

CHAPTER V

**Performance Audit of Management of Own
Funds by Municipal Boards including
collection of revenue**

Chapter-V

Performance Audit of “Management of Own Funds by Municipal Boards including Collection of Revenue”

Executive Summary

Urban Local Bodies are required to perform certain obligatory functions, such as garbage collection and disposal, water supply, construction and maintenance of roads, street lighting etc., besides carrying out some developmental functions. They raise revenues in the form of taxes, fees and fines from citizens and also receive government grants. ULBs do not earn enough revenues by themselves and are obliged to remain dependent on government grants. Due to inadequate resources, they are unable to provide adequate civic amenities. This Performance Audit (PA) of the “Management of Own Funds by MBs including collection of revenue” revealed that, out of the total funds of ₹900.90 crore received by the MBs during 2011-12 to 2015-16, ₹116.34 crore (12.91 per cent) only accounted for their own revenues, as against a requirement of ₹377.04 crore, indicating an over-reliance on Government grants. The shortfall was attributable to inefficiencies in the collection of taxes, absence of planning in assessment and collection, as well as lack of proper infrastructure and capacity. Instances of short deposits of revenue, losses of revenue and unauthorised and irregular application of funds also came to notice during conduct of the PA. The significant audit findings are highlighted below:

Highlights

Some MBs were not imposing major taxes like drainage tax, tax on private markets and fee on registration of dogs and cattles.

(Paragraph 5.7.1)

Failure to maintain comprehensive lists of holdings was indicative of non-assessment of taxes from all holdings in the municipal areas.

(Paragraph 5.7.2)

Most MBs did not adopt the Unit Area Method for revision in the methodology of assessment of Property tax, resulting into failure in enhancing the collections of holding tax.

(Paragraph 5.7.3)

There was shortfall in collection of revenues totalling ₹170.24 crore (68.81 per cent of the total demand), in respect of 10 test-checked MBs.

[Paragraph 5.7.4 (a)]

Not imposing penalties on arrear collections, in 10 test-checked MBs, led to loss of revenue amounting to ₹129.61 lakh.

(Paragraph 5.7.5)

₹49.37 lakh incurred by Dibrugarh MB, on extra labour for cleaning of drains, without proper justification and records, points towards doubtful expenditure.

[Paragraph 5.8.3 (3)]

None of the test-checked MBs maintained lists of Municipal Properties. Hence, they failed to identify all potential sources of revenue.

(Paragraph 5.9.1)

The recommendations of the Fourth Assam State Finance Commission, on MBs, accepted by Government of Assam (GoA), were not implemented completely, as a result of which MBs were unable to exploit additional financial resources.

(Paragraph 5.10)

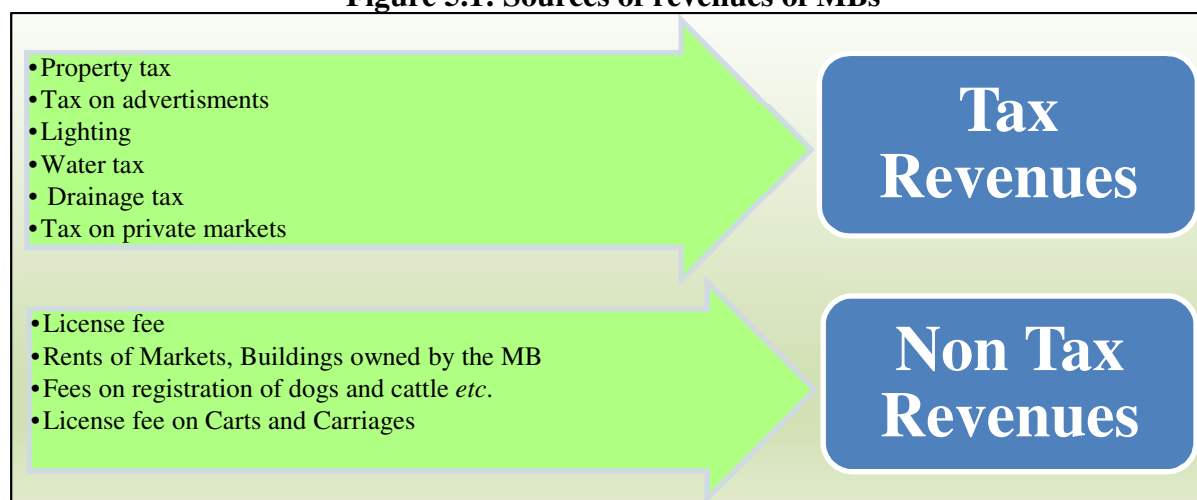
5.1 Introduction

Out of one Municipal Corporation, 34 Municipal Boards (MBs) and 59 Town Committees (TCs) in Assam, this performance audit scrutinised revenue collection and management of own funds in respect of Municipal Boards only. In line with Article 243Q (b) of the Constitution of India, Assam has 34 Municipal Boards (MBs) for smaller Urban areas. The MBs provide basic civic facilities like water supply, drainage, garbage disposal, public health, primary education, construction and maintenance of roads and sanitation. They also undertake many developmental activities like women and child development, slum improvement *etc.*, if funds permit. The chairperson and Board members of the MBs are elected by citizens residing in that area. The MBs raise revenues from such citizens in the form of certain taxes, fees and fines, as prescribed under the Assam Municipal (A.M.) Act, 1956. As revenue collection by ULBs remains inadequate to cover the expenditure required for their activities, they remain dependent on augmentation of their resources by means of government grants.

