

सत्यमेव जयते

**Report of the  
Comptroller and Auditor General of India  
for the year ended March 2015**



**Union Government (Civil)  
Union Territories without Legislatures  
Compliance Audit Observations  
Report No. 24 of 2016**

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## **PREFACE**

This Report for the year ended March 2015 has been prepared for submission to the President under Article 151 of the Constitution of India.

The Report contains significant results of the compliance audit of financial transactions of five Union Territories without legislatures. The instances mentioned in this Report are those which came to notice in the course of test audit during 2014-15 as well those which came to notice in earlier years, but could not be reported in the previous Audit Reports. Instances relating to the period subsequent to 2014-15 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

## OVERVIEW

There are seven Union Territories (UTs) specified under Part II of the First Schedule to the Constitution of India, viz., Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, Lakshadweep, National Capital Territory of Delhi and Puducherry. Except for the National Capital Territory of Delhi and Puducherry, UTs do not have Legislature. This report includes audit observations arising from the audit of the five UTs without Legislature.

The Report contains four chapters. Chapter I gives a brief introduction and summarised position of the Action Taken Notes furnished by the Ministries to the Audit Reports of the earlier years and status of replies received from the Ministries to the paragraphs included in this Report. Chapter II contains paragraphs pertaining to the expenditure sector of UTs while Chapter III pertains to the revenue sector. Chapter-IV contains paragraph relating to PSUs under UT administration.

Some of the important findings included in this Report are given below:

### **Andaman and Nicobar Administration**

#### **Creation of tourist accommodations and other infrastructures at Andaman and Nicobar Islands**

Tourism Department failed to complete 20 out of the 26 projects approved by Government of India. Violation of financial rules and failure to plan and implement projects properly resulted in unwarranted and excessive payment of advances, delays in issue of work order leading to abandonment of work, unfruitful expenditure, blocking of funds and procurement of outlived vessel without any techno economic feasibility study.

*Para No. 2.1*

#### **Avoidable payment of ₹ 1.09 crore to contractors**

Failure of Andaman Public Works Department (APWD) to include the relevant clause in the Notice Inviting Tender (NIT) for reduction in the price of steel procured from secondary producers instead of primary producers and to correctly calculate escalation on steel for payment as per rules resulted in avoidable payment of ₹ 1.09 crore to the contractors.

*Para No. 2.2*

### **Irregular payment of ₹ 31.26 lakh**

Directorate of Health Services routinely paid, without verification, conveyance allowance intended to compensate for visits by eligible doctors outside duty hours. This resulted in irregular payment of a minimum of ₹ 31.26 lakh.

*Para No. 2.3*

### **Union Territory, Chandigarh**

#### **Solid Waste Management by Municipal Corporation Chandigarh (UT)**

Violation of the Management of Solid Wastes (MSW) Rules by Municipal Corporation Chandigarh (MCC) resulted in non-segregation of wastes of different categories, disposal of biodegradable waste in unscientific manner, and non-monitoring of air and ground water quality. In addition, MCC incurred infructuous expenditure of ₹ 2.99 crore in non-utilisation of sanitary landfill with leachate collection tank. Further, the private partners sold refused derived fuel (RDF) commercially in violation of MoU.

*Para No. 2.4*

### **Irregular payment of Service Tax**

Department of Forests and Wildlife, Chandigarh Administration irregularly paid service tax of ₹ 2.94 crore to contractors, contrary to the notification of Ministry of Finance.

*Para No. 2.5*

### **Injudicious release of funds**

Department of Social Welfare, UT Chandigarh made an annual release to Chandigarh Housing Board without requirement or demand and without ensuring the availability of land. This resulted in blockage of ₹ 2.40 crore.

*Para No. 2.6*

### **Union Territory, Dadra and Nagar Haveli**

#### **Working of Panchayati Raj Institutions (PRIs) in the Union Territory of Dadra and Nagar Haveli (UT D&NH)**

The District Panchayat, Silvassa is yet to frame 51 Rules and seven Bye Laws relating to various functions of the PRIs under Regulation, 2012. The D&NH Administration has devolved twelve functions fully and six functions partially to the DP as against 29 functions envisaged in the Regulation. Participation of Gram Sabhas was inadequate. Lapses were found in tender procedure and implementation of schemes. Property tax assessment and collection systems were deficient.

*Para No. 2.7*

## **Union Territory, Daman and Diu**

### **Blocking of funds of ₹ 7.00 crore**

Public Works Department, Daman & Diu irregularly withdrew and deposited (September 2011) ₹ 7.00 crore with Omnibus Industrial Development Corporation (OIDC) for purchase of ready built flat at Mumbai. The proposal was unsuccessful and was dropped in September 2014. At the instance of Audit, the amount was refunded by OIDC (April 2015), but no interest has been paid.

*Para No. 2.8*

### **Idle investment due to non-utilization of Road Sweeper Machine costing ₹ 95.68 lakh**

Failure of Daman Municipal Corporation to finalise the annual maintenance contract since the purchase of Road Sweeper Machine in 2008 has resulted in the machine costing ₹ 95.68 lakh remaining out of operation since January 2010.

*Para No. 2.9*

## **Union Territory, Lakshadweep**

### **Irregular parking of Government funds and loss of interest**

Poor financial management by Union Territory of Lakshadweep Administration led to parking of ₹ 11.23 crore to ₹ 41.64 crore outside Government account, resulting in loss of interest of ₹ 8.16 crore.

*Para No. 2.10*

### **Blocking of funds, recovery at the instance of audit and short recovery of interest**

In violation of rules, Union Territory, Lakshadweep deposited ₹ 8.39 crore in 2010-11 with Lakshadweep Development Corporation Limited for procurement of two long liners without adequate feasibility study, resulting in blocking of funds. On this being pointed out by Audit, the amount was refunded by LDCL in March 2015 along with interest, which however was short-assessed.

*Para No. 2.11*



### **Blocking of Government funds**

Disbursement of Government funds before initiation of land acquisition process resulted in blocking of ₹ 5.75 crore for more than 6 years and ₹ 14 crore from March 2014, without achieving the objectives.

*Para No. 2.12*

### **Andaman and Nicobar Administration**

#### **Embezzlement of ₹ 51.42 lakh**

Failure of the Drawing and Disbursing Officer to periodically reconcile the accounts and furnish the bank reconciliation statements to the Pay and Accounts Office, as required under the Civil Accounts Manual, resulted in embezzlement of ₹ 51.42 lakh.

*Para No. 3.1*

### **Union Territory Chandigarh**

#### **Expenditure without Parliamentary approval and unauthorised retention of departmental receipts outside the Consolidated Fund of India**

Police Department, Union Territory Chandigarh spent ₹ 1.25 crore on police recruitment between 2013-14 and 2016-17 by operating bank accounts with receipts amounting to ₹ 10.24 crore, in contravention of Constitutional provisions and Financial Rules.

*Para No. 3.2*

#### **Profitability of operations of hotels in Chandigarh Industrial and Tourism Development Corporation Limited**

Chandigarh Industrial and Tourism Development Corporation Limited (CITCO) has not formulated a long term business strategy to improve the operational efficiency of its hotels. The hotels did not practice dynamic pricing, contrary to industrial practice. CITCO unnecessarily collected luxury tax on food and drinks from its customers. In variance to industry practice CITCO distributed five *per cent* of banquet collections to its hotel staff. Staff deployment is in excess of norms. CITCO has not formulated detailed Standard Operating Procedures. No efforts were made to inform customers that online bookings secured a discount of 20 *per cent*. Undue delay in renovation of Hotel Mountview caused substantial loss of business. Despite suggestion of the Board, no energy audit was conducted.

*Para No. 4.1*

## CHAPTER I: INTRODUCTION

### 1.1 About this Report

This Report contains compliance audit observations of the five Union Territories without legislatures. Compliance audit refers to the examination of transactions relating to expenditure, receipts, assets and liabilities of audited entities to ascertain compliance to provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by competent authorities.

The Comptroller and Auditor General (C&AG) performs audits in terms of the Auditing Standards approved by him. These standards prescribe the norms which the auditors are expected to follow in conduct of audit and require reporting on individual cases of non-compliance and abuse, as well as on weaknesses that exist in systems of financial management and internal control. The findings of audit are expected to enable the executive to take corrective action and also to frame policies and issue directives that will lead to improved financial management of the organizations, contributing to better governance.

This Report includes audit findings based on the compliance audit of the Government Departments/Offices/Institutions under the administrative control of the UTs without legislature.

### 1.2 Union Territories in India

There are seven Union Territories (UTs) specified under Part-II of the First Schedule to the Constitution of India, viz., the Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman & Diu, Lakshadweep, National Capital Territory of Delhi and Puducherry. Excepting the National Capital Territory of Delhi and Puducherry, the remaining five do not have their own legislatures, councils of ministers or consolidated funds. Instead they function under the authority of Parliament and the Government of India. The demographic details are given in chart 1.2.1

**Chart 1.2.1 Demographic details<sup>1</sup>of UTs without legislature**

Name of UTs	Population		Area (in km <sup>2</sup> )
	Male	Female	
Andaman and Nicobar Islands	2,02,313	1,77,631	8,249
Chandigarh	5,80,135	4,74,551	114
Dadra & Nagar Haveli	1,93,157	1,49,696	491
Daman & Diu	1,50,130	92,781	112
Lakshadweep	33,108	31,321	32

### 1.3 Administrative arrangements

Under the Government of India (Allocation of Business) Rules, 1961, the Ministry of Home Affairs (MHA) is the nodal ministry for legislative matters, finance and budget and services for the UTs. Each UT functions under an administrator appointed by the President under Article 239 of the Constitution of India. In the Andaman and Nicobar Islands, the Lt. Governor is designated as the administrator while the Governor of Punjab is the administrator of Chandigarh. In Dadra and Nagar Haveli, Daman and Diu and Lakshadweep, senior Indian Administrative Service (IAS) officers of the AGMUT cadre are appointed as administrators. ‘Administrator’s Advisory Councils in these UTs advise the administrators. The Home Minister’s ‘Advisory Committees’ in these UTs address general issues relating to the social and economic development of the UTs. The Island Development Authority (IDA) under the Prime Minister facilitates the integration of high level decisions concerning the island UTs of the Andaman and Nicobar Islands and Lakshadweep.

### 1.4 Financial arrangements

The MHA prepares the Detailed Demand for Grants (DDG) relating to these UTs for the approval of Parliament. These DDG contain the proposals of various ministries and departments regarding the expenditure of these UTs on activities concerning these ministries and departments. Administrators of the UTs have been delegated financial powers upto a certain limit<sup>2</sup> by MHA for sanction of plan schemes.

#### 1.4.1 Expenditure

The details of budget estimates, revised estimates and actual expenditure of the UTs without legislature for the last three years are as under:

<sup>1</sup> As per Census 2011.

<sup>2</sup> ₹ 50 crore where Governor or Lt Governor is the Administrator and ₹ 25 crore in the remaining UTs.

## Expenditure of UTs without Legislature

(₹ in crore)

Year	Budget Estimates			Revised Estimates			Actual Expenditure		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
2012-13	4,015.20	6,688.70	<b>10,703.90</b>	3,362.76	7,057.05	<b>10,419.81</b>	3,334.70	7,046.18	<b>10,380.88</b>
2013-14	4,483.30	5,700.88	<b>10,184.18</b>	3,757.41	5,817.89	<b>9,575.30</b>	3,663.83	5,813.96	<b>9,477.79</b>
2014-15	4,737.00	5,969.31	<b>10,706.31</b>	3,930.49	6,140.76	<b>10,071.25</b>	3,864.89	6,168.71	<b>10,033.60</b>

It may be seen that while actual Plan expenditure consistently fell short of BE, actual non plan expenditure exceeded the BEs in all the years. The percentage of non-plan expenditure was 61.34 per cent to 67.88 per cent of the total expenditure. While 26 per cent of the total expenditure under Plan head was incurred on major works followed by grants in aid payments at 19 per cent, the major share under the non-plan expenditure was salaries at 39 per cent. The major constituents of expenditure under the other heads under both Plan and Non-Plan were contractual services, petrol, oil and lubricants (POL), construction works, minor works, wages etc.

## 1.4.2 Revenue

### 1.4.2.1 Trends of Revenue Receipts

Details of tax and non-tax revenues raised by the administrations of the UTs without legislature during the last three years are given below:

**Table: 3.1.1**

#### Trend of revenue receipts

		(₹ in crore)		
Sl. No.	Particulars	2012-13	2013-14	2014-15
1.	Tax revenue	2,593.67	2,795.67	3,528.56
2.	Non-tax revenue	1,105.27	1,364.69	1,246.53
<b>Total revenue receipts of the UT administrations</b>		<b>3,698.94</b>	<b>4,160.36</b>	<b>4,775.09</b>

Source: figures provided by respective UTs

It would be seen from the above that the total tax revenue raised by the five UTs registered an increase of 26.22 per cent from 2013-14 to 2014-15, while the non-tax revenues declined by 8.66 per cent.

## 1.5 Planning and conduct of audit

The audit process starts with the assessment of risks based on expenditure incurred, criticality/complexity of activities, delegated financial powers, overall internal controls, concerns of the stakeholders, and previous audit

findings. The frequency and extent of audit are decided on the basis of the risk assessment.

On completion of audit, Inspection Reports (IRs) containing audit findings are issued to the heads of the departments of the audited entity. Important audit observations arising out of these Inspection Reports are processed for inclusion in the Audit Reports of the Comptroller and Auditor General of India, and submitted to the President of India under Article 151 of the Constitution of India.

During 2014-15, 266 units were audited under the control of the five UTs without legislature.

### **1.6 Responsiveness of the Government to audit**

Intelligent, prompt and vigorous pursuance of objections and timely reporting of important irregularities to Government are essential in order to ensure that the Audit Reports serve their intended purpose and Government derives their full value. The responsibility for the settlement of objections devolves primarily upon the disbursing officers, heads of offices and controlling authorities. The heads of offices and next higher authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions promptly and report their compliance to audit within four weeks of receipt of the IRs. Periodical reminders are issued to the heads of departments requesting them to furnish the replies expeditiously. As of 31 March 2015, 1,863 IRs containing 6,955 paragraphs were outstanding for settlement in respect of various departments/institutions under the five UTs without legislature. Details of pending IRs and paragraphs are given in **Appendix-I**.

### **1.7 Follow-up on Audit Reports**

The Lok Sabha Secretariat issued instructions in April 1982 to all Ministries to furnish notes to the Ministry of Finance (Department of Expenditure), indicating remedial/ corrective action taken on various paragraphs contained in the Audit Reports, soon after these were laid on the Table of the House.

In their Ninth Report (Eleventh Lok Sabha) presented to the Parliament on 22 April 1997, the Public Accounts Committee (PAC) desired that submission of pending Action Taken Notes (ATNs) pertaining to Audit Reports for the years ended March 1994 and 1995 should be completed within a period of three months and recommended that ATNs on all paragraphs pertaining to the Audit Reports for the year ended March 1996 onwards be submitted to them

duly vetted by Audit, within four months from the laying of the Reports in Parliament.

While 16 ATNs pertaining to CAG Audit Report for the period 31 March 2014 were pending, no ATNs were pending for the prior period. Details are given in **Appendix-II**.

### **1.8 Response of the Union Territories to draft paragraphs**

On the recommendation of the PAC, Ministry of Finance issued directions to all Ministries in June 1960 to send their responses to the draft paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks of receipt of the paragraphs.

However, replies from the UT Administrations/Ministry of the Union Territories had been received in only 4<sup>3</sup> out of the 15 paragraphs included in this Report of the Comptroller and Auditor General of India for the year ended March 2015.

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<sup>3</sup> Paragraphs No. 2.3, 2.10, 2.11 and 2.12.

## CHAPTER – II : UNION TERRITORIES (EXPENDITURE SECTOR)

### Andaman and Nicobar Administration

#### 2.1 Creation of tourist accommodations and other infrastructures at Andaman and Nicobar Islands

**Tourism Department failed to complete 20 out of the 26 projects approved by Government of India. Violation of financial rules and failures to plan and implement projects properly resulted in unwarranted and excessive payment of advances, delays in issue of work order leading to abandonment of work, unfruitful expenditure, blocking of funds and procurement of outlived vessel without any techno economic feasibility study.**

##### 2.1.1 Introduction

Tourism is a major revenue generating industry in the Union Territory (UT) Andaman and Nicobar Islands (ANI). The Directorate of Information, Publicity and Tourism (Tourism Department), ANI Administration is responsible for promotion of sustainable tourism, facilitation and regulation of tourism activities by formulating guidelines and creation and maintenance of tourism infrastructure.

During 2012-15, the Tourism Department of ANI was entrusted with the execution of 24 projects/major works under the Tsunami Rehabilitation Programme (TRP<sup>1</sup>) (of which 13 were sanctioned by the Planning Commission and 11 were sanctioned by the Ministry of Home Affairs under the UT-Plan head) and two major projects were separately sanctioned by the Ministry of Tourism (MoT), Government of India (GoI). The audit on “Creation of tourist accommodations and other infrastructures at ANI” for the period 2012-13 to 2014-15 covered all the 26 major works assigned to the Tourism Department. The following are the findings:

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<sup>1</sup> Tsunami Rehabilitation Programme was sanctioned by the Government of India in the aftermath of the Tsunami Disaster on 26 December 2004 to provide immediate relief and long term rehabilitation.

## 2.1.2 Audit Findings

Audit observed that as of March 2016, only six of the 26 major works were completed; two of the works were in progress; and the remaining 18 major works were either dropped or were not taken up at all. Of the six completed works, three were either not utilised or partially commissioned. The details are at **Annex-I**.

### 2.1.3 Planning of works

#### 2.1.3.1 Unfruitful expenditure of ₹ 18.45 lakh on uninitiated project

The Tourism Department engaged (May 2009) the Indian Tourism Development Corporation Ltd. (ITDC) as consultant<sup>2</sup> for preparing the Detailed Project Report (DPR) for development of the tourist circuit, “Port Blair-Neil-Havelock-Baratang” under MoT's scheme, “Product/Infrastructure Development for Destinations<sup>3</sup> and Circuits<sup>4</sup> (PIDDC)”. MoT refused sanction (October 2010) in the absence of CRZ<sup>5</sup>/environmental clearances. Thereafter, the Department awarded (December 2011) the work of preparation of Environment Impact Assessment (EIA) report for CRZ clearance to the National Institute of Ocean Technology (NIOT)<sup>6</sup>. The work of development of tourist facilities at Baratang was, however, excluded, citing various environment and tribal issues.

