

CHAPTER - II

AUDIT FINDINGS

2.1 Audit Paragraphs

2.1.1 Non refund of unutilised balance of Government grants-in-aid amounting to ₹ 33.68 crore.

Unutilised balance of grants-in-aid was not refunded but was kept in bank accounts by the Municipal Authorities, resulting in blocking up of ₹ 33.68 crore.

The State Government sanctions grants to Municipal Councils (MCs) in pursuance of Section 86 (2) of the Goa Municipalities Act, 1968 specifying the Developmental works⁵ to be undertaken. The terms & conditions of the release orders specified that the entire amount should be utilised for the purpose for which it was sanctioned within a period of one year and any portion of grants which was ultimately not required had to be refunded immediately to the Government.

Scrutiny of the grants sanctioned and utilised in MCs and Corporation of the CCP upto 2011-12 revealed that the MCs/ CCP had neither refunded the unutilised balance of grants in respect of complete/ abandoned works nor did the DMA adjust the balance in the succeeding year's grants. Non-completion of the envisaged works resulted in hardship to the general public besides time and cost over runs. The unutilised amounts were kept in Bank Accounts resulting in blocking up of Government funds amounting to ₹ 33.68 crore as detailed in **Table V**.

⁵Development plan and town planning schemes, Construction and maintenance of roads and other amenities.

Table V: Statement showing unutilised balance of grants kept in bank accounts by ULBs

(₹ in crore)

Name of Municipal Authority	Period	Amount sanctioned	Utilisation upto 2011-12	Unutilised balance as on 31.3.2012
Cancona MC	2002-03 to 2010-11	2.08	1.46	0.62
CCP, Panaji	2002-03 to 2010-11	4.40	0.62	3.78
Cuncolim MC	2001-02 to 2010-11	5.82	0.85	4.97
Sanquelim MC	2006-07 to 2010-11	2.10	0.92	1.18
Valpoi MC	2004-05 to 2010-11	0.75	0.42	0.33
Curchorem Cacora MC	2001-02 to 2010-11	1.84	0.60	1.24
Quepem MC	2008-09 to 2010-11	1.50	0.78	0.72
Margao MC	2002-03 to 2010-11	23.76	8.17	15.59
Mapusa MC	2002-03 to 2010-11	0.65	0.14	0.51
Sanguem MC	2001-02 to 2010-11	1.71	0.40	1.31
Mormugao MC	2002-03 to 2010-11	3.23	2.75	0.48
Ponda MC	2002-03 to 2010-11	7.55	4.59	2.96
Total		55.39	21.70	33.69

(The grants for the year 2011-12 was not considered as due date of utilisation not expired)

The retention of unutilised amounts not only resulted in violation of the conditions of sanction of the grants, but also resulted in funds amounting to ₹ 33.69 crore remaining idle. On being pointed out by audit, DMA replied (November 2013) that all MCs had been directed to surrender unutilised amounts with interest.

2.1.2 Lapses observed in leasing out of premises - ₹ 11.80 crore.

Premises were leased out without executing lease agreement. Lease agreements were not renewed and lease rent were not revised. Failure to recover lease rent resulted in huge arrears in revenue.

Section 88(3) of the Municipalities Act, 1968 provided that “a Council may lease its immovable property for a period not exceeding three years with appropriate annual rate of increase in rent”. Based on these provisions, the CCP and MCs lease out their various premises to traders for carrying out business for periods upto three years. The lease rent was to be increased annually at the rate of 10 per cent as per an order issued by the DMA.

Audit observed various lapses in leasing out premises in almost all the MCs and CCP as detailed below:

Premises were let out without executing agreements.

- Lapsed lease agreements were not renewed
- Lease rent was not revised annually
- Failure to recover lease rent resulted in huge arrears of revenue.

The details of the lapses observed by audit in leasing out of premises by the MCs and CCP resulting in non-recovery of outstanding lease rent arrears of ₹ 9.65 crore and non-revision of lease rent/ renewal of lapsed lease agreements resulting in an additional loss of ₹ 2.15 crore as given in *Appendix 2.1*.

