

CHAPTER-VI

PERFORMANCE REVIEW AND TRANSACTION AUDITS OF URBAN LOCAL BODIES

6.1 COLLECTION OF PROPERTY TAX IN 12 NAGARPALIKAS

6.1.1 Highlights

The Government of Gujarat vide Gujarat Act No.13 of 2007 made an amendment to the Gujarat Municipalities Act, 1963 in order to adopt an 'area based' system of property tax in Nagarpalika areas to enable Nagarpalikas to increase their tax revenue and bring in transparency in assessment of tax. Government of Gujarat appointed Gujarat Municipal Finance Board (GMFB) as nodal agency for conducting survey of properties in all Nagarpalika areas, and All India Institute of Local Self Government as implementing agency. Survey and Data Entry work was targeted to be completed in such manner to enable Government to implement new area based property tax from the year 2007-08. However, Government could implement new tax structure from the year 2008-09, due to delay in survey & data entry work. Further, due to inadequate measures by NPs to enforce recovery of tax, Nagarpalikas could not become financially self-reliant.

Delay of one Year in implementing area based property tax system in Nagarpalikas resulted in loss of potential revenue of ` 4.01 crore.

(Paragraph 6.1.6.1)

In five Nagarpalikas tax collection figures did not tally with figures shown in annual accounts for the period 2007-08, 2008-09 & 2009-10. Further, in eight Nagarpalikas, Opening Balance of tax Demand & Collection did not agree with Closing Balance revealing inadequacies in accounting

(Paragraph 6.1 6.2 (a & b))

There was difference of ` 62.09 lakh between Demand, collection & Balance of twelve Nagarpalikas and balances maintained by Director of Municipalities.

(Paragraph 6.1 6.2 (c))

Lack of control in system of issuance of Permission letters for construction & subsequent follow up left the possibility of escapement of property tax.

(Paragraph 6.1.6.3)

None of the test checked Nagarpalikas took action of attachment or auction of properties of tax defaulters under sections 133& 142 of Gujarat Municipalities Act.

(Paragraph 6.1.6.5)

In three Nagarpalikas due to absence of control mechanism, escapement of tax was ` 62.66 lakh.

(Paragraph 6.1.6.6)

Independent Internal Audit System was not established in any of the Nagarpalikas. .

(Paragraph 6.1.6.8)

6.1.2 Introduction

Under the provisions of the Gujarat Municipalities Act, 1963, property tax was levied on buildings and lands based on annual letting value or the capital value or a percentage of capital value of the building or land or both as the Nagarpalika may impose. This had resulted in Municipalities adopting various methods of assessment of tax under section 99 leading to increase in litigations, non- transparency in assessment of tax and low rate of recovery of tax thereby affecting revenue of the Nagarpalika. It therefore, became necessary for the Government to introduce single method of assessment of tax on the basis of carpet area of the building and the area of the land in place of the existing system of assessment for ensuring transparency and satisfaction of citizens.

Government in Urban Development & Urban Housing Department (UD&UHD) therefore, amended the said Act (April 2007) to empower the Municipalities to levy the property tax on the basis of carpet area instead of annual letting value or a percentage of capital value of the building and land at such rate as decided by the Nagarpalika having regard to the factors specified by the State Government. The amendment also provides for fixing different rates of tax for residential buildings and non- residential buildings based on location of the properties.

6.1.3 Organizational set up

Additional Chief Secretary (ACS) is the Head of Urban Development and Urban Housing Department (UD&UHD). He is assisted by Director of Municipalities (DOM) to monitor functions of 159 Nagarpalikas in the state. Gujarat Municipal Finance Board (GMFB) under UD & UH Department is responsible for allotment of grant and monitor expenditure in respect of all the Municipalities in the state.

The Nagarpalikas are divided into a number of wards represented by elected member or councilor for each ward. The member or councilor so elected form

board of councilors. The President elected by the majority of the Board of councilors is the executive head of the ULB. The executive powers of the ULBs are exercised by the Council. The president enjoys powers as delegated by the Board.

The chief officer (CO) appointed by the state Government is a whole time principal executive officer of the Nagarpalika for Administrative control of the ULB. Other officers are also appointed to discharge specific function. The function of the chief officer includes general supervision, control over the officials of the ULBs, organizing board meetings, monitoring and implementation of various schemes and get the budget estimates prepared.