5.2 Sources of Revenue for MBs

In Assam, Section 58 of the Assam Municipality (AM) Act 1956, describes the sources of revenue for MBs, as shown in the **figure 5.1** below:

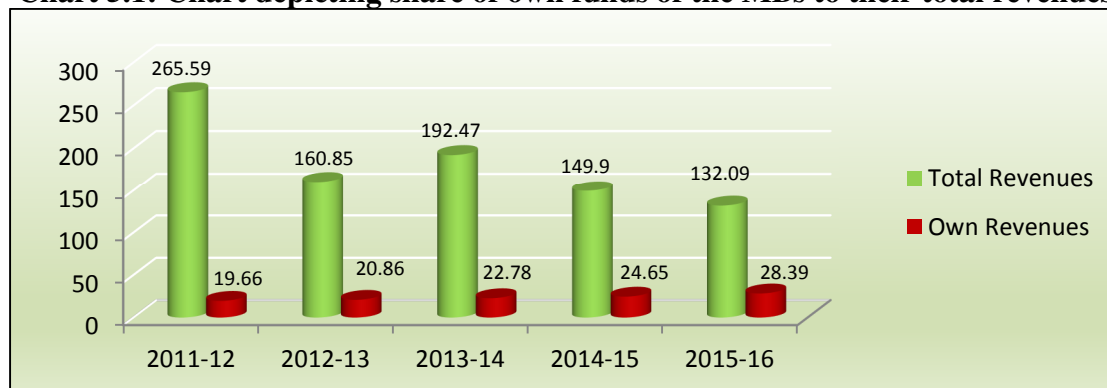
Figure 5.1: Sources of revenues of MBs



Revenue of a Municipal Board (MB) means receipts from its own resources, which comprise of Tax and Non-Tax Revenues, as also fines for breaches of municipal rules and regulations.

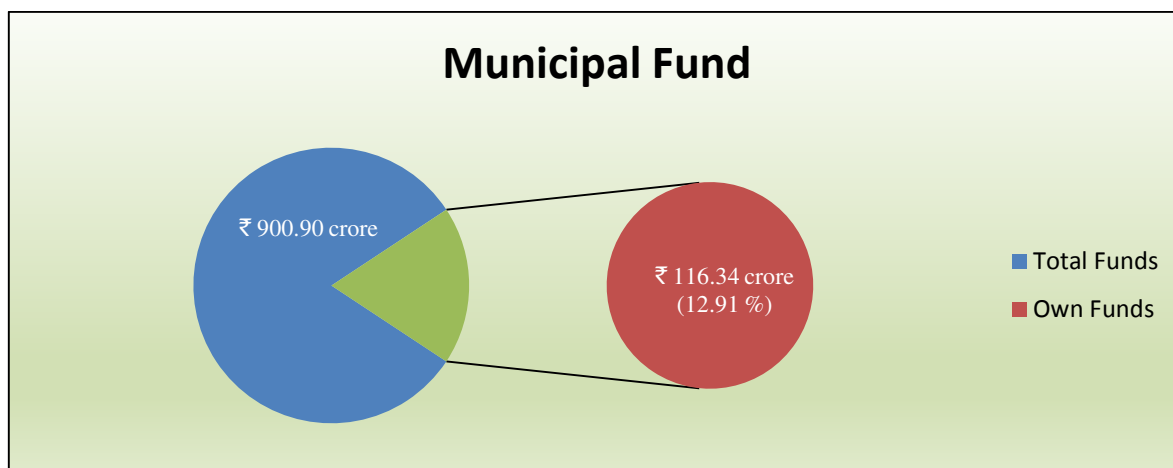
The share of own funds of the MBs to their total revenues, over the years spanning the period 2011-16, is depicted in the **Chart 5.1**:

Chart 5.1: Chart depicting share of own funds of the MBs to their total revenues



The consolidated position of the share of the own revenues of the MBs, for the period 2011-16, is depicted in the **Figure 5.2** below:

Figure 5.2: Consolidated position of share of own revenues of the MBs, for the period 2011-16

