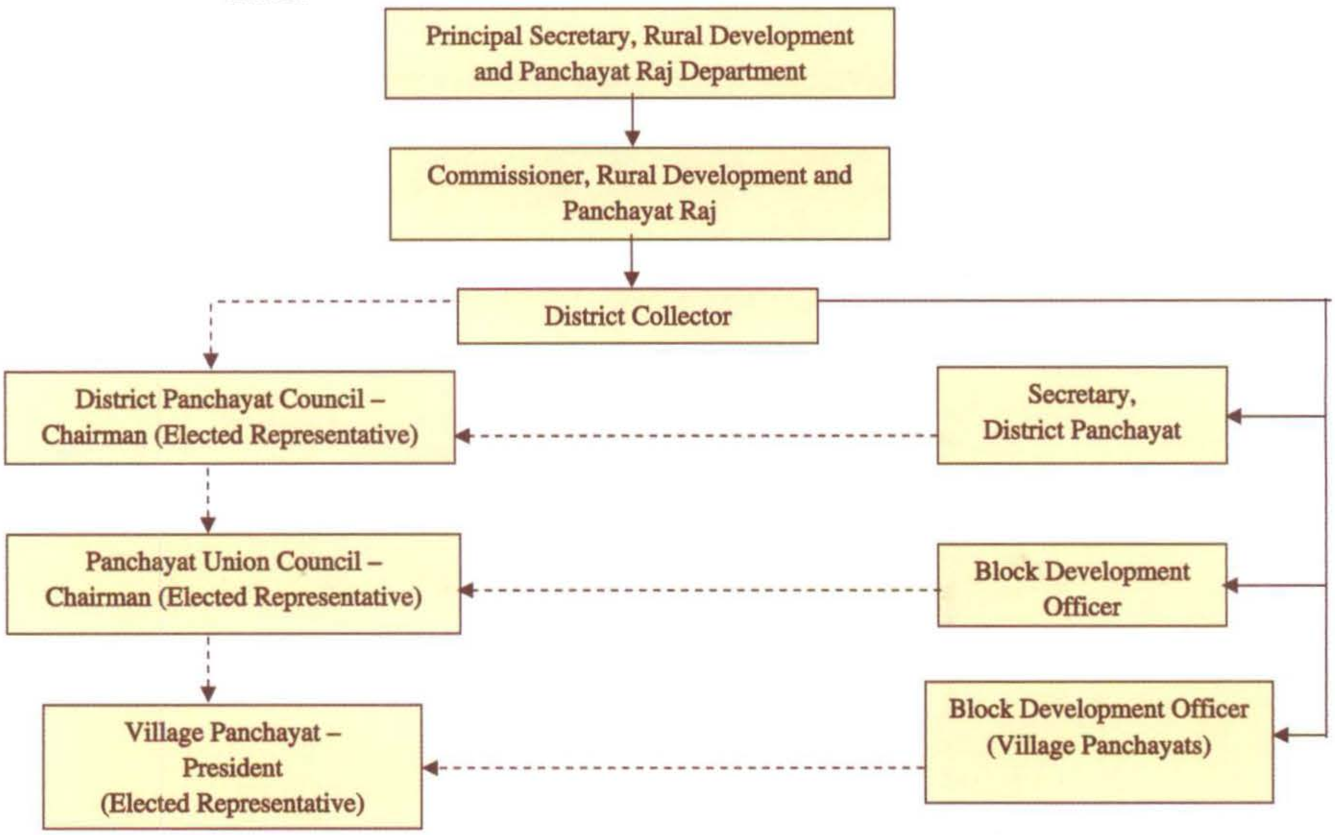
Table 4.2: Population-wise classification of Village Panchayats

Sl. No.	Population	Number of Village Panchayats
1.	Below 500	66
2.	501 to 1,000	1,175
3.	1,001 to 3,000	7,228
4.	3,001 to 5,000	2,554
5.	5,001 to 10,000	1,354
6.	Above 10,000	147
	Total	12,524

(Source: Policy Note of Rural Development and Panchayat Raj Department for 2011-12)

4.3 Administration of PRIs

The organisational structure for administering the PRIs in Tamil Nadu is as under:



4.4 Status of devolution of functions and functionaries

Eleventh Schedule of the Constitution of India empowered the State Legislature to transfer 29 functions to PRIs. The important changes brought about by the Tamil Nadu Panchayats Act, 1994 were: (i) introduction of three tier system, (ii) mandatory conduct of local body elections every five years, (iii) introduction of reservation of seats and offices for SC/ST, (iv) introduction of reservation of one-third of seats and offices for women,

(v) constitution of State Election Commission to conduct elections to local bodies, (vi) establishment of a quinquennial State Finance Commission, (vii) constitution of District Planning Committees and (viii) introduction of the concept of Grama Sabha in Village Panchayats. In accordance with the changes made in the Tamil Nadu Panchayats Act, 1994, the State Election Commission was constituted and local bodies elections were conducted every five years. One third of seats and offices have been earmarked for women and seats and offices have been reserved for SC/ST and the State Finance Commission has been constituted every five years and its recommendations are placed in the State Legislature.

Government issued various orders as detailed below, giving powers to the President of Village Panchayats to assist the line departments in executing their functions and to supervise the works executed by them in the villages. Test check of 20 Village Panchayats in five Panchayat Unions of Villupuram District revealed that there was no actual transfer of functions to the Village Panchayats to decide their requirements.

Government Order	Actual position	Reply of the Block Development Officers of test checked Panchayat Unions
Government passed orders (June 1999) empowering Village Panchayats to implement ordinary water supply schemes out of own funds and Government grants. Supervisory powers were also entrusted to Village Panchayats for providing clean and potable water in places where clean and potable water was not provided under Self Sufficiency Schemes, supply of water through combined water supply schemes and supervision of desalination of salt water in rural areas etc.	These works were undertaken by the Tamil Nadu Water Supply and Drainage (TWAD) Board.	Role of Village Panchayats was limited to undertaking repairs and maintenance of hand pumps, overhead tanks and identification of suitable site for implementation of water supply schemes by TWAD Board. Further, the PRIs were not given technical staff for implementation of the water supply schemes.
Government empowered (January 2008) village panchayat Presidents to supervise Public Distribution (PD) shops, participate in the meeting held by Civil Supplies Department to hear the difficulties faced by the public in PD shops, update family cards, present the updated list of family cards and list of farmers with details of loans availed before Grama Sabha. Government also insisted the Village Panchayats to implement the schemes of Co-operation, Food and Consumer Protection Department.	None of the functions were carried out by the village panchayat Presidents.	Powers were not delegated so far to the Panchayat Presidents. Hence these activities were not performed by the Village Panchayats.
Government issued orders (January 2008) empowering village panchayat Presidents to plant avenue trees, lease existing trees, remove encroachment of public roads and collect toll for the maintenance of public roads.	None of the functions were carried out by the Village Panchayats.	While the planting and leasing of avenue trees were done by Highways Department/Public Works Department, the power to remove the encroachment from public roads was vested with the Revenue Department.
Government empowered (June 1999) the Panchayat Union Councils to implement developmental schemes for promoting khadi and village industries and assist in getting financial aid to those engaged in this occupation.	None of the powers have actually been devolved to the PRIs.	The Khadi Department was not consulted or given directions to identify beneficiaries wherever required. Further no funds were allotted to PRIs exclusively for the benefit of khadi and handicraft schemes.
Government directed (July 1999) the Panchayat Union Councils to establish and maintain veterinary hospital, implement veterinary related works, supply cattle to beneficiaries and impart training to poultry farm owners in consultation with Animal Husbandry Department.	All the said works were still under the control of the Animal Husbandry Department.	Neither the functions nor the functionaries were transferred to the PRIs.
Government directed (July 1999) the PRIs to implement functions relating to fisheries, elementary schools, social welfare activities, social forestry, public health and family welfare.	These functions were carried out by the respective departments of the Government.	Neither the functions nor the functionaries were transferred to the PRIs.