6.1.4 Audit objectives

The objectives of the review were to:

- Evaluate the efficiency of procedures followed by the Municipalities in surveying, assessment, demand, collection and accounting of property tax
- Check whether a suitable mechanism was in place to ensure that no building / property assessable to tax escaped assessment
- Evaluate the measures taken to guard against the loss of revenue, and
- Evaluate the action taken against the unauthorized constructions

6.1.5 Scope of audit

The review was conducted during January and February 2011 covering assessment and collection of property tax made during the period from 2007 - 08 to 2009- 10 in 12 Municipalities of the state.

6.1.5.1 Audit criteria

For the purpose of review, Gujarat Municipalities Act, 1963, orders issued by Government and records maintained by Nagarpalikas were considered for review.

6.1.6 Audit findings

6.1.6.1 Survey and data entry

The act to impose property tax on area basis on all buildings and lands situated in the municipal limit was made operation w.e.f. 1st April 2008. The area based property tax system was introduced as a part of improvement under the Urban Reform Incentive Fund (URIF) and mobilizing financial resources for rapid urbanization. Accordingly, under the urban development year-2005, GMFB as nodal agency and All India Institute of Local Self Government (AIILSG) being a unit for Planning and Research on Urban Development Affairs (PRUDA) were nominated by the Government (January 2006) to carry out the work of survey, measurement, assessment, data entry operation and providing software for preparation of bills for the newly introduced system of property tax on area basis.

The delay of two years in completion of Survey, Data Entry & installation of software prolonged imposition of area based tax structure for one year.

Accordingly, all municipalities were divided into seven zones for uniform work and 21 surveying agencies were finalized (January 2006) by the government to assess property tax. The works were entrusted to them by tripartite agreement between AILSG as coordinating agency, Local Nagarpalika and the agency that was to carry out the work. The Programme was undertaken from January 2006 to March 2008 and included development of new software for area based property tax assessment of all properties, installation of the software along with data entry work in each Nagarpalika. The Chief Officer was, also authorized and entrusted to supervise and assist the survey work carried out by the agency from time to time. Pending the completion of survey work for levy of Tax, all the Nagarpalikas started to collect property tax on area basis according to GOG notification issued in April 2008.

During test audit of Twelve⁵¹ Nagarpalikas, the following irregularities regarding survey and data entry were noticed.

Survey⁵².

- In NP Songadh the work which was entrusted (January 2006) to the agency⁵³ was objected by the residents on account of defective work and inconsistency in survey, the NP continued to demand and collect property tax based on defective survey and assessment till December 2009. The Chief Officer ordered (January 2010) for re-survey by its own staff to rectify the defective survey carried out by former agency.
- In NP Jafrabad the work carried out by the agency⁵⁴ was defective up to 90 *per cent* in its measurement and 50 *per cent* of which was reported to have been done without actual site visit. However, satisfactory completion report was issued (March 2008) by the Chief Officer without verifying the facts. There after re-survey was carried out (July 2008) by own staff of the NP.
- In NP Mandvi the survey work commenced by agency⁵⁵ did not record complete details of the property like name of the owner, measurement of buildings, own land etc. and the agency did not rectify the omissions even after several notices issued by the NP during the period from August 2007 to July 2010. Hence to rectify the omissions, re-survey work was completed (June 2008) by own staff of the NP.

⁵¹ Palanpur (Palanpur), Sanand (Ahmedabad), Vyara (Tapi), Kadi (Mehsana), Songadh (Tapi), Vadnagar (Mehsana), Mandvi (Surat), Jetpur (Rajkot), Dholka (Ahmedabad), Prantij (Sabarkantha), Jafrabad (Amreli) and Khedbrahma (Sabarkantha)

⁵² Bhoomi Consultant, Gandhinagar

⁵³ Impression System, Ahmedabad

⁵⁴ Perfection Network Marketing Co. Rajkot

⁵⁵ Amitkumar Brahmabhatt, Petlad

- In NP Sanand the survey carried out by the agency⁵⁶ during the period March 2006 to May 2007 was defective up to more than 70 *per cent* in respect of details of the properties, name of owner and measurement of the property etc.

Data Entry and Software

- In Kadi NP, the data entry work entrusted (February 2007) to and completed (May 2007) by the agency⁵⁷ was defective to the extent of 70 *per cent* and it was subsequently rectified and completed during the period from February 2008 to April 2008 by the Nagarpalika staff.
- In Khedbrahma, the work of Data entry initially entrusted⁵⁸ (September 2006) was not completed in time schedule i.e. within a month hence got carried out (April 2007) by another agency⁵⁹ to the extent of 90 *per cent* and remaining work was done by NP staff.
- The installation (August 2008) of software in Dholka⁶⁰ NP was defective in generation of data of arrears amount from previous years. Hence, a new software was purchased (September 2008) by the NP for ` 1.55 lakh.