The NIOT submitted the draft EIA reports for Port Blair, Havelock and Neil Islands on 27 December 2012, 31 May 2013 and 20 November 2013 respectively and requested ANI Administration for site-wise details such as project layout, technical justification, technical design, etc., for inclusion in their final report. However, even after three years, ANI Administration has not provided the information. As a result, MoT has not finally approved the project, but has tentatively allocated an amount of ₹ 5.00 crore under the PIDDC scheme in 2014-15. Thus, lack of follow up by ANI Administration rendered unfruitful the expenditure of ₹ 18.45 lakh<sup>7</sup> on the preparation of DPR and EIA reports.

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<sup>2</sup> Paying ₹ 11.83 lakh

<sup>3</sup> Destination is a place of tourist interest falling under the ten most visited sites in the state/UT, or a recognized heritage monument.

<sup>4</sup> Circuits are routes on which at least three major tourist destinations are located.

<sup>5</sup> Coastal Regulatory Zone

<sup>6</sup> Paying ₹ 6.62 lakh

<sup>7</sup> ITDC: ₹ 11.83 lakh; NIOT: ₹ 6.62 lakh.



Accepting the facts, the Department stated (September 2015) that the requisite information was awaited from Port Blair Municipal Council and Andaman Public Works Department (APWD). The reply is not acceptable since it is the responsibility of ANI Administration to collect information from bodies and departments under its jurisdiction. Further, in terms of guidelines<sup>8</sup>, CRZ/ Environmental clearances should have preceded the DPR. Had this been done, the decision not to pursue with the Baratang part of the tourist circuit would have preceded the engagement of ITDC to prepare the DPR and saved the money assigned in the DPR for this work.

### **2.1.3.2 Assignment of work without ensuring adequate resources**

The Planning Commission sanctioned ₹ 2 crore<sup>9</sup> in 2006 under the TRP for the setting up of Canopy Walkway (CW)<sup>10</sup> in ANI. Subsequently, the Forest Department identified (September 2008) Chidiyatapu and Mount Harriet (MH). Though the Forest Department suggested that the CW at Mount Harriet be taken up after gaining experience from the CW at Chidiyatapu, the Administrator approved (December 2008) a consultancy agreement (May 2009) with a private firm for both the sites.

The evaluation committee accepted (September 2009) the DPR submitted by the consultant, and the Indian Institute of Technology (IIT), Mumbai<sup>11</sup>, ratified (February 2010) the structural designs. The Standing Finance Committee (SFC) cleared (February 2010) the proposal for setting up of CWs at Chidiyatapu and Mount Harriet at ₹ 3.61 crore and ₹ 2.22 crore respectively. Though the Forest Department expressed its inability (24 March 2010) to supply the full requirement of 364.44 cum of padauk timber, the Tourism Department withdrew ₹ 1.60 crore (31 March 2010) and paid it to the Forest Department, as advance (April 2010).

The payment of 100 *per cent* advance by the Tourism Department for supply of timber violated Rule 159 of the General Financial Rules which stipulates that, ordinarily, payments should be released only after the services have been rendered or supplies made, and in any case, advances cannot exceed forty *per cent* even to government agencies or entities without the approval of the

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<sup>8</sup> Ministry of Environment and Forests' (MoEF) notification dated 19<sup>th</sup> February 1991.

<sup>9</sup> This initial sanction was revised from time to time and allocated in the Plan Budget of the Tourism Department.

<sup>10</sup> Canopy walkway also called canopy walks, treetop walks or treetop walkways - provide pedestrian access to the forest canopy.

<sup>11</sup> Engaged for ₹ 7.94 lakh

Central Government in consultation with the Financial Adviser. This irregular transaction resulted in artificially inflating the capital expenditure of the Tourism Department. The Forest Department, in turn, supplied only 20 cum of padauk timber from its own resources, and deposited (23 April 2010) the entire amount of ₹ 1.60 crore into Government account under the head “Forest Revenue” thereby, artificially inflating the revenue receipts of the Forest Department for 2010-11.

A local firm was assigned (April 2011) the work for ₹ 6.72 crore<sup>12</sup> to be completed by April 2012. As part of the project, the contractor delivered (June 2011) materials including steel reinforcement bars (TMT) at the site and was paid (February 2014) ₹ 0.52 crore. The Forest Department once again expressed (January 2012) its inability to supply the requisite quantity of timber. The Administrator decided (29 February 2012) to use hot dip galvanized steel instead, and after revised designs were submitted by the consultant and ratified by the IIT Mumbai, the cost was revised (September 2012) to ₹ 13.77 crore. The administration however, decided that the project should be completed as per original specifications.

In May 2013, the Administrator decided to transfer the projects to APWD without citing any reasons, but the work was transferred only in April 2014, and is yet (May 2016) to be taken up by APWD. The Administration thereafter decided (May 2016) to execute the project through the Andaman Lakshadweep Harbour Works (ALHW). The work is yet to commence.

In the meantime, in March 2014, the Administrator decided to keep the project at Mount Harriet on hold (which was finally dropped in August 2015) and ordered that the materials stocked there be transferred to the other project at Chidiyatapu. An amount of ₹ 5.62 crore<sup>13</sup> had already been incurred which included pending payment of ₹ 1.29 crore to the contractor.



*The present condition of steel (TMT Bars) and stone chips/stone dust at Mount Harriet*

<sup>12</sup> ₹3.84 crore for Chidiyatapu Walkway + ₹ 2.88 crore for Mount Harriet Walkway.

<sup>13</sup> This amount includes ₹ 1,96,25,625 to contractor + ₹ 1.60 crore paid to forest department + ₹ 69,04,781 to consultant + ₹ 7,94,160 to IIT, Mumbai + pending payment of ₹ 1.29 crore.



*The present status of construction of CW at Chidiyatapu Biological Park*

Thus, injudicious decision of the Tourism Department to take up the construction of Canopy Walkways at two locations simultaneously contrary to the assessment of the Forest Department regarding timber availability, and vacillation regarding the implementing agency, resulted in blockage of ₹ 4.33 crore.

The Tourism Department accepted (August 2015) the Audit findings.

### **2.1.3.3 Wasteful Expenditure on outlived vessel**

Shipping vessel M.V. Ramanujam operated by the Directorate of Shipping Services (DSS) was withdrawn from service in May 2009 on expiry of its certificates and surrendered to the owners, Shipping Corporation of India (SCI), in October 2009. Without conducting any techno economic feasibility study, the Tourism Department proposed (July 2010) to operate the outlived vessel as a floating restaurant. SCI agreed (November 2010) to the transfer, and ₹ one crore was paid<sup>14</sup> to SCI. At the request (April 2011), of the Tourism Department, SCI continued manning the vessel and claimed (August 2012) ₹ 2.39 crore till it was handed over to DSS in April 2012. who manned the vessel on behalf of Tourism Department.

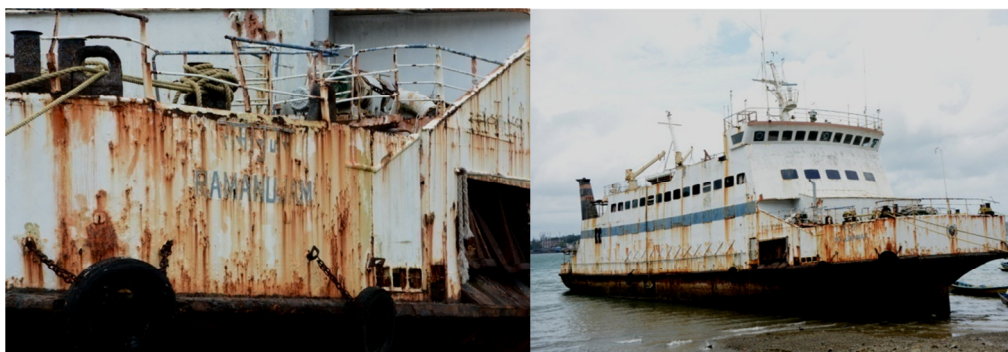
Meanwhile, two tenders invited by the Tourism Department (in April 2011 and October 2011) for designing, renovation, operation and maintenance of the vessel as a floating restaurant, failed to fructify. The vessel was transferred (February 2012) to ANIIDCO<sup>15</sup>, who informed the Tourism Department (August 2012) that they had also failed to finalise a bidder. A technical committee appointed by the DSS opined (November 2012) that the vessel required extensive repairs and fresh certifications and instead recommended disposal of the vessel. Consequently, the Chief Secretary ordered (January 2013) disposal of the vessel and SCI was requested (February 2013) to take

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<sup>14</sup> In two installments: ₹ 90 lakh in December 2010 and ₹ 10 lakh in March 2011.

<sup>15</sup> Andaman and Nicobar Islands Integrated Development Corporation Ltd.

the vessel back for disposal. After four attempts by SCI to dispose the vessel by e-auction between 23 April 2013 and 31 October 2013 also failed, SCI recommended (December 2013) that the vessel be beached at Port Blair itself. ANI Administration however, took nearly a year to transfer the ownership of the vessel (10 November 2014) to the Director (Tourism) and beach the vessel (23 November 2014) at Panighat, Port Blair. During the entire period (April 2012 to 23 November 2014), the DSS incurred an expenditure of ₹ 0.78 crore (₹ 2.45 lakh per month) for manning the vessel, which could have been reduced by ₹ 0.29 crore<sup>16</sup> had the Administration acted expeditiously on the SCI's recommendation on beaching the vessel. Till date (May 2016), the environmental clearance for ship breaking is pending, and neither the vessel nor its contents have been disposed of.



*The present condition of vessel M.V.Ramanujam beached at Panighat*

Thus, hasty and erroneous decision of the Tourism Department without any techno economic feasibility study, towards procurement of an outlived vessel led to wasteful expenditure of ₹ 1.23 crore<sup>17</sup> and an additional liability of ₹ 3.34 crore<sup>18</sup>.

The Tourism Department accepted (March 2016) the figures but did not offer their comments on the audit observation.

#### **2.1.3.4 Wasteful expenditure of ₹ 39.80 lakh towards yacht marina and luxury boats**

In 2006, the Planning Commission allocated ₹ 26.50 crore under TRP for development of one 50 unit yacht marina<sup>19</sup> and procurement of one 35 room

<sup>16</sup> Manning charge to DSS @ ₹ 2.45 lakh per month x 12 months

<sup>17</sup> Incurred on purchase, repair, shifting charges, watch & ward and advertisement

<sup>18</sup> Manning charges to SCI: ₹ 239.45 lakh + manning charges to DSS: ₹ 77.77 lakh + Port charges to PMB: ₹ 16.14 lakh + mooring charges to PMB: 0.27 lakh = ₹ 333.63 lakh = ₹ 3.34 crore

<sup>19</sup> A marina is a dock or basin with mooring and supplies for yachts and small boats.

luxury boat and two mechanized luxury boats. Tourism Department engaged (November 2008) a private consultant<sup>20</sup>, and paid ₹ 23.12 lakh (between March 2009 and February 2012). The site for development of marina at “Command Point and Viper Island” was selected and ‘No Objection Certificate (NOC)’ was obtained (June 2009) from the Defence authorities in ANI. The Expenditure Finance Committee (EFC) that approved the proposal for ₹ 52.64 crore (February 2010) also recommended that the project be bifurcated (as yacht marina and luxury boat separately). The luxury boat project was finally dropped (November 2012).

After the first request for proposal (RFP) under Public Private Partnership (PPP) mode for the marina failed to fructify (May 2010), fresh RFP was invited (September 2010<sup>21</sup>), based on which, the SFC approved (January 2012) the financial bid of the selected firm subject to Environmental/ CRZ clearances. The Director (Tourism) entrusted the firm with whom the agreement was signed (July 2012) to procure the necessary clearances. This was irregular, since the securing of such clearances should precede the signing of the agreement to execute the works.

In the meantime, a private party approached (March 2013) the Circuit Bench of the Calcutta High Court against the project. While refusing to stay the implementation of the project, the High Court directed (April 2013) that the fact of clearances from the Ministry of Environment and Forests and Ministry of Defence be ensured. The local Defence Authorities, however, withdrew (May 2013) the clearance given earlier, without assigning any reasons. The contractor also failed to furnish the performance guarantee, which in terms of the agreement was to be furnished by November 2012, and therefore the site has not been handed over to the contractor till date (May 2016).

Thus, the failure of the department to obtain the statutory clearances for the project due to flawed identification of its location resulted in wasteful expenditure of ₹ 39.80 lakh on consultancy (₹ 23.12 lakh) and advertisement charges (₹ 16.68 lakh) besides defeating the purpose of creating tourism infrastructure.

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<sup>20</sup> For feasibility report, market study report, business plan, submission of request for qualification document/expression of interest document, issue of request for proposal document to pre-qualified bidders and submission of bid evaluation report, selection of preferred bidder and signing of agreement with preferred bidder.

<sup>21</sup> ₹ 16.68 lakh was incurred on advertisement charges.

In response to the audit findings, the Department stated (August 2015) that there was no possibility to undertake the work of the yacht marina, due to non-submission of performance guarantee by the contractor and withdrawal of clearance by the Defence authorities.

The above justification of the department is not acceptable. Audit observed that the ANI Administration had not followed up the securing of clearances with the Ministry of Environment and Forests and the Ministry of Defence (after May 2013). The ANI Administration view that the securing of such clearances was the contractor's responsibility, is not tenable. Further, ANI Administration had not implemented the penalty clauses<sup>22</sup> in the agreement with the contractor.

#### **2.1.4 Execution of works**

##### **2.1.4.1 Non-issue of work order resulting in abandonment of work**

The MoT identified two integrated tourism circuits to be developed in Andaman and Nicobar Islands in two phases in the Twelfth Five Year Plan 2012-17. Consequently, a tripartite agreement was signed (October 2012) between the MoT, Tourism Department and a private firm (consultant), for preparation of DPRs for works. MoT released (January 2013) ₹ 20 lakh as advance of towards consultancy fee to the Department, who, however, failed to identify the various components of the project. Consequently, no work order was issued to the consultant. The MoT withdrew from the agreement in May 2014 and Tourism Department refunded ₹ 20 lakh (July 2015). Thus, tardiness of the Tourism Department resulted in non-utilization of ₹ 20 lakh and led to abandonment of the project for development of the integrated tourism circuits in ANI.

In response to the audit observations, the Department stated (September 2015) that the MoT withdrew from the agreement when it was in process of issuing the work order for the DPR. The reply is not acceptable, since the Tourism Department failed to shortlist various components of the project (January 2014), due to which, no work order could be issued to the consultant for preparation of the DPR.

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<sup>22</sup> Damages amounting to 26.30 lakh (being 10 per cent of performance security).

#### **2.1.4.2 Unfruitful expenditure due to contravention of orders and violation of financial rules**

The Planning commission sanctioned ₹ one crore in 2006 under TRP for development of two camps of 20 eco-friendly cottages each in ANI to provide amenities of international standards for high end tourists. However, the Administration finalized the location only in August 2011, and the work for development of one of the camps adjacent to Radhanagar beach in Havelock was entrusted to ANIFPDCL<sup>23</sup> in September 2011 at a projected cost of ₹ nine crore.

The Administration sanctioned (March 2012) a departmental advance of ₹ 8.87 crore stipulating that no expenditure should be incurred prior to submission and approval of a comprehensive proposal by the SFC. Contravening these orders and in violation of the GFRs<sup>24</sup> the Tourism department paid (April 2012) an advance of ₹ 8.87 crore to ANIFPDCL without entering into any agreement although it was aware of the poor financial position of the PSU<sup>25</sup>. More than two years later, ANIFPDCL submitted (May 2014) the proposal and final estimate of ₹ 12.22 crore along with the consultancy charge of ₹ 1.46 crore. In July 2014, however, the Chief Secretary noted that ANIFPDCL was on the verge of closure and the work could not be executed by them. The project was finally transferred (August 2015) to the Forest Department with a revised concept. Though the Tourism Department requested (July-August 2015) ANIFPDCL to refund the advance paid, ₹ 8.60 crore had already been diverted for payment of salary to its employees and ₹ 26.05 lakh was spent on consultancy and other charges, and consequently, the advance remains un-refunded as on date (May 2016).

Thus, the Tourism Department violated the instructions of the Administration, contravened the GFRs by releasing ₹ 8.87 crore and is unable to recover the advance paid.

In response to the audit observations, the Department stated (August 2015) that the project had been transferred to the Forest Department. The

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<sup>23</sup> Andaman & Nicobar Islands Forest and Plantation Development Corporation Ltd., Port Blair.

<sup>24</sup> Rule 204 (v) of General Financial Rules stipulates that no work should commence without proper execution of an agreement.

<sup>25</sup> Public Sector Undertaking.

Department further stated that the Forest Department could revive the contract with the consultant.

The fact remains that the advance of ₹ 8.87 crore paid to ANIFPDCL remained unfruitful and the infrastructure has not been created even after more than nine years.

#### **2.1.4.3 Violation of norms of financial propriety**

Rule 181 of the General Financial Rules (GFR) stipulates that advertised tender enquiry should be adopted for procurement of goods with an estimated value of ₹ 25.00 lakh or more. The Director (Tourism), however, executed (September 2010) an agreement with ITDC<sup>26</sup> for up-gradation, without change in the original script, of the Light and Sound (L&S) show at Cellular Jail at a total cost of ₹ one crore without tender enquiry and despite the fact that the incumbent annual maintenance contractor quoted a rate of ₹ 65.50 lakh for the work. The work was to be completed by 31 March 2011. Without initiating the work, and without providing cost break-up details, ITDC proposed (July 2011) additional scope of work, at a cost of ₹ 85 lakh. Despite the shortcomings of the ITDC proposal the Chief Secretary accepted (August 2011) the revised cost which was paid<sup>27</sup> to ITDC, as advance. Such payment of full advance violated Rule 159 of the GFR which states that advances to Public Sector Undertakings should not exceed forty *per cent* of the contract value, except in consultation with the Financial Advisor of the Central Government Ministry or Department.

Though the up-gradation was completed (September 2013) at a total cost of ₹ 169.96 lakh, the sound and light programme continues to run as per the original script and the equipment valued at around ₹ 85 lakh purchased to meet the requirements of the additional scope of work remains unused. Further, ITDC did not refund the balance of ₹ 0.15 crore till it was pointed out by Audit (August 2015). However, the interest of ₹ 2.92 lakh<sup>28</sup>, is yet to be recovered. Also, though ITDC completed the project after 30 months from the scheduled date of completion (March 2011), and the agreement specified levy of liquidated damages (LD) of up to ₹ five lakh for delay in implementation, no LD has been recovered (May 2016).

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<sup>26</sup> Indian Tourism Development Corporation.

