

## CHAPTER II

### RESULTS OF AUDIT

#### NAGAR NIGAMS

##### 2.1 Non-recovery of Advances from Individuals

###### Non-recovery of advances of Rs. 14.56 Crore

Temporary advances are paid to staff/individuals for making petty payments on muster rolls or other vouchers already passed for payment. The accounts of the same should be closed as soon as possible and unutilized cash balances refunded/recovered.

In 3 NNs, a sum of Rs.14.56 crore paid to officials/staff for various purchases/payments was outstanding against them for the last one to 30 years as per details below:-

(Rs. in lakh)

| Sl.No.       | Name of Nagar Nigam | Period           | Purpose              | Given to | Outstanding amount of advance |
|--------------|---------------------|------------------|----------------------|----------|-------------------------------|
| 1            | Agra                | As on 31-03-2004 | Purchase of material | Staff    | 801.50                        |
| 2            | Gorakhpur           | 1975 to 1986     | —do—                 | Staff    | 556.39                        |
| 3            | Bareilly            | 1975 to 2003-04  | — do —               | Staff    | 97.94                         |
| <b>Total</b> |                     |                  |                      |          | <b>1455.83</b>                |

Action to recover/adjust/write off the advances needs to be initiated and the monitoring mechanism strengthened to ensure speedy and timely adjustment/recovery. Unrecoverable amounts, if any, need to be written off by the State Govt.

### 2.2 Non-realization of Taxes, Rent and License fee

ULBs earn revenue out of their own resources through taxes, rent, fees, issue of licenses, tehbazari, taxi stand etc.

In 3 NNs, demand for Rs.19.05 crore was raised for 2003-04 out of which only a sum of Rs.8.82 crore was recovered during the year. A sum of Rs. 10.23 crore was outstanding against the tenants, licensees and contractors on accounts of rents, license fees and taxes etc. for more than one year as detailed below:-

(Rs. in lakh)

| Sl.No.             | Name of Nagar Nigam | Type                              | Demand for 2003-04 | Recovery during 2003-04 | Outstanding Balances as on 31.03.2004 |
|--------------------|---------------------|-----------------------------------|--------------------|-------------------------|---------------------------------------|
| 1                  | Agra                | Sampati & Vibhav kar <sup>1</sup> | 800.20             | 333.94                  | 466.26                                |
| 2                  | Ghaziabad           | Banner & Wall Paintings           | 10.01              | 5.00                    | 5.01                                  |
|                    |                     | Tehbazari <sup>2</sup>            | 3.93               | -                       | 3.93                                  |
| 3                  | Bareilly            | Water Tax                         | 287.40             | 132.10                  | 155.30                                |
|                    |                     | Water Charges                     | 130.70             | 9.76                    | 120.94                                |
|                    |                     | House tax                         | 252.14             | 99.28                   | 152.86                                |
|                    |                     | Sewer Tax                         | 69.02              | 22.88                   | 46.14                                 |
|                    |                     | Misc.                             | 352.14             | 279.45                  | 72.69                                 |
| <b>Grand Total</b> |                     |                                   | <b>1905.54</b>     | <b>882.41</b>           | <b>1023.13</b>                        |

Lack of action for recovery of outstanding dues by the NNs in terms of the UP Municipalities Act, 1916 implied that the NNs were deprived of revenue to the extent.

### 2.3 Loss of revenue due to non-recovery of road cutting charges

Bharat Sanchar Nigam Ltd.(BSNL) dug roads to lay under ground cables in NN Ghaziabad during 1988-89 to 1996-97 and 1999-2000 to 2003-04 and in NN Bareilly during 1999-2000 to 2003-04. Though bills were issued to BSNL for recovery of road cutting charges, a sum of Rs.3.81 Crore (Rs. 2.79 Crore at NN Ghaziabad and Rs. 1.02 Crore at NN Bareilly) was outstanding up to 31March 2004.

<sup>1</sup>Circumstances and property tax.

<sup>2</sup>Tax on trades and callings carried on within the municipal limits

Long period of delay in recovery of such a huge amount badly affects the financial position of NN besides adversely effecting public amenities to be provided.

#### **2.4 Non-realization of revenue due to non-disposal of**

##### **Octroi buildings(Chungi Chauki)**

Government of Uttar Pradesh directed (August 2001) all the Nagar Nigams to dispose off the buildings of octroi buildings (chungi chauki) which were not in use due to abolition of octroi in the state since 1989.