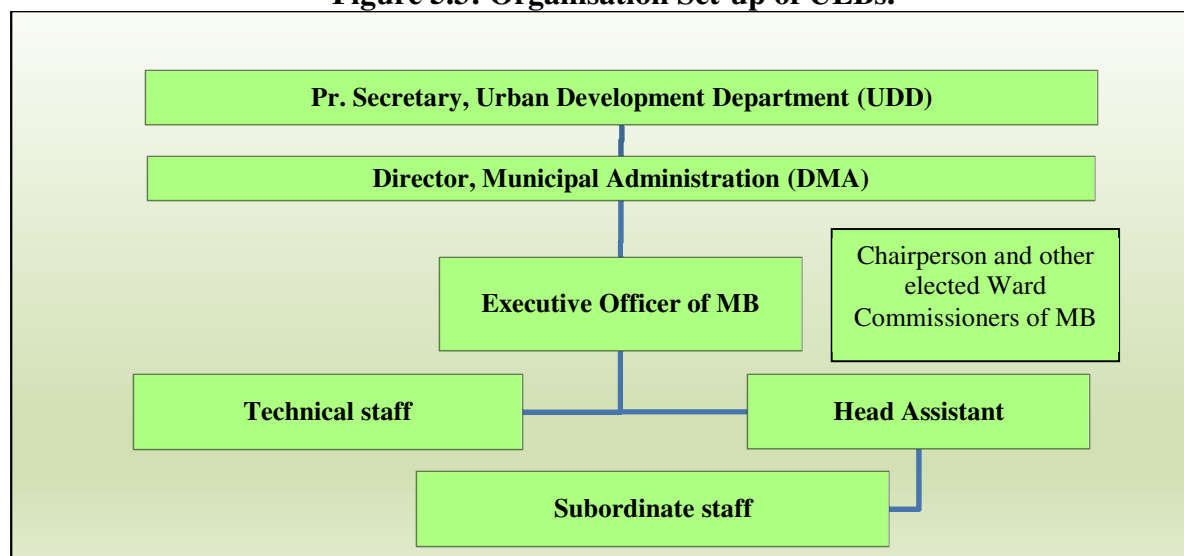


As may be seen from the above diagram, the share of own revenues of the MBs, compared to their total revenues, during the period 2011-12 to 2015-16, was only 12.91 *per cent*. Less generation of own revenue by the MBs implied that they were constrained to remain dependent on Government grants. Reasons for low revenue generation by the MBs and its impact are analysed in the subsequent paragraphs.

5.3 Organisational Set-up

The organisational set-up of MBs in Assam is shown in **Figure 5.3** below:

Figure 5.3: Organisation Set-up of ULBs.



Members of a Municipal Board are elected for a term of five years. Towns are divided into Wards (sub-divisions of a municipality/town), according to their population. Representatives are elected from each ward. A Chairperson is elected from among the members to preside over and conduct meetings of the Municipality.

5.4 Audit Objectives

The objectives of this Performance Audit were to assess whether:

1. Taxes, fees, rents *etc.* were assessed, imposed and collected for strengthening the revenue regime of the Board.
2. A Municipal Fund was formed and accounts thereof maintained properly; and whether the Municipal Fund was appropriated properly, for the purposes as laid down under the Act.
3. The infrastructure for collection and application of revenues by the MBs was adequate.
4. The role of the Government in mobilisation of the revenue resources of the MBs was adequate.
5. Any monitoring mechanism existed for improving the revenue raising capabilities and its application?

5.5 Audit Scope, Sampling and Methodology

This PA, covering the period from 2011-12 to 2015-16, was conducted during April-June 2016. Out of 34 MBs in Assam, 10 MBs⁶⁴ were selected for detailed study, by using the Probability Proportional to Size Without Replacement (PPSWOR) sampling method. The PA commenced with an Entry Conference on 5 April 2016, wherein the audit objectives, criteria, methodology *etc.* were discussed with representatives from the State Government. The field audit, which was carried out subsequently, involved collection of data from the State Government and detailed scrutiny in the test-checked MBs.

After the conclusion of field audit, the Draft Performance Audit Report was forwarded to Government on 16 September 2016. The audit findings were also discussed in the Exit Conference held on 03 November 2016 with the Secretary, UDD, GoA; Director Municipal Administration and delegates from the Finance Department, GoA.

Though the DMA forwarded piecemeal replies received from the MBs, the replies from the Government were still awaited (December 2016). The DMA had been requested (November 2016) to furnish a consolidated reply duly vetted by the Government so that it could be incorporated in this Report which was awaited till the time of finalisation of this Report.

5.6 Audit Criteria

The following criteria have been used to benchmark the audit findings:

- Assam Municipality Act, 1956;
- Instructions and circulars issued by the State Government/Government of India;
- Recommendations of the Central Finance Commissions (CFCs), State Finance Commissions (SFCs), in respect of revenue resources of ULBs; and
- Prescribed Reports and Returns.