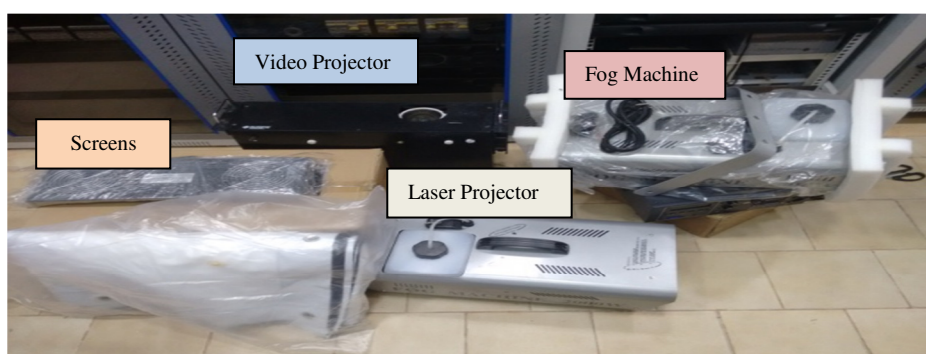
<sup>27</sup> ₹ 50 lakh in January 2011 and ₹ 135 lakh in August 2013.

<sup>28</sup> Calculated at lowest bank base rate (minimum rate set by the RBI below which banks are not allowed to lend to its customers) of 9.70 *per cent per annum* applicable for the period.



Thus, ANI Administration violated the GFRs in selecting ITDC without tender enquiry, paying the entire higher estimate as advance without consulting the Financial Advisor to the Ministry. The Administration also, neither ensured completion of the project within the scheduled time nor enforced the liquidated damages clause in the agreement. Interest on excess payment of advance has also not been collected. Further, the acceptance of proposal of ITDC for additional scope of work without assessment of requirement has rendered the additional expenditure of ₹ 85 lakh wasteful.

In reply to the audit observations, the Department (February 2016) stated that the equipment purchased for additional scope of work was lying idle as the screen/projections were not aesthetically matching with the concept and the show was running with the original script. However, in May 2016, the Department stated that laser machine along with screen and fog machine was utilized on two occasions. This reply is not acceptable, since the sound and light show where the equipment is to be used performs six days a week all through the year.



*Items lying in store at Cellular Jail since September 2013*

### **2.1.6 Conclusion**

Tourism Department, Andaman and Nicobar Administration failed to implement 20 out of the 26 major works assigned to it. Poor planning, execution, and violation of financial rules by the Tourism Department resulted in unfruitful expenditure, non-utilisation of material lying in the site of the Canopy Walkway projects, wasteful expenditure, abandonment of project, non-recovery of liquidated damages and interest on retained balances from the implementing agency.

The matter was referred to the Ministry of Home Affairs in January 2016. Their reply is awaited as of June 2016.

## Andaman Public Works Department (APWD)

### 2.2 Avoidable payment of ₹ 1.09 crore to contractors

**Failure of APWD to include the relevant clause in the Notice Inviting Tender (NIT) for reduction in the price of steel procured from secondary producers instead of primary producers and to correctly calculate escalation on steel for payment as per rules resulted in avoidable payment of ₹ 1.09 crore to the contractors.**

Construction Division-I, Andaman Public Works Department, Port Blair (APWD) published (August-September 2009) Notice Inviting Tenders (NITs) for two works<sup>29</sup>; which were subsequently awarded in January 2010 and March 2010 at a cost of ₹ 7.34 crore and ₹ 6.97 crore respectively. The stipulated period for completion of the works was 24 months and 20 months respectively. Scrutiny of records (March 2015) of these works revealed the following irregularities:

A. In terms of modifications to the Central Public Works Department (CPWD) Manual<sup>30</sup> specified grades of steel products were to be procured by the contractors exclusively from the primary producers as approved by the Ministry of Steel. In case of non-availability of steel from primary producers, the NIT approving authority was empowered to permit the contractors to procure steel products from the secondary producers. However, in such cases, payment was also to be released at reduced rates and such rates should be specified by the NIT approving authority at the time of issue of NIT.

Audit noted that contractors used steel products (weighing 4,88,972.88 kilograms) procured from secondary producers during the period from November 2010 to December 2012 in respect of two works. However, payments were released to them at the rates of steel products of primary producers and not at the reduced rates. The reduced rates were not specified by the NIT approving authority during issuance of NITs in August and September 2009. Thus, although APWD allowed the concerned contractors to use steel products procured from secondary producers, the department did not incorporate the mandatory condition of reduction in rates by ₹ 15.87<sup>31</sup> per kg

<sup>29</sup> (a) Construction of poacher's camp and (b) Construction of 125 bedded boys' hostel at Dr. B.R. Ambedkar Govt. Polytechnic campus.

<sup>30</sup> DGW/MAN/168 dated 22 December 2008 incorporated as paragraph 27.2 of CPWD (Central Public Works Department) Manual, 2012.

<sup>31</sup> Difference of rate being ₹ 13.80 per kg plus 15 per cent towards Contractor's Profit & Overheads.

in the NITs for the extent of such use in the works. This led to avoidable payment of ₹ 77.60 lakh on cost of steel products utilised by the contractors.

B. Clause 10CA of General Conditions of Contracts (GCC), CPWD Manual 2007 provided for allowing adjustment in the cost of work due to variation in prices of costly materials i.e., cement and steel. Further, clause 10CC of the GCC provided for allowing adjustment in the cost of work due to variation in prices of materials, POL<sup>32</sup> and labour, where the stipulated period of completion of work was more than 18 months. CPWD by an amendment in December 2008 deleted the clause for adjustment of variation of prices of cement/ steel under 10CC. Therefore, adjustment due to variation in prices of cement/ steel was to be regulated as per the provisions of clause 10CA for the new contracts entered into based on tenders received after December 2008.

Audit scrutiny (March 2015) revealed that the provision for payment of escalation in line with the modified GCC was included in the NITs but the same was struck off from the contracts and steel was included as an item for which escalation was to be paid as per the formula stipulated under clause 10CC. Consequently, APWD paid escalation on steel for both the works as per provision under clause 10CC of the GCC instead of clause 10CA. This led to avoidable payment of ₹ 31.79 lakh to the contractors towards escalation on steel during April 2012 to January 2014.

APWD stated (February 2016) that they executed the work and paid the escalation on steel as per the provisions given in the approved NITs by the competent authority and in accordance with agreement entered into. But the fact remained that deletion of the appropriate clause by the NIT approving authority of APWD resulted in avoidable payment to the contractors

Thus, failure of the NIT approving authority of APWD to include the relevant clause in the Notice Inviting Tenders for reduction in the price of steel procured from secondary producers instead of primary producer and to correctly calculate escalation payment on steel as per rules resulted in avoidable payment of ₹ 1.09 crore to the contractors.

The matter was reported to the Ministry in January 2016; their reply was awaited as of June 2016.

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<sup>32</sup> Petrol Oil and Lubricants.

## Directorate of Health Services, Port Blair

### 2.3 Irregular payment of ₹ 31.26 lakh

**Directorate of Health Services routinely paid, without verification, conveyance allowance intended to compensate for visits by eligible doctors outside duty hours. This resulted in irregular payment of a minimum of ₹ 31.26 lakh.**

In terms of Office Memorandum of the Ministry of Health and Family Welfare dated 28 April 2009, doctors belonging to the Central Health Service (CHS) and working in hospitals and dispensaries are entitled to receive every month, Conveyance Allowance (CA) payable at varying rates<sup>33</sup> provided they visit the hospitals or dispensaries or pay domiciliary visits outside duty hours. To receive the CA, eligible doctors are required to prefer claims and support these with certificates to the effect that they had made the necessary visits outside duty hours. The Directorate General of the Central Government Health Scheme has suggested a mechanism<sup>34</sup> to ensure that only genuine cases receive payments.

Scrutiny of records at the Directorate of Health Services (DHS) and the Pay and Accounts Office (PAO), Port Blair revealed that all doctors in the Andaman and Nicobar Administration, including those who were not posted in hospitals/ dispensaries were paid at the maximum rate. It was noticed in almost all these cases, that such payments were made routinely and even in the absence of claim or certification. The DHS did not have any control mechanism to ensure the veracity of payments.

Audit has estimated the irregular payments on this account for the period March 2012 to March 2015 as ₹ 31.26 lakh. No estimate has been made of irregular payments made before and after this period.

Thus, disregard of the conditions stipulated for payment of conveyance allowance coupled with lack of control mechanism to ensure authenticity of claims resulted in irregular payment of at least ₹ 31.26 lakh by DHS.

The matter was referred to the Ministry and the Andaman and Nicobar Administration in October 2015. While confirming the facts and figures, DHS initially stated (November 2015) that necessary directions had been issued for

<sup>33</sup> For less than 06 visits: no CA; for 06-20 visits: proportionate CA; for 20 or more visits: maximum CA.

<sup>34</sup> Circular no C-14019/03/2013/CGHS III dated 12 April 2013.

recovery of inadmissible payment of CA. Subsequently, however, DHS stated (January 2016) that the CA was not recoverable, since such payments were based on certificates furnished/submitted by the doctors as per the Ministry's OM dated 28 April 2009. The reply is not acceptable, in light of the evidence that in almost all the cases verified in audit, such payments were made routinely and even in the absence of claim or certification, and the DHS did not have any control mechanism to ensure the veracity of payments.

## **Union Territory, Chandigarh**

### **2.4 Solid Waste Management by Municipal Corporation Chandigarh (UT)**

**Violation of the Management of Solid Wastes (MSW) Rules by Municipal Corporation Chandigarh (MCC) resulted in non-segregation of wastes of different categories, disposal of biodegradable waste in unscientific manner, and non-monitoring of air and ground water quality. In addition, MCC incurred infructuous expenditure of ₹ 2.99 crore in non-utilisation of sanitary landfill with leachate collection tank. Further, private partners sold refused derived fuel (RDF) commercially in violation of MoU.**

#### **2.4.1 Introduction**

The Municipal Corporation Chandigarh (MCC) is responsible for the management of solid wastes<sup>35</sup> in the Union Territory of Chandigarh. MCC has entrusted the task of installing and running the garbage processing plant for thirty years to Jai Prakash Associates Limited (JPAL) as a Public Private Partnership on Build, Operate and Transfer basis. In terms of the agreement, signed on 8 July 2005, MCC would deliver MSW (excluding construction waste, hospital waste, slaughter house waste, drainage silt and waste generated in vegetable/fish markets and big hotels) at the garbage processing plant which would be processed into refused derived fuel (RDF) pellets<sup>36</sup> for captive use in JPAL's cement plants. The Chandigarh Pollution Control Committee issues authorizations to MCC and JPAL, and monitors compliance to standards on ground water, ambient air, leachate<sup>37</sup> quality and compost quality.

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<sup>35</sup> Includes commercial and residential wastes generated in municipal or notified areas in either solid or semi-solid form excluding industrial hazardous wastes but including treated bio-medical wastes.

<sup>36</sup> Small cubes or cylindrical pieces made out of solid wastes.

<sup>37</sup> Liquid that drains from a landfill. It usually contains both dissolved and suspended material.

The records in the Municipal Corporation Chandigarh (MCC) and Chandigarh Pollution Control Committee (CPCC) for the period April 2012 to March 2015 were examined in audit to verify whether management of municipal solid wastes is effective in the Union Territory of Chandigarh. The following short comings were noticed in audit.

#### **2.4.2 Non segregation of waste of different categories**

As per Schedule II(3)(iii) of MSW Rules, bins for storage of biodegradable wastes shall be painted green, those for storage of recyclable wastes shall be painted white and those for storage of other wastes shall be painted black.

Audit, however, observed that all garbage bins in city were of green colour and bins of other specified colours were not available for segregation into biodegradable, recyclable and other wastes. As a result, mixed solid waste was being sent to the Garbage Processing Plant. This issue was raised by JPAL in March 2013, who pointed out that mixing of garbage would damage the plant and machinery, and, if not checked, could spoil the environment also. However, the MCC has not taken appropriate action till date (May 2016).

MCC replied (May 2016) that a pilot project for segregation of MSW, by providing bins in green and blue colours for organic and non-organic wastes, would be started initially in selected four sectors of the city. The colour coded scheme may be implemented later on in other areas of city on satisfactory results of the pilot project. The reply is not acceptable, since the pilot stage should have been initiated immediately after the MSW Rules in 2000 and not after 15 years. Also, the response to unsatisfactory results to the colour coded scheme in the pilot project is not to dispense with the colour coding scheme stipulated in the MSW Rules, but the devising of effective measures of enforcement.

#### **2.4.3 Disposal of biodegradable waste in unscientific manner**

Schedule II (5) read with Schedule II (6) of the 'Municipal Solid Wastes (Management and Handling) Rules 2000' (MSW Rules) notified by the Ministry of Environment and Forests provides that biodegradable<sup>38</sup> wastes

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<sup>38</sup> Biodegradable waste can be degraded by micro-organisms.

shall be processed by composting<sup>39</sup>, vermicomposting<sup>40</sup>, anaerobic digestion<sup>41</sup> or any other appropriate biological processing.

Chandigarh city was estimated to generate, on average, solid waste ranging from 340 to 370 MTs daily during April 2010 to March 2015. Audit, observed that in violation of MSW Rules, the MCC dumped approximately 100 to 140 MTs biodegradable waste per day (comprising of mandi/hotel waste generated in the city) directly at the landfill without any processing. Consequently, the landfill site attracted dogs and stray animals, encouraged the breeding of flies and mosquitoes and emitted foul smell, subjecting the nearby inhabitants, overall, to unhygienic conditions.



**Disposal of unprocessed biodegradable waste in UT Chandigarh**

MCC replied (May 2016) that a Biomethanation<sup>42</sup> Plant of 5 MTs capacity per day was under construction as pilot project for the processing of biodegradable waste. The project was likely to be completed by May/June 2016. On successful implementation of this project, more plants would be constructed for processing of entire biodegradable waste. The reply is not acceptable, since the processing of biodegradable waste is still at a pilot stage, despite notification of the MSW Rules more than fifteen years ago.

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<sup>39</sup> Composting is a controlled process involving microbial decomposition of organic matter.

<sup>40</sup> Vermicomposting is a process of using earthworms for conversion of biodegradable wastes into compost.

<sup>41</sup> Anaerobic digestion is a controlled process involving microbial decomposition of organic matter in the absence of oxygen.

<sup>42</sup> Biomethanation means a process which entails enzymatic decomposition of the organic matter by microbial action to produce methane rich biogas.

#### 2.4.4 Infertuous expenditure of ₹ 2.99 crore on sanitary landfill site

As per Schedule III (22) of MSW Rules, provisions for the management of leachate collection and treatment shall be made in order to prevent pollution problems from landfill operations.

In February 2007, MCC started a project under the Demonstration Project funded by the Chandigarh Pollution Control Board (CPCB) for creation of a sanitary landfill measuring eight acres with leachate collection tank. Though the civil and pipe works were to be completed by June 2007, and the major portion of it was belatedly completed in January 2009, the remaining work comprising four *per cent* of the monetary value of the project was completed only in July 2013, for reasons not on record. The final project cost was ₹ 2.99 crore.

Audit observed that MCC did not utilize the sanitary landfill even after its completion and continued dumping approximately 100 to 140 MTs of unprocessed biodegradable waste per day on the adjoining landfill. The pipes and leachate tank of the idle sanitary landfill got choked due to filling of MSW from the adjoining landfill. Thus, the expenditure of ₹ 2.99 crore on the sanitary landfill proved infertuous (*displayed in photograph*).



Unutilized sanitary landfill (August 2015)



MCC replied (May 2016) that the sanitary landfill could not be utilized due to some technical reasons and MCC was in process of starting the sanitary landfill at the earliest possible after consulting the designer of the landfill. The reply of the MCC, however, failed to explain why such action could not be taken during the past three years when the sanitary landfill was idle.

#### **2.4.5 Improper location and absence of fencing of landfill**

Schedule III of the MSW Rules stipulates that landfill sites shall be located away from habitation clusters, forest areas, water bodies, monuments, national parks, wetlands and places of important cultural, historical or religious interest; they should be large enough to last for 20-25 years; they should be well protected to prevent entry of unauthorized persons and stray animals; and a buffer zone of no development should be maintained around the landfill.

Audit observed, however, that no such buffer zone was declared around the landfill, and habitation clusters developed around it (*displayed in photograph*). Further, no system was in place to prevent entry of unauthorized persons and stray animals to landfill. Thus conditions at the landfill were hazardous for the nearby habitants.



**Habitat clusters around landfill**

MCC replied (May 2016) that the MSW Rules were framed in the year 2000 whereas landfill existed prior to these rules and was more than 35 years old. By the time the MSW rules came into force, the habitation around the landfill had already developed and declaration of 'no development buffer zone' at that juncture of time was of no use. However, to solve the problem, negotiations were already underway with the Punjab Government to provide 50 to 100 acres of land in the Punjab state near Chandigarh. Regarding fencing of landfill, MCC stated that two sides of landfill site were already walled in and the remaining two sides would be covered shortly. The reply of the MCC did not answer why such action had not been taken in the past fifteen years since the framing of the MSW Rules.

#### **2.4.6 Non installation of fire protection equipment at landfill**

As per Schedule III (15) of MSW Rules, there shall be fire protection equipment installed to avoid any fatal accident.

Audit, however, observed that fire equipment were not installed at the landfill site despite occurrence of frequent fire incidents at landfill (49 fire incidents during April 2012 to March 2015).

MCC replied (May 2016) that there was no requirement of installation of fire equipment at landfill site because response time of fire department in case of fire was less than 10 minutes. The reply of MCC is unacceptable in view of the clear provisions of the MSW Rules.

#### **2.4.7 Non-testing of groundwater and ambient air quality at landfill site by MCC**

As per provisions contained under clause 23, Schedule III of MSW Rules, the ground water quality within 50 metres of the periphery of landfill was to be monitored by MCC periodically during different seasons of the year (summer, monsoon and post monsoon) to ensure that the ground water was not contaminated beyond acceptable limits as decided by the Ground Water Board. Further, the ambient air quality at the landfill and vicinity was to be monitored four times in a year as per clause 29.

Audit, however, observed that MCC did not have a system to conduct periodical testing of ground water and ambient air quality at the landfill and vicinity, and this situation continued despite objections raised (February 2014) by CPCC.

MCC replied (May 2016) that testing for ambient air and ground water quality had been started from March 2016. The reply is not acceptable because MCC has not explained why such testing was not done in over fifteen years of framing of the MSW Rules and despite objections of CPCC.

#### 2.4.8 Sale of Refused Derived Fuel (RDF) in violation of MOU

As per condition 2 of the MOU between MCC and JPAL, the end product of the plant (i.e., RDF) was to be captive consumed as fuel by JPAL in its cement plant and thus was not saleable commercially. However, JPAL sold RDF commercially as evident from the documents submitted by it to CPCC for obtaining authorization.