2.1.3 Non-release of compensation of ₹ 8.82 crore in lieu of octroi to ULBs

As against the entitlement of ₹ 17.77 crore for the year 2011-12, ₹ 8.95 crore was released to MCs resulting in short/ non-release of compensation to the extent of ₹ 8.82 crore.

The State Government in its budget for the year 2000-01 decided to abolish octroi hitherto being levied by MCs and VPs. The MCs and VPs were to be compensated out of funds collected by levy of two *per cent* additional tax along with the sales tax (Presently VAT) on petroleum products. It was decided in the budget to distribute the additional tax so collected amongst MCs, VPs and ZPs in the ratio of 3:3:2 respectively, as compensation in lieu of octroi.

The details of additional tax collected, payable and released to MCs for the years 2010-11 and 2011-12 is shown in **Table VI**.

Table VI: Statement showing details of additional VAT on petroleum products collected, payable and released to MCs.

(₹ in crore)

Year	2 per cent additional VAT collected on petroleum products	Share payable to MCs	Amount released to MCs (upto 31.03.2012)	Short release
2010-11	41.42	15.53	13.16	2.37
2011-12	47.39	17.77	0.00	17.77
Total	88.81	33.30	13.16	20.14

The entitlement of amount to be compensated was fixed by the Ministry of Urban Development for each year. As against the entitlement of

₹ 15.53 crore and ₹ 17.77 crore for the years 2010-11 and 2011-12, DMA released only ₹ 13.16 crore for 2010-11. On short release of octroi being pointed out by audit, ₹ 2.37 crore was released (November 2012) for the year 2010-11 and ₹ 8.95 crore was released for the year 2011-12 with an assurance that the balance amount of ₹ 8.82 crore would be released during the year 2012-13. Till November 2013, the funds were not released. The DMA replied (November 2013) that proposals had been submitted to the Government for release of the balance funds.

Audit also observed that DMA released the share of additional taxes to MCs without any relation to the quantum of petroleum products sold within jurisdiction of MCs. Thus, share of compensation released to MCs having more sales, located on State border and those having mining areas were lower compared to share of compensation to MCs like Margao, Mormugao and CCP. Thus, absence of a scientific/ rational method for equitable distribution of compensation has resulted in insufficient compensation to some of the MCs and loss of revenue. The DMA replied (April 2014) that due to non-receipt of details regarding sale of petroleum products from the Commercial Tax Department, the compensation was distributed on ad-hoc basis and this would be resolved in consultation with the Commercial Tax Department.

2.1.4 Non-release of second instalment of ₹ 3.79 crore of basic grant.

Delay in transfer of funds and failure to furnish Utilisation Certificate for 1st instalment of general basic grant for the year 2010-11 resulted in non-release of 2nd instalment of ₹ 3.79 crore.

According to the recommendations of the FC-XIII, the ULBs in the State were entitled to basic grant of ₹ 7.60 crore for the year 2010-11 [₹ 16.00 crore x (0.095/0.200)]. Paragraph 10.160 of the recommendations stipulated that the general basic grant would be released in two instalments, latest by 1 July and 1 January of each year, subject to submission of an Utilisation Certificate (UC) for the previous instalment drawn.

The State received (July 2010) ₹ 8.02 crore as first instalment of basic grant, out of which ₹ 3.81 crore pertained to ULBs and ₹ 4.21 crore pertained to Panchayati Raj Institutions. It was clearly stipulated that the States had to transfer the amount to the ULBs within 15 days of receipt of funds. It was also stipulated that the State would be liable to pay penal interest at the RBI Bank Rate to local bodies, along with the instalment for any delay beyond 15 days. The funds were released to ULBs only on 11 February 2011 after a delay of 195 days (from 31 July 2010 to 10 February 2011). The interest liability of ₹ 0.12 crore (based on the RBI's Bank rate of six *per cent* prevalent during the period) was not released. Consequently, UC for the first instalment could not be furnished and the second instalment amounting to ₹ 3.79 crore (₹ 7.60 crore - ₹ 3.81 crore) was not released for the year 2010-11.