Audit Finding

5.7 Municipal Taxation

5.7.1 Imposition of taxes and fees

As per the provisions of Section 68 of the AM Act, 1956, MBs may impose, within their municipal area, taxes and fees, as shown in **Appendix-V**.

⁶⁴ Schar, Hojai, Nagaon, Jorhat, Tezpur, Sivasagar, Tinsukia, Barpeta Road, Dibrugarh and Bongaigaon.

Position of taxes and fees levied/not levied by the selected MBs during 2011-16 is shown in the following **Table 5.1**:

Table 5.1: Position of Taxes and Fees levied/not levied by the selected MBs during 2011-16

Sl. No.	Taxes and Fees to be levied	Name of MBs									
		Silchar	Nagaon	Tezpur	Sivasagar	Dibrugarh	Bongaigaon	Hojai	Jorhat	Tinsukia	Barpeta Road
1	Property and Holding tax	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
2	Tax on advertisement	Y	Y	N	Y	N	Y	N	N	Y	N
3	Lighting Tax	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
4	Water Tax	N	Y	Y	Y	N	N	Y	Y	N	N
5	Drainage Tax	N	N	N	N	N	N	N	N	N	N
6	Tax on private markets	N	N	N	N	N	N	N	N	N	N
7	License fee on Trades	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
8	License fee on carts and carriages	Y	Y	Y	N	N	N	N	N	Y	N
9	Rents of Markets, Buildings owned by the MB	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
10	Fees on registration of dogs and cattle etc.	N	N	N	N	N	N	N	N	N	N

As can be seen from the table above, none of the selected MBs levied Drainage Tax, Tax on private markets and fees on registration of dogs and cattle. Besides, the selected MBs did not furnish reasons for non-imposition of the taxes and fees shown in the **Table 5.1**.

Had the MBs imposed the relevant taxes and fees in terms of the provisions of AM Act, 1956, the revenue collections of the MBs could have increased.

5.7.2 Assessment of Taxes

As per Section 76 of the A.M. Act, 1956, the MBs were required to prepare a comprehensive list of all holdings within their municipal areas and update the same continuously. In nine out of the 10 selected MBs, the lists of holdings were not being comprehensively maintained⁶⁵ and they were maintaining only a list of the holdings from which the tax was being collected. As such, details of the actual number of holdings in their respective municipal areas were not available with them. Only Silchar MB had a list of 22241 holdings, out of which assessment was being done in case of 16617 holdings. The remaining nine MBs were not aware of the total number of holdings in their municipal areas and hence, were not in a position to impose tax on the uncovered holdings, as shown in the following **Table 5.2**:

Table 5.2: Test-checked MB-wise position of assessment of holdings

Sl. No.	Name of the MB	Total holdings	No. of assessments done as on 31.03.2016
1	Silchar	22241	16617
2	Nagaon	These MBs did not maintain details of the total holdings under their municipal areas	14864
3	Tezpur		8752
4	Sivasagar		11595
5	Dibrugarh		18728
6	Bongaigaon		8610
7	Hojai		6334
8	Jorhat		12641
9	Tinsukia		11020
10	Barpeta Road		4564

⁶⁵ MBs may not be able to estimate the total tax revenue from property holding due to non-maintenance of list of properties.

While Dibrugarh MB stated that all the holdings under its municipal area could not be listed due to non-availability of land documents (*Jamabandi*, sale deeds, encroached Government land *etc.*), the remaining eight MBs did not furnish any reason for non-preparation of the lists. Absence of a comprehensive list of holdings was indicative of failure to assess taxes of all the holdings in the municipal area. As a result, a significant part of the potential revenue sources of the MBs remained untapped.

While accepting the audit observation, Sivasagar and Barpeta Road MBs stated (November 2016) that preparation of comprehensive lists of holding was under process.

5.7.3 Assessment of Property tax through UAM

The Fourth Assam State Finance Commission (FASFC) recommended that, in regard to assessment of property tax, the existing Annual Rental Value (ARV) method may be replaced by the Unit Area Method (UAM). This recommendation was accepted by the GoA (September 2012). Accordingly, GoA issued guidelines for assessment of property tax through the UAM.

Verification of holdings in Silchar MB revealed that the assessment of property tax through the UAM, yielded 96 to 156 *per cent* increase in the annual tax collections, as shown in the following **Table 5.3**:

Table 5.3: Increase in annual tax collection due to adoption of UAM by Silchar MB

Sl. No.	Ward No	Holding No	Annual Tax (in ₹)		Increase in Annual Tax (<i>per cent</i>)
			Before Self-assessment	After self-assessment	
1	06	243	481	1218	153
2	25	01	520	1021	96
3	28	102	390	998	156

The DMA provided information pertaining to only 23 out of 34 MBs, wherein it was observed that only eight out of the 23 MBs had adopted the UAM for assessment of Property tax.