During the period from April 2012 to March 2015, JPAL processed 1,99,213.500 MTs of MSW and produced 69,724.725 MTs of RDF, the commercial value of which worked out to ₹ 11.85 crore as detailed in the table below:

Year	Average intake of MSW by Garbage Processing Plant (GPP) [MTs / Day]	Average working days in a year	Total MSW processed during the year [MTs]	Approximate RDF produced during the year (Max. 175 MTs RDF out of 500 MTs MSW) [MTs]	Selling rate of RDF per MT (₹)	Total sale value of RDF (₹)
1	2	3	4	5	6	7
2012-13	244.000	300	73,200.000	25,620.000	1,700	4,35,54,000
2013-14	219.000	300	65,700.000	22,995.000	1,700	3,90,91,500
2014-15	201.045	300	60,313.500	21,109.725	1,700	3,58,86,533
<b>Total</b>			<b>1,99,213.500</b>	<b>69,724.725</b>		<b>11,85,32,033</b>

*Source of Data :* Column 2 – Annual Reports of Municipal Corporation, Chandigarh  
Column 3, 5 & 6 – Detailed Project Report of M/s JPAL

MCC replied (May 2016) that it was not in their knowledge whether the RDF was being sold by the plant in open market, but that, however, the matter would be taken up with JPAL to clarify its stand. It is therefore evident that the MOU was deficient in that it did not contain provisions for periodic reporting by JPAL to MCC, periodic inspections by MCC and penal provisions for violation of conditions.

#### **2.4.9 Non-monitoring by CPCC**

Rule 6 of the MSW Rules authorizes the CPCC to monitor compliance by MCC in respect of ground water, ambient air, leachate quality and compost quality.

Audit observed that CPCC did not monitor quality compliance by MCC; there were no targets to inspect the landfill; and no meetings were held between CPCC and MCC during the period covered in audit, to monitor the generation, segregation, collection, processing, disposal of waste. Moreover, CPCC, which was responsible for the enforcement of the MSW Rules, had not taken any action against MCC despite non-compliance.

CPCC replied (March 2016) that it was unable to do monitoring due to lack of infrastructure and best efforts were made as per available infrastructure; many meetings were held with MCC involving CPCB officials to check the implementation stage and development of landfill site. The fact remains that the CPCC has not acquired such infrastructure over the past fifteen years since the framing of the MSW Rules.

#### **2.4.10 Conclusion**

In violation of the Management of Solid Waste (MSW) Rules: Municipal Corporation Chandigarh (MCC) did not segregate wastes into biodegradable, recyclable and other wastes; directly dumped approximately 100 to 140 MTs of biodegradable waste daily in open landfills without processing causing health hazard; did not install fire protection equipment at the landfill site; did not have a system to conduct periodical testing of ground water and ambient air quality at the landfill and vicinity. Further, Chandigarh Pollution Control Committee (CPCC) did not monitor quality compliance by MCC. MCC also failed to prevent commercial sale of refused derived fuel (RDF) by the private partner in-violation of MOU conditions and sanitary landfill completed six years behind schedule remained unutilised.

The matter reported to UT Administration and Secretary to GOI, Ministry of Home Affairs New Delhi in the month of November 2015. Reply is awaited as of June 2016.

## 2.5 Irregular payment of Service Tax

**Department of Forests and Wildlife, Chandigarh Administration irregularly paid service tax of ₹ 2.94 crore to contractors, contrary to the notification of Ministry of Finance.**

As per clause 12 (a) and (d) of exemption notification no. 25/2012-Service Tax dated 20 June 2012 issued by Ministry of Finance, Department of Revenue, Government of India, services provided to the Government in various areas are exempt from payment of service tax with effect from 1 July 2012.

During the scrutiny of records of the Deputy Conservator of Forests, Chandigarh it was noticed that the department had engaged different contractors for carrying out various forest and wildlife related activities for which the department had paid the contractors ₹ 2,93,63,196 as service tax during July 2012 to March 2015.

On the above being pointed out (May 2015) in Audit, Deputy Conservator of Forests Chandigarh intimated (June 2015) that the department was not aware of the notification dated 20 June 2012, but that in view of the objections raised by Audit, the department has stopped the payment of service tax from the financial year 2015-16. The Department however, has not mentioned about the reimbursement of service tax of ₹ 2.94 crore from the contractors.

The matter was referred to Secretary Finance UT Chandigarh (September 2015) and Secretary to GoI Ministry of Home Affairs New Delhi (September 2015). Reply was awaited as of May 2016.

## 2.6 Injudicious release of funds

**Department of Social Welfare, UT Chandigarh made an annual release to Chandigarh Housing Board without requirement or demand and without ensuring the availability of land. This resulted in blockage of ₹ 2.40 crore.**

The Department of Social Welfare (DSW), UT, Chandigarh implemented w.e.f 1980-81 a scheme for construction of low cost dwelling units for homeless scheduled caste families residing in Chandigarh. The scheme was later renamed as Dr. Ambedkar Awas Yojna (AAY). Chandigarh Housing Board (CHB) was appointed as the implementing agency.

Audit noted (October 2014) that despite sufficient unspent balance with the CHB, the department annually released additional funds without requirement or demand as mentioned in the table below:

(₹ in lakh)

Year	Opening Balance	Amount released to CHB by DSW	Availability of Funds
2011-12	454.59 (31.08.2011)	40	494.59
2012-13	494.59	50	544.59
2013-14	544.59	50	594.59
2014-15	594.59	50	644.59
2015-16	644.59	50	694.59

Audit further noted (January 2016) that DSW requested (July 2014) Finance Secretary, UT Chandigarh to allot land to CHB for construction of 500 dwelling units to fulfil the requirements of the SC Community. However, the land is yet to be made available to CHB (January 2016)

The Finance Secretary Chandigarh Administration replied (August 2015) that the amount was released to CHB under the scheme approved in the annual plan 2014-15, but assured that DSW would be asked to discontinue the scheme from the year 2016-17, if it was incapable of utilising the amount. Contrary to the above, DSW intimated (January 2016) that this was a continuous scheme for the poor people and therefore reserve fund was created by releasing the funds to CHB on annual basis for cost of land and construction of dwelling units.

The reply of DSW is not acceptable. Rule 290, of the Central Treasury Rules stipulates: “No money shall be drawn from treasury unless it is required for immediate disbursement. It is not permissible to draw money from the treasury in anticipation of demands or to prevent lapse of budget grants”. Thus, injudicious release of funds by DSW to CHB without ensuring the availability of land resulted in blockage of ₹ 2.40 crore.

The matter was referred to Ministry of Home Affairs, Government of India (November 2015). In response, the Ministry directed (December 2015) the Advisor to Administrator, Chandigarh Administration to send comments/reply directly to Audit.

However, no reply from Advisor to Administrator Chandigarh Administration has been received (May 2016).

## Union Territory, Dadra and Nagar Haveli

### 2.7 Working of Panchayati Raj Institutions (PRIs) in the Union Territory of Dadra and Nagar Haveli (UT D&NH)

**The District Panchayat, Silvassa is yet to frame 51 Rules and seven Bye Laws relating to various functions of the PRIs under Regulation, 2012. The D&NH Administration has devolved twelve functions fully and six functions partially to the DP as against 29 functions envisaged in the Regulation. Participation of Gram Sabhas was inadequate. Lapses were found in tender procedure and implementation of schemes. Property tax assessment and collection systems were deficient.**

#### 2.7.1 Introduction

The Union Territory of Dadra and Nagar Haveli (UT of D&NH) consists of two distinct landlocked geographical units, Dadra and Nagar Haveli, located between Gujarat to the north and Maharashtra to the south and spread over 491 square kilometers. As a Union Territory without legislature, D&NH is administered by an Administrator under the Ministry of Home Affairs (MHA), Government of India.

The Panchayati Raj Institutions (PRI) in D&NH function as a two tier system viz., District Panchayat (DP) at Silvassa and eleven<sup>43</sup> Village Panchayats (VP). The powers and duties of PRIs in D&NH are governed by the Village Panchayat Rules framed under the D&NH Village Panchayat Regulation, 1965 (Regulation) as amended in 1994 and 2012. The Regulation specified 29 matters<sup>44</sup> within the jurisdiction of PRIs.

The DP is the apex body headed by a Chief Executive Officer (CEO) appointed by the Administrator. Elected executive posts comprise a President for the DP and Sarpanchs for VPs. The President is vested with executive powers of the DP and the CEO is responsible for day to day administration of the DP.

Audit of PRIs of D&NH was conducted between May and September 2015 under Section 14(1) of the C&AG's DPC Act<sup>45</sup> through test check of records for the period April 2012 to March 2015. The audit objectives were to ascertain the extent of adherence to rules and regulations relating to planning,

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<sup>43</sup> Increased to 20 vide UT Administration notification of March 2015 and Election Commission notification of July 2015.

<sup>44</sup> In terms of XI Schedule of the Constitution of India.

<sup>45</sup> Comptroller & Auditor General of India's Duties, Power and Conditions of Service Act, 1971.

budgets, financial management, execution and implementation of schemes, assessment and collection of taxes.

Records of four<sup>46</sup> out of six departments/wings of DP, four<sup>47</sup> out of 11 VPs and two<sup>48</sup> Central Government Schemes were test checked in Audit.

## **Audit Findings**

### **2.7.2 Non adherence to Regulation**

#### **2.7.2.1 Non framing of Rules/Bye laws under the Regulation and non-submission of Rules to Parliament for approval**

Section 121 of the Regulation requires the Administrator to make Rules; Section 122 requires the Secretary Panchayat to frame Bye-laws<sup>49</sup> to carry out various provisions of the Regulation and Section 123 requires these Rules and Bye Laws to be laid before each House of the Parliament.

Till December 2015, D&NH Administration notified (January/April 2015) six Rules (**Annex-II**) as against 57 Rules and seven Bye Laws required to be framed on various duties/functions which *inter-alia* include assessment of tax, custody of VP fund, format of account, preparation of budgets, audit of accounts, etc. Further, none of the six Rules that had been notified had been placed before Parliament.

The DP Silvassa stated (February 2016) that the Rules and Bye Laws could not be framed due to the absence of legal expertise, but that the Rules framed so far will be forwarded for approval of Parliament. The reply is not acceptable, as DP Silvassa is yet to make any efforts to appoint/outsource legal expertise to expedite framing of the rules. Further, DP Silvassa is yet to forward the Rules, already framed, to Parliament. (May 2016).

#### **2.7.2.2 Devolution of functions**

Article 243 G (read with the Eleventh Schedule) of the Constitution of India provides for devolution of powers and responsibilities upon PRIs. Accordingly, Schedules II and III appended to the Regulation envisaged

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<sup>46</sup> Public Works Department (PWD), Rural Development, Education Department and Child Development Project Office (CPDO) were selected based on the expenditure incurred and activities/developmental works carried out.

<sup>47</sup> Dadra, Naroli, Randha and Samarvarni.

<sup>48</sup> (1) Supplementary Nutrition Programme and (2) Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA).

<sup>49</sup> With the prior approval of the Administrator.



entrustment of 29 functions to PRIs. It was observed that only 12 functions (fully) and six functions (partially) were devolved to DP (May 2016) **Annex-III.**

In the case of VPs, devolution of functions was limited to transferring of Grants in Aid (GIA) by three departments<sup>50</sup> of DP. Though 55 posts (technical and non-technical) were created for VPs in May 2012, these are yet to be filled up. Due to absence of adequate staff, VPs were not able to execute developmental works independently. The DP Silvassa stated (February 2016) that the matter will be taken up with UT Administration to devolve more functions to PRIs. The reply is not acceptable, as no progress has been made to fill up posts despite recommendations (February/December 2014) of the Parliamentary Standing Committee. Also, the DP Silvassa is yet to initiate action to devolve more powers to PRIs.

### **2.7.2.3 Decentralized Planning**

Section 118 of the Regulation stipulates that every VP and DP shall, having due regard to the development plans suggested by the Gram Sabhas, prepare their Annual Development Plans (ADP) for submission to the District Planning Committee (DPC) for preparation of the Draft Development Plan in accordance with Panchayat Regulations and onward submission to D&NH Administration. It was however observed that in four<sup>51</sup> VPs (2012-13) and eight<sup>52</sup> VPs (2013-14), the Sarpanchs forwarded the ADPs without involving the Gram Sabhas. Further, only three departments<sup>53</sup> of the DP considered the plans of VPs and there was no participation of VPs in planning of remaining three departments. The DP Silvassa informed Audit (May 2016) that since the departments of Education and CDPO implement Government of India schemes which are monitored centrally by the DP, there was no reason to involve VPs. This explanation, however, is not acceptable, since these two departments implement UT specific schemes also, and the VPs should have been involved in the planning exercise for these schemes, which was not done. The DP Silvassa did not furnish any justification for not involving VPs in the planning of the Veterinary Department. It is therefore evident that overall,

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<sup>50</sup> Public Works Department (PWD), Rural Development Department (RDD) and Sub-Divisional Soil Conservation Office (SDSCO) as per the orders (December 2010) of D&NH Administration.

<sup>51</sup> Rakholi, Dudhni, Amboli and Randha.

<sup>52</sup> Khanvel, Rakholi, Dapada, Kilvani, Dudhni, Dadra, Amboli and Randha.

<sup>53</sup> (1) Public Works Department (2) Rural Development Department and (3) Soil Conservation Department.

there is poor village level participation in the planning exercise of DP Silvassa.

The DP Silvassa prepared ADPs for ₹ 519 crore (2012-13) and ₹ 680 crore (2013-14), against which, only ₹ 127.05 crore (2012-13) and ₹ 136.19 crore (2013-14) was received as GIA which was 24 and 20 *per cent* respectively of the proposed annual plan. Audit noticed that all proposals received from the VPs were included in the budget proposals every year without considering the budget grants received in the past. Further, targets of developmental works were not revised on the basis of amounts actually received. This indicates that the ADPs prepared by the DP were not realistic. Further, DP Silvassa did not prepare a consolidated ADP for the year 2014-15. Reasons for this omission are not available on record; nor did the DP offer any explanation to Audit.

The DP Silvassa issued (May 2016) instructions to VPs to conduct a minimum of four Gram Sabha meetings in a year so as to strengthen the participation of general public in planning and assured Audit (February 2016) that the revised plans would be prepared based on budgetary allocations.

#### **2.7.4 Financial Management**

Important observations noticed during audit are discussed in succeeding paragraphs.

##### **2.7.4.1 Unauthorized maintenance of Bank Account**

Article 284 of the Constitution stipulates that all moneys received by or deposited with any officer employed in connection with the affairs of the Union in his capacity as such, other than revenues or public moneys raised or received by Government, shall be paid into the Public Account. Rule 7 of the General Financial Rules reiterates that all moneys received by or on behalf of the Government either as dues of Government or for deposit, remittance or otherwise, shall be brought into Government Account without delay.

Contrary to these provisions the UT Administration is operating a savings bank account in the name of the Executive Engineer (EE), Public Works Department (PWD) in Dena Bank, Silvassa Branch in which all deductions made from the contractors and other deposits received by the PWD Department are remitted. The bank account was kept out of the DP's books of account and remained unaudited during 2012-15. As of March 2015, the balance in this Bank Account was ₹ 14.78 crore. The DP Silvassa informed

(February 2016) that the bank account would be properly accounted for and included in the financial statement in future. This is not acceptable, since, the operation of the bank account itself violates the Constitutional provision and the Financial Rules as it is operated outside Government accounts.

## 2.7.5 Working of District Panchayat (DP)

The DP, Silvassa, the apex tier of the PRI in D&NH, is headed by the CEO, with six departments below it. Audit selected four departments for detailed examination. The department-wise allocation and utilization of funds during 2012-13 to 2014-15 in these four departments are as under

(₹ in lakh)

Department	2012-13		2013-14		2014-15	
	Allocation of funds	Utilization	Allocation of funds	Utilization	Allocation of funds	Utilization
Public Works Department (PWD)	8,866.00	8,377.52	10,057.00	11,322.19	10,596.67	9,851.31
Rural Development Department (RDD)	2,144.50	1,753.14	2,244.50	3,154.26	2,605.50	2,725.50
Primary Education	1,350.00	1,082.97	1,032.00	1,260.29	1,630.00	1,578.23
Child Development and Project Office (CDPO)	205.00	152.22	205.00	205.12	239.56	288.10
<b>Total</b>	<b>12,565.50</b>	<b>11,365.85</b>	<b>13,538.50</b>	<b>15,941.86</b>	<b>15,071.73</b>	<b>14,443.14</b>

(Source: Information furnished by DP, Silvassa)

Important observations noticed during audit are discussed in the subsequent paragraphs.

## 2.7.5 Irregularities in execution of developmental works

### 2.7.5.1 Deficiencies in Tender Procedure

The UT Administration issued (July 2011) instructions that all the works valued at ₹ five lakh and above should be carried out through open e-tendering system with effect from 1 October 2011. General conditions of the tender documents of the UT administration specify that all conditions of the tender including special conditions, specifications and drawings will form part of the agreement and duly signed by both the parties after acceptance of tender. The following deficiencies were observed in the tender procedure:

Sl. No.	Department	Audit Observation	Reply of the Department and remarks of audit thereon.
1.	PWD	Additional conditions stipulating free maintenance for three years after completion of the work were not part of agreement documents duly signed by the contractor as only notice inviting tender was signed by contractor; hence additional conditions were not binding on the contractors. Undue benefit was also extended to nine contractors as security deposits of ₹ 18.45 lakh were returned between two and 29 months after completion of the work instead of 36 months.	DP Silvassa accepted (February 2016) the audit observation but stated that in no case road works executed was found to be of inferior quality or required maintenance in three years. The reply is not acceptable since in seven contracts, the free maintenance period would expire only between March 2016 and June 2017 and the DP did not have any security for reimbursement of maintenance expenditure incurred during this period.
2.	RDD	Contrary to the requirement that all works of ₹ five lakh or more should be done through open e-tendering, 36 developmental works under the Community Development Programme (CDP) estimated at ₹ 15.82 crore were carried out by VPs during 2012-13 to 2014-15 by using the labour and material provided by contractor.	DP Silvassa accepted (February 2016) the audit observation and assured that all new works of ₹ five lakh and more would henceforth adhere to open e-tender procedure.
3.	RDD	7,000 polo T shirts and caps costing ₹ 25.90 lakh between October 2014 and April 2015 were procured without inviting tenders through advertisement.	DP Silvassa stated (February 2016) that due to urgency, the tender procedure was not followed. The excuse of urgency is not justifiable as the purchases were made on piece-meal basis over seven months.
4.	RDD	Two agreements were entered into (November 2011/May 2013) with Rotary Club of Silvassa, a Non-Government Agency (NGO), for construction of 962 and 1,100 Individual Household Latrines <sup>54</sup> without inviting online tenders.	DP Silvassa stated (February 2016) that selection of NGO was made to encourage toiletry habits in rural public. The reply is not acceptable, as, the Ministry of Rural Development, GOI had specified (June 2013) that NGOs should be selected through transparent process, which was not followed in the present case.

