

Chapter–VI

TRANSACTION AUDITS OF URBAN LOCAL BODIES

6.1 Non surrender of unutilized Tenth Finance Commission Grants

Tenth Finance Commission (Tenth FC) allotted grants to Local bodies for their community development works. Local bodies were required to make matching contribution equal to Tenth FC grants received. Savings out of funds was to be surrendered to the Government after completion of the works. Following observations were noticed.

1. Tenth FC released grant of ₹ 27.31 lakh to Nadiad NP (NNP) during 1997-98 against which NNP made total contribution of ₹ 30.31 lakh which was in excess of ₹ three lakh. It was observed in audit that, out of available funds of ₹57.62 lakh, NNP spent ₹ 47.85 lakh (1998-2003) on five developmental works. From the balance of ₹ 6.77 lakh, NNP was required to be surrendered ₹ 3.77 lakh (₹ 6.77 lakh less ₹3.00 lakh) to Government. Non-surrender the balance fund of ₹ 3.77 lakh by NNP to the Government resulted in violation of TFC grant conditions by the NNP.
2. Nadiad NP against the Tenth FC grant of ₹41.37 lakh (1998-1999) received for proposed works, was required to contribute matching share and credit the amount in joint account operated for the purpose. The above works were required to be got sanctioned from the Director of NPs. Further the fund from the account was required to be withdrawn for intended purpose and on joint signature of President of NP and Mamlatdar only. It was observed that neither proposal for the works were sent to Director of NP (Director) nor the joint account was operated by the NNP instead the fund (1999-2001) of ₹ 41.37 lakh was drawn from the bank by the President of NNP and was deposited as fixed deposits and term deposits in various banks. Thus on 30th April 2009 NNP had accumulated fund of ₹ 44.59 lakh.
3. Director NP, Gandhinagar sanctioned (June 2000) Tenth FC grant of ₹ 18.69 lakh for nine proposed works of NNP. Technical sanction of ₹ 37.38 lakh to the works was accorded by Director (October 2004). NNP had incurred expenditure of ₹ 35.10 lakh as of 31st March 2003. NNP was required to refund amount of ₹ 1.14 lakh (50 *per cent* savings of ₹ 2.28 lakh) to the Government but till 2009 the amount was not refunded.

6.2 Non / Short recovery of liquidated damage, ₹ 31.74 lakh

As per clause 2 (I) and (III) of the terms and conditions of the standard tender, in case the contractor fails to complete the assigned work within the stipulated period he is liable to pay liquidated damage @ 0.1% of the contract value per day for delay (maximum 10% of the estimated cost value).

Scrutiny (January-July 2010) of records of five³¹ NPs revealed that though, the contractors failed to complete the works within stipulated period, liquidated damage from the responsible agency/contractors were not recovered. Due to inactiveness of Local Bodies, there was loss of ₹ 31.74 lakh as shown in **Appendix-XII**.

The COs of NPs stated (January-July 2010) that cases would be examined and wherever necessary, liquidated damages would be recovered.

6.3 Loss of revenue due to non revision of License Fee

Valsad NP (VNP) has total 951 Shops in ten shopping centres / markets owned by it. The shopping centres / markets were constructed during the period 1951 to 1995. The shops were given on lease to individual traders on certain terms and condition as laid down in the agreement.

As provided in clause 12 of the lease agreement, the shops were leased for a period of five years and on completion of the period, the occupants were required to hand over the shops to the NP. Nagarpalika at its discretion was to re-allot the agreement. License fee was fixed for a period of five years only and it was to be revised on completion of each five years.

Scrutiny of records of VNP for the period 2004-05 to 2005-06 revealed that the VNP completely failed to revise the license fee of all the shops of shopping centres and markets and also to change the lease/licensees since their inception, i.e. period ranging from 13 to 50 years. This resulted in potential loss of revenue to the VNP and indicated absence of monitoring and internal control.

On this being pointed out CO of the VNP accepted the objection and agreed (August 2008) to take necessary action to review and revise the license fee.