Further, seven MBs, out of the 10 selected MBs, did not adopt UAM. As a result, they potentially failed to enhance their collections of holding tax. Only Silchar, Dibrugarh and Bongaigaon MBs, out of the 10 selected MBs, had adopted UAM, from April 2013 onwards, for assessment of holding tax. Although the adoption of UAM led to substantial increase in the demands of holding tax, during 2013-14 to 2015-16, in respect of the Silchar and Bongaigaon MBs, the collections, however, increased by only 13.77 and 32.48 *per cent* respectively, in comparison to the increased demands, as shown in **Table 5.4**.

Table 5.4: Comparison of increase in demand *vis-a-vis* increase in collection

Sl. No	Name of the MB	Demand		Increase in Demand (4)-(3)	Collection		Increase in collection (7)-(6)	Percentage of increase in collection over increased demand (8)÷(5)×100
		2013-14	2015-16		2013-14	2015-16		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Silchar	1278.28	2379.56	1101.28	200.63	352.26	151.63	13.77
2	Bongaigaon	163.62	277.73	114.11	58.97	96.03	37.06	32.48

Assessment of taxes through UAM in Dibrugarh MB was, however, in the nascent stage, as only 200 out of 18,500 holdings had been assessed through the UAM (as on June 2016), as the property holders did not submit the duly filled in self-assessment forms, for further processing by the MB. The MB also, on its part, failed to motivate property holders to submit the duly filled in self-assessment forms.

Thus, assessment of property tax through the UAM, failed to significantly enhance revenues of the MBs, due to its ineffective implementation.

5.7.4 Collection of revenue

MBs failed to achieve targets of collection of tax and non-tax revenue set by them:

a) Taxes and fees

It was noticed that, during 2011-16, against the total target of ₹377.04 crore, the MBs collected only ₹116.34 crore in taxes and fees. Thus, there was a shortfall of ₹260.70 crore in the collection of taxes and fees, which was 69 per cent of the total demand (as on March 2016).

Similarly, the 10 test-checked MBs raised demands of ₹247.41 crore for taxes and fees during 2011-16, against which only ₹77.17 crore was collected by them during that period. Thus, there was a shortfall of ₹170.24 crore (68.81 per cent of the total demand), as on March 2016, as shown in the following **Table 5.5**:

Table 5.5: Demand, collection and shortfall in revenue collection of the selected MBs during 2011-16

(₹ in crore)					
Sl. No.	Name of MB	Demand/Target	Collection	Shortfall	Percentage of Shortfall
1	Silchar	78.69	16.03	62.66	79.63
2	Dibrugarh	32.34	8.29	24.05	74.37
3	Tezpur	13.43	4.55	8.88	66.12
4	Jorhat	27.86	9.61	18.25	65.51
5	Bongaigaon	12.35	4.29	8.06	65.26
6	Tinsukia	36.39	13.62	22.77	62.57
7	Barpeta Road	7.82	3.03	4.79	61.25
8	Nagaon	14.86	5.90	8.96	60.30
9	Sivasagar	16.08	7.72	8.36	52.05
10	Hojai	7.59	4.13	3.46	45.59
TOTAL		247.41	77.17	170.24	68.81

It may be seen from the table above that the shortfall in collection of revenue *vis-a-vis* demand, in respect of the test-checked MBs, ranged between 45.59 and 79.63 per cent, during 2011-16.

Such huge arrears/shortfalls in collection of revenues were attributable to the following reasons:

- i) No action plan was prepared for achieving the target of collection of taxes and fees.
- ii) Collector-wise individual targets were not set.
- iii) There was lack of awareness, reluctance among the tax payers, who, *inter alia*, cited inadequacy of civic facilities in their municipal areas.

b) Lease/ Kist money

The MBs lease out markets in their municipal areas for settled amounts of Lease/*Kist* money. The 10 test-checked MBs leased out their markets, at a total cost of ₹25.67 crore, during the period 2011-16. Against this amount, ₹23.11 crore was collected, leaving a shortfall of

₹2.56 crore (9.97 per cent of the lease amount), as on 31.03.16, as shown in the following **Table 5.6:**

Table 5.6: Lease/Kist Money outstanding for collection in respect of test-checked MBs
(₹ in lakh)

Sl. No.	Name of MB	Lease Amount	Collection	Shortfall	Shortfall1 (in per cent)
1.	Hojai	115.91	83.79	32.12	27.71
2.	Tezpur	383.33	294.24	89.09	23.24
3.	Barpeta Road	508.46	440.99	67.47	13.27
4.	Sivasagar	238.36	212.74	25.62	10.75
5.	Silchar	69.10	61.96	7.14	10.33
6.	Nagaon	163.77	151.55	12.22	7.46
7.	Tinsukia	280.82	270.92	9.90	3.53
8.	Jorhat	358.94	351.15	7.79	2.17
9.	Bongaigaon	227.88	223.31	4.57	2.01
10.	Dibrugarh	220.82	220.82	0.00	0.00
Total		2,567.39	2,311.47	255.92	9.97

Thus, only Dibrugarh MB ensured collection of the complete lease amount for the markets. The remaining MBs lacked an effective action plan to realise the outstanding amount of *Kist* money, which continued to accumulate over the years.