Based on a survey, NN Lucknow identified 17 such buildings for disposal at an estimated cost of Rs.1.59 crore. The disposal of these buildings was still pending (May 2005).

#### **2.5 Loss of revenue due to non deduction of Trade Tax**

Nagar Nigam Kanpur got works valuing Rs.13.95 crore executed through contractors between May1987 to June1988. However, no Trade Tax was deducted from the contractors' bills in terms of the UP Trade Tax Act 1948. On receipt of notice from the Trade Tax Dept. the Nagar Nigam paid Rs.55.78 Lakh between 1991 to March 2003 from its own fund instead of recovering the amount from the concerned contractors. Besides, a sum of Rs 0.42 crore was paid to the Trade Tax Department as penalty for delayed deposit of Trade Tax.

#### **2.6 Non realization of Revenue from sale of plots – Rs.87.12 lakh**

Nagar Nigam, Gorakhpur developed (1999-2000) 83 commercial plots of 72 square meters each @ Rs 2750.00 per square meter in Netaji Subhash Chandra Bose colony. As only 9 plots were sold at the above rate, it was decided by the board in October 2001 to offer the remaining plots at a discount of 25 per cent. Despite this, only 30 plots were allotted/sold as of May,2004 on discount basis.It was stated by the NN that the remaining 44 plots could not be sold due to their distance from the main road and proximity to high tension wires which is indication of faulty planning.

Thus due to lack of proper planning in selection of sites, the Nigam was deprived of the revenue of Rs.87.12 lakh (44x72x2750).

**NAGAR PALIKA PARISHAD****2.7 Non-realization of Rent, Rates and Taxes**

Rents, license fees and taxes under the UP Municipalities Act 1916 are a major source of funding for the NPPs. In 14 NPPs, realization of water tax, House Tax, Tehbazari, Carcass, Sewerage charges, Meter charges and Rent of shops etc. amounting to Rs. 8.61 crore were outstanding as on 31 March 2004. (Appendix-X)

Poor revenue collection reduced revenue generation from own resources, thereby reducing the overall availability of funds.

**2.8 Non-utilization of grants/fund**

In 13 NPPs test checked, grants/funds amounting to Rs 7.37 crore were received upto 2003-04 by the NPPs from various sources for construction of road/drainage, slaughterhouse, school buildings etc. Out of this Rs.4.45 crore was not utilized up to 2003-04. (Appendix-XI) Non-utilization of amounts deprived the citizens from various civic amenities envisaged to have been set up/strengthened using these grants.

**2.9 Loss of revenue due to non- recovery of fees for use of land**

The Electricity Department had to pay fees at prescribed rates to the Parishad for using land for various purposes.

In NPP Fatehpur, although notice of demand was issued, the Electricity Department did not pay a sum of Rs. 2.12 crore which was due for use of land as per details below:-

| Sl.No.       | Purpose of use of NPP land by Elect.Depptt. | Area of land /utilization of land | Period             | Rate Rs.                  | Amount (Rs. in lakh) |
|--------------|---|-----------------------------------|--------------------|---------------------------|----------------------|
| 1            | Electric Cell & tools                       | 6770 Sqm                          | 1981-82 to 2003-04 | 10 per sq.m.per month     | 178.73               |
| 2            | Transformers (86 Nos)                       | 535 Sq.m.                         | 1997-98 to 2003-04 | -do-                      | 3.85                 |
| 3            | Electric Poles poles                        | 3500 Nos.                         | 1997-98 to 2003-04 | Rs. 10 per pole per month | 29.40                |
| <b>Total</b> |   |                                   |                    |                           | <b>211.98</b>        |

Non-recovery of Rs.2.12 crore deprived the NPP from funds to finance various civic amenities.

#### **2.10 Loss of Revenue due to non-recovery of auction money**

With a view to earning revenue through its own resources, auctions were conducted by the NPPs for the use of its land for various purposes (Tanga stand, Sabjimandi, Parking, Mela, Slaughter house etc.) and contracts awarded.