6.4 Pending Recovery of rent of property

According to Article 113 of Municipal Account code, NP should maintain Rent Register in prescribed form No. 69 and record transactions regarding lease of property. The property can be leased by NP to local people with specific terms and conditions and rent, should be recovered accordingly.

³¹Limbdi: ₹.16.95 lakh, Kheda: ₹ 4.31 lakh, Talaja ₹.2.92 lakh, Balasinor: ₹.0.12 lakh and Bilimora: ₹.7.44 lakh

While verification of records for the year 2005-06 of Nadiad, Mandvi and Borsad NPs, it was observed (October-2009-January 2010) that besides, improper maintenance of rent register and non renewal of lease deed at regular interval, rent amounting to ₹ 1.41 crore from 81 tenants (Nadiad: ₹ 1.29 crore, Mandvi: ₹ 0.07 crore and Borsad: ₹ 0.05 crore) was outstanding as of 31st March 2006.

Inaction of COs for recovery of dues, proved undue favour to tenants and financial loss to exchequer of NPs.

6.5 Non remittance of Education cess to Government Accounts

Under section 12 of Gujarat Education Cess Act, 1962, Education Cess is levied by Government and collected by ULBs. Government has fixed a ratio for grants to ULBs for maintaining Schools according to the percentage of collection and remittance of Education Cess by the ULBs.

Review of records (2003-06) of NPs Bilimora, Borsad and Limbdi it was revealed that, NPs were slow in recovery of education cess. As on 31-03-2006 outstanding recovery of education cess was accumulated to the tune of ₹ 39.08 lakh³². Due to non recovery of cess, the share which would have been payable by Government to NPs could not be received by them.

On this being pointed out it was stated (November 2009-January 2010) by the ULBs that efforts would be made for collection of outstanding education cess.

6.6 Non-maintenance of Basic Records

As per provisions contained in Municipal Account code 1948, each NP shall maintain basic records like Work Register, Stock Register, Loan Register, Grant Register, Bill Register, Cheque Register, Deposit Register, Assets Register etc. in prescribed format. For exercising control & Supervision over proper maintenance of accounts and to prove its authenticity the maintenance of basic records properly is essential.

Scrutiny of Records of the 10³³ NPs for the year 2003-06 revealed that, important basic records such as Assets Register, Grant register, Work register, Green Tree Register, Deposit Register, Stock Register and MB register were not properly maintained. In absence of such records audit could not ascertain correctness and accuracy of the accounting figures.

Non maintenance of basic records also indicated weakness in the internal control mechanism and monitoring.

³² Bilimora NP : ₹ 12.28 lakh; Borsad NP : ₹6.17 lakh and Limbdi NP : ₹20.63 lakh

³³ Dhanduka, Dharmpur, Borsad, Jambusar, Mandvi , Boriyavi, Talaja, Balasinor, Vapi and Harij

6.7 Non remittance of Birth/death Certificate fee in to Govt. Account

According to provisions of Birth / Death Registration Act, 1969 and subsequent rules framed by GoG, Birth / death Certificate registration fee is collected by PRIs/ ULBs. The income / fees accrued to the NP by virtue of registration of Birth/Death was required to be deposited in the Government Accounts as per Government instructions of July 1995.

During the course of test check of record (2003-06) of three NPs it was observed that fees of ₹ 0.69 lakh (Kheda: ₹ 0.21 lakh, Dharampur: ₹ 0.16 lakh and Vapi: ₹ 0.32 lakh) collected on account of registration of Birth / Death was not remitted to Government Account during 2003-06.

On this being pointed out it was replied (October 2009- January 2010) by the COs that the amount would be credited to Government Account.