From the above it could be seen that many of the functions ordered to be transferred, were in effect carried out by the departments, defeating the very objective of decentralised governance enshrined in the Constitution.

4.5 Decentralised planning

4.5.1 Standing Committees

PRIs are required to constitute Standing Committees to perform the assigned functions. The constitution of the committees is given in **Table 4.3** below:

Table 4.3: Constitution of the Standing Committees

Category of PRIs	Chief Political Executive	Standing Committees	Political Executive of Standing Committees
District Panchayats	Chairman	Food and Agriculture, Education, Health and Welfare, Industries and Labour, Public Works Committee	Chairman and Members of the Council
Panchayat Unions	Chairman	Agricultural Production, Education, General Purpose Committee	
Village Panchayats	President	-	-.

As per Section 241 (1) of the Tamil Nadu Panchayats Act, 1994, the State Government constituted (November 1997) District Planning Committees (DPC) in 28 districts of the State. The role and responsibility of DPCs are already mentioned in Paragraph 1.5.1 of this report. As stated in Paragraph 1.5.1 of this report, the Annual Plans prepared at the Government level are only consolidated and adopted as District plans. No separate inputs are received from the PRIs. Requirements at the grass root level were thus not completely reflected in the District plans.

4.6 Financial profile

4.6.1 Sources of funds flow to PRIs

The major resource base of PRIs consists of State Finance Commission (SFC) grants, Central Finance Commission (CFC) grants, Centrally Sponsored Schemes (CSS) grants, Own Revenue and Assigned Revenue.

4.7 Accounting framework

4.7.1 Accounts format

The Thirteenth Finance Commission stated (December 2009) that for the period 2011-15, a State Government would be eligible to draw its general performance grant only if it followed the conditions stipulated by it. One of the conditions was that the PRIs should follow the Model Panchayat Accounting System prescribed by the Comptroller and Auditor General of India (CAG) and the Ministry of Panchayat Raj. The State Government has to certify that the accounting system as recommended by the Government of India (GoI) has been introduced in all the rural local bodies.

The Commissioner of Rural Development and Panchayat Raj (CRDPR) reported (December 2011) that the High Level Monitoring Committee in its meeting held in September 2011 decided to implement the conditions laid down by the GoI to draw the general performance grant and the GoTN had decided to implement the Panchayat Raj Institutions Accounting (PRIA) software in all the Panchayat Unions and District Panchayats from 2011-12 and in all the Village Panchayats from 2012-13. However, in the Policy Note of Rural Development and Panchyat Raj Department for the year 2012-13, the Government stated that it had decided to implement PRIA software in all the Village Panchayats, Panchayat Unions and District Panchayats from the year 2012-13.

4.8 Audit arrangements

In accordance with Section 193 of the Tamil Nadu Panchayats Act, 1994, GoTN appointed the following officers as Auditors for PRIs as given in **Table 4.4.**

Table 4.4: Audit arrangements for PRIs

Tier of PRI	Auditors	Periodicity
District Panchayats	Director of Local Fund Audit (DLFA)	Annual
Panchayat Unions	DLFA	Quarterly
Village Panchayats	(i) Deputy Block Development Officer (DBDO) except audit of scheme accounts	Quarterly
	(ii) Assistant Director of Rural Development (Audit) to follow up the audit of DBDO	Quarterly
	(iii) DLFA for audit of scheme accounts	Annual (test check)

DLFA is the statutory Auditor for Panchayat Unions and District Panchayats. Based on the recommendation of Second State Finance Commission (SSFC), DLFA is conducting only test audit of Village Panchayats accounts including scheme accounts. The DBDO audits all the General Fund accounts of the Village Panchayats and certifies them. .

Accounts of District Panchayats and Panchayat Unions are also audited by the Principal Accountant General (PAG) under Section 14 (1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971. Further, technical guidance is provided by the PAG to DLFA regarding audit of District Panchayats and Panchayat Unions in terms of order of GoTN issued in March 2003.

4. 8.1 Audit of PRIs by the Principal Accountant General

Audit of PRIs is conducted under Section 14 (1) of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 in respect of financial assistance given to PRIs. Important irregularities detected by Audit during local audit of PRIs by test checking of records are followed up through Inspection Reports issued to the PRIs concerned and CRDPR.

Government had issued general orders in April 1967 fixing a time limit of four weeks for response by the authorities for all paragraphs included in the Inspection Reports issued by Audit. However, as of June 2012, 1,895 paragraphs contained in 394 Inspection Reports relating to the period 2008-09 to 2010-11 were pending for settlement for want of satisfactory replies.

CAG's Audit Reports upto the year 1996-97 were discussed by the Public Accounts Committee (PAC) and recommendations were issued. As of June 2012, Action Taken Reports on 169 recommendations relating to the period 1982-83 to 1996-97 of the Rural Development and Panchayat Raj Department were pending for final settlement. All paras/reviews included in CAG's Audit Reports on PRIs for the year 2000-01, 2005-06 and 2006-07 were taken up and discussed by the PAC in January 2012.

SECTION 'B' – FINANCIAL REPORTING

4.9 Introduction

Financial reporting in the PRIs is a key element of accountability. The resource base of PRIs in addition to their own tax/non-tax revenue consists of devolution of funds by State Government, assigned/shared revenue and funds provided based on the recommendations of Central Finance Commission. A chart showing the flow of funds to PRIs is given in **Appendix 4.1**.

4.10 Source of receipts

Among the three tiers, Village Panchayats alone have the power to levy taxes. The other source of receipts for Village Panchayats and Panchayat Unions are non-tax revenue, assigned revenue from State Government and grants given by State Government for various purposes and State and Central Finance Commissions (CFC) grants.

Details of receipts and expenditure of PRIs during 2006-11 as furnished by the Director of Rural Development and Panchayat Raj (DRDPR) are shown in **Table 4.5**. The accuracy of these figures could not be ensured in the absence of audited accounts of PRIs.