The Survey work and data entry was to be completed from January 2006 to April 2006. However, it was completed in April 2008 i.e. delay by 24 Months. Thus, the very intension of Government (December 2005) to introduce area based tax structure from the year 2007-08 was delayed for one year resulting into loss of potential revenue of ` 4.01 crore (**Appendix IX**) due to abnormal delay in survey and data entry operation.

6.1.6.2 Demand, Collection and Accounting

(a) Wrong exhibition of tax collected in the annual statements

The reporting of Demand & Collection to DOM was defective and Annual Accounts prepared did not tally with that of actual receipts.

As provided under section 75 and 76 of Gujarat Municipal Act, 1963, the accounts of the receipts and expenditure of every NP was required to be kept in accordance with the Municipal Account Code subject to such modifications as directed by the Government, the NP was to held general meeting in April or after April in which audit of the previous years annual accounts by Gujarat Local Fund was required to be got approved the accounts and was required to keep it open to public inspection and published in such manner as the NP may prescribe in this behalf.

It was observed that five NPs as shown in **Appendix X** had prepared their annual accounts but the property tax collected and those shown in the accounts during the period 2007-08 to 2009-10 did not reconcile. It is clear from the

⁵⁶ Perfection Network Marketing Co. Rajkot

⁵⁷ Gujarat Technoworld, Ahmedabad

⁵⁸ Cama Computer, Ahmedabad

⁵⁹ Silver Touch Co, Ahmedabad

⁶⁰ Silver Touch Technology Ltd. Ahmedabad

Appendix X that the discrepancy between the collection by NP and receipts shown in accounts ranged from ` (-) 8,62,202 (i.e. receipts shown in accounts were overstated) in NP Dholka during 2008-09 to ` 1,57,33,216 (i.e. receipts shown in accounts were understated) in NP Palanpur during 2009-10 and thus revealed inaccuracy and non transparency in preparation of accounts.

(b) Difference between opening and closing balance of the previous year

The NPs were required to prepare annual statement for exact position of demand, collection and outstanding balance of property tax during the year from 2007-08 to 2009-10.

During the test check of eight NPs as shown below, it was observed that outstanding opening balance did not agree with that of closing balance of previous year. Due to large scale variations, incomplete records, financial control mechanism in NP was doubtful and audit could not offer any comments on the trend of demand.

Name of the Nagarpalika	Year	Closing Balance	Year	Opening Balance	Difference
Sanand	2007-08	29,85,188	2008-09	28,62,605	1,22,583
	2008-09	62,17,499	2009-10	62,97,155	(-) 79,656
Mandvi	2007-08	10,36,355	2008-09	11,25,633	(-) 89,278
	2008-09	17,72,143	2009-10	18,23,469	(-) 51,326
Palanpur	2007-08	2,31,56,819	2008-09	2,19,39,440	12,17,379
	2008-09	364,74,493	2009-10	3,44,79,440	19,95,053
Vadnagar	2007-08	12,17,177	2008-09	13,41,933	(-) 11,24,756
	2008-09	30,29,845	2009-10	30,29,845	Nil
Jetpur	2007-08	45,73,000	2008-09	45,73,000	Nil
	2008-09	58,99,000	2009-10	68,98,000	(-) 9,99,000
Songadh	2007-08	8,37,450	2008-09	8,74,069	(-) 36,619
	2008-09	32,04,026	2009-10	35,97,163	(-) 3,93,137
Vyara	2007-08	4,83,066	2008-09	3,34,209	1,48,857
	2008-09	7,87,193	2009-10	5,64,885	2,22,308
Khedbrahma	2007-08	4,37,676	2008-09	4,37,676	Nil
	2008-09	18,47,450	2009-10	18,29,998	17,407

Mandvi NP stated (February, 2011) that the properties which were registered prior to 1st April 2008 and details received subsequently were assessed as differential tax, Other NPs did not offer any comment.

The reply is not tenable as the difference in tax so received was required to be reconciled and accounted for in the respective year so as to avoid accountal difference between opening balance and closing balance of the previous year.

(c) Difference between balances of accounts prepared by the NPs and those reported to Director of Municipalities

Demand, Collection and Balance for the year 2009-10 as reported by twelve NPs varied widely from those reported to the Director of Municipalities

(DOM) as shown in **Appendix XI**. Further, it can also be seen that the balance exhibited by DOM was ` 73.8 lakh whereas NP Dholka exhibited ` 195.88 lakh. While in respect of NP Vadnagar the balance of current demand exhibited by DOM was ` 103.74 lakh against ` 10.22 lakh as reported by the NP. For Jetpur NP, total demand exhibited by DOM was ` 278.77 lakh against ` 550.41 lakh shown by the NP. Similarly, the total collection against arrears & current tax was shown by DOM as ` 233.31 lakh against ` 395.34 lakh by NP leaving discrepancy of ` 271.64 lakh and ` 162.03 lakh in demand and collection of tax respectively.