In 2 Nagar Palika Parishads test checked, a sum of Rs.9.47 lakh was outstanding against the contractors due to non recovery of contract money from them [Rs. 7.45 lakh in NPP Badaun from 1994-95 to 2001-02 and Rs.2.02 lakh in NPP Kairana( Muzaffar Nagar)] from 1987-88 to 2002-03. The laxity in recovery of auction money implied that the NPPs lost out on sources of revenue to finance various civic activities.(Appendix-XII )

#### **2.11 Non-recovery of road-cutting charges**

Nagar Palika Parishads are empowered to recover compensation and to impose penalty for any damage to roads, drainage or brick works under its jurisdiction.

In NPP Bindaki (Fatehpur), an amount of Rs. 4.91 lakh remained to be recovered since 2001-02 from the telephone department on account of road cutting charges, penalty for damage to new water pipe lines and compensation for damage of drainage till September 2004 which could have been utilized to repair the damages caused to roads.

#### **2.12 Non-receipt of Deed fees (Vilekh Shulk)**

According to the Uttar Pradesh Nagar Palika Act 1916 and sub section (1) of section 128 of the Indian Stamp Act 1899, Nagar Palika Parishads may impose a tax on deeds of transfer of immovable property situated within the limits of the Nagar Palika Parishad for which stamp duty may be increased by two percent on the amount or value of the consideration with reference to which the duty is calculated under the said Act. All collection resulting from such increase after deduction of incidental charges were to be paid to the NPP.

In NPP Kannauj, from the year 1998-99 to 2002-03, a sum of Rs 48.28 lakh pertaining to the deed fees was not received from the Registration Department as per details given below despite reminders from the NPP.

| Year         | Amount(Rs)        | Remarks              |
|--------------|-------------------|----------------------|
| 1998-99      | 655445.00         | Excluding March 1999 |
| 1999-00      | 978259.00         |                      |
| 2000-01      | 1013256.00        |                      |
| 2001-02      | 1238171.00        |                      |
| 2002-03      | 943275.00         | Up to September-2003 |
| <b>Total</b> | <b>4828406.00</b> |                      |

Non receipt of such a huge amount deprived NPP from financial resources critical for various civic activities.

### **2.13 Statutory recoveries not deposited**

(i) According to the Uttar Pradesh Nagar Palika (Centralized) Service Retirement Benefits Rule 1981, the amount of pension contribution paid by a Nagar Palika under rule 11 is to be deposited in the pension fund account under the control of Director, Local Bodies.

In NPP Etawah, an amount of Rs.1.00 crore of pension contribution due from April 1985 to March 2003 was not deposited in the account due to non receipt of funds from the State Government. Payment of pension to 10 employees retired from September 1999 to December 2003 was also not made till June 2004 due to non availability of funds under the relevant head.

(ii) Under the provisions of the Provident Fund Rules, the amount of P.F. deducted from the pay of the employees viz. 10 per cent of the basic pay must be deposited in employees account opened in bank for this purposes.

In 2 NPPs test checked, it was noticed that an amount of Rs 1.34 crore (Rs.0.98 crore in Etawah and Rs.0.36 crore in Fatehpur) was not deposited in the employees bank account (March 2003) though deduction was made from salaries of the employees and spent elsewhere which resulted in hardship to the retiring employees.

#### **2.14 Excess expenditure over budget**

As per the provision laid down in the Financial Rules and section 103 of UP Nagar Palika Act 1916, expenditure in excess of budget is prohibited. Where the budget has been passed, NPPs cannot incur expenditure in excess of the amount passed under the head without making provision by adopting the prescribed procedure for regularizing such excess.

In 2 NPPs, excess expenditure of Rs.14.81 lakh was incurred over the budget provision under certain heads without making provisions for such excess and regularising the same during 2002-04 as indicated below:

(Rupees in lakh)

| Sl. No.      | Name of NPP       | Year    | Description                  | Budget provision | Actual expenditure | Excess expenditure |
|--------------|-------------------|---------|------------------------------|------------------|--------------------|--------------------|
| 1            | Saharanpur        | 2003-04 | (i)General Administration    | 36.00            | 39.79              | 3.79               |
|              |                   |         | (ii)Additional establishment | 1.50             | 3.83               | 2.33               |
| 2            | Bilaspur (Rampur) | 2002-03 | Sanitation                   | 31.20            | 32.33              | 1.13               |
|              |                   | 2003-04 | Sanitation                   | 30.00            | 37.56              | 7.56               |
| <b>Total</b> |                   |         |                              |                  |                    | <b>14.81</b>       |

Expenditure in excess of budget provisions and lack of adoption of prescribed procedures indicate weaknesses in the budgetary control.