Table 4.5: Details of receipts and expenditure of PRIs

(₹ in crore)

	2006-07	2007-08	2008-09	2009-10	2010-11
Own revenue	269.79	307.80	277.77	309.83	382.07
Assigned revenue	227.91	217.44	459.85	220.73	154.72
Grants	2,422.30	1,586.27	1,718.50	1,926.57	2,961.23
Total receipts	**2,920.00**	**2,111.51**	**2,456.12**	**2,457.13**	**3,498.02**
Revenue expenditure	1,944.12	2,231.60	2,579.24	3,044.41	3,829.72
Capital expenditure	616.53	500.69	505.21	471.61	527.73
Total expenditure	**2,560.65**	**2,732.29**	**3,084.45**	**3,516.02**	**4,357.45**
Percentage of capital expenditure to the total expenditure	**24**	**18**	**16**	**13**	**12**

(Source: Details furnished by DRDPR in December 2011)

The expenditure depicted for the years 2007-08 to 2010-11 is more than the receipts as the details of scheme grants routed through DRDA were not available. The grants indicated included only the SFC and CFC grants.

The quantum of Capital expenditure remained more or less at the same level and its proportion to total expenditure declined from 24 *per cent* in 2006-07 to 12 *per cent* in 2010-11. This shows that development activities in the Village Panchayats have not progressed well over the years.

4.11 Central Finance Commission grants

The details of CFC grants released to PRIs are given in **Table 4.6**.

Table 4.6 : Details of Central Finance Commission grants

(₹ in crore)

Finance Commission	Period	Grants released			
		Village Panchayats	Panchayat Unions	District Panchayats	Total
X FC	1996-97 to 2000-01	76.97 (27)	155.62	54.75	287.34
XI FC	2000-01 to 2004-05	242.49 (52)	223.63	Nil	466.12
XII FC	2005-06 to 2009-10	817.80 (94)	52.20	Nil	870.00
XIII FC	2010-11 to 2014-15	287.10 (100)	Nil	Nil	287.10

(Source : Funds released detail of Rural Development and Panchayat Raj Department)

It was observed that release of CFC grants to Village Panchayats increased from 27 *per cent* of total grants released to PRIs in X Finance Commission period to 52 *per cent* in XI Finance Commission period, 94 *per cent* in XII Finance Commission period and 100 *per cent* in XIII Finance Commission period. These grants were to be spent for operation and maintenance of water supply, sanitation and street lights. Government of Tamil Nadu issued (December 2011) instructions to merge the unspent amount under the previous Finance Commission grants with the XIII Finance Commission grants and to redistribute the same to the Village Panchayats on the basis of population.

4.12 Arrears in Audit and Accounts

4.12.1 Audit of PRIs by DLFA

(i) The position of arrears in audit of PRIs as of March 2011 is given in **Table 4.7.**

Table 4.7: Position of audit of Panchayat Unions and District Panchayats by DLFA

Category of PRI	Year	Total number of PRIs	Accounts yet to be submitted	Audit completed	Audit in arrears
Panchayat Unions	2008-09	385	Nil	329	56 (15)
	2009-10	385	40	31	354 (92)
District Panchayats	2008-09	29	Nil	28	1 (3)
	2009-10	29	15	14	15 (52)

(Source: Details furnished by DLFA)

Figures in the brackets denote percentage of Audit in arrears.

As seen from the table, out of 385 Panchayat Unions and 29 District Panchayats, DLFA completed audit of only 329 Panchayat Unions and 28 District Panchayats for the year 2008-09 and 31 Panchayat Unions and 14 District Panchayats for the year 2009-10.

(ii) Regular audit of Village Panchayats is conducted by the Deputy Block Development Officers and 20 *per cent* of the total number of Village Panchayats was to be test checked by the DLFA annually. The position of audit of Village Panchayats by DLFA as on 31 March 2011 for the years 2008-09 and 2009-10 is given in **Table 4.8**.

Table 4.8: Position of audit of Village Panchayats

Category of PRI	Total number to be audited by DLFA	Number of Village Panchayats wherein audit not completed	
		2008-09	2009-10
Village Panchayats	2,523	410	1,061

(Source: Details furnished by DLFA)

The number of paragraphs included in the Inspection Reports of DLFA issued upto 2009-10, pending for settlement as on 31 March 2011, in respect of Panchayat Unions and District Panchayats aggregated to 25,210 and 283 respectively. Year-wise pendency position is given in **Table 4.9.**

Table 4.9 : Year-wise pendency of paragraphs

Year of IR	Number of paragraphs pending in respect of	
	Panchayat Unions	District Panchayats
Upto 2005-06	4,758	104
2006-07	1,529	27
2007-08	5,041	34
2008-09	13,373	89
2009-10	509	29
Total	**25,210**	**283**

(Source: Details furnished by DLFA)

The State Government appointed a State High Level Committee (SHLC) in November 1997 with the Commissioner, RDPR Department as Chairman and DLFA as Deputy Chairman assisted by three[1] members and District High Level Committee (DHLC) headed by District Collector as Chairman and Project Officer, District Rural Development Agency (DRDA) as Deputy Chairman assisted by three[2] members and one Secretary for settlement of the outstanding paragraphs.

As reported by DRDPR (December 2011), the DHLC conducted 373 meetings during the period 2008-09 and 2010-11 and settled 9,159 paragraphs relating to Panchayat Unions and District Panchayats. SHLC conducted four meetings during the period November 1997 to February 2006 and settled 223 paragraphs.

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1 Financial Advisor and Chief Accounts Officer, RDPR Department; Chief Engineer/Superintending Engineer, Tamil Nadu Water Supply and Drainage Board and Chief Engineer (Highways and Rural Works) as members.

2 Deputy Director, DLFA; Executive Engineer, DRDA; Deputy Director, RDPR Department as members and PA to District Collector (Audit) as Secretary.

4.13 Conclusion

The Government issued various orders giving powers to the Presidents of Village Panchayats to assist the line departments in executing their functions and to supervise the works executed by them in the villages. However, in respect of many functions there was no actual transfer of functions and functionaries to the Village Panchayats, defeating the very objective of decentralised governance enshrined in the Constitution. The proportion of capital expenditure to total expenditure declined from 24 *per cent* in 2006-07 to 12 *per cent* in 2010-11. Government of Tamil Nadu decided to implement the Panchayat Raj Institutions Accounting software in all the Village Panchayats, Panchayat Unions and District Panchayats from 2012-13 instead of their earlier decision to implement in all Panchayat Unions and District Panchayats from 2011-12. As of June 2012, 1,895 paragraphs contained in 394 Inspection Reports of the Principal Accountant General for the period 2008-09 to 2010-11 were pending for settlement for want of satisfactory replies.

CHAPTER V

AUDIT OF TRANSACTIONS

(PANCHAYAT RAJ INSTITUTIONS)

CHAPTER V

AUDIT OF TRANSACTIONS

This chapter contains the audit findings on implementation of the Swarnajayanthi Gram Swarozgar Yojana in The Nilgiris and Perambalur districts of the State.

