

CHAPTER- II

TRANSACTION AUDIT

2.1 Unfruitful expenditure.

Faulty planning on the part of NP led to non-utilisation of store tanks rendering the entire expenditure of Rs. 27.46 lakh unfruitful.

In NP Baddi area the water supply was being maintained/provided by the Irrigation and Public Health Department (IPH) and so was responsible for ensuring regular and sufficient water supply. The water connections in NP area were being released and charges collected by the IPH Department.

Scrutiny of records revealed that based on proposal initiated by NP, estimates for six water storage tanks of 20,000 litres capacity were got approved(July-August 2006) for Rs. 24.60 lakh from Executive Engineer (EE) IPH Nalagarh with a view to provide sufficient & regular supply of water to the public. The construction works were awarded by the Secretary NP between August 2006 and May 2007 at a cost of Rs. 31.10 lakh. Four overhead water storage tanks were completed (November 2006) at a cost of Rs. 17.16 lakh and remaining two tanks completed in July 2007 and December 2007 at a cost of Rs. 5.15 lakh each. However, these overhead water storage tanks were not made functional as of September 2008. The Secretary NP Baddi stated (September 2008) that these tanks could not be made functional due to non-testing of tanks. The reply reflects lack of interest in taking the project to its logical conclusion. Non-utilisation of six tanks constructed rendered the entire expenditure of Rs. 27.46 lakh unfruitful. It would appear from above that the NP approved the proposal without any real need for the same and constructed storage tanks without examining this necessity. The splitting of functions between NP and IPH department has resulted in the unfruitful expenditure of Rs.27.46 lakh..

2.2 Abandoned work.

Ineffective monitoring of developmental works caused abandonment of construction of commercial complex by the contractor and also resulted in time and cost overrun.

The construction of Commercial complex at Nalagarh consisting of Shopping complex, underground parking, Yatri Niwas and Community hall was awarded (September 2001) by MC Nalagarh to a contractor for Rs. 1.08 crore to be completed in two years. The objective of the commercial complex was to promote resource generating schemes and provide facilities to general public and tourists. The contractor started the work in November 2001 and upto May 2005, the contractor executed the work to the extent of Rs. 1.02 crore. Thereafter no work was executed by the contractor as of September 2008 and the work was lying in the abandoned state since May 2005. The contractor was levied (May 2008) liquidated damages of Rs. 11.00 lakh which was recoverable from him as of September 2008. The contract was rescinded (August 2008) under clause three of agreement by forfeiting his security. Non-completion of work even after seven years has resulted in unfruitful expenditure on incomplete structure besides resulting in time and cost overrun. Moreover, as this project was a commercial project, the MC has also been deprived of recurring revenue of Rs. 90.18 lakh which would have been derived from sale/auction of shopping complex. In reply, the MC stated (September 2008) that the contractor did not complete the work and his contract was rescinded. The contract for completion of remaining works would be awarded. The reply was not tenable as the MC has been ineffective in the monitoring and taken an inordinate time of three years for rescinding the work which in turn delayed the award of work for balance work.

2.3 Non-utilisation of funds under RGURF and NSDP.

Failure of Urban Local Bodies to utilize the funds under RGURF and SDP for construction of parking lots and on schemes for welfare of slum dwellers resulted in blocking of funds of Rs. 60.00 lakh and Rs. 14.15 lakh respectively.

2.3.1 Funds amounting to Rs. 60.00 lakh (Rs. 30.00 lakh each) were sanctioned (April 2007) in favour of MC Palampur and Una under Rajiv Gandhi Urban Renewal Facility (RGURF) for the construction of two parking lots. As

per condition of sanction these funds were required to be utilized within financial year 2007-08.

Scrutiny of records of MC Palampur and Una revealed that the above funds had not been utilized as of August/September 2008. In both the cases the works had not been started as the estimates for Rs. 38.43 lakh (Palampur) and 27.41 lakh (Una) were awaiting approval from Himachal Pradesh Public Works Department (HPPWD). The process for submission of estimates for obtaining approval was delayed considerably as the MC Palampur submitted the estimate in May 2008 and MC Una sent it in June 2008 whereas the funds were received in April 2007. Thus delay in submission also delayed the approval of estimates which ultimately resulted in non-commencement of these works and blocking of funds besides depriving the MCs from intended recurring income. The EOs of concerned MCs stated (August/September 2008) that works will be started on receipt of approval for estimates.

