3.4 Implementation of Projects on Deposit Work basis by LSGIs

Highlights

The LSGIs implemented a large number of projects through authorised agencies on deposit work basis. Though the works involved sizeable amounts, they were not monitored by the LSGIs leading to non-completion and abandonment. Lack of proper planning contributed to the defective implementation and deposit of amounts in excess of actual requirement.

- Entrustment of works without proper planning led to abandonment of works
  (Paragraph 3.4.6)

- Amounts transferred for execution of deposit works were treated by LSGIs as actual expenditure and included in their figures of financial achievement.
  (Paragraph 3.4.7.2)

- An amount of Rs.2.90 crore transferred to authorised agencies in excess in respect of 1234 completed works remained unrecovered.
  (Paragraph 3.4.7.3)

- The irregular decision of Kerala Water Authority to recover percentage charges from LSGIs made them liable to pay Rs.5.61 crore during 2002-06.
  (Paragraph 3.4.7.4)

- Implementation of a beach beautification project in Kozhikode without obtaining sanction for construction in the Coastal Regulation Zone had to be abandoned resulting in wasteful expenditure of Rs.15 lakh.
  (Paragraph 3.4.8.2)

- Construction of an indoor stadium at Kollam undertaken on deposit work basis was abandoned as a result of faulty design of pile foundation, leading to wasteful expenditure of Rs.8.06 lakh.
  (Paragraph 3.4.8.4)

3.4.1 Introduction

With the introduction of decentralised planning in the State, LSGIs were permitted to formulate and implement projects relating to functions transferred to them from 1997-98 onwards. The LSGIs implemented the projects through implementing officers and other agencies. Implementing agencies such as Kerala Water Authority (KWA), Kerala State Electricity Board (KSEB), Kerala State Housing Board (KSHB), etc. are called ‘authorised agencies’ and the works entrusted to them ‘deposit works’. The implementation of projects on deposit work basis by LSGIs was reviewed by Audit and is discussed in the succeeding paragraphs.
3.4.2 Audit Objectives
The audit objectives were to examine whether:

- sufficient planning was done before entrusting deposit works
- funds transferred were adequate
- unutilised funds, if any, were refunded
- implementation of deposit works was monitored effectively
- the internal control and monitoring system was effective.

3.4.3 Audit criteria
The following criteria were used for the review:

- Provisions of Kerala Public Works Account Code relating to deposit works.
- Government orders and guidelines issued in 1997-98 regarding deposit works.
- Project reports, design and estimate of deposit works.

3.4.4 Audit methodology and scope
The review covering the period from 2001-02 to 2005-06 was conducted during June and July 2006 with reference to the records of three Municipal Corporations, two District Panchayats, KWA office, Thiruvananthapuram, four Divisional offices each of KWA and KSEB and the District office of the Nirmithi Kendra, Thiruvananthapuram. In respect of KWA, records relating to the period from 1997-98 were also test checked. Evidence in support of audit findings/observations were gathered from the plan documents, expenditure statements, utilisation certificates, data furnished by the authorised agencies and files of the above institutions.

3.4.5 Audit Findings
The audit findings are discussed in the succeeding paragraphs.

3.4.6 Planning
Before entrusting a project to an authorised agency, proper planning of activities is to be carried out. This includes feasibility study, resource mobilisation, preparation of design and estimates, allocation of funds, identification of beneficiaries, etc. Mention was made in the Report (LSGIs) of CAG for the year ended 31 March 2004 about the irregular entrustment of

1 Kollam, Kozhikode and Thiruvananthapuram
2 Kollam and Pathanamthitta.
3 Kollam, Kozhikode, Pathanamthitta and Thiruvananthapuram.
construction of houses to KSHB by LSGIs without identifying the beneficiaries. Audit analysis revealed that 75 works entrusted to KWA were abandoned due to non-viability and 579 works could not be completed due to short provision of funds, non-provision of power supply and delay in supply of materials to KWA. Inadequate planning before entrusting works to authorised agencies resulted in the abandonment and non-completion of works leading to wasteful expenditure.