RURAL DEVELOPMENT AND PANCHAYAT RAJ DEPARTMENT

5.1 Implementation of the Swarnajayanthi Gram Swarozgar Yojana

5.1.1 Introduction

The Swarnjayanti Gram Swarozgar Yojana (SGSY) introduced in April 1999 aims to bring the poor families in the rural areas above the poverty line by providing them income-generating assets through a mix of bank loan and government subsidy. The rural poor such as landless labourers, educated unemployed, rural artisans and disabled are covered under the scheme. It is a holistic scheme covering all aspects of self-employment by formation of Self Help Groups (SHGs), imparting training, extending credit and setting up of infrastructure and marketing facilities for economic activities. Government of India and State Government share the cost in the ratio of 75:25. The scheme provides subsidy and economic assistance to SHGs and individual beneficiaries. Subsidy is a minor and enabling component.

The major part of investment consists of bank loan from financial institutions. Each Self Help Group is permitted to use upto ₹ 25,000 as revolving fund. Subsidy for individuals under SGSY is given at 30 *per cent* of the project cost, subject to a maximum of ₹ 7,500. In respect of SC/STs and disabled persons, it is given at 50 *per cent* of the project cost, subject to maximum of ₹ 10,000. For SHGs subsidy is given at 50 *per cent* of the project cost subject to ₹ 1.25 lakh or per capita subsidy of ₹ 10,000, whichever is less. The loan amount would be equal to total project cost including the amount of subsidy admissible.

In March 2008, Government of Tamil Nadu transferred implementation of the scheme from the Directorate of Rural Development and Panchayat Raj to the Tamil Nadu Corporation for Development of Women (TNCDW) at the state level and from the Project Officer, District Rural Development Agency to the Project Officer, Mahalir Thittam at the district level.

5.1.2 Scope of audit

Audit of implementation of the scheme covering the period 2008-09 to 2010-11 was conducted during July 2011 to December 2011 by test-checking records in The Nilgiris and Perambalur districts. Records of the Project Officers, Mahalir Thittam at The Nilgiris and Perambalur districts, the four Panchayat Unions[1] in each of the districts and records at the offices of TNCDW, Chennai and

[1] Perambalur District : Alathur, Perambalur, Veppanthattai and Veppur.
The Nilgiris District : Coonoor, Gudalur, Kothagiri and Udagamandalam.

Commissioner of Rural Development and Panchayat Raj Department were test checked. The audit findings noticed in implementing the scheme in the two districts are discussed in the succeeding paragraphs.

5.1.3 Planning

The scheme envisaged detailed planning for key activities to be undertaken by the beneficiaries. The key activities selected were to match with the abilities of the beneficiaries to generate adequate income for them. The State Government directed (October 1999) a detailed five year perspective block plan to be drawn by each block, covering at least 30 *per cent* of the swarozgaris.

SGSY committees at block level and district level are responsible for identifying the key activities under the scheme. The list of selected key activities along with recommendations should be forwarded by the Block Development Officer to the district SGSY committee for consideration. The block committee should prepare a brief project report before forwarding the list to the district committee. The district SGSY committee should scrutinize the proposals for each key activity in consultation with the concerned experts including officials of the line departments.

It was noticed in audit that in both the test checked districts, the SGSY committees were not formed both at the block level and district level. The Project Officer, Mahalir Thittam, The Nilgiris District stated (December 2011) that SGSY block committee had been formed in the Gudalur block but it was not functional. The Project Officer, Mahalir Thittam, Perambalur admitted that the committees were not formed. In the absence of SGSY committees to identify the key activities and prepare plan, TNCDW, the State level nodal agency fixed the physical and financial targets and funds were released with reference to such targets. Thus, targets were fixed not based on any plan approved by the SGSY committees.

5.1.4 Implementation

5.1.4.1 Selection of activities

The identification of activities is critical for the success of SGSY. Care could be taken that market is either readily available or there is a potential for market creation for the products. This may require engaging the services of professionals in the field of market research and survey. A detailed time table has to be drawn up by each DRDA for each block and the schedule publicized so that everyone is aware of the selection of key activities.

Audit scrutiny revealed that in Perambalur District the activities identified were (i) tailoring and (ii) bee keeping. During 2008-11, skill training was given to 273 individuals in the above mentioned activities at a cost of ₹ 13.93 lakh. However, economic assistance in the form of bank loan and subsidy was given for bakery, sweet making, candle making, brick making, soap powder/agarbathi making, poultry farm, etc., for which no training was given during 2008-11. No economic assistance for activities connected with tailoring was given in the district.

The Project Officer, Perambalur District stated (March 2012) that as per the funds allotted and target fixed by the Headquarters those who had undergone training on tailoring could not be given economic assistance. The reply is not convincing as the assistance was given for purposes for which no training was given and at the same time no assistance was given for tailoring for which training was given.

5.1.4.2 Formation of Self Help Groups

SHGs are groups of rural poor volunteered to organize themselves into groups for reduction of poverty of the members. They agree to convert their savings into a common fund known as the Group corpus. The members of the group agree to use the common fund and such other funds that they may receive as a group.

The number of SHGs formed and the number of groups that took up economic activities during 2008-09 to 2010-11 are given in **Table 5.1.**

Table 5.1: Economic assistance availed by SHGs

Year	Number of groups that existed at the beginning of the year	Number of SHGs formed	Number of groups provided with Revolving fund	Number of groups who took up economic activities
The Nilgiris District				
2008-09	6,847	185	444	44 (10)
2009-10	7,032	400	413	68 (16)
2010-11	7,432	350	405	74 (18)
Total		**935**	**1,262**	**186 (15)**
Perambalur District				
2008-09	3,066	350	557	61 (11)
2009-10	3,416	600	490	72 (15)
2010-11	4,016	700	585	72 (12)
Total		**1,650**	**1,632**	**205 (13)**

(Source: Details furnished by the Project Officers, Mahalir Thittam, The Nilgiris and Perambalur Districts)

(Figures in the bracket denote the percentage to number of groups provided with Revolving Fund)

From the above it could be seen that, though the SHGs were formed every year and revolving funds were provided to them to start the economic activities, the percentage of groups who took up the economic activities was only 10 to 18 *per cent* in The Nilgiris District and 11 to 15 *per cent* in Perambalur District. Lack of involvement of village panchayats in planning, less allotment of funds by TNCDW etc., contributed to the state of poor economic activities of the groups. Thus, though large number of SHGs were established, only a fraction of them were involved in performing economic activities, hence the purpose of setting-up of such groups was not largely achieved.

(i) The scheme envisaged that the groups should maintain basic records such as minutes book, attendance register, loan register, general ledger, cash book, bank pass book and individual pass books.

Test check of records disclosed that in five SHGs in The Nilgiris District and 19 SHGs in Perambalur District neither the members of SHGs nor the SHGs maintained accounts of expenditure, cost of inputs and other items. The scheme objective of assessing the rise/fall in income level of the groups/individuals by way of undertaking the identified key activities could not be evaluated in the absence of maintenance of accounts.

(ii) The scheme guidelines envisaged that for each key activity there should be a project report indicating various elements such as training requirement, credit availability, technology, infrastructure and marketing. The project report should indicate how many people could be covered economically in a block under a key activity. The project report should specifically include a chapter on the levels of investment required at the individual swarozgari's level or by a group. It should indicate the details of investment required, the details of returns, the repayment schedule and the net income accruable to the swarozgari.