2.3.2 Guidelines of National Slum Development Programme (NSDP) provide that funds should be utilized promptly on the different schemes sanctioned for the welfare of slum dwellers.

Scrutiny of records of NP Baddi revealed that there was opening balance of Rs. 10.59 lakh as on 31st March 2005 and funds of Rs. 8.20 lakh were also received under NSDP between 2005-06 and 2007-08. Thus total funds of Rs. 18.79 lakh were available for utilization under NSDP but an expenditure of Rs. 4.24 lakh only had been incurred as of September 2008 leaving an unspent balance of Rs. 14.55 lakh. Thus funds had not been utilized for the purpose for which sanctioned and parked in the bank unnecessarily. The Secretary stated (September 2008) that after ascertaining the factual position, the funds would be utilized by framing schemes for the upliftment of slum dwellers. The reply was not tenable as no scheme has been sanctioned for utilization of unspent funds.

2.4 Excess expenditure on establishment.

Six Urban Local bodies incurred expenditure of Rs. 3.12 crore in excess of norms and failed to collect the outstanding taxes to the tune of Rs. 4.92 crore which could have been utilized thereby reducing the percentage of establishment expenditure.

As per section 53 (i) (c) of Himachal Pradesh Municipal Act and section 75 (i) of Himachal Pradesh Municipal Corporation Act, 1994, the expenditure on establishment charges should not exceed one third of the total expenditure of the ULBs.

In six⁶ ULBs (two MCs and four NPs) test checked, the expenditure of Rs. 3.12 crore was incurred in excess of prescribed norms during 2005-08. The concerned ULBs stated (April 2008 to March 2009) that the excess expenditure was due to limited sources of income and increase of allowances/regularization of services of daily waged staff etc. The reply was not tenable as excess expenditure was due to not taking effective steps to ensure optimum collection of various taxes which was in arrear to the extent of Rs. 4.92 crore. The execution of various developmental works could have been taken up with these funds and the limit of one third expenditure on establishment could have been ensured.

2.5 Non-providing of Ambulance Roads.

Municipal Corporation Shimla failed to construct Ambulance roads depriving the public from emergency transport facility and thereby blocking funds of Rs. 15.50 lakh.

The DC Shimla provided Rs. 23.50 lakh during 2001-08 to the Corporation for construction of Ambulance road in 15 localities of the Corporation area.

It was noticed that the work on 6 roads out of 15 roads costing to Rs. 15.50 lakh had not been started/completed as of August 2008 as under:-

(Rs. in lakh)

Year in which funds received	Numbers of works to be executed	Amount received	Expenditure incurred	Perusal status of work
2001-02	1	2.00	--	Not started due to Forest Area.
2002-03	1	1.50	--	Work in progress.
2007-08	4	12.00	--	These works not started due to disputed site and forest land.
Total	6	15.50		

⁶ MC Dharamshala Rs. 122.17 lakh, MC Dalhausie Rs. 50.60 lakh.
NPs Ghumarwin Rs.35.10 lakh; Jawalamukhi Rs. 60.82 lakh; Nagrota Bagwan Rs. 22.14 lakh and Sarkaghat Rs. 21.56 lakh.

It would be evident from above that 2 works costing Rs. 3.50 lakh sanctioned between 2001-02 and 2002-03 were not started/completed as of June 2009. Non-start/completion of above works has resulted in blocking of funds besides depriving the public from intended facilities. While admitting the facts, the EE of Corporation stated (June 2009) that these works could not be started/completed due to involvement of forest land and site disputes. The reply was not tenable as no concrete steps had been taken to address this issue before obtaining funds.

2.6 Non Execution of developmental works.

Failure to start the execution of developmental works of Rs. 3.08 crore resulted in blocking of funds besides depriving the public from intended benefits.

Funds amounting to Rs. 2.73 crore were received by the Corporation Shimla from various agencies⁷ during 1992-93 to 2006-07 for execution of 188 developmental works such as construction/repair of link roads, toilets and parking places etc. As per the sanctions, these works were to be completed within one year.