### 2.7.5.2 Working of Lift Irrigation (LI) Schemes

The PWD operated 139 (2012-13) and 143 (2013-15) LI schemes during 2012-15 and irrigated, on an average, 715 hectares,<sup>55</sup> incurring expenditure<sup>56</sup> of ₹ 4.29 crore for engaging 111 operators; ₹ 4.65 lakh was collected on water charges. It was noticed that the rates for water charges had been fixed as far back as August 1974 with no revision thereafter. The Thirteenth Finance Commission (13 FC) had expressed (December 2009) concern over inequality in collection of water charges and maintenance cost and recommended the setting up of Water Regulatory Authorities to fix and regulate water tariff systems by 2011-12. This is yet to be done by DP Silvassa by transferring irrigation management responsibilities<sup>57</sup> to water users' associations (WUA).

<sup>54</sup> Constructed 1,189 IHHL incurring ₹ 226.52 lakh (March 2015).

<sup>55</sup> 1 hectare = 2.47 acres.

<sup>56</sup> Details of electricity charges incurred for LI schemes were not furnished by DP Silvassa.

<sup>57</sup> Operation and management, water distribution, fee collection, etc.

Further, the Ministry of Water Resources had issued guidelines (April 1987) for farmers' participatory irrigation management (PIM) primarily for areas under the Centrally Sponsored Command Area Development Programme. The DP Silvassa is yet to implement the guidelines. The Ministry also issued (1998) a Draft Model Act on PIM, which however, remains to be enacted. The DP Silvassa stated (February 2016) that the matter will be taken up with the General Body of DP and UT Administration.

### **2.7.5.3 Central Monitoring System for Primary Schools**

UT Administration introduced (March 2013) an internet based Central Monitoring System (CMS) at a cost of ₹ 44.39 lakh in 16 schools located in rural areas to monitor them centrally from Silvassa by direct access to class rooms through cameras. The CMS become dysfunctional as the service provider disconnected (January 2014) internet connections due to non-payment of bills. Consequently, the expenditure of ₹ 44.39 lakh on the CMS was rendered unfruitful and the objectives not achieved. The DP Silvassa stated (May 2016) that the service provider had been contacted to restore internet connections. Audit, however, observed that the internet connectivity was not restored (May 2016) as no payment had been made.

### **2.7.5.4 Deficiencies in installation of RO plants at primary schools**

There are 271 schools under the Education Department of DP Silvassa. To provide quality drinking water to school children, the DP Silvassa installed (September 2013) Reverse Osmosis (RO) plants with 250 liters per hour (LPH) capacity, each costing ₹ 1,72,500 in 47 schools. In 2015, the DP Silvassa estimated that RO plants of 75 LPH capacity were required for student strength between 111 and 250. Accordingly, the DP planned to install 75 LPH RO plants at a cost of ₹ 27,500 each in the remaining schools<sup>58</sup> in 2015, but this was not done. Audit further observed that the requirement of RO plants was decided in 2013 without any assessment since RO plants with 250 LPH each costing ₹ 1,72,500 were installed in 21 schools even though their strength was below the requirement of 250 students assessed subsequently. Had the DP Silvassa considered installing RO plants with 75 LPH at a cost of ₹ 27,500 instead of 250 LPH in these 21 schools, the ₹ 30.45

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<sup>58</sup> Where the strength of students was between 175 and 520 except in CPS Navafalia (123).

lakh saved thereby could have been utilized for installing RO plants<sup>59</sup> in 98 schools in 2013 itself.

The DP Silvassa stated (February 2016 and May 2016) that higher capacity 250 LPH RO plants were installed in 2013 with a view to provide safe and potable drinking water to students and also to meet requirements in kitchen and hand washing; the estimation of 75 LPH RO plants in 2015 for the remaining schools was based on need based requirements. The reply is not convincing, as not only no need based estimation of requirements was made while installing RO plants in 2013, the need based estimation of requirements for the proposed installation in 2015 not only projected lower requirements of 75 LPH, the use of potable drinking water for hand washing (which is wasteful) was not included in the need based requirements of 2015. The DP Silvassa further stated (May 2016) that 250 LPH capacity RO plants were installed in 47 schools as a pilot project. The reply is not acceptable because the pilot project could have been limited to one or a few schools, and the implementation of 250 LPH RO plants in 47 schools without need based estimation of requirements is wasteful and unjustified. The DP Silvassa has not furnished any reasons on why the 75 LPH RO plants were not installed, as planned, in 214 schools.

#### **2.7.5.5 Non-utilization of newly constructed school building**

The UT Administration allotted (January 2008) 2.00 hectares land at Khardi to the UT Mission Authority, Sarva Shiksha Abhiyan to construct a new building for the Kasturba Gandhi Balika Vidyalaya<sup>60</sup>. The school building was constructed in April 2010 at a cost of ₹ 56.68 lakh and the compound wall was constructed in June 2012 at a cost of ₹ 35.37 lakh.

It was observed that even after completion, the hostel-cum-school building was yet to be utilized, as the location was considered remote and unsafe to accommodate girls. Thus, the expenditure of ₹ 92.05 lakh was infructuous.

The DP Silvassa stated (February 2016) that the site of the building was selected in anticipation of future development in nearby areas, and that the building would be utilized after ensuring safety measures in the building.

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<sup>59</sup> With a capacity of 75LPH – unit cost worked out as ₹30,912 (including installation charges of ₹ 3,412).

<sup>60</sup> GOI scheme to ensure access and quality education to the girls of disadvantaged group of society by setting up residential schools at upper primary level.

The reply is unacceptable. Even if the site was chosen in anticipation of future development of nearby areas, the building could have been constructed later as required, instead of leaving it unoccupied for more than four years with need to provide additional expenditure on security measures to prevent trespass, theft and encroachment.

#### **2.7.5.6 Supplementary Nutrition Programme**

Between 2012-13 and 2014-15, the Ministry of Women and Child Development (MoW&CD) released GIA of ₹ 305.70 lakh towards the Supplementary Nutrition Programme (SNP) under the Integrated Child Development Scheme (ICDS), which was supplemented by releases of ₹ 639.56 lakh by the UT Administration.

The MoW&CD revised<sup>61</sup> (October 2012) cost norms<sup>62</sup> for food per beneficiary per day under SNP which were effective from April 2014 in respect of D&NH. The Annual Plan of 2014-15 of the CDPO incorporated the revised cost norms<sup>63</sup> under SNP and ₹ 6.00 crore was appropriated in the budget. It was noticed that the GIA for 2014-15 was restricted to ₹ 2.40 crore due to delayed revision (February 2015) of cost norms, resulting in underutilization of UT grants of ₹ 3.60 crore and also deprivation of more nutritious food to the beneficiaries under SNP during 2014-15.

The DP Silvassa accepted (February 2016) the audit observation and assured that such delays would be avoided in future.

#### **2.7.5.7 Implementation of Indira Gandhi Matritva Sahayog Yojna (IGMSY)**

IGMSY is envisaged to provide Cash Assistance (CA) directly to pregnant and lactating women in selected 52 districts, including Silvassa. Consequent to the enactment of the National Food Security Act, 2013, the MoW&CD revised (September 2013) CA from ₹ 4,000 (payable in three installments: ₹ 1,500, ₹ 1,500 and ₹ 1,000) to ₹ 6,000 (₹ 3,000 in two installments), with effect from 5 July 2013. As per the proposal made (December 2013) by the DP Silvassa for the year 2013-14, 858 beneficiaries were identified but CA was paid

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<sup>61</sup> To be rolled out in three years in various districts in a phased manner.

<sup>62</sup> (1) Children (6-72 months) from ₹ 4 to ₹ 6, (2) Severely underweight children (6-72 months) from ₹ 6 to ₹ 9 and (3) pregnant women and nursing mothers from ₹ 5 to ₹ 7.

<sup>63</sup> ₹ 12 per day for children (6-72 months) and ₹ 15 per day for pregnant/nursing mother/underweight children, as the DNH Administration decided to provide nutritional food considering local food habits of children adopting menu of food prescribed by the Medical department by providing additional grants.

(February 2015) only to 414 beneficiaries at the rate of ₹ 1,500 each (1<sup>st</sup> installment) instead of ₹ 3,000 (revised rates), resulting in short payment of ₹ 6.21 lakh. Further, delay in reconciliation of fund utilization details with the Ministry led to short/non receipt of funds during 2013-14 and 2014-15 resulting in non-payment of the 2<sup>nd</sup> installment of ₹ 12.42 lakh to these 414 beneficiaries and also deprived the remaining 444 beneficiaries their entitlement of benefit of ₹ 6,000 each. Audit also noticed that though beneficiary details were available with CDPO, DP Silvassa did not make any proposal to D&NH Administration for payment of CA in 2014-15. Further, the CA for 2013-14 was paid to the beneficiaries only in February 2015 as the CDPO did not obtain beneficiary bank account details at the time of proposal.

It is therefore evident that the intention underlying the IGMSY to provide nutrition to the pregnant and lactating mothers and by extension to the yet unborn and newly born children was not met.

DP Silvassa stated (February 2016) that CA was not revised as no official communication was available in this regard and amount of grants and utilization has been reconciled with the Ministry and fresh funds received during 2015-16. The reply is not acceptable because the revision orders of the Ministry of September 2013 were endorsed to all Directors ICDS of States/ UTs and there were frequent visits of the CPDO D&NH to the Ministry, indicating that there was sufficient opportunity for DP Silvassa to receive the communication. Further, DP Silvassa has also not explained why there were delays in reconciling expenditure in a timely manner with the Ministry. Also, the fresh funds received in 2015-16 did not contain the arrears of payments to the eligible beneficiaries for 2013-14 as, the DP Silvassa had made no demands in this regard.

#### **2.7.5.8 Implementation of Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA)**

RGPSA is aimed at strengthening the Panchayat Raj System<sup>64</sup>. As per the guidelines of the Ministry of Panchayati Raj, funds are to be allotted to the States/ UTs in two installments<sup>65</sup>. The Ministry approved (February 2014) total project cost of ₹ 299 lakh (Central share: ₹ 224.00 lakh; UT share:

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<sup>64</sup> The States/UTs were required to identify appropriate strategies and implement appropriate activities in a systematic and timely manner

<sup>65</sup> 50 *per cent* of the funds approved in the annual plan is to be provided in the first installment; the balance 50 *per cent* will be provided in the second installment after submission of UC for 60 *per cent* of the first installment.



₹ 74.94 lakh) and released (November 2014) ₹ 217.80 lakh<sup>66</sup>, which, in terms of Ministry's guidelines were deposited in a savings bank account of the DP Silvassa. Audit noticed that Ministry's release of ₹ 217.80 lakh exceeded the amount of ₹ 112 lakh (50 per cent of Central share) prescribed under the guidelines. Of this amount, DP Silvassa incurred only ₹ 82.48 lakh till January 2016 with no expenditure thereafter, resulting in poor progress in implementation.

DP Silvassa stated (February 2016 and May 2016) that ₹ 100 lakh was earmarked for construction of UT Training Centre which is under proposal stage, and the balance was earmarked for capacity building. The reply is not acceptable as even after lapse of more than one year of receipt of funds, the DP is yet to commence the construction of the Training Centre resulting in blockage of GOI funds (May 2016).

## **2.7.6 Other irregularities**

### **2.7.6.1 Excess stocking of asphalt**

As per Rule 137 of the General Financial Rules (GFR) 2005, care should be taken to avoid purchasing quantities in excess of requirement to avoid inventory carrying costs. The PWD D&NH purchased (May/June 2012) 233 MT asphalt valued at ₹ 104.65 lakh. Audit noticed (July 2015) that only 23 MT asphalt was issued from stock between July 2012 and June 2014 and 211 MT asphalt valued at ₹ 94.57 lakh was lying idle with the PWD resulting in blocking up of funds.

The DP Silvassa stated (February 2016) that asphalt was purchased for departmental use but the stock of asphalt was not utilized as the contract for procurement of aggregates could not be finalized, but that now half of the stock has been utilized. Subsequently, however, DP Silvassa informed (May 2016) that though half the stock of asphalt was transferred to the subdivisions, in reality, nothing has been utilised. It is therefore evident that failure of the DP Silvassa to synchronise procurement of aggregates required for road works with the purchase of asphalt resulted in the blocking of funds of ₹ 94.57 lakh for four years.

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<sup>66</sup> ₹ 108.90 lakh on 13 November 2014 and ₹ 108.90 lakh on 19 November 2014, Sanction letters of the grant were not available in DP Silvassa.

### 2.7.7 Working of Village Panchayats in D&NH

All the VPs of the UT have been entrusted with the responsibility for the planning and implementation of schemes in the areas of development and social justice relating to matters specified in the Second Schedule of the Regulation, 2012. VPs receive GIA from the UT Administration and also generate their own income through collection of Taxes, Fees, etc. Each VP is headed by the President who is assisted by the Panchayat Secretary. Details of receipt and expenditure of the VPs during 2012-13 to 2014-15 are given below:

(₹ in lakh)				
Year	Own funds (tax revenue)	Total Grants received	Total funds available	Total expenditure
2012-13	420.82	5,350.18	5,771.00	4,665.27
2013-14	440.08	7,477.41	7,917.49	5,275.36
2014-15	373.93	7,168.74	7,542.67	4,686.25
<b>Total</b>	<b>1,234.83</b>	<b>19,996.33</b>	<b>21,231.16</b>	<b>14,626.88</b>

The schemes are not directly implemented by VPs; funds are transferred by three departments<sup>67</sup> of DP who bifurcate works under District Panchayat and Village Panchayats; and in case of works taken up under VPs, the bills are forwarded to them for approval of payment to the contractor.

VPs collect building tax as per the D&NH Panchayat Imposition Taxes, Fees and Other Dues Rules, 1965 as amended in August 2009<sup>68</sup>. As per the Rules, Sarpanchs of VPs shall prepare assessment lists of buildings (showing serial number of building, details of owners, capital valuation or annual letting value and the amount of tax assessed thereon) at an interval of every four years. VPs are required to conduct periodical inspections to identify unregistered tax payers and expansions made on constructions. Further, the General Body Meeting of the DP held in May 2002 decided to collect property tax at the rate of ₹ 5 per ₹ 1,000 of capital value from industrial buildings.

#### 2.7.7.1 Irregularities in assessment and collection of tax on buildings are discussed below:

- The VPs did not maintain a computerized database of assessment and collection of tax. Tax assessment records were maintained unsystematically and progress on assessment, collection, outstanding tax was not monitored.

<sup>67</sup> (1) PWD (2) RDD (3) SDSCO as per the orders (December 2010) of D&NH Administration.

<sup>68</sup> Rates of tax are fixed, ranging between 10 paise and 60 paise per ₹ 100 of the capital value of the building.

- Assessment list of buildings were never revised and tax assessed on industrial building based on the value declared by the owners at the time of acquisition of building instead of capital value (market value).
- The VPs did not conduct periodical inspections to identify unregistered tax payers and expansions made on constructions so as to prevent tax evasion. In two cases, it was noticed that tax collected was on lesser area of building than the occupancy certificate issued by Planning and Development Authority, resulting in non-assessment of building tax of ₹ 2.75 lakh.
- In the absence of provisions to levy penalty on delayed payment, tax payers did not pay tax on regular basis. Further, in six cases tax was levied at the rate of ₹ 3 and ₹ 4 instead of ₹ 5 per ₹ 1,000 of the cost of the industrial building in Rakholi and Dadra VP, resulting in short assessment of tax of ₹ 22.27 lakh. Audit noticed short assessment of building tax of ₹ 48.63 lakh from one industrial building due to non-assessment of tax for five years from 2008-09 to 2012-13.

The DP Silvassa stated (February 2016) that immediate remedial action would be taken to reduce deficiencies in assessment and collection of tax and tax short collected would be demanded after examination. No remedial action, however, has been taken as on date (May 2016).

### 2.7.8 Internal Controls

The Regulation and GOI/UT guidelines prescribe constitution of various committees/authorities, conduct of regular meetings, adoption of proper accounting procedure, conduct of internal audits, Grievances Redressal Monitoring Systems, etc., for better governance of the PRIs. Audit, however, noticed the following deficiencies:

Sl. No.	Provisions of Regulation/GOI and UT Administration.	Audit Observations	Reply of the DP Silvassa in February 2016
1.	DP of the D&NH (Meeting) Rules, 2014, prescribe general body of DP shall meet at least once in each quarter of the year.	DP held four (2012-13), two (2013-14) and one (2014-15) general body meetings during 2012-15.	DP assured that the matter would be taken up in the General Body Meeting.
2.	Section 8 (1) of the Regulation, 2012 prescribe every Gram Sabha shall hold at least four meetings in every financial year.	In nine <sup>69</sup> VPs, meetings of Gram Sabha were not conducted as prescribed.	DP stated that instructions will be issued to VPs to conduct more GS meetings.

<sup>69</sup> Information in respect of two VPs was not available.

3.	The Ministry of Panchayati Raj (MoPR) implemented Panchayat Enterprise Suite (PES) under E-Panchayat Mission Mode Project <sup>70</sup> consisting of 12 Core Common applications <sup>71</sup> .	The DP Silvassa incurred ₹ 39.82 lakh for implementation and roll out of applications of PES in 2013-14. Subsequently, PES was not updated resulting in non-availability of information on activities of DP Silvassa. The accounts of PRIs were also not maintained in PRIASoft <sup>72</sup> as required by the Ministry.	DP assured that PES will be updated
4.	As per recommendation of the Eleventh Finance Commission, the formats for preparation of budget and accounts and data base on finances of PRIs were prescribed by Comptroller and Auditor General of India in 2002, simplified in January 2009.	Since of rules for prescribing format of accounts were not framed, the accounts continued to be prepared by each Departments of the DP and consolidated accounts of DP was not prepared. Annual accounts prepared by the Chartered Accountant were not as per the format prescribed. Internal audit system was not there in DP and VPs.	DP stated that the matter would be taken up with Directorate of Accounts and UT Administration to address this issue
5.	As per Section 46 and 91 of Regulation, Administrative Report should be prepared by VPs and DP respectively and submitted to the competent authority.	Administrative reports of VPs and DP were neither prepared nor submitted to the competent authorities during 2012-15.	DP assured that Administrative Reports would be prepared from next financial year.
6.	Section 101 of the Regulation prescribes the Administrator to appoint an authority known as "Ombudsman".	D&NH Administration had not appointed an Ombudsman (January 2016).	DP stated that the matter would be taken up with UT Administration.
7.	District Panchayat introduced (November 2012) an Online Public Grievances Monitoring (OPGM) system to enable the public to register online complaints on the activities of PRIs. The Department Heads/ Village Panchayat Staff were required to address the grievances on daily basis and dispose the grievances within 12 days.	OPGM system was not monitored on regular basis since its implementation. The PRIs also did not have any other grievances redressal system. Thus, quality of services provided by PRIs to its citizens could not be measured properly.	DP assured OPGM would be restarted.