The DMA replied (November 2013) that during the financial year 2010-11, the funds were released to the ULBs by the Finance Department as a supplementary provision. This resulted in delayed release of funds. Further the DMA stated that no interest was paid for the delayed period. It was further stated that the submission of UCs was delayed by the concerned ULBs; but the funds were fully utilised and request had been made (October 2013) for release of the remaining instalment.

Thus, failure of the DMA in releasing the grant promptly and monitoring receipt of the UCs resulted in the ULBs in the State being deprived of grant amounting to ₹ 3.91 crore (including interest) during the year 2010-11.

2.1.5 Non-release of performance grant of ₹ 2.99 crore due to non-fulfilment of conditions specified by the Thirteenth Finance Commission for ULBs.

The State lost its share of performance grant of ₹ 2.99 crore for the year 2011-12 due to non-compliance of the conditions specified by the Thirteenth Finance Commission.

The FC-XIII had recommended (Dec 2009) transfer of grant to local bodies for the period 2010-11 to 2014-15. Paragraph 10.147 of the recommendations stated that each State is entitled to a share of the basic

grant from 2010-11 and a share of general performance grant from the year 2011-12 onwards, subject to compliance of nine conditions⁶ stipulated in Paragraph 10.161. These conditions had to be met by the end of a fiscal year (31 March) for the State to be eligible to draw its performance grant for the succeeding fiscal year.

FC-XIII had allocated an amount of ₹ 2.99 crore as performance grant (fixed at 0.50 *per cent*) for the ULBs of the State for the year 2011-12. It was observed (September 2012) that the stipulated nine conditions were not complied by the ULBs within 31 March 2010 and the general performance grant for ULBs for the year 2011-12 was not released to the State.

The DMA replied (November 2012) that action would be taken to comply with the eight conditions to avail the performance grant and that the condition regarding fire hazard mitigation was not applicable to the State as there was no ULB with population of more than one million (2001 census). However, the fact remained that the State did not get its share of performance grant of ₹ 2.99 crore for the year 2011-12 due to non-compliance with the conditions specified by the XIII-FC.

2.1.6 Short collection of VAT of ₹ 18.60 lakh from contractor's bills.

Ten Municipal Corporations and the Corporation of the City of Panaji did not deduct VAT at the prescribed percentage, resulting in under recovery of taxes to the extent of ₹ 18.60 lakh.

The Goa Value Added Tax Act was amended (Goa Act 2 of 2011) to levy 2 *per cent* VAT on works contract value with effect from 8 March 2011 and the same was notified in the Official Gazette⁷ of Goa.

Audit observed (May 2012) that ten MCs and CCP did not deduct VAT on work contracts at the prescribed rate of 2 *per cent* from the bills of the contractors.

⁶ budget & accounting, auditing, ombudsman, electronic transfer of funds, membership of state finance commission, levy of property tax, property tax board, standards for service sectors and fire hazard mitigation

⁷ Notification No. 7/2/2011-LA

The short recovery of VAT on bills amounting to ₹ 1883.17 lakh paid from 08/03/2011 upto the end of January 2013 worked out to ₹ 18.60 lakh. The DMA replied (April 2014) that the ULBs were not aware of the revised rate of VAT and this had resulted in short collection of VAT.

2.1.7 Irregular expenditure of ₹ 17.32 lakh in appointment of Security Agency.

No tenders/ quotation were invited for selection of Security Agency by the Municipal Corporation. Payments were made for security services in respect of bus stand belonging to Kadamba Road Transport Corporation.

The Chief Officer, Cuncolim Municipal Council (CMC) entrusted the security services in the CMC's jurisdiction to M/s Cobra Personnel & Intelligence Services, Panjim at a monthly charge of ₹ 6000/- per security guard for 12 hours shift with an annual increment of 10 *per cent* on an arbitrary basis.

The CMC paid an amount of ₹ 17.32 lakh towards security services during the period from April 2010 to July 2012.