A suitable mechanism to monitor financial information was required to be evolved for its reliability so as to exhibit correct financial status of the NP.

6.1.6.3 Loss of revenue on account of failure of the municipalities to watch completion of work and include the property under perview of tax.

Non-coordination between planning and Tax Branch denied to impose tax from the date of completion / occupation

Under section 155 of Gujarat Municipalities Act 1963, for construction of new building or for any addition or alteration to the existing structure, the owner of the property was required to apply to the Nagarpalika with a plan certified by a qualified person recognized by the Nagarpalika specifying the purpose for which the building would be used. The Chief Officer was empowered to give permission within a period of one month from the receipt of a plan. Construction in respect of such approved plan was to be commenced within a period of one year.

On completion of the building the owner of the property within a month was required to intimate to the chief officer in writing about such completion who in turn permit occupancy of the building or part thereof. The new property so constructed was to be added to the list of demand notice for the levy of property tax.

- From the test check of records from 2007-08 to 2009-10 it was observed that CO of Palanpur and Dholka NPs granted 553 and 41 permissions respectively for construction / addition / alteration to buildings but the details of completion of the construction was not passed on to tax branch for updating the data base for raising demand and collecting tax.
- In NPs Jafrabad & Kadi, 118 & 1438 permissions respectively were granted by C.Os but no time limit for construction / completion was prescribed and no inspection by Revenue Officers was carried out to monitor construction and update property profiles.
- Prantij NP did not maintain any records about permission granted for Construction but on receipt of application with documentary evidence from the individual, details of the property was added to the demand notice. Thus, property tax payable with effect from the date of completion or occupation of the building could not be imposed until the construction was finally detected or reported by individual himself.

Thus, non-observance of provision laid down in the Act and non maintenance of records restricted the NPs from demand and collection of tax amount due on new construction or addition / alteration to the properties.

6.1.6.4 Unauthorised constructions

Non- detection of unauthorised constructions encouraged unplanned growth of the city

Under the provision of section 155 (7) of the Act, a person who commences any construction, addition or alteration work without furnishing any plan or information in contrary to legal orders and provisions of the Act would be liable for penal action and appropriate fine and the Chief Officer could order for immediate stopping and/or demolishing such unauthorized work in accordance with the existing provisions.

Further, the Chief Officer was required to conduct regular survey to identify such constructions for imposition of penalty/punishment/demolition or to bring them under the tax structure.

Eight NPs (Palanpur, Vadnagar, Sanand, Prantij, Vyara, Mandvi, Songadh and Kadi) test checked neither maintained any records about un-authorized construction nor deployed any survey teams to detect such construction. In Khedbrahma 94 properties were treated unauthorisedly constructed for which ` 10.35 lakh was recovered for regularization of the properties.

The Chief Officer Prantij stated (January 2011) that the proposal for recovery on account of unauthorized construction noticed through informal sources was resisted by the president of Nagarpalika.

In-action by NPs thus, encouraged unplanned growth of a town and also evasion of property tax in case of unauthorized construction/ addition or alteration to existing properties. Such construction may also result in collapse of substandard and faulty buildings, loss of human life and property and would be a serious issue of socio-economic concern.

6.1.6.5 Enforcement of tax recovery

Non-enforcement of Tax recovery accumulated demand

If a person served with a demand notice under section 132 of the Act did not pay the taxes within the time specified in the demand notice, action under sub section 1(i) of section 133 of the Act, i.e. sale of the movable property or the attachment and the sale of immovable property of the defaulter, discontinuance of water supply or other services rendered to the defaulter was required to be withdrawn until tax so demanded together with the expenses incurred in discontinuing and recommencing the water supply or as the case etc. was paid by the defaulter. Further, under section 142 of the Act, tax arrears could also be recovered from defaulters treating it arrears of land revenue.

In test checked 12 NPs tax arrears of ` 4.79 crore, ` 7.83 crore and ` 6.96 crore were outstanding during 2007-08, 2008-09 and 2009-10 respectively. However, no effective actions to enforce the recovery as per codal provisions were taken. During detailed scrutiny the following were noticed:

- In respect of three NP, viz Dholka, Vadnagar & Mandvi, the COs disconnected 1159, 348 and 123 water connections of the tax defaulters respectively during 2008-10 but details for its reconnection and recovery of the outstanding tax amount were not available with the Nagarpalikas.
- Dholka NP sealed (2008-10) 100 properties and Mandvi Nagarpalika issued (2008-2009) 20 warrants but no further action under section 133 and 142 of the Act was initiated as could be seen from their records.