3.4.7 Fund Transfer

Government guidelines issued in August 1997 govern the transfer of funds to the authorised agencies for executing deposit works under People’s Plan Campaign. The funds are transferred by issuing cheques only after executing an agreement with the agencies in the form prescribed by the Government. The funds transferred and expenditure therefrom are to be accounted for by the LSGIs properly. Audit scrutiny revealed the following:

3.4.7.1 Records showing details of deposit works not maintained

The LSGIs test checked did not maintain records showing complete details of deposit works including funds transferred to the authorised agencies. Though LSGIs were required to enter the details of amounts advanced in the Advance Ledger as per Kerala Panchayat (Accounts) Rules, 1965, this was not done. The LSGIs also did not maintain a register of deposit works. As proper records were not maintained by LSGIs, Audit had to verify the records of authorised agencies to gather data about deposit works entrusted to them.

3.4.7.2 Amount deposited shown as final expenditure

The Government set (1997) separate financial target for each LSGI for implementing projects annually. It was also stipulated that LSGIs which did not achieve the targets were liable to lose from the allotment of Plan funds for the following year, by the amount which fell short of the target. Government also ordered that the funds transferred for executing deposit works should be deemed to be the actual expenditure by the LSGIs. This enabled the LSGIs to exhibit such amounts as expenditure although no actual expenditure was incurred on implementation of the projects. Those LSGIs which did not achieve the financial targets, transferred funds to the authorised agencies without proper planning and working out the details of works, with the intention of achieving the target. Thus, the Government order treating amounts deposited as final expenditure was contrary to the provisions of Accounts Rules regarding payment of advances. As the funds were treated as final expenditure, no monitoring of deposit works was done by the LSGIs resulting in avoidable locking up of funds as detailed below:-

3.4.7.3 Deposit works entrusted to KWA not monitored

As per the records of KWA, LSGIs entrusted 4009 deposit works to KWA during 1997-98 to 2005-06. As of July 2006, KWA had completed 3387 works as shown in the table below:-
Out of Rs.97.83 crore transferred for execution of the works, KWA utilised Rs.70.79 crore (including expenditure on incomplete projects). No monitoring of implementation of the deposit works was done and the balance amount of Rs.27.04 crore pertaining to the period from 1997-98 onwards was not claimed by the LSGIs. It was noticed during audit that the deposit amounts were taken as actual expenditure which led to non-monitoring of utilisation of funds by KWA. It was also seen that out of 3337 works completed, actual expenditure in respect of 1045 works was less than the deposit amount whereas actual expenditure was more in respect of 189 works resulting in retention of a net amount of Rs.2.90 crore by KWA. The LSGIs also did not take any action to recover the advanced amount in respect of 75 works abandoned by KWA. The details of actual amount deposited on abandoned works was not available with KWA.

### 3.4.7.4 Irregular decision of KWA to recover Centage Charges

Execution of deposit works by KWA is governed by Kerala Public Works Account Code (KPWA code), Government Orders\(^1\) and Guidelines\(^2\). As per the provisions contained therein, no centage charge (charges for meeting the administrative cost of deposit works) is recoverable from LSGIs, for undertaking deposit works. Paragraph 16.2.6 of KPWA code also prohibits recovery of centage charges from LSGIs. The Government guidelines reiterated that while undertaking such works under decentralised planning, KWA should follow the procedure prescribed in the work rules governing LSGIs. The State Planning Board clarified (September 2002) that no centage charges should be recovered from LSGIs for undertaking deposit works. KSEB had also exempted (September 1998) the LSGIs from payment of centage charges. KWA, however decided (April 2002) to recover centage charges at 12.50% per cent on all deposit works undertaken by them. The centage charge thus payable by LSGIs from 2002-03 to 2005-06 would work to Rs.5.61 crore. The decision of KWA to recover centage charges from LSGIs was against codal provisions and Government Orders.