The short collections of revenue, potentially contributed to the failure of the MBs in performing developmental activities or carrying out extension of existing civic amenities.

5.7.5 Loss of Revenue due to not imposing penalties on arrears

As per section 106 (1) of the AM Act 1956, within three months after any sum has become due on account of any tax, toll or fee, the Board shall present, to the person liable to the payment thereof, a bill and a notice of demand for the said sum. Further, as per section 107(2) of the said Act, penalty at the rate of 3.125 per cent shall be charged on the arrears with effect from the sixteenth day following the date of the service of notice under Section 106(1).

Though, after expiry of every quarter, the MBs served notices to tax payers, showing the arrears and current demands in respect of different taxes and fees, no fine/penalty was imposed on the arrears collected. Test-checked MB-wise position of losses, for not imposing penalty on arrears collected, as well as on outstanding arrears, is shown in the following **Table 5.7:**

Table 5.7: Loss due to penalties not being imposed, by selected MBs, on arrears collected and on outstanding revenues

(₹ in lakh)

Sl. No.	Name of the MB	Outstanding revenue as on 31.03.2016	Arrear collected	Loss on account of non-imposition of penalty on outstanding revenue (Col. 3 × 3.125 per cent)	Loss on account of non-imposition of penalty on arrear collected (Col. 4 × 3.125 per cent)
(1)	(2)	(3)	(4)	(5)	(6)
1.	Silchar	2207.82	923.55	68.99	28.86
2.	Dibrugarh	587.11	386.24	18.35	12.07
3.	Tinsukia	493.37	778.01	15.42	24.31
4.	Jorhat	457.33	686.46	14.29	21.45
5.	Sivasagar	278.65	381.69	8.71	11.93
6.	Bongaigaon	255.35	192.57	7.98	6.02
7.	Nagaon	192.39	276.15	6.01	8.63
8.	Tezpur	174.74	281.61	5.46	8.80
9.	Barpeta Road	149.25	124.65	4.66	3.90
10.	Hojai	87.44	116.37	2.73	3.64
Total		4883.45	4147.3	152.60	129.61

As a result, during 2011-16, the selected MBs sustained losses of revenue, amounting to ₹1.30 crore, for not imposing penalties on arrear collections of ₹41.47 crore. The selected MBs also did not impose penalties (₹1.53 crore) while serving notices for outstanding revenues of ₹48.83 crore (as on 31 March 2016), which indicated systemic weaknesses of delay and non imposition of penalty in the collection of taxes by the MBs.

5.7.6 Loss of revenues on Municipal markets

The MBs were leasing out their markets/*mahals*⁶⁶/parking areas, through tendering, based on their estimated value, and attempted to settle their lease value, either at their estimated value or above that amount, based upon the outcome of the tendering process. The following deficiencies were observed, in regard to the leasing of markets, in three out of the 10 selected MBs:

- (i) During 2012-15, the lease values of the markets/*mahals*/parking areas were settled, by Bongaigaon MB, at a value of ₹35.46 lakh (56.47 *per cent*), against the targeted/estimated value of ₹62.79 lakh. Settlement of the lease value at the significantly lower price was attributed to bidding by the tenderers below the estimated value. The MB neither opted for retendering nor made any attempt to settle the lease value at a higher price, through wide publicity in the print or electronic media, even though there had been instances where the MB had settled the lease value of markets *etc.*, at five *per cent* above the estimated value, during 2014-15. Thus, there was a shortfall of ₹27.32 lakh in collection of revenue due to settlement of lease value of markets *etc.*, at 44 *per cent* below the targeted/estimated value.
- (ii) Scrutiny of records revealed that Sivasagar MB settled the lease value of a parking place (located at central market area, HCB Road) at ₹6.00 lakh during 2012-13. However, during 2013-14 to 2015-16, the MB settled the lease value of the same parking place far below the lease value settled in 2012-13, as shown in the following **Table 5.8**:

Table 5.8: Settlement of lease value during 2013-16 below the value settled in 2012-13

Year	Settled value	Less collection compared to year 2012-13	Percentage of less collection
2012-13	6.00	-	-
2013-14	0.95	5.05	84.17
2014-15	1.02	4.98	83.00
2015-16	0.97	5.03	83.83

The reasons for reduction of the settled lease value of the parking place, by over 80 *per cent* during 2013-16, were not available on record. Chairman, Sivasagar MB, stated that the lease (for 2013-16) was settled through negotiation with the lessee. The reply is not tenable, as the MB, instead of increasing the lease value, settled the same at much lower values, resulting in losses amounting to ₹15.06 lakh {(₹6 lakh×3) - ₹2.94 lakh (*collection during 2013-16*)}, during 2013-16.