In NP Jafrabad no action under section 133 or 142 of the Act was initiated against defaulter due to insufficient staff.

- The remaining Nine NPs⁶¹ did not take any action against the defaulter.

6.1.6.6 Escapement of tax recovery

Properties constructed without valid permission escaped from the tax revenue

The minimum and maximum rate of tax per sqmt of the property that can be applied to residential and Commercial properties for various class of Nagarpalikas was prescribed by the Government (April 2008) consequent to Gujarat Municipalities (Amendment) Act 2007. It was at the discretion of the Nagarpalika to decide the tax between minimum and maximum rates for a particular class as stipulated by the Government.

Accordingly, minimum rates ranging from ` 2.50 to ` 5 per sqmt for residential building and ` 4 to ` 8 per sqmt for building other than the residential one falling within different class of towns viz. A, B, C & D was adopted by the NPs. However, maximum rate of ` 10 to ` 15 per sqmt for residential and non-residential properties as prescribed by the Government was not adopted by any of the NPs.

The scrutiny of records of three Nagarpalikas as shown in **Appendix XII** revealed that though the number and value of properties increased substantially against the total permissions granted by the Nagarpalikas. This showed that either these properties escaped assessment or constructed without valid permission.

- In Jafrabad NP 3795 and 633 residential and non-residential properties were constructed without permission during 2008-09 as shown in Appendix XII. Since, Jafrabad falling under 'C' class attracted minimum rate of ` 3 and ` 4 per sqmt for residential and non-residential properties respectively and assuming minimum area as 40 sqmt⁶² for each category of properties, the total tax escaped was ` 5.66 lakh (` . 4.55 lakh + 1.01 lakh).

Jafrabad is a 'C' class NP having population more than 25,000 as per Census of 2001. It was however observed that in Jafrabad Town, not a single property was recorded / reported as rented out during the period from 2007-08 to 2009-

⁶¹ Sanand, Kadi, Khedbrahma, Prantij, Palanpur, Jetpur, Vyara, Jafrabad & Songadh.

⁶² Minimum area stipulated for residential Buildings as per GR dated 11 June 2007

10. The genuineness of the records / reports appeared to be doubtful and the chances of tax evasion could not be ruled out as the tax rates on rented property were higher than self occupied property.

- Similarly, in Jetpur NP, 11,626 and 401 residential properties and 5385 and 290 non residential properties respectively during the year 2008-09 and 2009-10 were constructed without permission from the competent authority and tax was not collected from the occupants. Jetpur NP falling under 'A' class, attracted minimum ` 5 and ` 8 per sqmt for residential and non-residential properties respectively and assuming minimum area as 40 sqmt as above for each category, the tax escaped was to the extent of ` 42.21 lakh.
- In Dholka NP construction of 4219 and 700 residential and non – residential properties were detected to be without permission during the year 2008-09 and 2009-10. No tax was collected on these properties. As Dholka was falling under 'B' class having minimum rate of ` 7 and ` 11 per sqmt for residential and non – residential properties respectively, total tax recovery to the extent of ` 14.89 lakh (` 11.81 lakh + ` 3.08 lakh) for minimum area as 40 sqmt for each category of construction was escaped.

Thus, absence of internal mechanism to detect new constructions or to maintain any records about it, resulted in increase in unauthorised properties escapement of tax revenue ` 62.66 lakh.

6.1.6.7 Outstanding Tax dues

The poor recovery was due to shortage of staff, and Delay in preparation of demand notice and recovery thereof

The position of Demand, Collection and arrears of property Tax (detailed in **Appendix XIII**) for the period 2007-08 to 2009-10 furnished by 12 NPs was as under.

` in lakh

Year	Demand	Collection	Arrears	%age of Outstanding Collection
2007-08	917.06	438.36	478.64	47.80
2008-09	1431.31	644.19	782.57	45.00
2009-10	1678.26	982.41	695.80	58.53

It was observed that all NPs showed increasing trend of demand as a consequence of imposition of area based tax reform from the Year 2008-09. However, collection against demand ranged between 45 *per cent* and 59 *per cent* and NPs failed to collect taxes resulting in huge outstanding dues.

It was noticed (January 2011) that though, the tax demand increased by 38 *per cent* in Palanpur NP, the collection was reduced by 9.3 *per cent*.