#### **2.15 Non deposit/short deduction of Trade Tax/Income Tax**

In NPP Bindaki (Fatehpur), Trade Tax amounting to Rs.4.01 lakh was deducted from the contractors' bills during the period 2001-04. However, the same was not deposited in the Govt. Account till August 2004 violating the provisions laid down in the Trade Tax Act 1948 and depriving the Government of the revenue.

In the same NPP, a sum of Rs.0.86 lakh was recovered from the contractor's bills towards deduction of Income Tax at source during the year 2003-04 but was not deposited into Govt. Account till August 2004. Similarly in NPP Ghanaura (JP Nagar), expenditure of Rs.8.77 lakh was incurred for construction works done by contractors. Though a sum of Rs.0.20 lakh was to be deducted towards I.T., only Rs.0.18 lakh was deducted resulting in short recovery of Rs.0.02 lakh.

**2.16 Non adjustment of advances**

Advances given to employees for various purposes should be adjusted before the end of the year in which advances were given and new advances can be given only after the adjustment of the previous advance.

In Nagar Palika Parishad Mungra Badshahpur (Jaunpur), advance of Rs.2 lakh given to eight employees for purchase of material and various repair work etc. from 1986-87 to 2003-04 remained unadjusted till August 2004. **(Appendix-XIII)**

This shows the lack of internal controls in the NPP.

**2.17 Non-levy of penalty on contractors for delay in completion of work**

In NPP Palia Kala (Lakhimpur Kheri) agreements were made during October 2001 to January 2002 with contractors for execution of work. A penalty clause was introduced for delay in execution of work according to which a sum of Rs.50 per day was to be recovered from the contractor for each day of delay. Penalty amounting to Rs.0.37 lakh on account of delay in execution of work by contractors was not recovered till August 2004. **(Appendix-XIV)**



## **Nagar Panchayats**

### **2.18 Non-realization of Rent, Rates and Taxes**

(i) Against the demands of Rs.104.81 lakh for house tax raised by 18 NPs, Rs 79.53 lakh was lying unrecovered as on 31 March 2004 thus depriving the NPs of valuable revenue required for development and upkeep of various civic amenities. [Appendix XV(a)]

In 4 NPs {Gopamau (Hardoi), Mehnagar (Azamgarh), Katghar Lal Ganj (Azamgarh) and Kerakat (Jaunpur)} details of demand and collection for the year 2003-04 could not be ascertained in audit since no information was furnished in this regard.

(ii) In 20 NPs, miscellaneous dues of Rs. 65.37 lakh were outstanding against the tenants, licensees, contractors etc. as on 31 March 2004.

Outstanding dues deprived the NPs of resources required for carrying out its civic activities.

[Appendix XV (b)]

### **2.19 Idling of Fund**

Out of the grants for Rs.109.95 Lakh released for various purposes to 6 NPs from the various sources viz EFC, SFC and Revolving Fund, Rs.42.98 was kept idle (as detailed below). This resulted in idling of funds and deprived the public from intended benefits.

(Rs in Lakh)

| Source of fund | Amount released | Amount utilized | Amount kept idle |
|----------------|-----------------|-----------------|------------------|
| EFC            | 7.61            | 2.78            | 4.83             |
| SFC            | 81.84           | 52.55           | 29.29            |
| RevolvingFund  | 20.50           | 11.64           | 8.86             |
| Total          | 109.95          | 66.97           | 42.98            |

(NP wise details of amounts kept idle is shown in Appendix –XVI)

**2.20 Loss of revenue due to non-imposition/short levy of license fee**

U.P. Govt. vide order dated 27 October 1994 and dated 16 December 1997 circulated the enhanced rates of licence fees on various activities (shops, hotels, nursing homes, transportation etc.) which were applicable to NPs from 31 March 1999.