<sup>70</sup> With a view to introduce and strengthen e-Governance in Panchayati Raj Institutions (PRIs) across the country and build associated capacities of the PRIs for effective adoption of the e-Governance initiative.

<sup>71</sup> Panchayat Directory, Area Profiler, PlanPlus, PRIASoft, ActionSoft, Asset Directory, Service Plus, Social Audit, Training, Grievance, Panchayat Portals and Geographic Information System.

<sup>72</sup> Panchayati Raj Institutions Accounting Software

### **2.7.9 Conclusion**

Even after lapse of three years of notification of Regulation, 2012, the DP is yet to frame 51 Rules and seven Bye Laws relating to various functions of the PRIs. The D&NH Administration has devolved 12 functions fully and six functions partially to DP as against 29 functions envisaged in the Regulation. Participation of Gram Sabhas in the development process of rural areas was inadequate. Lapses were found in tender procedure and implementation of UT/GOI schemes. Property tax assessment and collection system in existence in VPs was deficient and not in accordance with the Rules resulting in revenue loss. Provisions of the Regulation were not followed as meeting of general body of DP were not held as prescribed, non- holding the Gram Sabha as prescribed, not updating the Panchayat Enterprise Suite (PES), non-consolidation of accounts of DP, non-preparation of administrative report, non-appointment of an Ombudsman and no redressal grievances system is available in PRIs.

The draft Audit Para was issued (October 2015) to the Ministry; reply is awaited as of June 2016.

### **Union Territory, Daman and Diu**

#### **Public Works Department**

### **2.8 Blocking of funds of ₹ 7.00 crore**

**Public Works Department, Daman & Diu irregularly withdrew and deposited (September 2011) ₹ 7.00 crore with Omnibus Industrial Development Corporation (OIDC) for purchase of ready built flat at Mumbai. The proposal was unsuccessful and was dropped in September 2014. At the instance of Audit, the amount was refunded by OIDC (April 2015), but no interest has been paid.**

According to Rule 290 of the Central Treasury Rules (CTR), no money shall be drawn from the treasury unless it is required for immediate disbursement; money should not be drawn from the treasury in anticipation of demands or to prevent lapse of budget grants. The Administrator of Union Territory (UT) of Daman & Diu (D&D) accorded (September 2011) Administrative Approval (AA) for purchase of ready built flat for D&D Sadan at Mumbai and authorized Executive Engineer (EE), Public Works Department (PWD) Daman, to draw and disburse funds to Omnibus Industrial Development Corporation (OIDC) D&D, a Government undertaking, as a Deposit work. Accordingly, the EE, PWD Daman deposited (September 2011) ₹ 7.00 crore with OIDC.

Between December 2011 and August 2014, OIDC invited tenders on five occasions for purchase of flat. All the tenders were cancelled due to reasons like non-response, receipt of single bid, non-qualification of bidders and property located near slum area. In September 2014, the Administration ordered that the proposal be dropped as it was considered more cost effective to stay in hotels than spending a huge sum for building a Sadan at Mumbai, a fact which was evident even at the time of taking a decision to acquire the flat.

In December 2014, audit pointed out that the deposit with OIDC remained unadjusted, following which, UT administration ordered the refund of ₹ 6.97 crore (after adjusting the expenditure incurred on tendering process), which was done in April 2015. However, the fact of premature and unnecessary parking of funds with OIDC contrary to the rules has resulted in undue financial advantage to OIDC in the nature of interest free loan. During the period September 2011 to April 2015, the average base rate<sup>73</sup> ranged between 9.70 per cent to 10.00 per annum. Taking the lower rate as the basis, OIDC is required to refund interest of at least ₹ 2.37<sup>74</sup> crore.

When this fact was pointed out to the department, it was informed that OIDC is following the CPWD Manual according to which no interest is payable in deposits. This reply, however, is not acceptable since the non-payment of interest on deposits is only applicable to institutions under the CPWD and OIDC does not belong to this category.

Thus, failure of the UT administration to analyse the cost benefit of owning a Bhavan vis-à-vis the option of staying at hotels and the decisions of the EE, PWD to deposit ₹ 7.00 crore with OIDC in advance of requirement, in violation of the CTR, resulted in blockage of Government funds for more than three years besides non-payment of interest of at least ₹ 2.37 crore.

The matter was referred to the Ministry January 2016, their reply was awaited as of May 2016.

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<sup>73</sup> Bank base rate is the minimum rate set by the RBI below which banks are not allowed to lend to its customers.

<sup>74</sup> ₹ 6.97 crore x 3.5 years x 9.70/100

## 2.9 Idle investment due to non-utilization of Road Sweeper Machine costing ₹ 95.68 lakh

**Failure of Daman Municipal Corporation to finalise the annual maintenance contract since the purchase of Road Sweeper Machine in 2008 has resulted in the machine costing ₹ 95.68 lakh remaining out of operation since January 2010.**

In terms of paragraph 15.2.2 of the “Manual on Policies and Procedures for Purchase of Goods” issued by Ministry of Finance in August 2006, if the maintenance contract is to be entered into with the supplier of the goods, then suitable clauses for this purpose are to be incorporated in the tender enquiry document itself and while evaluating the offers, the cost component towards maintenance of the goods are also to be added in the evaluated tender value on overall basis to decide the *inter se* ranking of the responsive tenderers. Since, equipment with a lower quoted price may carry a higher maintenance liability, total cost on purchase and maintenance of the equipment over its projected lifecycle should be assessed to consider its suitability for purchase.

Daman Municipal Corporation (DMC) purchased one Street Sweeping Machine in March 2008 for ₹ 95.68 lakh inclusive of one-year warranty from date of delivery (22 July 2008). Audit observed that contrary to requirements, the tender enquiry documents did not contain provisions to incorporate the total costs on purchase and maintenance of the equipment over its projected lifecycle so as to reach a judicious decision on purchase. Instead, DMC mentioned in the supply order that separate comprehensive annual servicing and maintenance contract would be entered into every year. The supplier agreed (January 2010) to charge ₹ 7.91 lakh for the AMC. Though the free warranty ended on 21 July 2009, DMC did not conclude the AMC agreements with the supplier on the ground that the rate quoted was too high. The equipment went out of order on 30 January 2010 and continues to be out of operation, having been used for only 17 months. The DMC invited open tenders for AMC in July 2011 and October 2012, with no response.

In their reply (May 2015), DMC reiterated to audit that the AMC could not be finalized since the quotations from the supplier were on the higher side, and the open tenders did not elicit a response. The reply is not acceptable as, in terms of the procedure delineated in the Manual, the lifetime maintenance cost (including AMC) is required to be incorporated in the purchase price before comparing the offers leading to conclusion of purchase of the equipment. Further, at no time has DMC specified the appropriate rate of AMC against which rates quoted by the supplier etc., could be compared. The fact remains

that by not following judicious procedure, the road sweeper machine costing ₹ 95.68 lakh delivered in July 2008 could only be used for 17 months and has not been in operation since January 2010.

The matter was referred to the Ministry of Home Affairs (November 2015), their reply was awaited as of May 2016.

### **Union Territory, Lakshadweep**

#### **2.10 Irregular parking of Government funds and loss of interest**

**Poor financial management by Union Territory of Lakshadweep Administration led to parking of ₹ 11.23 crore to ₹ 41.64 crore outside Government account, resulting in loss of interest of ₹ 8.16 crore.**

Union Territory of Lakshadweep (UTL) Administration entrusted Shipping Corporation of India (SCI) with the running, manning and maintenance of five ships<sup>75</sup>. As per the agreement, SCI was to be granted advance against disbursement payable for each year in quarterly instalments based on the estimate that year as forwarded to UTL by the SCI.

Para 2 of Schedule B to Clause 5 of the agreement stipulated that the balance due to and from UTL Administration would be settled within 30 days by either party on receipt of Audit Certificate from the auditors of SCI. Adjustments could not be made against future instalments payable to SCI. In case of failure to pay the amount within the stipulated time of 30 days by either party, the defaulting party is required to pay interest at the ruling rate quoted by State Bank of India upto the date of payment or forwarding of cheque to the other party.

Audit observed that based on budget estimates of SCI, UTL had released ₹ 72.24 crore to SCI in 2009-10 which evidently was grossly in excess of requirements, since the expenditure for that year was only ₹ 38.27 crore. UTL Administration, however, did not enforce the agreement conditions mandating recovery of the balance and payment of interest on delay. Instead, SCI was allowed to adjust the balance against future payments from UTL and the position continues till date (May 2016). Details of surplus funds with SCI as per certified accounts are given below:

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<sup>75</sup> M.V.Tipu Sultan (date of induction in 1988), M.V.DweepSetu (12 November 1987), M.V. KhadeejaBeevi (21 January 1992), M.V. Hameedath Bee (21 January 1992) and MB Suheli (16 August 1987)



(₹ in crore)

Year	2009-10	2010-11	2011-12	2012-13	2013-14
<b>OB</b>	7.67	41.64	28.07	19.55	11.78
<b>Release of funds</b>	72.24	Nil	Nil	Nil	Nil
<b>Amount spent</b>	38.27	13.57	8.52	7.77	0.55
<b>CB</b>	41.64	28.07	19.55	11.78	11.23

UTL Administration has also not claimed interest in terms of the agreement on delayed payment of interest at the bank base rate<sup>76</sup> amounting to ₹ 8.16 crore<sup>77</sup> for the annual balances retained by SCI.

Thus, failure of UTL to enforce its agreement with SCI between 2009 and 2016 resulted in parking of amounts ranging from ₹ 11.23 crore to ₹ 41.64 crore with SCI and loss of interest of ₹ 8.16 crore thereon. Ministry of Home Affairs (MHA), Government of India (GoI) replied (January 2016) that though UTL had taken up the matter with SCI several times, no fruitful result was seen. SCI had not reconciled the accounts after 2011-12 and had met expenditure without the approval of UTL. Audit, however, is unable to accept that GoI is helpless in getting SCI to refund the balance along with interest as per the agreement, considering that SCI is a GoI Public Sector Undertaking.

### 2.11 Blocking of funds, recovery at the instance of audit and short recovery of interest

**In violation of rules, Union Territory, Lakshadweep deposited ₹ 8.39 crore in 2010-11 with Lakshadweep Development Corporation Limited for procurement of two long liners without adequate feasibility study, resulting in blocking of funds. On this being pointed out by Audit, the amount was refunded by LDCL in March 2015 along with interest, which however was short-assessed.**

Rule 100 (2) of the Receipt and Payment Rules, 1983 stipulates that no money shall be drawn from Government Account unless it is required for immediate

<sup>76</sup> Bank base rate is the minimum rate set by the RBI below which banks are not allowed to lend to its customers.

<sup>77</sup> Period	SBI Base rate	(₹crore)
2010-11	7.50	28.07 x 7.50% = 2.10
2011-12	8.50	19.55 x 8.50% = 1.66
2012-13	9.70	11.78 x 9.70% = 1.14
2013-14	9.80	11.23 x 9.80% = 1.10
2014-15	10.00	11.23 x 10% = 1.12
2015-16	9.30	11.23 x 9.30% = 1.04
<b>Total</b>		<b>8.16</b>

disbursement. It is not permissible to draw money from Government Account in anticipation of demands or to prevent the lapse of budget grants.

Union Territory of Lakshadweep (UTL) decided (September 2009) to procure two Long Liners<sup>78</sup> for the development of the Fisheries sector in Lakshadweep especially for deep sea fishing, processing and packaging the fish for export. Accordingly, the Directorate of Fisheries, UTL released ₹ 8.39 crore<sup>79</sup> to Lakshadweep Development Corporation Limited (LDCL) during 2010-11 for making stage payment in connection with the procurement. Central Institute of Fisheries Technology (CIFT) was appointed (October 2010) as the consultant for a fee of two *per cent* of the estimated cost plus service tax, against which, ₹ 3.97 lakh<sup>80</sup> was paid.

Based on the Separate Project Report prepared in consultation with CIFT, the Administrator raised concerns (December 2011) on the feasibility and financial viability of the proposal, and suggested (February 2012) exploring the possibility of leasing a vessel by inviting an International Expression of Interest (EOI). The UT administration, however, did not pursue the matter further, and the amount of ₹ 8.39 crore remained blocked with LDCL.

Thus, the UT administration had transferred ₹ 8.39 crore to LDCL even before the appointment of the consultant, conducting feasibility study, analysing financial viability of the project and the taking of final decision by the competent authority, thereby violating the Receipt and Payment Rules, 1983.

In reply to the Audit observation (December 2013/March 2015), the Directorate of Fisheries stated (October 2015) that LDCL had refunded ₹ 9.87 crore<sup>81</sup> including interest and the amount was remitted to Government account in April 2015. However, audit noted that out of this refund, ₹ 1.48 crore represented simple interest at 4.40 *per cent* only. However, the fact of premature and unnecessary parking of funds with LDCL contrary to the rules has resulted in undue financial advantage to LDCL in the nature of interest free loan. During the period October 2010 to March 2015, the average base rate<sup>82</sup> of a leading public sector bank ranged between 7.60 *per cent* and 10.00 *per cent* per month. Taking the lower base rate of 7.60 *per cent* as the basis,

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<sup>78</sup> Long line fishing is a commercial fishing technique. It uses a long line, called the main line, with baited hooks attached at intervals by means of branch lines.

<sup>79</sup> ₹ 4.50 crore in September 2010 and ₹ 3.89 crore in October 2010.

<sup>80</sup> ₹ 3.60 lakh in February 2011 and ₹ 0.37 lakh in June 2011.

<sup>81</sup> ₹ 9.54 crore in March 2015 (DD Nos 394479 to 394488) and ₹ 0.33 crore in April 2015 (DD No.394538).

<sup>82</sup> Bank base rate is the minimum rate below which banks are not allowed to lend to its customers.

LDCL is required to refund interest of at least ₹ 2.86<sup>83</sup> crore, against the amount remitted to Government account of ₹ 1.48 crore, leading to short refund of at least ₹ 1.38 crore on account of interest.

## **2.12 Blocking of Government funds**

**Disbursement of Government funds before initiation of land acquisition process resulted in blocking of ₹ 5.75 crore for more than 6 years and ₹ 14 crore from March 2014, without achieving the objectives.**

The Administrator, Union Territory of Lakshadweep (UTL) approved (February 2009) the acquisition of 24.26 acres of land in Agatti island for extension of the existing airport runway and one acre of land in Kalpitti island for installation of navigational aids and for development as an invitation island of Lakshadweep.

Even at the very first stage<sup>84</sup>, of sending requisition, the Director of Port Shipping and Aviation, UTL released (February 2009) ₹ 5.75 crore to the Land Acquisition Collector (LAC), which amount was deposited in the current account of Deputy Collector, Kavaratti at Syndicate Bank. The act of the Director Port Shipping and Aviation violated Rule 100 (2) of the Receipt and Payment Rules, 1983 which stipulates that no money shall be drawn from Government Account unless it is required for immediate disbursement. It is not permissible to draw money from Government Account in anticipation of demands or to prevent the lapse of budget grants. Further, the act of the LAC in depositing the amount into a bank account violated Article 284 of the Constitution which stipulates, *inter-alia*, that such receipts should be deposited into the Public Account; and Rule 7 of the General Financial Rules which reiterates, *inter alia*, that all such receipts should be brought into Government Account without delay. Unnecessary withdrawal from Government account adversely affects the cost of borrowing of Government.

Delays in acquisition occurred due to revision of the Master plan in June 2010, securing the environmental and coastal regulation zone clearances late (February 2013), further revision of the Master Plan in April 2013 and inaction of LAC despite periodic intimation and reminders. Meanwhile, the UTL Administration sanctioned an additional amount ₹ 14 crore which was drawn and transferred to the bank account of the Deputy Collector (March

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<sup>83</sup>  $8.35 \times 9 \times 7.60/2 \times 100$ .

<sup>84</sup> The stages include sending requisition to the land acquisition authority, notification for the land acquisition u/s4(1) of the Act, authorisation for notification, issue of declaration u/s/6(1), enquiry, issue of notice to the individual u/s19(1), award u/s 11(1 &2) etc.

2014) in further violation of the rules. Additional delay was caused by the enactment of the “Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013, which was implemented with effect from 01 January 2014. UTL Administration sought certain clarifications from the Ministry of Rural Department, which are awaited May 2016. Not even the preliminary notification for the land acquisition has been issued till date (May 2016).

Replying (June and October 2015) to the Audit observations, UTL Administration admitted the facts.

Thus, poor planning and absence of financial management by UTL Administration, resulted in blocking of public money of ₹ 5.75 crore for more than 6 years and ₹ 14 crore from March 2014, apart from impacting the Government borrowing cost to the tune of ₹ 5.30 crore<sup>85</sup>, without achieving the objectives.

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<sup>85</sup> ₹ 5.75 crore x 7.40 per cent x 7years = ₹ 2.98 crore  
₹ 14 crore x 8.27 per cent x 2 year = ₹ 2.32 crore

## CHAPTER – III : UNION TERRITORIES (REVENUE SECTOR)

### Andaman and Nicobar Administration

#### Directorate of Information, Publicity and Tourism

#### 3.1 Embezzlement of ₹ 51.42 lakh

**Failure of the Drawing and Disbursing Officer to periodically reconcile the accounts and furnish the bank reconciliation statements to the Pay and Accounts Office, as required under the Civil Accounts Manual, resulted in embezzlement of ₹ 51.42 lakh.**

In terms of the Civil Accounts Manual<sup>1</sup>, receipts through instruments/cash should be remitted into Government Account by the Drawing and Disbursing Officer (DDO) in the accredited bank of the department through prescribed challan forms. The receiving bank prepares daily receipt scrolls where the serial numbers of the receipt scrolls are recorded on the corresponding challans for the purpose of identification, and one copy of the receipt scrolls and challans is provided to the DDO. The DDO is required to prepare a weekly statement of receipts giving the details of the challans and the amount deposited, check the entries in the copy of the receipt scrolls with entries in the statement of receipts and reconcile any discrepancy with the bank, under advice to the Pay and Accounts Officer (PAO). The DDO is also required to forward to the PAO, a monthly bank reconciliation statement in prescribed form.

Records of the Directorate of Information, Publicity and Tourism (Department), Andaman and Nicobar Administration (Administration) revealed that contrary to rules, the DDO failed to periodically reconcile the Government receipts with the bank scrolls or to forward the monthly bank reconciliation statements to the concerned PAO.