The poor recovery was attributable to late preparation and issuance of demand notice, inactive participation of staff for recovery, and absence of any action to improve collection efficiency by the NPs.

It was stated by CO Jafrabad (February, 2011) that recovery could not be enhanced due to shortage of staff. CO, Kadi (January 2011) attributed political intervention for poor collection.

Recovery of property Tax being a continuous process enables NP to generate its own revenue income in order to discharge its civic duties. It was noticed that Nagarpalika took action for collection of revenue with special drive at the fag end of the year instead of planning it in a phased manner during the entire year.

6.1.6.8 Internal Control System

Internal control is an integral component of Nagarpalika's management process and is established in order to provide reasonable assurance that the Nagarpalika's operations are carried out effectively, economically and efficiently. Financial report and operational data are reliable and applicable laws and regulations are complied with to achieve objective of providing better civic facilities with its own revenue income. From the test check of records of selected twelve Nagarpalikas, it was noticed that in respect of nine Nagarpalikas (i.e. Sanand, kadi, Palanpur, Vyara, Vadnagar, Songadh, Mandvi, Dholka, and Jetpur), independent internal audit wing or second/third level check/supervision in respect of assessment of property tax did not exist. Due to this the Nagarpalikas could not ensure adequacy and effectiveness of assessing, raising and collecting tax. Further, internal control system was not found in all test checked NPs to ensure regular surveys, proper assessment, collection, detection of un-authorized constructions and verification of other relevant records.

The Chief Officers stated (January/February 2011) that such system could not be operated due to shortage of staff.

6.1.7 Conclusion

Though, the Government introduced tax revision to enhance Nagarpalikas revenue, NPs were reluctant to monitor new constructions/alterations, adopting proper tax rates for assessment, delay/non-inclusion of completed works under tax perview coupled with collection inefficiency had defeated the aim of the Government to make Nagarpalika financially self reliable.

6.1.8 Recommendations

- All Nagarpalikas should ensure that all new buildings are brought under the tax structure as soon as they were constructed by sound monitoring system.
- The new tax structure could further be strengthened by simultaneous implementation of strong administration for collection of tax.
- Internal audit system in all Nagarpalikas is required to be strengthened.
- UD&UH Department, GMFB and Director of Municipalities should enforce vigilance and monitoring on the tax collection functions of NPs.

6.2 Irregularities in implementation of Integrated Development of Small and Medium Towns.

Under the Centrally Sponsored Scheme “Integrated Development of Small and Medium Towns” (IDSMT) launched by Government of India, NPs contributing 25 percent of fund for infrastructure development projects of their towns (Such as commercial shopping centers, traffic works, water supply and sewerage projects etc), could avail financial assistance of remaining 75 percent (GoI: 45 percent and GoG: 30 percent) abiding conditions laid down in the scheme guidelines,

Vyara Nagarpalika (VNP) prepared (September 2003) a plan for improving infrastructure facilities in creation of public assets, increasing the availability of service sites for housing, commercial and industrial use and promoting resource generating schemes etc. in the town and submitted (August 2004) it for approval of GoI through Urban Development Department (UDD), GoG.

The plan estimated to `229.56 lakh contained Commercial Schemes⁶³: `85.78 lakh, Traffic and Transportation Schemes⁶⁴ `63.73 lakh and Service Amenities⁶⁵: `80.05 lakh. VNP had expected net profit of `112.40 lakh from leasing and renting of shops after liquidating of the loan.

GoI approved the project for `229.56 lakh with GoI share `90 lakh, State share `60 lakh and NP's share `79.56 lakh. VNP was to contribute the share either from its own fund or by raising loans from financial institutions. The project was to be completed by 31st March 2007. On completion of the project NP was required to credit 75 percent amount of the project cost into revolving fund during next ten years from the revenue realized each year.

Gujarat Municipal Finance Board (GMFB), a nodal agency of GoG released funds of `153 lakh (GoI: `91.80 lakh, GoG: `61.20 lakh) during the period from December 2004 to June 2007 to VNP which was excess by `3 lakh over the approved grant of `150 lakh (GoI: `90 lakh and GoG: `60 lakh). According to conditions of the scheme VNP was to credit `79.56 lakh in the separate bank account as matching contribution. It was observed that VNP did not credit any amount in the said bank account as of March 2011.

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

6.2.1 Unfruitful expenditure on construction of shops

Even though encroachments were not removed, VNP in the proposal submitted (August 2004) for approval to GoI had stated that 369.85 sq meters of land required for construction of 36 shops and departmental stores on Tikka No.48 CS No.1136 was in their possession. It was envisaged that VNP would

⁶³ (I) Construction work of shopping centre on FP No.164 `54.88 lakh.