It was noticed that these works had not been taken up for execution as of August 2008. Non-execution of these works has not only resulted in blocking of funds but the very purpose of sanctioning the works also stood defeated. In reply, the Executive Engineer MC Shimla stated (August 2008) that the corporation was executing priority works and could not spare enough time for execution of above schemes. The reply was very evasive as the works were approved, based on proposals from the Corporation.

Similarly funds amounting to Rs. 35.03 lakh (MC Dalhousie Rs. 20.00 lakh, MC Dharamshala Rs. 8.06 lakh, NP Ghumarwin Rs. 6.97 lakh) were received between 2005-08 for the execution of various developmental works such as Rehan Basera (shelter to live), Paths and Community Hall etc. These works were required to be completed within one year from date of sanction.

It was noticed that these works had not been started as of March 2009. Thus non-start of work has not only resulted in blocking of funds but also

⁷ Deputy Commissioner, (DC) Shimla (130 works: Rs. 196 lakh), Divisional Commissioner, Shimla (17 works: Rs. 28 lakh) Director Urban Development Department (39 works: Rs. 38 lakh) & Director, Tourism (3 works: Rs. 12 lakh)

deprived the ULBs from recurring revenue from the completion of Rehan Basera and Community hall. The EO Dalhousie (November 2008) stated that the construction of Community hall could not be started due to non-finalization of site whereas other ULBs attributed the non-start of work to land dispute and non-availability of land. The reply was not tenable as the ULBs failed to ensure availability of freehold land for these schemes before sanctioning the works.

2.7 Non-utilization of balance funds.

Non-finalization of new schemes by Municipal Corporation Shimla resulted in non-utilization of funds of Rs. 19.00 lakh.

As per the condition for developmental works sanctioned by the sanctioning authorities, the Corporation after utilising the funds, was required to submit the utilisation certificates of each scheme/work to the sanctioning authority and refund the unutilized funds or obtain approval to utilise the unspent funds on other schemes/works.

Scrutiny of records of Corporation (July- September, 2008) revealed that funds for Rs. 1.41 crore⁸ were received by the Corporation from DC Shimla and Director UD for execution of developmental works like construction/repair of roads, toilets, parking places etc. during 1990 and 2007. All the works were completed between 2000-01 and 2007-08 by the Corporation at the cost of Rs. 1.22 crore leaving unspent balance of Rs. 19.00 lakh as of *March 2009*.

Although a period of one to eight years has elapsed after completion of works, the unspent balance of Rs. 19.00 lakh was neither refunded to the sanctioning authority nor any approval to utilise the unspent funds on other developmental works was obtained resulting in unnecessary blocking of Government funds. The EE stated (September, 2008) that the sanctioning authority was being contacted to allow unspent funds to be utilised for some other developmental works. The reply was not tenable as the unspent balance of Rs. 6.45 lakh & Rs. 9.25 lakh had been lying since 2000-2001 and 2002-03 respectively.

⁸ DC Shimla 61 works : Rs 72.00 lakh and Director UD works 82: Rs 69.00 lakh.

2.8 Non-utilisation of TFC funds.

Improper planning of ULBs led to non-setting up of Solid Waste Management Projects and blocking of funds Rs. 1.07 crore.

Detailed Project Report (DPR) for setting up of solid waste management (SWM) project at Nalagarh was got prepared (2006) from an Architect for Rs. 71.00 lakh. On the basis of DPR, funds amounting to Rs. 53.33 lakh were released (January 2007) by Director (UD) under TFC grants. Accordingly estimate for Rs. 34.81 lakh was got approved (March 2008) from Executive Engineer Himachal Pradesh State Industrial Development Corporation (HPSIDC) Baddi. The estimate was sent to the Director in April 2008 for fixing the date for opening of tenders. The Director proposed (May 2008) some additions and alteration in the estimate and revised estimate for Rs. 40.54 lakh was sent (July 2008) to the Director (UD) for according technical sanction. However, the technical sanction was awaited as of September 2008 and entire amount was lying un-utilised.

