

CHAPTER- III

TRANSACTION AUDIT

3.1 Abandoned work.

Unfruitful expenditure of ` 13.60 lakh on construction of building at NP Bhota due to abandoned work by the contractor

The Director UDD released ` 10 lakh between October 2003 and April 2005 to NP Bhota for the construction of Rehan Basera building at Bhota Nagger Panchayat. The NP paid ` 0.22 lakh to Himachal Pradesh PWD authorities and Principal Govt. Polytechnic college Sundernager for obtaining the technical sanction of ` 12.25 lakh for civil works of the proposed building. Besides, the Director UDD accorded (October 2005) technical sanction of ` 1.78 lakh for site development. The estimates for water supply, sanitation and electrical fittings were not prepared.

The work (civil works) was awarded (July 2006) to a contractor for ` 14.98 lakh with stipulated period of completion as one year without entering into an agreement with the contractor. The proposed site of the building was handed over (July 2007) to the contractor after lapse of one year from award of work and an expenditure of ` 2.46 lakh was incurred on development of site and removal of trees. Between June 2008 and May 2009 payment of rupees 10.92 lakh made to the contractor upto 4th running bill. Only ground floor with brick work was constructed and lintel was raised on first floor Thereafter contractor did not execute any work and it was lying in the abandoned state since May 2009. The contractor issued legal notice to the NP for release of his security and earnest money on the plea that due to late handing over of site the circumstances had changed and he was not in a position to continue the work.

Thus failure of NP Bhota to enter into agreement and award of work and delay in handing over the site the whole expenditure of ` 13.60 lakh (Contractor: 10.92 lakh; development of site: ` 2.46 lakh and preparation of estimates: ` 0.22 lakh) has remained unfruitful. Secretary, NP Bhota while admitting the

facts stated that the permission to remove the trees on the site was received very late from forest department. The reply is not tenable because award of work without clearance of site and without entering into contract is indicative of the fact that the interests of NP were not safeguarded.

3.2 Blockage of funds under Urban Infrastructure Development for Small and Medium Towns

Non-execution of scheme under UIDSSMT resulted in blocking of funds of ` 110.63 lakh.

Government of India extended (2006-07) “Urban Infrastructure Development for Small and Medium Towns” (UIDSSMT) scheme for Mandi Town. As per scheme developmental works like roads, paths, drains, channelization of nallahs, etc., were to be executed. The approved cost of these works under UIDSSMT was ` 12.82 crore. The State Government declared Himachal Urban Development Authority (HIMUDA) as nodal agency for the execution of these works

It was noticed in audit that ` 95.39 lakh being the first installment were placed (July 2007) at the disposal of MC, Mandi. The EO, MC, Mandi parked the whole amount in the banks in the shape of FDRs and no amount was spent as of December 2009 for developmental purposes due to non-completion of codal formalities like preparation of estimates. This resulted in blockage of ` 1.11 crore (inclusive of interest of ` 15.20 lakh) as of December 2009 besides denial of intended benefits to the public.

3.3 Non-utilisation of Twelfth Finance Commission Funds.

Non-finalisation of land for setting up of Solid Waste Management Project (SWMP) resulted in blocking of funds of ` 1.60 crore.

Guidelines of TFC provides that funds sanctioned under the scheme should be utilized promptly.

It was noticed that Draft Project Report (DPR) was got approved (October 2007) for ` 1.91 crore for the construction of Solid Waste Management Project (SWMP) at Solan MC. The Director released (November 2007) ` 1.60 crore for the purpose with the instructions to implement the project on priority basis. It was noticed that the funds had not been utilized as of July 2009 due to non-transfer of land for construction of SWMP. This resulted in blocking of

funds and non implementation of the SWMP which was very essential in view of the Municipal Solid Waste (MSW) Rules, 2000.

3.4 Blocking of funds in Personal Ledger Account.

₹ 8.31 lakh remained blocked in PLA due to Improper planning by MC Mandi

MC Mandi is maintaining Personal Ledger Account (PLA) for crediting the grants received from government for execution of minor irrigation and water supply schemes in their jurisdiction. As per condition of the sanction the funds placed in PLA are required to be drawn from treasury within two months from the date of sanction and utilized within one year failing which the funds should be refunded to the government.