Audit scrutiny of PAO compilation sheets with reference to Cash Book and other relevant records revealed that during the period from February 2011 to March 2013, the Department received cash totaling ₹ 20.79 lakh towards room rent, catering services, sound and light show at Cellular Jail, etc. Audit, however, noted that though the amount was shown to have been deposited into the Government Account through challans as per the Cash Book, the

<sup>1</sup> Para 1.10.2 (under “Receipt Scrolls and the related Reconciliation and Accounting procedures”) of the Civil Accounts Manual.

corresponding challans were not traceable in the PAO compilation sheets and not reflected in the Government Account. The copies of challans against which they were deposited into the Bank through serially numbered challans were also missing and could not be produced by the department. Meanwhile, based on the audit observations, the department further examined the records from 2007-08 onwards and found that in addition to the aforesaid amount, an amount of ₹ 30.63 lakh was also found missing.

The department confirmed (March 2015) the facts and stated that the matter was being handed over to Police authorities for further action. The concerned Head Clerk who handled the cash during the corresponding period has been suspended since April 2015 and Memorandum of Charge Sheet has been served to him (November 2015). Further developments are awaited (June 2016).

Thus, failure of the DDO to adhere to the provisions of the Civil Accounts Manual for periodic reconciliation of amounts deposited and credited into the Government Account resulted in embezzlement of Government money amounting to ₹ 51.42 lakh.

The matter was referred to the Ministry in October 2015; their reply was awaited as of June 2016.

### **Union Territory Chandigarh**

#### **3.2 Expenditure without Parliamentary approval and unauthorised retention of departmental receipts outside the Consolidated Fund of India**

**Police Department, Union Territory Chandigarh spent ₹ 1.25 crore on police recruitment between 2013-14 and 2016-17 by operating bank accounts with receipts amounting to ₹ 10.24 crore, in contravention of Constitutional provisions and Financial Rules.**

Article 266 of the Constitution of India mandates that all revenues received by the Government shall form the Consolidated Fund of India and no moneys shall be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution. Article 114(3) stipulates that no money shall be withdrawn from the Consolidated Fund of India except under appropriation made by law, that is, as passed by Parliament. Rule 6 of the Central Government (Receipts and Payments) Rules 1983 and Rule 3 of the General Financial Rules reiterate that all moneys received on account of

revenue or receipts shall without undue delay be included in government account.

The Inspector General (IG) of Police, UT Chandigarh has been conducting annual police recruitments (five in number) for the Chandigarh Police from October 2013 without submission of detailed demands for grants to Parliament for approval of the budget. For this purpose, IG Police Chandigarh has been operating savings bank accounts in public and private banks into which the IG Police Chandigarh deposited revenues like application fees for recruitment and met all day to day expenses on recruitment out of this account bypassing the Constitutional provisions. Details are given in the table below:

Name of the Bank				Date of opening	Date of closing
HDFC Bank Chandigarh	Sector 22			26.12.2013	13.01.2016
SBI GMCH Chandigarh	Sector-32			29.06.2015	Not closed yet as recruitment process for the year 2015-16 is under process.

Details of receipt and expenditure in the bank accounts from 2013-14 to 2016-17 (up to May 2016) as checked in audit are as under:

Year	Opening Balance	Receipts (₹)	Expenditure (₹)	Closing Balance (₹)
<b>HDFC Bank</b>				
2013-14	-	1,31,67,038	2,16,552	1,29,50,486
2014-15	1,29,50,486	51,74,369	89,97,923	91,26,932
2015-16	91,26,932	1,91,519	15,78,215	<b>77,40,236<sup>2</sup></b>
<b>SBI</b>				
2015-16	--	8,38,44,385	630	8,38,43,755
2016-17 & (up to May 2016)	8,38,43,755	-	16,56,705	8,21,87,050
<b>Total</b>		<b>10,23,77,311</b>	<b>1,24,50,024</b>	<b>8,21,87,050</b>

The matter was pointed out by Audit in May 2015, August 2015 and May 2016, the replies of IG Police UT Chandigarh (October 2015, January 2016 and May 2016) confirmed the facts in the table above. No reply was furnished however, on the conduct of recruitment process without Parliamentary budget approval.

The matter was referred to Ministry of Home Affairs (MHA), Government of India and Finance Secretary, UT Chandigarh (October 2015 and June 2016), following which, MHA directed (October 2015) Chandigarh Administration to offer their comments directly to audit. Comments are awaited as of June 2016.

<sup>2</sup> Deposited in government account in October 2015.

## CHAPTER – IV : UNION TERRITORIES (COMMERCIAL SECTOR)

### 4.1 Profitability of operations of hotels in Chandigarh Industrial and Tourism Development Corporation Limited

Chandigarh Industrial and Tourism Development Corporation Limited (CITCO) has not formulated a long term business strategy to improve the operational efficiency of its hotels. The hotels did not practice dynamic pricing, contrary to industrial practice. CITCO unnecessarily collected luxury tax on food and drinks from its customers. In variance to industry practice CITCO distributed five *per cent* of banquet collections to its hotel staff. Staff deployment is in excess of norms. CITCO has not formulated detailed Standard Operating Procedures. No efforts were made to inform customers that online bookings secured a discount of 20 *per cent*. Undue delay in renovation of Hotel Mountview caused substantial loss of business. Despite suggestion of the Board, no energy audit was conducted.

#### 4.1.1 Introduction

Chandigarh Industrial and Tourism Development Corporation Limited<sup>1</sup> (CITCO) was incorporated in March 1974, under the Companies Act, 1956 as a wholly owned Government company for industrial and tourism development in Chandigarh. CITCO operates three<sup>2</sup> hotels and four<sup>3</sup> cafeterias.

#### 4.1.2 Audit Objectives, Scope and coverage

The Audit covered operations of two<sup>4</sup> hotels of CITCO during 2012-13 to 2014-15. A review of these hotels was taken up with a view to assess efficiency and effectiveness of the operations. The turnover of these two hotels constituted 73.02 *per cent* of its aggregate turnover from tourism operations (hotels) during the three-year period under review. The audit was conducted from 15 April 2015 to 05 June 2015 and again from 13 July 2015 to 28 August 2015.

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<sup>1</sup> Formerly known as Chandigarh Small Industries Development Corporation Limited (CSIDC) before entrustment (January 1988) of additional functions of promotion of tourism and other related activities.

<sup>2</sup> Hotel Mountview (HMV), Hotel Shivalikview (HSV), Hotel Parkview (HPV).

<sup>3</sup> Cafeterias at Sukhna Lake, Kalagram, 'Chef' at Sec-17 and 'Drop-in' at Sec-34.

<sup>4</sup> Hotel Mountview and Hotel Shivalikview.



#### **4.1.3 Hotel Mountview (HMV)**

This hotel is the flagship hotel of CITCO having 145 rooms and 10 suites, a health club, two restaurants, a coffee shop and a banquet hall. It is the first hotel of Chandigarh to be awarded five-star classification in 2005.

After attaining a peak of ₹ 32.01 crore during 2010-11, the turnover gradually dropped to ₹ 22.49 crore during 2013-14. The expenses increased during 2012-13 and 2013-14, thereby squeezing the profit margin substantially over these years. Eventually the profit margin turned into loss (before depreciation) during 2013-14 and 2014-15. The main reason for decrease in turnover was decline in occupancy from 37.64 *per cent* in 2011-12 to 29.06 *per cent* in 2013-14, coupled with decrease in income per room night sold from ₹ 5,260 in 2011-12 to ₹ 4,122 in 2014-15 owing to discounted rates. The ratio of income from room rent to overall sales declined from 42.63 *per cent* in 2011-12 to 28.80 *per cent* in 2014-15.

#### **4.1.4 Hotel Shivalikview (HSV)**

HSV (erstwhile Janata Hotel) was commissioned in January 1990 and renovated in 2011-12. It has 104 rooms and four suites. Sales in HSV improved from ₹ 18.52 crore to ₹ 20.24 crore during 2013-14 and 2014-15. Due to increase in sales, the loss of ₹ 156.12 lakh in 2012-13 turned into a profit of ₹ 47.62 lakh during 2013-14 which further improved to ₹ 153.94 lakh in 2014-15 (before depreciation). Income from room rent, banquet and restaurant recorded an increase from 2013-14 onwards.

The important audit findings are given below:

#### **4.1.5 Audit findings**

#### **4.1.6 Non-existence of long term business strategy**

The Board of Directors (BOD) of CITCO sought (August 2012) to set a long term business strategy, and for each hotel to work out its own strategy. It was, however, observed that neither CITCO had worked out any strategy, nor undertaken any specific study for improving operational efficiency despite the BOD acknowledging stiff competition from other hotels as the reason for low occupancy. Even breakeven levels to judge the profitability of operations were not assessed.

The Management accepted (January 2016) that no such study was made and stated that the process of engaging a long term strategic consultant was in progress.

#### **4.1.7 Room rent**

##### **4.1.7.1 Non-dynamic tariff structure**

Against prevailing Best Available Rates (BAR) in the hospitality sector which moves with the market trends to meet local conditions like festivals, weekends, wedding season, etc., and allows for innovative and dynamic pricing, the hotels followed a rigid tariff structure decided each year. Further, room wise cost analysis was not carried out while deciding these rates. Despite approval by the BOD (April 2013), BAR regime was not implemented. Thus, the hotels were not able to optimize revenue from room rent by timely adjustments to the demand supply cycle of the industry.

The Management stated (January 2016) that the BAR rates for online portals were being handled by General Managers of the hotels as powers had been delegated to them recently.

The reply of the Management is not convincing as in another reply, it was confirmed by the Management that the hotels were operating on rack rates<sup>5</sup> and there were no specified BAR rates.

##### **4.1.7.2 Non-automation of Management Information System (MIS) for allowing discount**

Despite computerization, customized report of discounts accorded was not extractable for effective MIS. As a result, notes indicating discounts allowed against each guest were prepared manually at day end for approvals. The file containing such notes was neither indexed, nor page numbered for effective internal control. Further, the system was devoid of IT checks like validation for existence of sanction while processing bills.

Booking data of HMTV for the year 2012-13 in which the hotel had made 4677 bookings amounting to ₹ 3.84 crore by extending discount of ₹ 75.51 lakh, were scrutinized<sup>6</sup> in audit. A random sample of one *per cent* population was drawn to ascertain the validity of sanctions of discounts extended. The hotel

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<sup>5</sup> A hotel's rack rate is the full price at which rooms are sold to customers before discounts.

<sup>6</sup> Using IDEA software.

could not produce sanction notes for 28 *per cent* of the sample. This is indicative of insufficient assurance that discounts extended were approved by competent authorities, as required, and that there were no cases of unauthorized discounts.

The Management accepted (January 2016) that there is no specific/customised discount report, but assured that the manual files are now being numbered and kept date wise at the instance of audit.

#### **4.1.7.3 Non-availing of benefit available under luxury tax**

In terms of Section 6(1) of the Punjab Tax on Luxuries Act, 2009, where the charges for luxury provided in a hotel are inclusive of the charges for food and drink, on the application of the proprietor, the assessing authority may segregate the charges separately, i.e., charges for luxury and charges for food and drink. It was observed, however, that CITCO did not approach the assessing authority to avail of the benefit and made avoidable payment of ₹ 32.37 lakh as luxury tax on segregable value of ₹ 809.20 lakh of complimentary food and drinks during 2012-13 to 2014-15.

The Management stated (January 2016) that renting of rooms is a composite package and element of complimentary food cannot be bifurcated for renting of rooms, as most of the guests do not require this to be shown separately.

The reply is untenable as it is inconceivable that guests would prefer to opt for unnecessary payment of luxury tax, and the current practice of charging luxury tax on complimentary food and drinks is resulting in collection of excess luxury tax from customers, which could otherwise have been avoided by availing of the benefit under Section 6(1) of the Punjab Tax on Luxuries Act, 2009.

#### **4.1.7.4 Overcharging of luxury tax**

(i) The hotels sold rooms during 2012-13 and 2013-14 (till February 2014) having declared tariff (fixed/published tariff without discount) totaling ₹ 4,318.92 lakh at normal rates<sup>7</sup> totaling ₹ 3,092.30 lakh thereby allowing a discount of ₹ 1,226.62 lakh. However, luxury tax was collected and paid on declared tariff instead of normal rate as applicable under Punjab Tax on Luxuries Act, 2009, resulting in overcharging of luxury tax from customers amounting to ₹ 49.06 lakh. This point was raised by audit earlier (March

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<sup>7</sup> Rates charged after giving the discounts.

2014) after which the Management discontinued this practice but it is yet to refund the excess charged amount.

(ii) As per section 6(1) of the Act, luxury tax on banquets was leviable excluding food and drinks. However, CITCO collected the tax on food and drinks as well, resulting in undue collection of ₹ 33.47 lakh during the year 2011-12.

The Management accepted (January 2016) the overcharging of luxury tax and refunded (May/June 2016) the entire amount to the guests concerned.

#### **4.1.8 Food cost**

##### **4.1.8.1 Apportionment of service charge on food from collections**

CITCO apportioned five *per cent* of the banquet collections as service charge which is later distributed among the hotel staff. During 2012-13 to 2014-15, the hotels apportioned ₹ 192.70 lakh from its bills as service charge. However, the amount of service charge was not depicted on the face of the bill, meaning thereby that customers would pay additional tips to hotel staff in the belief that no service charge was levied separately. The Management stated (January 2016) that service charge being apportioned was treated as an expense and was thus deducted from the calculations of food cost charged. This is against industry practice, and is untenable, because it is not transparent, and also when viewed in the light of the fact that employee cost of the hotels is already high with respect to the turnover as mentioned in the paragraph below. By adopting the above practice CITCO had forgone revenue of ₹ 192.70 lakh.

#### **4.1.9 Manpower**

##### **4.1.9.1 High cost due to surplus manpower**

As per 'India tourism statistics 2011' the employment norms<sup>8</sup> in hotels of four star category and upwards is 204 employees per 100 rooms, whereas in HMV and HSV this ratio was found to be 250 and 320 respectively. In absolute terms HMV and HSV<sup>9</sup> were found overstaffed by 72 and 126 employees respectively against the industry norms. Moreover, against the industry norm for manpower cost at 30 *per cent* of turnover, the manpower cost at HMV ranged from 58.25 *per cent* to 68.29 *per cent* of total turnover and at HSV

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<sup>8</sup> 'India tourism statistics 2011' by the Market research division study of MoT, GoI.

<sup>9</sup> Though unclassified, HSV has been treated equivalent to a four star owing to its facilities.

from 54.35 *per cent* to 65.47 *per cent* during the three years ending March 2015. The financial implication of having surplus manpower in HMV and HSV amounted to ₹ 17.27 lakh and ₹ 30.23 lakh respectively during 2014-15. The Management had neither analysed the reasons for such high manpower cost, nor taken steps to rationalise the same so as to improve profitability.

The Management accepted (January 2016) that the manpower cost was higher, attributing it to regular employees and stated that this was likely to be reduced due to retirements in the near future.

The reply of Management is not tenable, since, as per CITCO policy, employees posted in its hotels can be transferred to other units, which has not been considered. Further, only 203 employees in the entire CITCO are due for retirement in the next five years, whereas the surplus in the two hotels alone is 198. Therefore, the reply of the Management does not indicate any analysis of incidence of high costs nor initiation of any proactive measures to reduce manpower costs.

#### **4.1.9.2 Manpower deployment**

a) For the predominant part of three years ending March 2015, HMV and HSV (in the case of HMV since 2008) remained without regular General Managers (GM). Against ₹ 15 lakh *per annum* Cost to Company (CTC) for its regular GMs, CITCO repeatedly advertised the post of GM on contract basis at CTC of ₹ 10 lakh *per annum*. Finally, CITCO re-advertised the post (February 2015) with increased CTC of ₹ 29.40 lakh *per annum*. However, on appointment of the GM for HMV, CITCO enhanced his emoluments to ₹ 35.28 lakh *per annum*, solely on the request of the selected candidate. This was much higher than what CITCO had assessed CTCs ranging from ₹ 22.80 lakh to ₹ 30.60 lakh *per annum* in other five star hotels in the region. Moreover, despite the higher salary the loss making HMV failed to set any quantitative business targets for the GM.

The Management accepted (January 2016) and stated that revenue targets were fixed for 2015-16.

Audit, however, further observed that the targets could not be achieved in 2015-16 also and the net occupancy of the hotel decreased from 33.15 *per cent* in 2014-15 to 31.49 *per cent* in 2015-16.

b) Staff cannot satisfy expectations in the highly competitive hotel industry without proper and regular training. The Management informed (March 2015) the BOD that lack of professionalism along with issues of staff motivation/attitude, updating of knowledge/skill etc., were weighing down the hotels' performance. Audit noticed that no training was imparted to HVM and HSV staff after the last training imparted to staff at HVM in May 2010. The Management stated (January 2016) that trainings were organized during 2015-16.

c) HVM did not have complete qualification details, photographs etc., of around 114 to 135 number of staff hired from service providers, for the kitchens and front office. Therefore, the Management was unaware of the qualification, experience and genuineness of the hired personnel, who were hired without police verification reports (PVR), despite clear guidelines of the Ministry of Tourism.

The Management stated (January 2016) that staff was hired on the recommendations of a committee, which ensured that all the documents were attached and kept on record.

The reply is not acceptable as none of these documents were found available with the Management.

d) The services of an employee (Commis-II cook) engaged on the rolls of the HSV were placed with UT Administration in 2005. However, the hotel failed to take reimbursement of ₹ 31.54 lakh paid as remuneration for the services rendered during February 2005 to March 2015 outside CITCO which is a direct loss to the hotel.

The Management accepted (January 2016) the findings and stated that the matter had been taken up with the UT Administration.

#### **4.1.10 Sub-optimal quality of services**

Quality of services has a direct bearing on the business in a hotel, which includes good quality of food, hygienic environment, room cleanliness, security of premises, behaviour of staff etc. Audit observed that CITCO's hotels lagged in customer satisfaction, as discussed hereunder:

a) Detailed Standard Operating Procedures (SOPs) regarding uniformity and quality of services to be provided in various sections of hotels dealing with its guests have not been formulated for HSV, even while detailed SOPs were formulated in HVM in February 2015.

The Management accepted (January 2016) the findings.

b) Systematic collection and analysis of customer feedback information was lacking. Feedback was obtained on paper feedback forms which were not indexed/maintained department wise to ascertain the areas with recurring problems. The feedback collection from HMV was just 2.41 *per cent* of the guests in 2012-13 to 2014-15, whereas in HSV, it was 1.86 *per cent* during 2013-14 to 2014-15. In the absence of proper feedback, areas for improvement remained unidentified.