Test check of records disclosed that in 37 SHGs in The Nilgiris District and 11 SHGs in Perambalur District, no project reports for the key activities were prepared. In the absence of project reports laying down the bench mark etc., the projected income of the groups/individuals earned out of the key activities could not be ascertained.

(iii) Test check of records relating to release of subsidy in The Nilgiris District revealed that in respect of 34 SHGs, subsidy of ₹ 42.50 lakh was released by the Project Officer, Mahalir Thittam without insisting on documents like project report, annual income and expenditure statement and savings bank account statement relating to the period of grant of revolving fund. Even in the group profile submitted to the banks, the details of savings and liabilities mentioned by the SHGs were not supported by any documentary proof and not verified before sanction of the assistance. Thus, subsidy was released without verifying the documents.

The Joint Director/Project Officer, Tamil Nadu Women Development Project, The Nilgiris District stated (March 2012) that the detailed project reports containing projected income, cost of input and annual income and expenditure statement were not collected from the beneficiaries on the assumption that the banks at the time of sanctioning of loans would collect the same. The reply is not tenable as the scheme guidelines stipulated that the project should be approved by the District SGSY Committee and for approval the detailed project report was an essential document. The Joint Director/Project Officer, Tamil Nadu Women Development Project failed to comply with the guidelines.

5.1.5 Infrastructure

Proper infrastructure is essential for the success of micro enterprises. The infrastructure may be either for production, processing, quality testing, storage, design development, value addition and diversification of products or marketing. In order to meet the expenditure on infrastructure, SGSY scheme provides fund, known as "SGSY Infrastructure Fund". Twenty *per cent* of the SGSY allocation for each district was to be set apart for this fund. Funds allocated for infrastructure during 2008-09 to 2010-11 are shown in **Table 5.2.**

Table 5.2: Total allocation and funds allocated for infrastructure

(₹ in lakh)

Year	Total allocation	Twenty *per cent* of the allocation	Amount allotted for infrastructure	Total allocation	Twenty *per cent* of the allocation	Amount allotted for infrastructure
	The Nilgiris District			Perambalur District		
2008-09	103.65	20.73	5.04	82.43	16.49	Nil
2009-10	105.97	21.19	2.41	195.19	39.04	14.56
2010-11	113.86	22.77	18.63	147.23	29.45	11.34
Total	**323.48**	**64.69**	**26.08 (8)**	**424.85**	**84.98**	**25.90 (6)**

(Source: Details furnished by the Project Officer, Mahalir Thittam, The Nilgiris and Perambalur Districts)

(Figures in the bracket represent percentage to total allocation)

The extent of allocation of fund for creation of infrastructure over the years in the districts was insignificant. It was eight *per cent* in The Nilgiris District and six *per cent* in Perambalur District as against 20 *per cent* envisaged in the programme.

Audit noticed that one village HAAT constructed in Coonoor block at a cost of ₹ 15 lakh was not put to use for want of electricity connection and other infrastructures taken up during 2008-09 to 2010-11 are yet to be completed. The details are given in **Table 5.3.**

Table 5. 3: Details of infrastructure created

Name of the Infrastructure	Cost of construction (₹ in lakh)	Scheduled date of completion	Remarks
The Nilgiris District			
Additional Building to Panchayat level federation in Kothagiri Block	2.50	28.02.2011	Not completed.
Work shed-cum-training hall in Kothagiri Block	2.60	28.02.2011	Not completed.
Additional hall in SHG buildings Udagamandalam, Kothagiri and Gudalur blocks	5.65	15.10.2010	Not completed.
One Village HAAT (Shandy) in Coonoor Block	15.00	31.10.2010	Completed. But yet to put into use for want of electricity connection.
Perambalur District			
16 Training sheds	10.48	29.06.2011	Not completed.
Onion Peeling shed	3.81	20.02.2011	Completed. But yet to put into use.
Three Village HAAT - One in Veppur block and two in Veppanthattai block.	45.00 (₹ 15 lakh per HAAT)	06.09.2010	Work not completed for want of funds.

(Source: Details furnished by the Project Officer, Mahalir Thittam, The Nilgiris and Perambalur Districts)

The delay in completion of infrastructure of village HAAT in Perambalur District was due to non-release of second instalment of fund by GoI. Some of the infrastructures already created out of infrastructure funds were not put to use for want of electricity connection depriving the benefits to the beneficiaries.

5.1.6 Credit linkage with banks

Financial assistance to the swarozgaris under SGSY comprises two components viz., loan and subsidy. The major part of investment consists of bank credit from financial institutions. The size of loan for the project depends on the nature of project. The loan was to be a composite loan comprising both fixed and working capital. The loan amount would be equal to the total project cost including the amount of subsidy admissible to the swarozgari. Banks would disburse the full project cost including subsidy to the swarozgaris as loan.

The total credit approved and subsidies released in the districts during 2008-09 to 2010-11 are given in **Table 5.4**.

Table 5. 4: Credit approved and subsidies released during 2008-09 to 2010-11

Year	Economic Activities (Self Help Groups)			Economic Activities (Individuals)			Revolving Fund		
	Number	Credit	Subsidy	Number	Credit	Subsidy	Number	Credit	Subsidy
		(₹ in lakh)			(₹ in lakh)			(₹ in lakh)	
The Nilgiris District									
2008-09	44	111.00	37.00	18	7.95	1.55	444	222.00	44.40
2009-10	68	211.50	47.00	41	12.65	3.79	413	206.50	41.30
2010-11	74	186.55	54.95	140	27.43	12.25	405	202.50	40.50
Total	**186**	**509.05**	**138.95**	**199**	**48.03**	**17.59**	**1,262**	**631.00**	**126.20**
Perambalur District									
2008-09	61	136.05	54.65	37	8.22	3.22	557	250.50	55.70
2009-10	72	203.25	67.75	24	5.40	1.80	490	245.00	49.00
2010-11	72	228.00	76.00	40	9.00	3.00	585	292.50	58.50
Total	**205**	**567.30**	**198.40**	**101**	**22.62**	**8.03**	**1,632**	**788.00**	**163.20**

(Source: Details furnished by the Project Officer, Mahalir Thittam, The Nilgiris and Perambalur Districts)

Test check of records of the Project Officers/Banks in The Nilgiris and Perambalur districts revealed that the banks did not release the loan assistance even though the Project Officers released the subsidy as described below:-

(i) Indian Bank, Pandalur branch in The Nilgiris District sanctioned revolving fund of ₹ 3 lakh to five groups (₹ 60,000 each) between July 2010 and February 2011. Accordingly, the Project Officer, Mahalir Thittam, The Nilgiris District released subsidy of ₹ 0.50 lakh to Indian Bank, Pandalur branch between July 2010 and February 2011 (₹ 10,000 to each group). However, an amount of ₹ 1.80 lakh (₹ 1.50 lakh loan and ₹ 30,000 subsidy) to three groups was disbursed in February/March 2012 only. Though the subsidy was released between July 2010 and February 2011, this remained with the bank without any use to the beneficiary.