- (iii) Silchar MB leased out the Whole Sale Fish Market at Fatak Bazaar, Silchar, for ₹8 lakh, in the year 2011-12. The market was dismantled for reconstruction in March 2012. However, reconstruction of the Market was incomplete till date (May 2016). During 2013-14 to 2015-16, ₹8.12 lakh was collected departmentally from the vendors stationed at the temporary shed as per order of the Vice Chairman, Silchar MB. Had the reconstruction work been completed within the time schedule of six months as mentioned in the deed agreement

⁶⁶ As per Assam Sale of Forest Produce, Coupes and Mahals Rules 1977, Mahal means a well defined area wherefrom certain types of forest produced are sold.

between the MB and existing vendors, the MB could have gained revenues amounting to ₹15.88 lakh⁶⁷.

5.8 Municipal Finance

5.8.1 Financial management in MBs

(i) Section 58 of the AM Act, 1956, envisages that there shall be formed, for each Municipal Board, a fund, to be called the “Municipal Fund”, where the MBs need to deposit all sums received on behalf of the MB, as well as all such sums as the State Government may sanction as grants in-aid from time to time. However, the selected MBs did not constitute any “Municipal Fund”. Instead, they maintained multiple bank accounts for carrying out transactions relating to receipts and expenditures of the MBs. This was not only irregular but also entailed the risk of financial mismanagement, as cited in **Paragraph 5.8.2.1**.

(ii) Section 67 (A to D) of the AM Act, 1956, provides for the maintenance of annual accounts and financial statements by the MBs. However, nine out of the 10 selected MBs (except Jorhat MB) did not prepare statements of receipt and expenditure, financial statements and balance sheets. In the absence of annual accounts, financial statements and balance sheets, the actual financial position, as well as assets and liabilities, of nine out of the 10 selected MBs, remained undisclosed.

(iii) Section 43 A of the AM Act, 1956 envisages that MBs shall prepare budgets for the next financial year and the same should be approved in the Board meeting. The budget estimates, prepared by the MBs, are approved by the Director of Municipal Administration (DMA). Scrutiny of records revealed that in case of nine out of 10 selected MBs, there were shortfalls (ranging between 45.01 to 65.69 *per cent*) in collection of revenues *vis-a-vis* estimates, during 2011-12 to 2015-16. This indicated that the budget estimates, prepared by the selected MBs, during 2011-16, were unrealistic. Overall resources and trends of receipts in previous years were not taken into consideration at the time of preparation of the budgets, indicating deficiencies in the planning processes of the MBs. In the case of Dibrugarh MB, the details of budget estimates were neither available on record, nor furnished to audit, though called for.

5.8.2 Irregularities in collection of Revenue

5.8.2.1 Temporary misappropriation

As per Rule 54 (below Note 7) of Assam Financial Rules, all receipts, due to the MBs, shall be collected by an officer, or any person authorised by the MB; and the amounts so collected, shall be handed over to the cashier on that very day and entered in the cash book. Scrutiny of records of the test-checked MBs revealed the following:

(i) In Barpeta Road MB, a total amount of ₹0.45 lakh was collected, as taxes and fees, during the period 06.04.15 to 24.09.15, but same was neither deposited in the bank nor accounted for in the Cash Book. The amount was deposited in the bank on 21 June 2016, only at the instance of audit (June 2016). This temporary misappropriation of ₹0.45 lakh was indicative of serious shortcomings in the internal control system of the MB.

(ii) Room rents, totalling ₹5.28 lakh, collected on various dates during 3.10.2012 to 23.02.2016, were retained by the tax collector, instead of depositing them in the bank. The

⁶⁷ ₹24.00 lakh {lease value @ ₹8 lakh for 2013-16} - ₹8.12 lakh (collected departmentally during 2013-14 to 2015-16)}

period of retention ranged between two and 253 days. Such retention of receipts was likely to facilitate misappropriation and other financial irregularities.

(iii) There were short deposits of receipts totalling ₹3.38 lakh, by Tezpur MB (₹1.29 lakh) and Dibrugarh MB (₹2.09 lakh) during March 2011 to March 2016, as shown in the following **Table 5.9**:

Table 5.9: Position of short deposits of revenues by two selected MBs (₹ in lakh)

Sl. No.	Name of the MB	Types of receipts	Period of collection	Amount collected as per receipt book	Amount deposited	Short deposit
1.	Tezpur	Permission fees, holding tax	April 2011 to February 2014	9.45	8.16	1.29
2.	Dibrugarh	Licence fees, holding tax	April 2011 to March 2016	2.09	Nil	2.09
Total				11.54	8.16	3.38

Short deposit of receipts of ₹3.38 lakh into the Government account pointed towards misappropriation of Government funds to that extent. The MBs, while accepting the short deposit, stated that the matter would be verified and action initiated accordingly.