6.8 Irregularities in implementation of works

6.8.1 Irregularities in implementation of works under Integrated Development of Small and Medium Towns

Under the Centrally Sponsored Scheme (CSS), 'Integrated development of small and Medium Towns' (IDSMT), launched by GoI, NPs contributing 25 per cent of fund for infrastructure development projects of their towns (such as commercial Shopping centers, Traffic works, water Supply and sewerage projects etc),and abiding conditions laid down in the scheme guidelines, could avail financial assistance of remaining 75 per cent (GoI:45 per cent and GoG:30 per cent).

Authorities of Vapi NP (VNP) prepared (2002) a plan for the development of better environment, fulfilment of future requirement of commercial places and better roads for transportation etc. in the town and submitted it for approval of GoI through Urban Development Department (UDD) GoG.

The plan estimated to ₹ 1.97 crore contained Commercial Schemes³⁴: ₹ 1.08 crore, Traffic and Transportation Schemes³⁵: ₹ 67.82 lakh and Miscellaneous Schemes³⁶ of construction of Storm Water drain: ₹21.79 lakh. VNP had expected net profit of ₹ 2.59 crore from leasing and renting shops, after liquidating the loans in 11 years.

³⁴ (i) Construction of shops and departmental stores on CTS-2261:Rs.50.29 lakh,
(ii) Construction of shops and departmental stores at 640/B/part-2:Rs.27.41 lakh
(iii) Construction of shops and departmental stores at Gokul market::Rs29.82 lakh

³⁵(i) Construction of roads at nine different sites :Rs.54.36 lakh
(ii) Construction of bridge at Namdha Khanki-T2: Rs.13.46 lakh and

³⁶(i)Construction of storm water drain:Rs. 21.79 lakh

GoI approved the project (March 2003) with GoI share: ₹ 88.71 lakh, State share ₹ 59.14 lakh and NPs share of ₹ 49.28 lakh. VNP was to contribute 25 per cent share either from its own fund or by raising loans from financial institutions. The project was to be completed by August 2008.

Gujarat Municipal Finance Board (GMFB), a nodal agency of GoG released fund of ₹ 1.51 crore (July 2003 and December 2006) to the VNP. According to the conditions of the scheme, VNP was to credit 25 percent of matching share of ₹ 37.71 lakh (total funds: ₹ 1.51 crore) in the separate bank account No.14814 in Bank of India. It was observed that VNP had short credited ₹16.80 lakh as it credited only ₹ 21.32 lakh (2003-08) in the said bank account.

Irregularities noticed in implementation of the works under the scheme are discussed in succeeding paragraphs.

6.8.2 Award of contract before acquiring land by VNP resulted in time and cost overrun of Rs.23.88 lakh, besides loss of income-Rs.2.46 crore

VNP, in the proposal submitted for approval to GoI, had stated that 872 meters of land required for construction of 37 shops and departmental stores at CTS-2261 was in their possession. It was envisaged that VNP would earn deposit of ₹ 1.48 crore for 37 shops and annual rent of ₹ 7.80 lakh. It was estimated that after 10 years, gross profit earned from this project would be ₹ 1.49 crore.

Though the said land was under encroachment, VNP awarded (December 2003) the work to an agency X. Tender cost of the agency was ₹ 42 lakh against estimates of ₹ 46.96 lakh. The work was to be completed by March 2005. VNP terminated (June 2006) the contract as clear site could not be handed over to the agency for two years after giving work order.

After removing the encroachment, VNP re-invited tenders for the work in August 2006 and work was awarded to an agency Y in October 2006 with tender cost of ₹ 57.40 lakh. The work was completed by the agency in October 2008 and expenditure incurred was ₹ 65.88 lakh.

Thus awarding of contract by VNP without possession of clear land, the project was completed by delay of 34 months and cost overrun of ₹ 23.88 lakh.

Even after completion of shops and stores, sanction of collector was pending to be obtained for auction of shops as of January 2010 by VNP.

VNP stated (January 2010) that as time was required to vacate the encroachment by rehabilitating the occupants, first contract was cancelled. VNP, further stated that the extra cost incurred on the works would be debited to its own fund.