(ii) Union Bank of India, Kollakombai and Thummannaty in The Nigiris District sanctioned loan for economic assistance of ₹ 10.50 lakh to four groups in September 2010. Accordingly, the Project Officer, Mahalir Thittam, The Nilgiris District released subsidy of ₹ 3 lakh (₹ 75,000 to each group) in September 2010 to the Union Bank of India. However, the bank did not release the loan assistance of ₹ 10.50 lakh including the subsidy of ₹ 3 lakh received from the Project Officer to the beneficiaries as of December 2011.

The Bank Manager, Kollakombai stated (March 2012) that when the beneficiaries were asked to submit registered lease deed of land for tea cultivation, the beneficiaries did not turn up with the documents. The Bank Manager, Thummannaty stated (March 2012) that the group did not turn-up to receive the amount.

(iii) Union Bank of India, Chettikulam and Padalur branch of Perambalur Distirct received ₹ 2.25 lakh for two groups towards subsidy between November 2010 and January 2011. However, the Union Bank of India, Chettikulam branch disbursed only ₹ 1.00 lakh during August 2011.

The Bank Manager, Chettikulam stated (March 2012) that as the group had not shown the assets created out of the loan released, it did not release the balance amount of ₹ 25,000. The Union Bank of India, Padalur stated (March 2012) that the amount ₹ 1.00 lakh was not released as according to the SHG, the project was changed from brick making to brick trading.

(iv) Tiruchirappalli District Central Co-operative Bank, Perambalur which received subsidy of ₹ 1.25 lakh for one group returned the amount to the Project Officer, Mahalir Thittam, Perambalur as the group had returned the amount without utilisation.

Tiruchirappalli District Central Co-operative Bank, Perambalur Branch stated (March 2012) that as the group did not require the loan, the subsidy of ₹ 1.25 lakh was returned to the Project Officer, Mahalir Thittam, Perambalur in March 2011.

Thus, the banks could not release the sanctioned loans due to non-fulfilment of the requirement by the beneficiaries. But the Project Officers did not co-ordinate with the banks in getting the loan and subsidy to the beneficiaries by collecting the required documents as required for sanctioning the loan and subsidy to the beneficiaries to make the scheme success. Project Officers also did not follow up with the banks to ascertain release of the loans and to get back the subsidy of ₹ 5.25 lakh in all cases of non-sanction/non-release of the bank loans.

5.1.7 Monitoring and evaluation

Guidelines prescribed by the State Government required maintenance of a monitoring card for each Swarozgari to keep a watch on the income earned and repayment of the loans. There were 48,260 Swarozgaris in the two test checked districts. But monitoring cards were not maintained in both the districts. As such, the achievement of the important objective of Swarozgaris crossing the poverty line could not be ascertained.

Annual physical verification of assets was to be undertaken on a drive basis at the end of every year. The result of such verification should be incorporated in the Annual Plan for the next year. No physical verification of assets was undertaken in Perambalur District and the Project Officer, Perambalur stated (January 2012) that instructions would be issued to the Assistant Project Officer to conduct annual physical verification of assets and to submit report to the Project Officer.

5.1.8 Conclusion

SGSY Committees at district and block levels were not formed in both the districts for identifying the key activities. The purpose of setting up of the Self Help Groups was not largely achieved as many of them remained without undertaking any economic activities. The extent of money allotted for creation of infrastructure was insignificant and some of the infrastructure already created had not been put to use depriving the benefits to the beneficiaries. The banks could not release the loan as envisaged largely due to non-fulfilment of the requirement by the beneficiaries. The Project Officers did not co-ordinate with the banks in providing the loan and subsidy to the beneficiaries by collecting the required documents as required for sanctioning the loan and subsidy to the beneficiaries to make the scheme success.

5.1.9 Recommendations

- Formation of SGSY Committee at district level and block level to identify the key activities should be expedited.
- Functioning of the Self Help Groups need to be reviewed and effective steps taken to ensure that they take up economic activities.
- Infrastructure requirements need to be assessed, created and put into use.
- Project Officers should guide the beneficiaries in getting the required documents and co-ordinate with the banks for releasing the loan and subsidy.

The matter was referred to Government in February 2012; reply is awaited (December 2012).

Chennai
The 24 JAN 2013

(S. MURUGIAH)
Principal Accountant General
(General & Social Sector Audit)
Tamil Nadu and Puducherry

Countersigned

New Delhi
The 28 JAN 2013

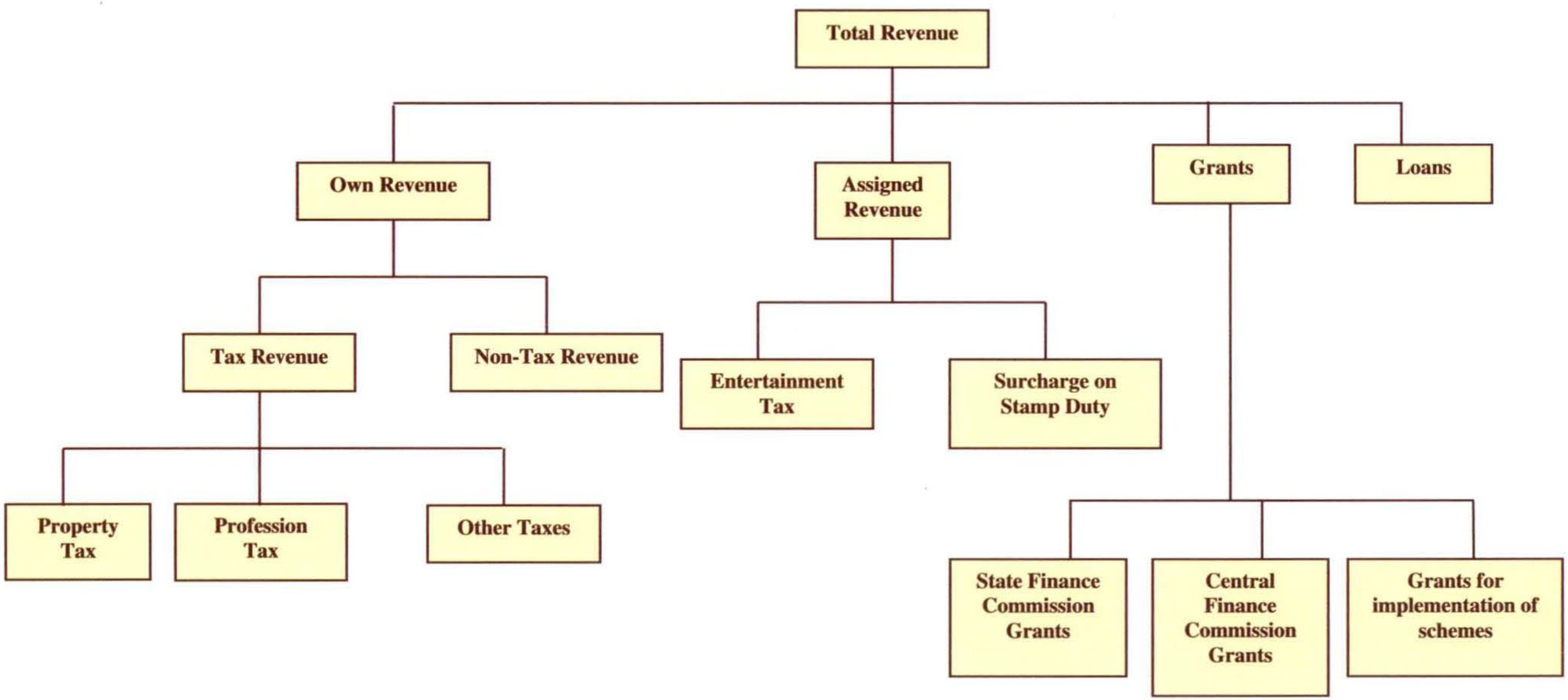
(VINOD RAI)
Comptroller and Auditor General of India