### 3.4.7.5 Non-recovery of unutilised amount from authorised agencies.

The LSGIs executed several projects through authorised agencies such as Trivandrum Development Authority, KSEB and Niirmithi Kendra for which they deposited Rs.2.71 crore during the period from 1997-98 to 2004-05. As

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\(^1\) G.O (P) 676/97/Fin dated 6 August 1997.

\(^2\) GO (MS) 29/98/Ird dated 19 March 1998.
the amounts utilised by the agencies were less than that deposited, there was an unspent balance of Rs.31.53 lakh with them as shown below:-

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Name of LSGI</th>
<th>No of projects</th>
<th>Authorised agency which undertook the work</th>
<th>Amount Deposited</th>
<th>Amount utilised</th>
<th>Amount unspent balance</th>
<th>Period of deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Trivandrum Corporation</td>
<td>2</td>
<td>Trivandrum Development Authority</td>
<td>57.00</td>
<td>40.71</td>
<td>16.29</td>
<td>March 2000</td>
</tr>
<tr>
<td>2</td>
<td>Kozhikode Corporation</td>
<td>27</td>
<td>KSEB</td>
<td>175.54</td>
<td>169.67</td>
<td>5.87</td>
<td>1997-98 to 2002-03</td>
</tr>
<tr>
<td>3</td>
<td>Five LSGIs</td>
<td>7</td>
<td>Nirmithi Kendra</td>
<td>38.25</td>
<td>28.88</td>
<td>9.37</td>
<td>1997-98 to 2004-05</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>36</td>
<td></td>
<td>270.79</td>
<td>239.26</td>
<td>31.53</td>
<td></td>
</tr>
</tbody>
</table>

Since the LSGIs did not monitor the implementation of projects and utilisation of funds by the authorised agencies, there was accumulation of unspent balances. No action was taken by the LSGIs to recover the amount.

3.4.8 Defective implementation of deposit works

A review of deposit works implemented by various authorised agencies revealed that the works were not completed in time and hence the intended benefits could not be derived resulting in deprivation of benefits to economically weaker sections of the society. Further there were deficiencies in execution. LSGIs did not take any action against the agencies though there were conditions in the agreement enabling them to ensure timely execution of works.

3.4.8.1 Delay in completion of Thrikkannapuram Water Supply Scheme

Thrikkannapuram Water Supply Scheme is a project for constructing intake well, pump house, transmission main and treatment plant, distribution line, etc. with an outlay of Rs.5.93 crore, formulated by Thiruvananthapuram Municipal Corporation (TMC) during 1997-98 under decentralised planning with the objective of providing water supply to 25000 people of the locality. TMC deposited Rs.4.15 crore in nine instalments with KWA during the period from June 1998 to March 2006 out of which Rs.2.20 crore was deposited much ahead of commencement of work by KWA in October 2000. Even though several items of work such as treatment plant, distribution lines, wash water tanks, etc. costing Rs.1.76 crore were to be completed, TMC partly commissioned the scheme on 24 August 2005 after spending Rs.3.57 crore. The delay of more than eight years after releasing funds was unjustified especially in the context of transfer of sufficient funds by TMC much in advance of the requirement.

1 Kottayam and Pathanamthitta DPs, Mavelikkara Municipality, Kumarakom and Thalayolaparambu GPs.
3.4.8.2 Wasteful implementation of projects through Kozhikode Development Authority

Kozhikode Municipal Corporation (KMC) entrusted three city beautification projects with a total outlay of Rs.1.40 crore to Kozhikode Development Authority (KDA) on deposit work basis during 1999-2000. Though KMC deposited the whole amount of Rs.1.40 crore on 30 March 2000 with KDA, only one project was completed, one project remained incomplete and the work on the third project was abandoned in view of protest by fishermen. The details of the incomplete works are given below:

(Rupees in lakh)