Similarly an amount of Rs. 53.33 lakh was released (December 2006: Rs. 26.66 lakh and January 2007: Rs. 26.67 lakh) for setting up SWM project in Palampur town. It was noticed that initially forest land in Mohal Tanda Guggar was got transferred (March 2007) from Forest Department. An amount of Rs. 2.55 lakh (Rs. 2.03 lakh for Net Present Value (NPV) and Rs. 0.52 lakh for Compensatory Afforestations (CA) was paid (March 2007) to Forest Department. However, the SWM project could not be executed in the selected site due to resentment by the local public. New site at Mohal Surad Mouza Bandla was selected and case for transfer of land in favour of MC Palampur was sent (May 2008) to DC Kangra. The decision to transfer the land was awaited as of August 2008. Thus due to frequent change in site ,the SWM project could not be established and funds lying un-utilised.

In reply the Executive Officer Nalagarh stated (September 2008) that the work could not be started for want of approval of estimate/technical sanction. The EO Palampur stated (August 2008) that the project could not be implemented due to resentment by the public. These projects have not been started as of June 2009.

Thus ,lack of planning has resulted in blocking of funds of Rs. 104.11 lakh besides wasteful expenditure of Rs. 2.55 lakh on payment of NPV and CA.

2.9 Non-reconciliation of Balances.

Non-reconciliation of figures of cash books and pass books has resulted in difference of Rs. 27.56 lakh.

Rule 19 (2) Chapter-III of Municipal Code 1975 enjoins that the cash balances of the accounts maintained with the bank should tally with the balances of the cash book at the end of every month by way of reconciliation.

Scrutiny of records of two MCs (Nalagarh & Dharamshala) revealed that a difference of Rs. 25.28 lakh between the cash balances as per cash books and that of bank accounts at the end of *March, 2008* remained unreconciled.

In NP (Nagrota Bagwan), test check revealed that the balance of Rs. 2.28 lakh for the year 2007-08 remained unreconciled. The un-reconciled balance not only reflect the incorrect financial status of the ULBs but possibility of misappropriation of Government funds could not be ruled out. The Executive Officers and Secretary of concerned ULBs stated (April 2008 to March 2009) that efforts were being made to reconcile the differences and final outcome would be intimated.

2.10 Non realization of rent.

Twelve ULBs failed to realize the rent of shops from allottees amounting to Rs. 1.58 crore.

Section 258 (i) (b) (2) of Himachal Pradesh Municipal Act, 1994 provides that any amount which is due to the municipality and remains unpaid for fifteen days after the same is due, the E.O/Secretary as the case may be, may serve notice of demand upon the persons concerned. The Act also provides that any sum due for recovery shall without prejudice to any other mode of collection, be recoverable as arrear of land revenue.

It was noticed in test checked 12 ULBs, (five MCs and seven NPs) **(Appendix-3)** that an amount of Rs. 1.58 crore on account of rent from persons to whom shops/stalls were rented out was outstanding as of March, 2008. Yearwise breakup of outstanding amount was not made available to audit. The concerned local bodies stated (April 2008 to March 2009) that notices had been issued to defaulters for recovery of rent, but no case for recovery as arrear of land revenue had been initiated.

2.11 Outstanding House tax.

Due to ineffective monitoring a revenue of Rs. 4.11 crore on account of house tax in ten ULBs remained outstanding.

In 10 ULBs (MC 4 and NP 6) (**Appnedix-4**) there was opening balance of house tax of Rs. 2.74 crore as on March 2005 and demand of Rs. 4.22 crore was raised during the period 2005-08. However, the collection of house tax was only to the extent of Rs. 2.85 crore during the corresponding period leaving outstanding balance of Rs. 4.11 crore as of March 2008. Obviously the pace of recovery was slow as even the current demand could not be recovered. Non-recovery of house tax has deprived the ULBs from revenue which could have been utilized for other developmental works. The concerned ULBs stated (April 2008 to March 2009) that cases would be filed against the defaulters for recovery of arrears.

2.12 Loss of revenue.

Non-revision of rates of house tax by six ULBs as per recommendations of SFC resulted in loss of revenue of Rs. 67.62 lakh.