APPENDICES

Appendix 1.1

(Reference : Paragraph 1.9; Page 7)

Sources of revenue of Urban Local Bodies



Appendix 1.2

(Reference : Paragraph 1.11.3; Page 9)

Number of audit paragraphs relating to Urban Local Bodies pending for settlement as on 31 March 2011

Year	All Municipalities	Town Panchayats	Municipal Corporations										Total	Grand Total
			Chennai	Coimbatore	Madurai	Salem	Tiruchi-rappalli	Tirunel-veli	Tirup-pur	Erode	Vellore	Thoothu-kudi		
Upto 2005-06	35,445	40,541	34,425	11,380	22,238	7,182	5,757	4,264	1,793	2,226	1,247	3,274	93,786	1,69,772
2006-07	56,726	5,686	1,928	437	692	153	524	361	88	157	111	220	4,671	67,083
2007-08	14,135	8,580	1,051	300	-	431	596	411	163	122	116	199	3,389	26,104
2008-09	924	5,887	52	29	-	-	503	8	55	196	117	-	960	7,771
2009-10	-	1,649	-	-	-	-	-	-	-	-	-	-	-	1,649
Total	**1,07,230**	**62,343**	**37,456**	**12,146**	**22,930**	**7,766**	**7,380**	**5,044**	**2,099**	**2,701**	**1,591**	**3,693**	**1,02,806**	**2,72,379**

Appendix 2.1

(References : Paragraphs 2.1.1 and 2.1.5; Pages 12 and 13)

List of UIG/BSUP Projects

Sl. No.	Name of the Project	Status of Completion
	UIG Projects	
	(I) CORPORATION OF CHENNAI	
1.	Construction of Road over / under bridges (six)	Under Progress
2.	Construction of Flyover - Perambur bridge	Completed
3.	Construction of Highlevel bridge at Alandur	Completed
4.	Storm water drains – Northern basin	Under Progress
5.	Storm water drains – Central basin	Under Progress
6.	Storm water drains– Eastern basin	Under Progress
7.	Storm water drains – Southern basin	Under Progress
8.	Heritage	Under Progress
9.	Solid waste management	Completed
	(II) COIMBATORE MUNICIPAL CORPORATION	
1.	Pillur water supply scheme	Under Progress
2.	Under ground sewerage scheme	Under Progress
3.	Solid waste management	Under Progress
4.	Storm water drains	Under Progress
	(III) MADURAI MUNICIPAL CORPORATION	
1.	Vaigai water supply scheme	Completed
2.	Under ground sewerage scheme	Under Progress
3.	Solid waste management	Under Progress
4.	Storm water drains	Under Progress
5.	Construction of check dam	Completed
	BSUP Projects	
	(I) CORPORATION OF CHENNAI	
1.	Phase - I	Under Progress
2.	Phase - II	Under Progress
	(II) COIMBATORE MUNICIPAL CORPORATION	
1.	Phase - I	Under Progress
2.	Phase - II	Under Progress
3.	Phase - III	Under Progress
	(III) MADURAI MUNICIPAL CORPORATION	
1.	Phase - I	Under Progress
2.	Phase - II	Under Progress
3.	Phase - III	Under Progress

Appendix 2.2

(Reference : Paragraph 2.1.7.7; Page 22)

Diversion of funds

From	To	Amount (in ₹)
Vaigai water supply	Check dam	50,10,524
	Storm water drains	2,22,82,654
Solid waste management	Vaigai water supply	64,70,190
	Storm water drains	4,50,00,000
	Basic Services to the Urban Poor	7,50,93,366
Storm water drains	Basic Services to the Urban Poor	1,21,26,628
Under ground sewerage	Check dam	4,00,00,000
	Vaigai water supply	8,61,92,707
	Solid waste management	16,33,30,126
	Storm water drains	8,25,00,000
Basic Services to the Urban Poor	Vaigai water supply	22,18,86,240
	Under ground sewerage	9,65,50,103
	Total	**85,64,42,538**

Appendix 3.1

(Reference : Paragraph 3.3.1; Page 48)

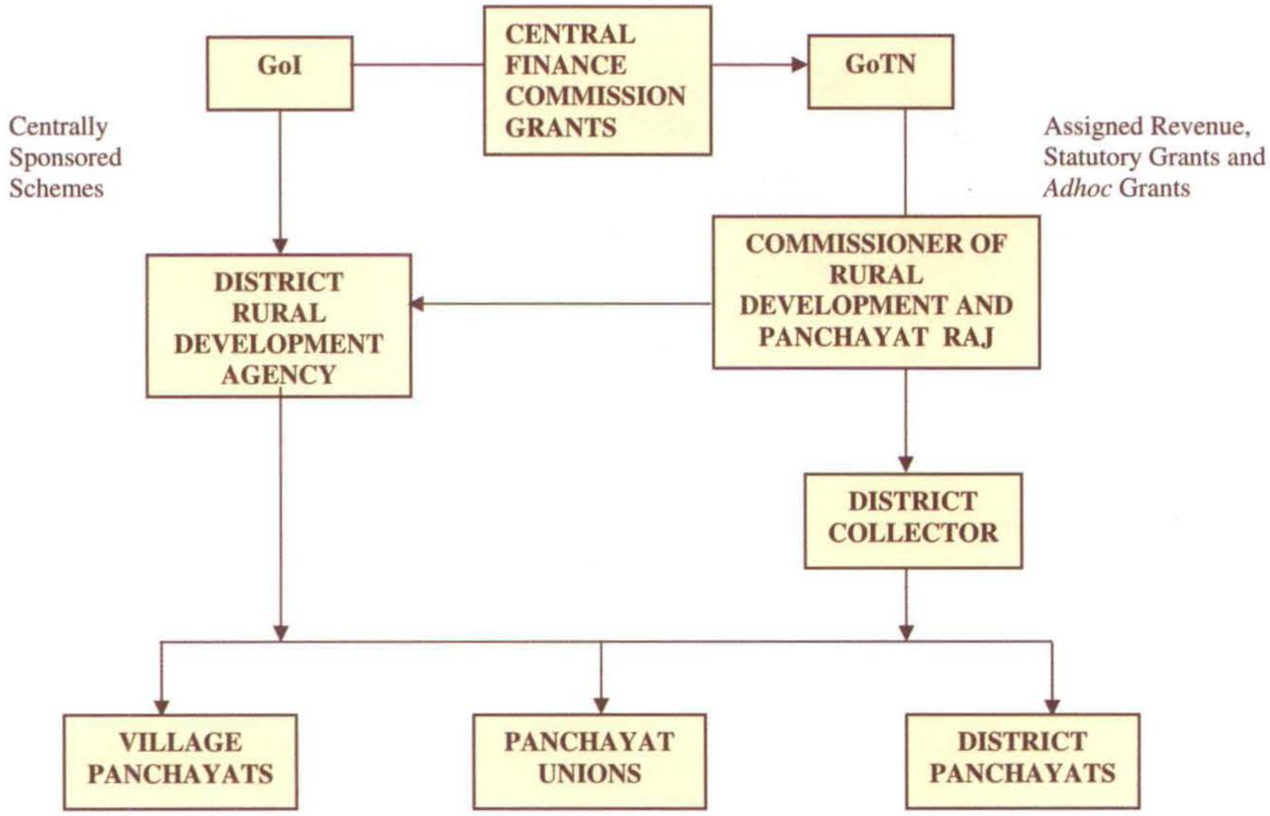
Non-recovery of central excise duty exemption availed by the contractor