The reply is not tenable as VNP should have ensured availability of land before taking up the project. Further, the delay in completion of shops resulted in cost

overrun of ₹ 23.88 lakh, time over run of 34 months, loss of income of ₹ 1.48 crore by way of receiving deposits of 37 shops and interest on these deposits to the extent of ₹ 59 lakh³⁷ besides loss of rental income of ₹ 39 lakh (at estimates of ₹ 7.80 lakh per annum) for five years.

6.8.3. Loss of revenue due to not initiating timely action by VNP for construction of shops - ₹43.62 lakh

The project of construction of 22 shops at revenue survey (RS) no. 640/B was approved by GoI in March 2003. VNP had estimated income of ₹ 1.09 crore as deposits of the shops and rental income of ₹ 2.20 lakh per annum from these shops. The 3440 square meters of land for the aforesaid project was obtained in April 2004 from the Collector. VNP delayed the tender procedure and awarded the work only in April 2007 to an agency and the work was completed in October 2008 at cost of ₹ 30.94 lakh against original estimates of ₹ 27.41 lakh. Thus due to late initiating tender procedures and awarding work, there was time over run of five years and cost over run of ₹ 3.53 lakh. Further, though the proposal for auctioning the shops were sent to collector, Valsad in September 2008, the same was yet to be approved (December 2010) as the permission from UH &UDD was awaited.

Had the proceedings been started immediately after obtaining GoI approval along with first award of works, VNP could have completed the works at least four years earlier and could have earned rental income of ₹ 8.80 lakh in these years and interest of ₹ 34.82 lakh on the deposits of ₹ 1.09 crore for shops. Further, due to delay in granting the permission for auction of the shops by collector/UH&UDD, VNP is suffering recurring loss of rental revenue and interest income.

6.8.4 Non construction of shops at Gokul market and diversion of funds

GoI approved the plan for construction of 25 shops at Gokul market area with estimates of ₹ 29.82 lakh in March 2003. VNP had anticipated income of ₹ 1.10 crore by way of deposits for shops and annual rental income of ₹ 0.50 lakh on completion of the project.

It was observed that due to non availability of land for parking place, the project could not be started. VNP neither intimated the factual position of cancelling the project nor surrendered the amount of ₹ 29.82 lakh received (December 2006) to GoG. Besides, part of the funds for this project was diverted for another project. Thus, due to non acquisition of required land timely and not considering the

³⁷ Interest calculated @ 8 per cent for total delay of five year

problem of parking place at the time of submission of proposal to GoI by VNP, project could not be materialized even though funds were available.

VNP stated (January 2010) that new proposal would be submitted for approval or the grant received would be refunded to the Government.

6.8.5 Conclusion

Following major irregularities were observed in implementation of IDMST works by Vapi Nagarpalika, besides loss of Government revenue

- Non monitoring of projects by GoG or Nodal agency GMFB in terms of financial as well as physical aspects.
- Approval of plans by GoI/GoG without ensuring availability of land and observing fulfilment of pre requirements
- Diversion of funds by VNP and improper planning delaying the works/non completion of works.
- Non achieving targets of income framed by VNP defeating the purpose of the scheme and depriving the town people from benefits of the scheme.

6.9 Pardi Nagarpalika utilized the funds received under NSDP beyond the scope of the scheme - ₹3.12crore

National Slum Development Programme (NSDP) was Centrally Sponsored Scheme launched by GoI with the aim of overall development of slum areas under ULBs. The scheme contained objectives of providing basic amenities like water supply, shelter, health care, sanitation, education and roads to provide connectivity. The scheme was to be monitored by Urban Development and Urban Housing Department (UD&UHD) through a nodal agency, Gujarat Municipal Finance Board (GMFB).