(ii) Construction of shops and departmental stores on Thikka No. 48 CS No.1136. `30.90 lakh

⁶⁴ 19 number of internal roads `63.73 lakh.

⁶⁵ Construction of Auditorium `80.05 lakh

earn deposit of ` 84.30 lakh for 36 shops and annual rent of ` 1.44 lakh. It was estimated that after 11 years, profit earned from this project would be ` 56.12 lakh.

Though the said land was not encroachment free, VNP awarded (January 2005) the work to an agency at tender cost of ` 32.44 lakh (5 percent above the estimated cost) against the estimated cost ` 30.90 lakh. The work was to be completed by 17th January 2006 and in case of delay, liquidated damages of ` 500 per day was chargeable from the agency in case of delay in completion. The agency could not start the work as clear site was not handed over by VNP and demanded (December 2005) a hike of 25 percent on estimated cost as the period of 11 months had already passed.

After removing the encroachment VNP agreed (March 2006) to give 19 percent hike and increased the tender cost to ` 36.72 lakh with stipulated date of completion as 31st March 2007. The work was completed by the agency in March 2007 and expenditure incurred was ` 31.24 lakh. Had the site been given timely, the actual executed items of work could have been completed for ` 27.56 lakh instead of ` 31.24 lakh.

Thus, awarding of contract by VNP without possession of encroachment free site was irregular and the project was completed belatedly by 14 months with cost overrun of ` 3.68 lakh.

Further, it was noticed that VNP did not take any action to auction/allot the shops till March 2008 i.e. one year from the completion of the shops and made a reference (April 2008) to the Director of Municipalities, Gandhinagar for changing the purpose of use of the shops as slaughter house. Director of Municipalities did not respond to VNP request till date (February 2011). Thus, due to improper planning VNP had to suffer cost overrun of ` 3.68 lakh and due to non allotment of shops, incurred loss of annual income of ` 1.44 lakh apart from potential deposits of ` 84.30 lakh.

CO replied (January 2011) that necessary action would be taken in this regard on receipt of response from Director of Municipalities.

6.2.2 Non-construction of shopping centre

GoI approved the plan for construction of 36 shops/stalls at FP No. 164 with estimated cost of ` 54.88 lakh in April 2005 with stipulated date of completion as 31st March 2007.

It was observed that due to wrong selection of the site the shops/stalls were not constructed. VNP neither intimated the factual position of canceling the project nor surrendered the amount of ` 41.16 lakh (75 percent of estimated cost of ` 54.88 lakh) received as grant from GoI: ` 24.70 lakh and GoG: ` 16.46 lakh. Besides the funds for this project were unauthorisedly diverted for other projects as VNP did not credit its contribution of ` 79.56 lakh against the total approved projects of ` 229.56 lakh.

VNP could not earn the anticipated deposits of ` 195.28 lakh and annual rental of ` 3.57 lakh from auction of the shops.

In reply VNP stated (February 2011) that construction of shopping centre at the proposed site was not viable and it was decided (March 2006) not to construct the shopping centre. Regarding refund of grant, it was stated that the matter would be referred to Standing Committee.

The reply is not tenable because proper survey was not conducted before submitting the proposal to GoG/GoI. No efforts were made by VNP to select an alternative site for the purpose. Retaining the grant by VNP till date, when it was already decided in March 2006 to drop the scheme was irregular.

6.3 Failure to observe conditions of agreement

The Government of Gujarat decided to construct pay and use toilet in main area of Palanpur town under the scheme of “Town Developing Year- 2005” GMFB (nodal agency), released ` 14 lakh (December 2005) as grant and ` 21 lakh as a short term loan (July 2006) to Palanpur Nagarpalika (PNP) for construction of seven pay and use toilet units at a cost of ` 5 lakh per unit. PNP awarded (April 2006) work to a contractor for ` 35 lakh (` 5 lakh each for seven units) with stipulated date of completion as October 14, 2006. A review of the execution of the project revealed the following irregularities.