On scrutiny of the relevant records, the following irregularities were observed in engagement and payment of security services:

- i. The CMC admitted (August 2012) that no tenders/ quotations were invited for selection of the security agency.
- ii. The agency was entrusted the work from 01 April 2010 to 31 March 2012 vide a stamp paper which was issued on 08 June 2012 and the agency continued (July 2012) to provide security services even though the work was to end on 31 March 2012.
- iii. The monthly payments to agency varied largely as the number of security guards and the places for deployment were not specified. Payments were also made for security services at bus stand which belonged to Kadamba Road Transport Corporation.

The CMC made payments without any cross verification of the bills with the actual number of personnel and number of days for which they were deployed. Reasons for not tendering for the contract were not furnished to

audit. The entire expenditure of ₹ 17.32 lakh incurred by the Council was thus irregular. Reply of the Government/ ULB is awaited (April 2014).

2.1.8 Short remittance of revenue collection in bank account - Suspected misappropriation of cash of ₹ 1.73 lakh.

Absence of internal check has resulted in suspected misappropriation of cash to the tune of ₹ 1.73 lakh.

The details of daily revenue collected in Pernem Municipal Council (PMC) are being accounted through a computerised Cash Book. The revenue so collected is deposited in the Goa State Co-operative Bank Ltd. (GSCB), Pernem Branch.

On scrutiny of Cash Book vis-à-vis Bank Statements for the years 2009-10 to 2011-12 of GSCB, audit noticed short remittance of cash at Bank to the tune of ₹ 1,72,888/- after adjusting three excess remittance amounting to ₹ 3,129/- as detailed in *Appendix 2.2*.

The absence of internal check has resulted in non-accountal/ deposit of cash amounting to ₹ 1.73 lakh with suspected misappropriation.

The Chief Officer stated (May 2012) that verification of Cash Book and the bank statement would be done and Bank Reconciliation statement would be prepared so as to find out discrepancies. However, no progress in the reconciliation of cash book and bank statements has been intimated so far (April 2014).

2.1.9 Loss of revenue due to non-claiming of reimbursement of property tax from Government.

Municipal Councils are not claiming reimbursement of property tax on exempted properties from Government resulting in loss of tax revenue.

According to Section 102 of the Goa Municipalities Act, 1968, if under any special or general order issued under sub-section 101 (1), the Government grants exemption in respect of any class of property or persons from levy of taxes specified in sub-sections 101 (1) and 101 (2), the Government may under appropriation duly made by law in this behalf, reimburse to the

Council concerned an amount approximately equal to the loss that the Council thereby incurs. In terms of sub-section 101 (1) buildings belonging to Central/ State Government and duly registered freedom fighters are not liable for property tax.

It was noticed (October 2011) that buildings under the jurisdiction of MCs which housed Mamlatdar's Office, Police Station, Court, Schools and Office/ Staff Quarters & Guest House belonging to Electricity, Public Works, Water Resources, Forest and State Excise Department were not subjected to payment of property taxes. However, the MCs had not taken action to claim reimbursement of loss from the Government on this account.

The DMA replied (April 2014) that information about Government buildings are being sought from the MCs to claim reimbursement of loss from the Government.

2.2 Recommendations

- ❖ **Steps needs to be taken to ensure that the accounts are maintained on accrual basis and the Model Accounting System should be implemented at the earliest.**
- ❖ **A mechanism needs to be evolved to ensure that grants are released and utilised within time limit for the purpose for which they are sanctioned and UCs in respect of grants received from Central and State Governments are furnished promptly.**
- ❖ **Action needs to be taken to: (i) let out premises only after executing lease agreements; (ii) increase lease rents annually; and (iii) recover arrears of lease rent and renew lapsed lease agreements.**
- ❖ **Compensation in lieu of octroi should be made to ULBs using a scientific method based on actual sale of petroleum products.**

- ❖ **Conditions stipulated by the Thirteenth Finance Commission for availing performance grant should be fulfilled at the earliest.**
- ❖ **ULBs should be intimated to strictly implement the changes in statutory levies from the date of Gazette notification.**
- ❖ **All the prescribed procedures should be followed in outsourcing services.**
- ❖ **Internal controls in ULBs should be strengthened to prevent occurrence of financial irregularities.**
- ❖ **Reimbursement of property tax in case of exempted buildings must be claimed from the Government.**