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Name of Project</th>
<th>outlay</th>
<th>Amount deposited with KDA</th>
<th>Amount utilised by KDA</th>
<th>Unspent balance</th>
<th>Date of Commencement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Beach Beautification at Bhatt Road Junction</td>
<td>50.00</td>
<td>50.00</td>
<td>15.00</td>
<td>35.00</td>
<td>27.12.2001</td>
</tr>
<tr>
<td>2</td>
<td>Beach Beautification at Gandhi Road</td>
<td>50.00</td>
<td>50.00</td>
<td>-</td>
<td>50.00</td>
<td>Not started</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100</td>
<td>100</td>
<td>15.00</td>
<td>85.00</td>
<td></td>
</tr>
</tbody>
</table>

As no sanction was obtained for construction in the Costal Regulation Zone (CRZ), work at Sl.No.1 had to be stopped after spending Rs.15 lakh. Thus inadequate planning before entrusting works to authorised agencies resulted in expenditure of Rs.15 lakh becoming wasteful. No action was taken by KMC to get the unutilised amount of Rs.85 lakh refunded.

3.4.8.3 Conditions of agreement not enforced

Authorised agencies are required to enter into agreements with LSGIs before the LSGIs deposit the amount with them. The form of agreement prescribed by Government contained clauses stipulating completion of projects as prescribed by the LSGIs within due dates subject to conditions specified by the LSGIs. However, LSGIs failed to enforce conditions of the agreements leading to delay in execution of works and rendering accounts.

3.4.8.4 Construction of Indoor Stadium by Kollam District Panchayat

Kollam District Panchayat (KDP) decided (1997-98) to construct an indoor stadium at Kollam at an estimated cost of Rs.2.18 crore with the participation of all LSGIs in the district. KDP entrusted the implementation of the project to the District Collector, Kollam. The design and estimate of the work was got prepared by a private architect during September 2000 and technical sanction was accorded in December 2000. As per the design 70 piles having a total length of 690 meters were to be driven. The work was entrusted to a contractor in April 2002. He commenced the work and completed the pile foundation as per approved design. However, the load test conducted on the pile foundation proved that it was very weak. A reinvestigation conducted by LBS Centre for Science and Technology revealed that in order to have a strong foundation, the required length of piles was 1779 meters instead of 690 meters. As the contractor was not willing to execute the additional quantity of piling work at the existing rate, the work was stopped in January 2003. The expenditure of Rs.8.06 lakh incurred on the work so far, became wasteful. KDP had deposited Rs.54.46 lakh with the District Collector during 2002-03 and 2003-04 of which Rs.44.46 lakh was contributed by the Kollam Corporation. Though the envisaged share of all the ULBs was only Rs.24 lakh, Kollam Corporation
alone had contributed Rs.44.46 lakh. It was seen in audit that the Corporation paid Rs.34.46 lakh out of Rs.44.46 lakh after the stoppage of work in 2003-04. The unutilised balance of Rs.46.40 lakh remained with the District Collector as of March 2007. The faulty design prepared by the private architect and the failure to scrutinise the design properly resulted in abandonment of the project.

3.4.9 Internal control and monitoring

There was no effective monitoring system in the LSGIs enabling them to get the deposit works executed by the authorised agencies effectively and efficiently and in time. The Internal control system relating to deposit works was also not effectively enforced. The stipulation that the preparation of design, detailed estimate and plan should be completed before implementing any work was not complied with resulting in delay in execution. Since utilisation of the amount deposited, was not watched, the LSGIs were not aware of how much amount was utilised. In the absence of monitoring of implementation by LSGIs, works were abandoned or remained incomplete.

3.4.10 Conclusion

- Planning of deposit works was defective
- As the amount deposited was treated as final expenditure, the LSGIs did not monitor deposit works properly leading to retention of large unutilised amounts by the authorised agencies
- The internal control and monitoring system was weak leading to non-completion of projects.

3.4.11 Recommendations

- LSGIs should ensure that before entrusting a deposit work to an authorised agency, all parameters of planning are completed.
- LSGIs should ensure that the deposit amounts are watched through the Register of Advances and unutilised balances are recovered.
- Government should consider issuing orders for strengthening the internal control and monitoring system for implementation of deposit works so that the works are executed in time.