The Director, Urban Development directed (*November, 2003*) all the ULBs that, as per the recommendations of the 2nd State Finance Commission there shall be a percentage increase in the rate of house tax every year so as to reach the level of 12.5 per cent at the end of 2006-07 from 7.5 percent as of 2002-03. Accordingly, the rates were to be enhanced at the rate of one percent each year from 2002-03.

In six test checked ULBs (**Appendix-5**) the instructions had not been followed for revision of rates of house tax resulting into loss of revenue to the tune of Rs. 67.62 lakh. The concerned officers of ULBs stated (April 2008 to March 2009) that action would be taken to revise the rates.

2.13 Un-discharged liabilities.

Failure to mobilize the resources by three ULBs resulted in creation of un-discharges liabilities on account of energy charges to the tune of Rs. 1.02 crore.

The ULBs had been maintaining street lights in their jurisdiction and the payment for electricity being supplied by the Himachal Pradesh State Electricity Board (HPSEB) was to be made based on bills raised by HPSEB. In

three test checked ULBs, un-discharged liability amounting to Rs. 1.02 crore (Dalhousie Rs. 55.48 lakh, Palampur Rs. 42.63 lakh and Dharamshala Rs. 3.76 lakh) on account of energy charges payable to HPSEB was outstanding (March, 2008). Year wise break up of arrears in all the cases was not made available. The reasons for un-discharged liability was attributed by the Executive Officers of concerned ULBs (November 2008, August 2008, March 2009 respectively) to weak financial position of these ULBs. The replies were not tenable as these ULBs failed to realize the revenue on account of various taxes to the extent of Rs. 3.77 crore (Dalhousie Rs. 70.64 lakh, Palampur Rs. 95.77 lakh & Dharamshala Rs. 2.11 crore) as of March 2008.

2.14 Outstanding advances.

Advances of Rs. 4.61 lakh were awaiting adjustment/recovery in two ULBs.

Financial rules provide that the advances made to individuals/contractors/suppliers for departmental purposes should be promptly adjusted and the unspent balances refunded/recovered immediately.

Test check of records of two MCs⁹ revealed that Rs. 4.61 lakh advanced during the years between 2000 to 2006 to Government officials had not been adjusted (March 2008). In MC Dharamshala, the amount of Rs. 1.08 lakh had been lying unadjusted since 2002-03. This is indicative of weak internal control mechanism to follow up regular adjustment of advances resulting in blocking of institutional funds.

2.15 Non-recovery of installation charges for Mobile Towers.

Failure to realize the installation/renewal charges of mobile towers by nine ULBs has resulted in loss of revenue of Rs. 6.00 lakh.

Himachal Pradesh Government authorized (August 2006) the ULBs to levy duty on installation of mobile communication towers at the rate of Rs. 10,000/- per tower and annual renewal fee at the rate of Rs. 5000/- per annum.

In nine ULBs, 43 mobile towers were installed in their jurisdiction during 2005-08 but the concerned ULBs had not recovered the charges of Rs.

⁹ Dharamshala: Rs. 1.08 lakh (2002-03) Nalagarh : Rs. 3.53 lakh (2004-06).

6.00 lakh (installation charges Rs. 3.60 lakh and renewal charges Rs. 2.40 lakh) as of March 2008 (**Appendix-6**). The concerned ULBs stated (April 2008 to March 2009) that action would be taken to recover the dues.

2.16 Conclusion.

Non-completion of works/projects within the stipulated period not only resulted in blocking of funds but caused undesirable delay in providing intended services to the beneficiaries. Accounting irregularities such as unreconciled balances, long outstanding advances were noticed. This was indicative of inadequacy of internal control and monitoring to ensure proper accounting of public funds. Lack of sustained drive for collection of tax, rent and other charges caused accumulation of dues which in turn added to fund constraints.

2.17 Recommendations.

- ❖ Effective steps should be taken to complete the works/projects so as to avoid the cost and time overrun besides providing amenities to the public in time.
- ❖ Overall financial management needs to be strengthened in ULBs for augmenting their financial resources by improving collection of revenue and speedy recovery of dues.
- ❖ Monthly reconciliation of balances and prompt recovery of advances should be ensured.