Sl. No.	Name of the pipe material	Class of pipe	TWAD Board rate per metre with Excise Duty based on 2006-07 Schedule of Rates (in ₹)	TWAD Board rate per metre without Excise Duty based on 2006-07 Schedule of Rates (in ₹)	Difference (in ₹)	Difference added with tender percentage (Col.6 plus 4.94 *per cent)*	Length for which pipes laid (in metre)	Excess payment made to contractor (₹ in crore)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) (Cols. 7 x 8)
PSC Pipes								
1.	1100 mm	12 ksc	5,356	4,498	858	900	14,245	1.28
2.	1000 mm	12 ksc	4,438	3,728	710	745	20,000	1.49
3.	900 mm	16 ksc	4,104	3,448	656	688	8,915	0.61
4.	800 mm	16 ksc	3,353	2,818	535	561	15,265	0.86
5.	700 mm	10 ksc	2,566	2,155	411	431	4,135	0.18
6.	600 mm	10 ksc	2,044	1,704	340	357	155	0.06
7.	500 mm	10 ksc	1,727	1,451	276	290	710	0.02
8.	450 mm	10 ksc	1,555	1,334	221	232	2,470	0.06
9.	450 mm	6 ksc	1,552	1,304	248	260	870	0.02
DI Pipes								
10.	200 mm	K7 class	1,139	994	145	152	1,007.60	0.02
11.	250 mm	K7 class	1,506	1,309	197	207	2,109.90	0.04
12.	300 mm	K7 class	1,939	1,685	254	267	626.50	0.02
13.	350 mm	K7 class	2,453	2,132	321	337	2,501.45	0.08
							Total	**4.74**

Appendix 4.1

(Reference: Paragraph 4.9; Page 59)

Chart showing flow of funds to Panchayat Raj Institutions



List of Abbreviations

Sl.No.	Abbreviations	Full form
1.	AC	Asbestos Cement
2.	ACA	Additional Central Assistance
3.	BSUP	Basic Services to the Urban Poor
4.	CDP	City Development Plan
5.	CFC	Central Finance Commission
6.	CMA	Commissioner of Municipal Administration
7.	CMC	Coimbatore Municipal Corporation
8.	CoC	Corporation of Chennai
9.	CRDPR	Commissioner of Rural Development and Panchayat Raj
10.	CSMC	Central Sanctioning and Monitoring Committee
11.	CSS	Centrally Sponsored Scheme
12.	CTAG	City Technical Advisory Group
13.	CVTC	City Volunteer Technical Corporations
14.	DHLC	District High Level Committee
15.	DLFA	Director of Local Fund Audit
16.	DPC	District Planning Committee
17.	DPR	Detailed Project Report
18.	DRDA	District Rural Development Agency
19.	EO	Executive Officer
20.	GoI	Government of India
21.	GoTN	Government of Tamil Nadu
22.	IHSDP	Integrated Housing and Slum Development Programme
23.	IITM	Indian Institute of Technology, Madras
24.	IRMA	Independent Review and Monitoring Agencies
25.	IS	Indian Standard
26.	MAWS	Municipal Administration and Water Supply
27.	MCFT	Million Cubic Feet
28.	MLD	Million Litres Per Day
29.	MMC	Madurai Municipal Corporation
30.	MoA	Memorandum of Agreement

Sl.No.	Abbreviations	Full form
31.	MoHUPA	Ministry of Housing and Urban Poverty Alleviation
32.	MoUD	Ministry of Urban Development
33.	NBCC	National Building Construction Corporation Limited
34.	NMAM	National Municipal Accounting Manual
35.	NoC	No Objection Certificate
36.	NRCP	National River Conservation Plan
37.	NTADCL	New Tiruppur Area Development Corporation Limited
38.	PAC	Public Account Committee
39.	PIU	Project Implementation Unit
40.	PMU	Project Monitoring Unit
41.	PPP	Public Private Partnership
42.	PRI	Panchayat Raj Institution
43.	PSC	Prestressed Cement Concrete
44.	PVC	Polyvinyal Chloride
45.	ROB	Rail Over Bridge
46.	SFC	State Finance Commission
47.	SGSY	Swarna Jayanthi Gram Swarozgar Yojana
48.	SHG	Self Help Group
49.	SLEIAA	State Level Environment Impact Assessment Authority
50.	SLNA	State Level Nodal Agency
51.	SLSC	State Level Steering Committee
52.	SSFC	Second State Finance Commission
53.	STP	Sewerage Treatment Plant
54.	SWD	Storm Water Drain
55.	TAC	Tender Award Committee
56.	TASMAC	Tamil Nadu State Marketing Corporation Limited
57.	TCMC	Tiruppur City Municipal Corporation
58.	TIDCO	Tamil Nadu Industrial Development Corporation Limited
59.	TNCDW	Tamil Nadu Corporation for Development of Women
60.	TNEB	Tamil Nadu Electricity Board
61.	TNSCB	Tamil Nadu Slum Clearance Board
62.	TNUIFSL	Tamil Nadu Urban Infrastructure Financial Services Limited
63.	TP	Town Panchayat

Sl.No.	Abbreviations	Full form
64.	TPIMA	Third Party Inspection and Monitoring Agency
65.	TSFC	Third State Finance Commission
66.	TUFIDCO	Tamil Nadu Urban Finance and Infrastructure Development Corporation Limited
67.	TWAD	Tamil Nadu Water Supply and Drainage
68.	UGSS	Under Ground Sewerage Scheme
69.	UIDSMT	Urban Infrastructure Development for Small and Medium Towns
70.	UIG	Urban Infrastructure and Governance
71.	ULBs	Urban Local Bodies