- As per agreement, 25 per cent amount of the total contract value was to be paid in advance on signing the agreement by the agency. The balance amount was to be paid in three installments of 25 percent each on completion of the work upto lintel level, slab level and on completion of work and after conducting third party inspection and measurement of works by Executive Engineer R&B, District Panchayat. Advance payment of ` 8.77 lakh (25% of ` 35 lakh + ` two thousand for Demand Draft charges) was made (April 2006) by PNP for construction of 7 toilet units. It was noticed that 2nd and 3rd installment of ` 5.01 lakh (May 2006) and ` 3.74 lakh (September 2007) respectively were released by PNP on the recommendation of Overseer and Project Officer PNP without conducting third party inspection and taking measurements.
- The agency took up construction of five toilet units only as against the seven. However, PNP did not adjust the excess advance payment of ` 2.50 lakh while releasing 2nd and 3rd installments to the executing agency.
- Due to non inclusion of penalty clause in the agreement, PNP could not take any action for recovery of liquidated damages from the agency inspite of non completion of work till June 2008.
- The third party inspection conducted in August 2008 revealed that the value of work executed by the agency was ` 6.81 lakh only. Thus excess

payment of ` 10.71 lakh (` 17.52 lakh – ` 6.81 lakh) was made to the agency on recommendation of the Overseer and Project Officer. It was also noticed that no action was taken by PNP till date (February 2011) to recover this excess amount.

- Performance bank guarantee of ` 1.75 lakh, security deposit of ` 0.78 lakh and income tax of ` 0.11 lakh was not obtained/deducted from the agency.
- For completion of the left out works of five toilet units, PNP awarded (June 2008) the contract to another agency who completed the work (March 2009) at a total cost of ` 13.50 lakh. Thus total expenditure incurred for construction of five toilet units was ` 31.02 lakh as against approved cost of ` 25 lakh by GMFB with cost over run of ` 6.02 lakh.

Thus, the first executing agency was favoured by making overpayment of ` 10.71 lakh besides non recovery of performance bond, security deposit and income tax aggregating to ` 2.74 lakh. Further, PNP had to incur extra expenditure of ` 6.02 lakh due to change of the agency.

6.4 Irregular retention of grant

On completion of scheme under IDSMT Project unspent amount of ` 94.54 lakh was parked in Fixed Deposit in contravention of guidelines

The Integrated Development of Small and Medium Town (IDSMT) Project, a CSS was launched in the year 1980 and was revived subsequently in the year 1995 with the revised guidelines. The Scheme was implemented in Jetpur NP through GMFB during the year 2000-01. As per the revised IDSMT guidelines the town of Jetpur fall under Category ‘C’ and hence the Jetpur Nagarpalika (JNP) town was eligible for maximum Central grant of ` 150 lakh, State grant of ` 100 lakh together with loan of ` 100 lakh from financial institution / HUDCO.


Accordingly Jetpur NP submitted (October 2000), proposal for a project for construction of five shopping centres with cost ` 369.26 lakh for approval through the Town Planning and Valuation Department of Gujarat State. The proposal was approved (2000-01) by the Town and Country Planning Organisation, GOI, Ministry of Urban Development & Poverty Alleviation. However, the proposal did not materialise as land on which the shopping centre was proposed to be built was not in the possession of the NP and hence the proposal was revised (September 2004) to construct three shopping centres as against five originally planned. The revised cost of the Project was ` 368.23 lakh. As per the project report, if implemented the project would generate net revenue of ` 162.31 lakh in 7 years after repayment of loan liabilities. The project was scheduled to be completed by August 2007.

The revised cost of the project was to be met from fund received (March 2001 to July 2006) ` 250 lakh from GoI (` 150 lakh), State Government (` 100 lakh) and funds of ` 118.23 lakh to be raised by the NP from Financial Institutions. However Jetpur NP could not raise any fund and could execute works of ` 183.24 lakh up to October 2010. It was noticed during audit that Jetpur NP not only failed to raise the required amount, it also failed to execute the scheme as was envisaged in the revised proposal. Approval of the competent authority was not obtained before shelving the remaining part of the project. Even after expiry of the period (August 2007) by which the scheme was to be executed, Jetpur NP had parked (October 2010) ` 94.54 lakh (balance of unspent fund of ` 66.86 lakh plus interest of ` 27.68 lakh earned on GoI/GoG funds during the period from 2006-07 to 2009-10) in fixed deposit.

On being pointed out by audit, it was stated by the Chief Officer that in view of the weak financial position of the NP, financial institutions refused to lend any loan. Pending the permission from competent authority, the fund was parked in fixed deposit.

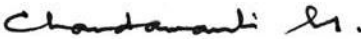
The reply was not tenable as in the project report prepared, NP had proposed to raise the institutional finance. Further, retaining the balance fund awaiting approval for execution of other miscellaneous work was irregular. This also indicated the lapse on the part of controlling agency to monitor effective utilisation of the fund.

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


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

Countersigned

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


(Chandra Mauli Singh)
Accountant General (Civil Audit),
Gujarat