It was noticed that MC Mandi received (March, 2005) ₹ 8.31 lakh from Director, UDD and were deposited in PLA in the same financial year. The amount was lying un-utilized as of December 2009 in PLA as there is no work/scheme pending for execution for which funds were placed in PLA at the disposal of MC, Mandi. Thus non-utilisation of funds has not only resulted in blocking of the funds but public was also deprived of intended benefits. The EO while admitting the facts stated (December 2009) that the matter will be placed before the house for sanctioning of the schemes. The reply was not tenable as the funds should have been utilized within one year or refunded to the Government.

3.5 Revenue Management

Urban Local Bodies received funds mainly from GOI and the State Government in the form of grants. GOI grants include grants assigned under the recommendations of Eleventh Finance Commission (EFC) and Twelfth Finance Commission (TFC). The State Government grants are received through devolution of net proceeds of the total tax revenue on the recommendations of the State Finance Commission (SFC). Besides, revenue is also mobilized by the ULBs in the form of taxes, rent, fees, issue of licenses, etc. The State Government issues instruction to the ULBs for enhancement of rates for charging House Tax, installation of Mobile Towers and renewal charges of these towers etc. However, the ULBs are not adhering to the instructions of State Government to enhance the House Tax.

3.5.1 Non realization of rent.

Fifteen ULBs failed to realize the rent of shops from allottees amounting to ` 6.70 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 that in 16 ULBs, (Municipal Corporation Shimla, 7 MCs and 8 NPs) (**Appendix-9**), rent of ` 5.55 crore was pending recovery as on April 2006 against the allottees of shops/stalls owned by these ULBs. Further demand of ` 11.29 crore was raised against the tenants/ lessees of these shops/stalls during 2006-09. Against the total demand of ` 16.84 crore only ` 10.14 crore was recovered leaving outstanding rent of ` 6.70 crore as of March 2009 thereby showing increasing trend. The concerned local bodies stated (April 2009 to March 2010) that notices had been issued to defaulters for recovery of rent, but no case for recovery as arrear of land revenue had been initiated.

Non-recovery of rent had thus not augmented the financial resources of the funds starved ULBs.

3.5 2 Outstanding House tax.

Due to ineffective monitoring a revenue of ` 11.51 crore on account of house tax in 14 ULBs remained outstanding.

In 14 ULBs (MC:6 and NP:8) (**Appnedix-10**) there was an opening balance of outstanding house tax of ` 5.71 crore as on April 2006 and demand of ` 9.61 crore was raised during the period 2006-09. However, the collection of house tax was to the extent of ` 3.81 crore during the corresponding period leaving outstanding balance of ` 11.51 crore as of March 2009. It was further noticed that no house tax was collected by MC Solan and NP Chopal. The pace of recovery in other units 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 EO, MC Solan stated (July 2009) that the House did not approve the levy of tax as MC has already levied sanitary tax. The EOs/ Secretaries of other concerned ULBs stated (April 2009 to March 2010) that action would be taken against the defaulters for recovery of arrears.

3.5.3 Non recovery of Sanitary Tax

MC Solan failed to recover the sanitary tax of ` 36.29 lakh from a firm despite orders of the Court.

State Government vide notification No. 14-12/64-LSG (July 1964) imposed sanitary tax in Solan municipal area, at the rate of five percent of the assessed annual rental value of property tax. Sanitary tax at the rate of ` 30,825 per year was imposed upon a firm from the year 1964-65 and a demand notice issued in August 1994 to collect the sanitary tax beginning from the year 1964-65. The firm made provisional payment of sanitary tax of ` 0.62 lakh in March 1996 and filed (2003) a petition in the court against the imposition of sanitary tax. The court disposed off (2003) the petition and allowed the MC to collect the sanitary tax. MC Solan assessed the value of the property owned by the firm at ` 3.69 crore and issued (November 2007) a fresh demand notice of ` 25.19 lakh (excluding provisional receipt of ` 0.62 lakh) for the period 1994-95 to 2007-08. This did not include the demand for the period prior to 1994-95. The demand of ` 1.85 lakh for the year 2008-09 was also not raised. Thus total sanitary tax amounting to ` 36.29 lakh (prior to 1994-95: ` 9.25 lakh; 1994-95 to 2007-08: ` 25.19 lakh and 2008-09: ` 1.85 lakh) was outstanding against the firm and no legal proceedings had been initiated to recover the outstanding amount. The EO stated (July 2009) that a fresh notice for the period 1964-65 to 2008-09 would be issued. He further stated that in case of non deposit of sanitary tax, legal action would be initiated.