The Management accepted (January 2016) the findings and stated that efforts are being made to obtain feedback from every customer. The Management further added (June 2016) that a feedback form is provided to each guest on check in and a message is sent on his mobile and through email after his check out to obtain the feedback.

However, only marginal improvement was noticed during January 2016 to March 2016 in customer response after the revised procedure was introduced.

#### **4.1.10.1 Inadequate business promotion**

##### **(i) Non promotion of hotel business**

Against an approved budget of ₹ 45 lakh for the specific purpose of advertising/publicity of the hotel properties, the hotels incurred an expense of ₹ 25.88 lakh. However, Audit noticed that out of this, ₹ 23.19 lakh was incurred on non-promotional advertising purposes like tenders, AMCs, etc., and only ₹ 2.69 lakh was spent on advertisement for promotion of core activity i.e., sale of rooms. The balance amount of ₹ 19.12 lakh remained unspent (March 2015).

The Management stated (January 2016) that they had participated in various tourism events and fairs etc., for promoting the hotels. The reply is not acceptable as only a meagre amount (six *per cent* of the total advertising budget) was spent on advertisement for hotel promotion. Further, the result of participation in promotional events did not reflect in the trend of occupancy in HMV which was continuously below 36 *per cent* during the period under audit.

**(ii) Inadequate online promotion and non advertising of discounts**

It was observed that though the hotels' official websites offered online bookings, only 94 bookings (or 0.29 *per cent* of the total 32,451 bookings) were made online during 2012-13 to 2014-15 at HMV. The website did not disclose that bookings made online were entitled to a discount of 20 *per cent*, and this fact was also not publicised in advertisements. Another website (<http://citcochandigarh.com>) continued to display room tariffs as applicable in October 2010<sup>10</sup>.

The Management stated (January 2016) that disclosure of discount was their prerogative. The reply can not be accepted since the BOD had approved discounts for online bookings and it is imperative for the Management to sufficiently and transparently disclose and publicise this, so that the occupancy ratio of the hotels can be improved and revenues maximised.

**(iii) Arrival of foreign tourists**

The share of foreign tourists visiting the hotels of CITCO decreased from 16.02 *per cent* in 2012-13 to 10.07 *per cent* in 2014-15. Though the BOD was intimated (April 2013) about the need to connect CITCO's properties on a Global Distribution System<sup>11</sup> (GDS) to push its presence in the global market to travel agents and bulk buyers, no subsequent analysis, action and corrective measure followed to contain the downward trend of this segment. The Management accepted (January 2016) the findings and stated that efforts are being made to increase visibility in the global market.

**4.1.11 Utilisation of assets**

**4.1.11.1 Loss of business due to undue delay in renovation work**

The renovation work of 23 rooms and four suites of HMV scheduled for completion in April 2013 was completed after a delay of two years. The renovation impacted the booking of the adjoining/nearby rooms as well, and thus the number of rooms not available for booking due to maintenance almost doubled as compared to 2011-12. Therefore, the number of room nights sold by the hotel decreased considerably during 2012-13 and 2013-14 from 18,066

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<sup>10</sup> As on May 2016.

<sup>11</sup> A worldwide computerized reservation network used as a single point of access for reserving airline seats, hotel rooms, rental cars, and other travel related items by travel agents, online reservation sites and large corporations.



to 13,447 nights respectively, resulting in business loss of ₹ 198.12 lakh<sup>12</sup>. Consequent to renovation, however, the number of room nights available and sold increased from 47,735 and 15,824 respectively in 2014-15 to 51,391 and 16,183 respectively in 2015-16 due to increase in available rooms.

The Management stated (January 2016) that time limit of the contract was extended from time to time on the justified grounds by competent authority and the delay in completion of renovation work of rooms was attributable mainly to convenience of guests, changes in drawing, finalization of fabric and wall paper, etc. As regards business loss, the same was worked out with a view to put pressure upon the agency undertaking renovation work and to counter their undue claims. The reply of the Management is not acceptable as lack of timely decision making in finalising the changes in drawings, etc., prolonged the renovation work, thus adversely affecting the occupancy of hotel, which is reflected in decrease in rooms nights sold as mentioned above. Moreover, the fact that quantification of business loss was done to put pressure on the agency, was mentioned for the first time in the reply to audit and is evidently an afterthought.

#### **4.1.11.2 Non letting out of vacant premises**

Oriental Bank of Commerce which was a tenant of HSV vacated the premises in December 2013. Despite receiving adequate prior notice of vacation, the Management delayed finalising the notice inviting tender for the new tenant by more than four months, leading to a loss of ₹ 11.95 lakh in rent. Further, though Andhra Bank, the new tenant was allocated the premises in October 2014, the Managing Director, CITCO, without BOD approval, permitted the new tenant to postpone possession till December 2014 and pay rent only from 18 April 2015, resulting in loss of rent income amounting to ₹ 25.96 lakh.

The Management stated (January 2016) that action to recover the rent from January 2015 was initiated.

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<sup>12</sup> Based on the Management's assessment of loss of ₹ 1.04 crore for a delay of four months and after taking average occupancy rate of room sold during the period.

Similarly, Audit observed (August 2015) that a restaurant<sup>13</sup> with an area of 1,443.17 square feet. was lying unutilized since its closure in March 2014 and CITCO had not made any efforts to utilize or rent out the area having assessed rentable value of ₹ 16.89 lakh for the unutilized period of 13 months. The Management has not replied to the audit observation.

#### **4.1.11.3 Star categorisation**

HMV was classified as a five-star hotel in 2005 and reclassification of the hotel was due in 2015. However, it was noticed that the hotel was not conforming on several counts to the revised guidelines<sup>14</sup> of the Ministry of Tourism, GOI issued in June 2012 and December 2014. The Management stated (January 2016) that the five-star classification of the hotel was still pending with the Ministry.

HSV was renovated and upgraded in 2012, with several facilities and specifications conforming to a four star categorization. However, the Management had not initiated any process for getting the hotel classified appropriately.

#### **4.1.12 Absence of energy conservation measures**

(i) The BOD suggested (May 2014) that 'Energy Audit' be conducted in CITCO's hotels to identify the possible areas for energy conservation. Though this would have effectively reduced<sup>15</sup> energy use by 20 to 30 *per cent*, no energy audit was conducted. The Management stated (January 2016) that consultants were engaged for energy efficiency related analysis. The reply is not tenable as the consultants cited by the Management, were engaged for piece meal items of work carried out from 1999 to 2014 only in HMV and no comprehensive energy audit was undertaken in either of the two hotels.

(ii) The Government of India promotes clean energy by encouraging installation of Solar Water Heating Systems (SWHS) in hotels etc. However, HMV and HSV have not installed SWHS. Had this been done, the installation

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<sup>13</sup> Yangtse restaurant at Hotel Shivalikview.

<sup>14</sup> For example, providing iron and iron board in each room, availability of bookshop, utility and a souvenir shop, each bedroom door fitted with viewport/ peepholes, verification of staff, mandatory trained lifeguard at swimming pool, etc.

<sup>15</sup> As per Bureau of Energy Efficiency (BEE) under the Ministry of Power, GoI.

cost of ₹ 42 lakh<sup>16</sup> would have been compensated by the substantially reduced electricity expense of ₹ 171.96 lakh spent by both the hotels on operation of electric boilers for their hot water requirements in the three year period 2012-13 to 2014-15.

The Management replied (January 2016) that a study for installations of SWHS in hotels, undertaken earlier, ruled out the feasibility of installation of SWHS due to sloping roofs at HMV and non-availability of space at HSV and further stated (May 2016) that the vacant area of 7,685 square feet on the rooftop in HSV<sup>17</sup> is non load bearing having only 3” thick slab supported on girders.

However, a copy of the above mentioned study was not furnished to Audit. Moreover, the reply in the case of HSV is not tenable, as the Management itself had, in February 2015, acceded to the proposal of one of its licensees (Andhra Bank) to install solar panels for Solar UPS System on the rooftop of HSV. Further, CITCO had also tendered (November 2014) an area of 800 square feet for installing mobile tower on the roof top of HSV<sup>18</sup>. These facts contradict the Management’s stand of non load bearing nature of the roof.

#### **4.1.13 Conclusion**

CITCO was successful in getting increased footfall in the Hotel Shivalikview after renovation, but Hotel Mountview could not maintain the market share in the five star hospitality business. Audit observed that profitability of hotel operations was adversely affected due to lack of long term business strategy, rigidity in tariff structure and resultant low occupancy. Controls were found lacking in automation of monthly information system for allowing discounts. There were instances of improper tax management, undue distribution of revenue as service charge and non-optimal utilisation of assets. The position was further aggravated by high manpower costs, inefficient energy management, lack of professional staff, suboptimal quality of services and inadequate business promotion activities.

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<sup>16</sup> Calculated at Haryana Renewable Energy Development Agency rate contracts of ₹ 8.40 lakh per SWHS of 5,000 lpd capacity in respect of requirement of around 15,000 litres per day (lpd) (@100 lpd per room at 70 per cent occupancy in respect of 155 rooms plus kitchen etc.) in HMV and 10,000 lpd in (@100 lpd per room at 70 per cent occupancy in respect of 108 rooms plus kitchen etc.) in HSV.


<sup>17</sup> A 10,000 litre per day capacity SWHS will require an area of about 3,229 square feet.

<sup>18</sup> HSV has a vacant space of 7,685 square feet on its roof top. A 10,000 litre per day capacity SWHS will require an area of about 3,229 square feet.

Five star classification of the Hotel Mountview is pending with the Ministry of Tourism and the Management had not initiated any process for getting four star classification for the Hotel Shivalikview. The hotels, particularly Hotel Mountview, need to adopt better and more efficient management practices to revive their market share.

The matter was reported to the Union Territory Administration in October 2015; their reply was awaited as of June 2016.

**New Delhi**  
**Dated: 14 July 2016**



**(MUKESH PRASAD SINGH)**  
**Director General of Audit**  
**Central Expenditure**

**Countersigned**

**New Delhi**  
**Dated: 15 July 2016**



**(SHASHI KANT SHARMA)**  
**Comptroller and Auditor General of India**



# **Annexes**

**Annex-I**  
**(Refer to Para No. 2.1.2)**  
**Details/Status of works**

Sl. No.	Project title	No of projects/ works	Initial approved cost (₹ in crore)	Fund allotted under	Expenditure incurred (₹ in crore)	Present status
1.	Refurbishment of Dolphin Resort of UT Administration	1	6.50	<b>Tsunami Rehabilitation Programme (TRP)</b>	14.81*	<b>Work in progress.</b>
2.	Two camps (Radhanagar and Dolphin) with 20 luxury cottages each	2	1.00	-DO-	(i) 8.87  (ii)*	i.- The Radhanagar work awarded on nomination basis to ANFPDCL, a PSU, to whom ₹8.87 crore was released. Project <b>dropped</b> . ii.- The Dolphin work was <b>completed</b> in December 2015. *Expenditure on refurbishment (Serial no.1) and construction of 20 luxury cottages at Dolphin (Serial no.2) awarded to same contractor and hence not bifurcated till final bill.
3.	35 room luxury boat	1	15.00	-DO-	0.39	Not found feasible. <b>Dropped</b>
4.	Two 15 pasenger mechanized luxury boats	2	4.00	-DO-	(towards tender/RFP and consultancy)	Not found feasible. <b>Dropped</b>
5.	50 Unit Marina at North Bay	1	7.50	-DO-		<b>Not taken up</b> though agreement was executed in July 2012.
6.	Canopy Walkways (Chidiyatapu and Mount Harriet)	2*	2.00	-DO-	5.62 (including ₹1.29 crore yet to be paid)	i.- Mount Harriet work <b>dropped</b> . ii.-Chidiyatapu work is at standstill from April 2012.

7.	Interpretation Centre	1	2.00	-DO-	2.25	<b>Completed</b>
8.	Sound and light show in Ross Island	1	3.00	-DO-	4.42	<b>Completed</b>
9.	Decompression chamber	1	0.50	-DO-	0.8	Installed in December 2011 but <b>not utilized.</b>
10.	Setting up of 12 mtrs. aluminium perforated dome hybrid planetarium system with astro park at science centre, Port Blair	1	0.50	-DO-	Nil	<b>Not taken up.</b>
11.	Procurement and maintenance of House Boat	1	0.05	<b>UT-PLAN</b>	Nil	Not found feasible. <b>Dropped.</b>
12.	Setting up of under water sports (procurement of submarine)	1	0.05	-DO-	Nil	Not found feasible. <b>Dropped.</b>
13.	Appointment of consultant for various tourism projects	1	0.25	-DO-	Nil	<b>Not taken up.</b>
14.	Contingency payment of M.V.Ramanujam	1	0.10	-DO-	4.57 (including liability of ₹3.34 crore)	Vessel purchased in March 2011 but ownership transferred to Directorate of Tourism only in November 2014. <b>Not utilized.</b>
15.	Up-gradation of sound and light show at Cellular Jail	1	0.65	-DO-	1.7	<b>Completed. Partially commissioned.</b>
16.	Setting up of Muscal Water Fountain at Port Blair	1	0.01	-DO-	Nil	<b>Not taken up.</b>
17.	Institutional funding for development of eco-tourism at South Andaman	1	0.15	-DO-	Nil	Not found feasible. <b>Dropped.</b>
18.	Providing basic amenities like toilet, sit out, drinking water facilities at various tourist sites at South Andaman	1	0.10	-DO-	Nil	<b>Not Taken up.</b>



19.	Institutional funding for development of eco-tourism at North and Middle Andaman	1	0.15	-DO-	Nil	Not found feasible. <b>Dropped.</b>
20.	Providing basic amenities like toilet, sit out, drinking water facilities at various tourist sites at North and Middle Andaman	1	0.10	-DO-	Nil	<b>Not taken up.</b>
21.	Development of Viper Island	1	0.15	-DO-	Nil	<b>Dropped</b>
22.	Integrated Tourism Circuits in XII Plan	1	0.20	<b>Ministry of Tourism</b>	Nil	<b>Not taken up</b>
23.	Development of the tourist circuit Port Blair-Neil-Havelock-Baratang	1	5.00	-DO-	0.18	<b>Not taken up</b>
<b>Total number of works</b>		<b>26</b>				

**Annex-II**

**(Refer to Para No. 2.7.2.1)**

**Details of Rules made by the UT of D&NH Administration as per Section 121 of D&NH Panchayat Regulation, 2012.**

Sl. No.	Name of the Rules	Date of Notification
1.	District Panchayat, D&NH Committee Rules, 2014	28 January 2015
2.	D&NH Election of Upa Sarpanch of a Gram Panchayat and President and Vice President of District Panchayat, Rules, 2014	27 January 2015
3.	District Panchayat of D&NH (Meeting) Rules, 2014	27 January 2015
4.	D&NH Panchayat No Confidence Motion Rules (against President and Vice President of District of Panchayat) 2014	27 January 2015
5.	Members of Dadra and Nagar Haveli Panchayat (Disqualification on Ground of Defection) Rules, 2014	27 January 2015
6.	D&NH Panchayat (Election Procedure) Rules, 2014	29 April 2015

## Annex-III

(Refer to Para No. 2.7.2.2)

## Devolution of functions given to PRIs in D&amp;NH

Sl. No.	Subject	Whether transferred to DP/VP (Transferred/ Not Transferred/ Partially Transferred)	Whether Funds received (Yes/ No)	If yes, name of the dealing branch
1.	Agriculture, including agricultural extension	Partially transferred	No	--
2.	Land improvement, implementation of land reforms, land consolidation and soil conservation	Fully transferred	Yes	Sub-Divisional Soil Conservation Department (SDSCO)
3.	Minor irrigation, water management and watershed development	Fully transferred	Yes	PWD-III (DP)
4.	Animal husbandry, dairying and poultry	Partially transferred	No	--
5.	Fisheries	No	No	--
6.	Social forestry and farm forestry	No	No	--
7.	Minor forest produce	No	No	--
8.	Small scale industries, including food processing industries	No	No	--
9.	Khadi , village and cottage industries	Consultative Role	No	--
10.	Rural housing	Fully transferred	Yes	Other Rural Development Department
11.	Drinking water (Rural)	Fully transferred	Yes	PWD-III (DP)
12.	Fuel and fodder	No	No	--
13.	Roads, culverts, bridges, ferries , waterways and other means of communication	Fully transferred	Yes	PWD-III (DP)
14.	Rural electrification, including distribution of electricity	Partially transferred	Yes	PWD-III (DP)
15.	Non-conventional energy sources	Fully transferred	Yes	Other Rural Development Department
16.	Poverty alleviation programme	Fully transferred	Yes	Other Rural Development Department
17.	Education, including primary and secondary schools	Only Primary Education fully transferred (Std. I to Std. VIII)	Yes	Elementary Education
18.	Technical training and vocational education	Consultative Role	No	--

Sl. No.	Subject	Whether transferred to DP (Transferred/ Not Transferred/ Partially Transferred)	Whether Funds received (Yes/ No)	If yes, name of the dealing branch
19.	Adult and non-formal education	No	No	--
20.	Libraries	No	No	--
21.	Cultural activities	No	No	--
22.	Markets and fairs	Fully transferred	No	--
23.	Health and sanitation, including hospitals , primary health centers and dispensaries	Partially transferred	No	--
24.	Family welfare	Fully transferred	No	--
25.	Women and Child development	Fully transferred	Yes	Child Development and Project Office
26.	Social welfare, including welfare of the handicapped and mentally retarded	Partially transferred	No	--
27.	Welfare of the weaker sections , and in particular, of the Scheduled Castes and Scheduled Tribes	Fully transferred	No	--
28.	Public distribution system	No	No	--
29.	Maintenance of community assets	Fully transferred	No	--

(Source: Information furnished by DP, Silvassa)

# Appendices

## Appendix-I

(Refers Paragraph 1.6)

## Details of outstanding inspection reports and paragraphs as on 31 March 2015

Name of the Union Territory	No. of inspection reports	No. of paragraphs
<b>Andaman and Nicobar Islands</b>	467	1900
<b>Chandigarh</b>	943	2810
<b>Dadra &amp; Nagar Haveli and Daman &amp; Diu</b>	292	1369
<b>Lakshadweep</b>	161	876

**Appendix-II**

**(Refers Paragraph 1.7)**

**Year wise pendency of ATNs**

Sl. No.	Name of the UT	Report for the year ended March	Position of ATNs		
			Due	Not received at all	Under correspondence
1.	<b>Andaman and Nicobar Islands</b>	2014	4	4	-
2.	<b>Chandigarh</b>	2014	2	2	-
3.	<b>Dadra and Nagar Haveli</b>	2014	2	-	2
4.	<b>Daman and Diu</b>	2014	4	3	1
5.	<b>Lakshadweep</b>	2014	4	4	-
<b>Total</b>			<b>16</b>	<b>13</b>	<b>3</b>

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