In 3 NPs test checked in audit, loss of revenue of Rs.11.63 lakh was noticed due to non-imposition/short levy of license fee up to August 04 resulting in availability of lesser resources for carrying on various activities by the NPs. (Appendix-XVII)

**2.21 Loss of revenue due to awarding contracts at lesser value****Loss of revenue amounting Rs. 8.28 lakh due to awarding contracts at lesser value**

Loss of revenue of Rs. 8.28 lakh was noticed in Nagar Panchayat Sasni, Mahamaya Nagar due to awarding contracts of Tehbazari, Painth Maveshi and Tanga Stand etc. at lesser value as against the value fixed by the Nagar Panchayat Board as detailed below:-

(Rupees in lakh)

| Sl. No | Particular                 | 2002-03    |              |             | 2003-04    |              |             |
|--------|----------------------------|------------|--------------|-------------|------------|--------------|-------------|
|        |                            | Rate fixed | Auction Rate | Difference  | Rate fixed | Auction rate | Difference  |
| 1      | Tehbazari                  | 3.0        | 2.22         | 0.78        | 4.00       | 2.50         | 1.50        |
| 2      | Painth Maveshi             | 1.00       | 0.40         | 0.60        | 1.00       | 0.41         | 0.59        |
| 3      | Tanga Stand Aligarh Gate   | 4.00       | 2.90         | 1.10        | 6.00       | 4.60         | 1.40        |
| 4      | Tanga Stand Hathras Gate   | 5.00       | 4.20         | 0.80        | 6.00       | 5.42         | 0.58        |
| 5      | Tanga Stand Vijaygarh Gate | 2.00       | 1.28         | 0.72        | 2.00       | 1.79         | 0.21        |
|        | <b>Total</b>               |            |              | <b>4.00</b> |            |              | <b>4.28</b> |

### **2.22 Loss of revenue due to non levy of stamp duty**

#### **Loss of revenue amounting Rs. 5.09 lakh due to non levy of stamp duty**

As per the Indian Stamp Act 1899 (as amended), Stamp Duty should be levied on agreement for contracts.

In 7 NPs test checked, though contracts were awarded for various purposes, agreements were not made on Stamp paper resulting in the loss of revenue amounting to Rs.5.09 lakh due to non levy of stamp duty. (Appendix- XVIII)

### **2.23 Non-deduction/short deduction/non deposit of Income Tax and Trade Tax**

#### **Non-deduction/short deduction/non deposit of Income Tax and Trade Tax amounting Rs.1.33 lakh**

Out of 7 NPs test checked during the period 2003-04:

(i) In 2 NPs<sup>3</sup>, Trade Tax of Rs. 0.34 lakh and Income Tax of Rs. 0.20 lakh deducted from contractor's bill were not deposited in Govt. accounts. (ii) In 4 NPs<sup>4</sup> Trade Tax of Rs. 0.48 lakh and Income Tax of Rs. 0.26 lakh was not deducted from contractor's bill while making payment. (iii) In 2 NPs<sup>5</sup> there was a short deduction of Income Tax of Rs. 0.02 lakh and (iv) In 1 NP<sup>6</sup> there was a short deduction of Trade Tax of Rs. 0.03 lakh from the contractor's bill. (Appendix- XIX). Besides extending undue benefit to the contractors this also violated provisions of the existing acts and deprived Governments of their revenue.

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<sup>3</sup> Shankar Garh (Allahabad) and Sasni (Mahamayanagar)

<sup>4</sup> Sarainmeer (Azamgarh), Meehnagar (Azamgarh), Katghar Lal Ganj (Azamgarh) and (Mahamayanagar)

<sup>5</sup> Jhalu (Bijnore) and Kerakat (Jaunpur)

<sup>6</sup> Kerakat (Jaunpur)

**2.24 Recommendations**

In view of the above audit findings, the following recommendations are made for consideration of the State Government:

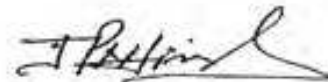
1. Internal control mechanisms at the level of Department of Nagar Vikas and Director Local Bodies as well as the level of individual Urban Local Body management should be strengthened to ensure the following :

- \* Accountability of irregular expenditure
- \* Prompt recovery/adjustment/write off of outstanding advances etc.
- \* Improving collection/realization of revenues;
- \* Preventing leakage/loss of revenue;
- \* Efficient and timely utilization of grants;
- \* Timely deduction and remittance of statutory taxes to Govt. Account.

2. The State Government should suitably amend the relevant Acts/Rules to incorporate the provisions for Annual Certification of Accounts of Urban Local Bodies by the statutory auditors.

**ALLAHABAD**

**The 25<sup>th</sup> day of August 2006**



**Sr. Deputy Accountant General**

**(Local Bodies)**