3.5.4 Outstanding recovery

Failure of MC Mandi to recover rent of ` 15.21 lakh from judicial department resulted in loss of revenue

The Rehan Basera building on second floor of existing Municipal Council building of MC Mandi was rented out (September 2005) to judicial department on monthly rent of ` 33,000/- without entering into any agreement with the lessee .

It was noticed that the lessee did not make any payment since the acquisition of the building. However, the MC entered into agreement (June 2008) after 2 year and 9 months of renting out the premises. Even after entering into agreement the lessee did not make the payment of rent and vacated the building on 1st August 2009. In the meantime rent of ` 15.21 lakh for the period September 2005 to July 2009 became due which had not been recovered from the Judicial Department. Since Rehan Basera was income generating asset, as such non-recovery of rent on agreed terms has resulted into loss of revenue which could have been utilized for other developmental activities by the MC. In reply, the EO stated (December 2009) that the matter had been taken up with judicial department to remit the payment.

3.5.5 Loss due to non revision of rates of house tax

Non-revision of rates of house tax by nine ULBs as per recommendations of SFC resulted in loss of revenue of ` 1.27 crore

The Director, Urban Development directed (November, 2003) all the ULBs that, as per the recommendations of the 2nd State Finance Commission (SFC) 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 onwards.

In nine ULBs (**Appendix-11**) the instructions had not been followed for revision of rates of house tax and demand for house tax was levied at uniform rates ranging between 7.5 percent and 10 percent resulting in loss of revenue

to the tune of ` 1.27 crore. The concerned officers of ULBs stated (April 2008 to March 2009) that action would be taken to revise the rates.

3.5.6 Non-recovery of installation/renewal charges for Mobile Towers.

Failure to realize the installation/renewal charges of mobile towers by eight ULBs resulted in loss of revenue of ` 5.30 lakh.

Himachal Pradesh Government authorized (August 2006) the ULBs to levy duty on installation of mobile communication towers at the rate of ` 10,000/- per tower and annual renewal fee at the rate of ` 5,000/-.

In eight ULBs, mobile towers were installed in their jurisdiction during 2005-09 but the concerned ULBs had not recovered the charges of ` 5.30 lakh (installation charges ` 2.30 lakh and renewal charges ` 3.00 lakh) as of March 2009 in respect of 36 towers (**Appendix-12**). The concerned ULBs stated (April 2009 to March 2010) that action would be taken to recover the dues.

3.6 Un-discharged liabilities.

Failure to mobilize the resources by three ULBs resulted in creation of un-discharged liability on account of energy charges to the tune of ` 11.17 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 four ULBs, un-discharged liability amounting to ` 11.17 crore (Bilaspur: ` 0.55 crore; Mandi: ` 4.14 crore; Shimla: ` 5.72 crore and Solan: ` 0.76 crore) on account of energy charges payable to HPSEB was outstanding (March, 2009). Year wise break up of arrears in all the cases was not made available. Non payment of energy charges was attributed 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/ revenue to the extent of ` 16.91 crore (Bilaspur: ` 0.27 core; Mandi: ` 2.91 crore; Shimla: ` 8.43 crore and Solan: ` 5.30 crore) as of March 2009.

3.7 Creation of liabilities.

Failure to make payment of water bills resulted in creation of liability of ` 6.32 crore.

MC Solan has been maintaining water supply in the town and water is being supplied by the Irrigation and Public Health Department (IPH) on payment basis.