Pardi Nagarpalika (PNP) submitted (December 2002) project plan estimating ₹ 3.12 crore which was approved by GMFB. The project comprised of four components namely (i) Construction of slab drain (six works at ward no 1 to 3: ₹ 1.37 crore, (2) Water supply in ward no.1, 3, 4, 6 and 7: ₹ 40.79 lakh, (iii) twelve works of underground drain at ward no.1, 2, 3, 4 and 7: ₹ 1.33 crore and (iv) Culverts, drainage works at ward no.1, 2, and 3: ₹ 1.40 lakh. Funding by GMFB was through two modes, Grants: 30 *per cent* and loans: 70 *per cent*. As per conditions of the scheme, contract tendering was totally prohibited and the works were required to be implemented by NPs as departmental works or through registered community society (RCS), neighborhood committees or group of public institutes. Further, the works were to be started within three months from the date of receipt of approval and completed within two years

The amount received for these projects was to be credited in joint bank account of the chief officer (CO) NP and Mamlatdar, and could only be withdrawn only after prior permission of the GMFB and it was personal responsibility of CO and Mamlatdar in case the amount was withdrawn without permission of the GMFB.

Scrutiny of records revealed that GMFB had released in December 2004, ₹ 3.12 crore (loan: ₹ 2.19 crore and grants: ₹ 0.93 crore). As the works were to be implemented in slum areas, PNP was required to declare slum/pocket areas before execution of works. In the contrary no such declaration was made by PNP and the fund sanctioned was diverted for execution of road works.

6.9.1 Unauthorised aid to the agency

PNP awarded entire project works of ₹ 3.12 crore to an NGO (agency) in December 2002. The agency started the execution of works only in December 2003 after a delay of one year.

As per the condition of the scheme, PNP was initially to pay amount of ₹ 78.10 lakh (25 per cent of estimated cost of ₹ 3.12 crore). On submission of expenditure statements by the agency and ensuring that 80 per cent work was completed satisfactorily, PNP could further make payment of ₹ 78.10 lakh (25 per cent). However, Payment of ₹ 98 lakh was made by PNP between January-December 2004 without obtaining expenditure statements and survey report from the agency. Thus, excess payment of ₹19.90 lakh (₹98 lakh (-) ₹78.10 lakh) was made to the agency. Further, as against recovery of ₹ 7.06 lakh to be made (five per cent security deposit amount on ₹ 98 lakh: ₹ 4.90 lakh, income tax @ 2.2 per cent on ₹ 98 lakh: ₹ 2.16 lakh towards), PNP recovered only ₹ 3.80 lakh from the agency which resulted in short recovery of ₹ 3.26 lakh.

It was also observed that the agency executed the works of ₹ 79.39 lakh only. In spite of issuing reminders (November 2005 and July 2006) by PNP, agency had not completed the works.

6.9.2 Diversion of funds and irregularities in execution of works

PNP had awarded 55 road works with estimates of ₹ 2.00 crore to a trust (agency) in March 2006. Payment of ₹ 1.93 crore was made to the agency between April 2006 and April 2009 without obtaining technical report from the surveying authority. Agreement made by PNP with the agency was not having clauses containing conditions of risk and cost recovery and recovery of security deposit. It was observed from PNP records that the works executed were not as per specifications provided in the agreement.

Thus, PNP did not carry out the works as per approved plan and diverted the funds for works other than sanctioned works. Nodal agency GMFB also failed to

monitor the execution of NSDP works. The works to be completed within two years were considerably delayed. Release of second installment of fund was considerably delayed by GMFB which caused further delays in completion of various works. GMFB was required to conduct physical verification of the works under execution periodically and monitor utilisation of funds for the intended purpose. The records did not reflect whether these controls were adhered to by the GMFB.

The report was sent to UH &UDD on 3 December 2010 and exit meeting was held on 28 December 2010 with Secretary, Housing department, UH&UDD in which detailed discussion was held on the observations made in the report on ULBs. Agreeing with the observations Secretary, Housing department, UH&UDD that the detailed reply to the observations would be sent in due course.

Ahmedabad
The----- day of-----2011

(D P Yadav)
Sr. Deputy Accountant General (LBAA)
Gujarat

Countersigned

Rajkot
The----- day of-----2011

Accountant General (Civil Audit),
Gujarat