It was noticed that an amount of ` 6.32 crore was outstanding on account of water bills payable to IPH department as of March 2009. The IPH department had been supplying the water at the rate of ` 8/- per kilolitre whereas the MC has been charging the rate of ` 2/- per kilolitre from domestic connections and ` 4/- per kilolitre from commercial connections. There was thus huge difference between rates payable to IPH department and those being charged from consumers. The MC decided (July 2008) to raise the bills on flat rates. Accordingly, the rate of ` 70/- per month was fixed for domestic connections and different rates ranging between ` 150/- and ` 24,000/- per month for various type of commercial units and Government offices. The rates so fixed were inconsistent with the rates being charged by the IPH department. As such the difference of rates payable to IPH department and recoverable from the water users has resulted in creation of liability of ` 6.32 crore. No cogent reasons were advanced for huge variation in rates recoverable from the users.

3.8 Excess expenditure on establishment.

Six MCs incurred expenditure of ` 10.22 crore in excess of norms and failed to collect the outstanding taxes to the tune of ` 12.23 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 six MCs, total expenditure of ` 55.23 Crore (2006-07: ` 14.13; 2007-08: ` 18.47 and 2008-09: ` 22.63) crore was incurred during 2006-09. As per provisions of the MC Act, ` 18.41 crore (2006-07: ` 4.72; 2007-08 ` 6.15 and

2008-09: ` 7.54) were to be spent on establishment whereas these ULBs incurred ` 28.63 crore (2006-07: ` 7.88; 2007-08: ` 9.56 and 2008-09: ` 11.10) on establishment resulting in excess expenditure of ` 10.22 crore (2006-07: ` 3.16; 2007-08 ` 3.41 and 2008-09: ` 3.65) beyond prescribed norms during 2006-09 (**Appendix-13**). The EOs of concerned ULBs stated (April 2009 to March 2010) that the excess expenditure was due to limited sources of income and increase of allowances/regularization of services of daily waged staff. The reply was not tenable as excess expenditure was due to not taking effective steps to ensure optimum collection of ` 12.23 crore⁹ on account of various taxes by these ULBs. The execution of various developmental works could have been taken up with these funds had the limit of one third expenditure on establishment been ensured.

3.9 Non-reconciliation of Balances.

Non-reconciliation of figures of cash books and pass books resulted in difference of ` 12.50 lakh.

Rule 19 (2) of Chapter-III of Municipal Code, 1975 provides that the cash balances in the cash book shall be compared and agreed with bank pass book at the end of every month. Rules further provide that every item of receipt and expenditure shall be checked with the entries of cash book and difference shall be explained and accounted for in the general cash book.

Scrutiny of records of three ULBs revealed difference of ` 12.50 lakh between the cash balances as per cash books and that of bank accounts at the end of March, 2009 as detailed below.

(` in lakh)

Sr. No.	Name of Unit	Balance as per Cash Book	Balance as per pass book	Difference
1	MC Solan	358.92	367.71	8.79
2	MC Sundernagar	318.35	317.65	0.70
3	NP Bhota	17.22	14.21	3.01

The un-reconciled balances 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

⁹ Bilaspur: ` 0.27crore; Kullu ` 0.68 crore; Mandi: ` 2.91 crore; Nahan: ` 1.92 crore; Solan; ` 5.30 crore and Sundernagar: ` 1.15 crore

(July 2009 to December 2009) that efforts were being made to reconcile the differences and final outcome would be intimated.

3.10 Conclusion.

Non-completion of works/projects within the stipulated period not only resulted in blocking of funds but also deprived the beneficiaries of the intended benefits. Accounting irregularities such as un-reconciled balances, long outstanding advances were noticed. This was indicative of inadequacy of internal control and monitoring. Lack of sustained efforts for collection of tax, rent and other charges resulted in accumulation of huge arrears and financial resources of the funds starved ULBs could not be augmented.

3.11 Recommendations.

- Effective steps should be taken to complete the works/projects so as to avoid the cost and time overruns 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.

**Shimla
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