Thus, lack of internal controls in the MBs led to instances of misappropriation, as well as retention and short deposits of cash. Had the MBs adhered to the financial rules while dealing with the collection and deposit of cash, cases of misappropriation and retention of cash could have been avoided.

5.8.2.2 Arrears in revenue collection

Out of 10 test-checked MBs, Bongaigaon MB raised claims of ₹22.38 lakh against Deputy Commissioners (DCs), Chirang (₹13.14 lakh) and Bongaigaon (₹9.24 lakh) towards the cost of cleaning of septic tanks (by cesspool vehicles⁶⁸) of different Army/CRPF camps of the Chirang and Bongaigaon districts during 2012-16, as per the request of the DCs concerned. Out of the total claim of ₹22.38 lakh, ₹11.86 lakh (Chirang: ₹5.34 lakh and Bongaigaon: ₹6.52 lakh) remained outstanding (July 2016) since the year 2012-13. Apart from raising the claim, the MBs did not take any action to collect the funds from the DCs. It was, however, stated that the outstanding claims would be paid by the DCs concerned, on receipt of funds from the Government.

5.8.3 Application of own resources

Municipal functions are classified into obligatory and developmental functions. As per the recommendations of the 4th Assam State Finance Commission, top priority was to be given to the obligatory functions *viz.* water supply; construction and maintenance of roads; street lighting; drainage and sewerage; garbage collection and disposal *etc.*

Though four⁶⁹ out of 10 selected MBs incurred maximum (53 to 72 *per cent*) expenditure on obligatory functions, the remaining six MBs expended less than 50 *per cent* of their total expenditure on discharging obligatory functions.

During test-check of MBs, irregularities in incurring expenditure amounting to ₹2.55 crore were noticed in the application of own resources, by them, are described in the following **Table 5.10**:

⁶⁸ The vehicle is used by Municipalities to clean liquid wastes and sewage from septic tanks.

⁶⁹ Tinsukia:53 per cent, Bongaigaon: 65 per cent, Hojai: 71 per cent and Jorhat:72 per cent

Table 5.10: Irregularities in the application of own resources by the test-checked MBs

Sl. no	Topic	Amount involved	Particulars
1	Expenditure kept outside the Municipal account	₹ 4.83 lakh	Scrutiny of the cash book and bank accounts revealed that Dibrugarh MB had operated one Savings Bank account with the Axis Bank ⁷⁰ , in addition to the Dibrugarh Municipality account maintained in the SBI Dibrugarh Branch, where ₹ 9.25 lakh was deposited from the revenues collected during 2011-16. Out of ₹ 9.25 lakh, though ₹ 4.83 lakh was withdrawn from the bank on different dates (amount paid to different parties: ₹ 1.17 lakh and amount withdrawn from the bank through self cheques: ₹ 3.66 lakh), it was not accounted for in the cash book of the MB. Further, details of utilisation of the amount of ₹ 3.66 lakh, withdrawn from the bank through self-cheques and records/documents in its support were not furnished to audit.
2	Doubtful utilisation	₹3.61 lakh	Dibrugarh MB incurred expenditure of ₹ 1.36 crore towards procurement of Petroleum Oil and Lubricants (POL) and spare parts. Further, during May 2015 to March 2016, 7,215 litre of POL was shown as utilised for tractors which were actually non-functional and off-road during that period. This was indicative of doubtful utilisation of POL worth ₹ 3.61 lakh ⁷¹ .
3	Doubtful expenditure	₹ 49.37 lakh	Dibrugarh MB incurred expenditure of ₹ 49.37 lakh during 2011-15, on extra labour engaged in cleaning of drains without the Board's approval or any recorded justification inspite of having 53 drain cleaning personnel (permanent and temporary) on its rolls and also the MB had not executed any construction/extension work in regard to drainage during that period. Besides, there was no documentation in support of the expenditure so incurred. Thus, in the absence of necessary documentation/justification in support of the engagement of extra labour, the expenditure of ₹ 49.37 lakh remained doubtful.
4	Irregular expenditure	₹ 15.48 lakh	Sivasagar MB released payment against the TA bills of the Ward Commissioner and other staff violating the provisions of Section 42 (2) of the A.M. Act, 1956, which envisaged that only the Chairman and Vice-Chairman are entitled to TA. Besides, essential records viz., sanction orders, tour diary etc., in support of actual journeys performed were also not furnished, though called for. Thus, the expenditure of ₹ 15.48 lakh, incurred towards payment of TA bills to non-entitled staff and also without proper documentation was irregular.
5	Injudicious expenditure	₹ 1.73 crore	Recommendations of the SFCs highlighted the need for ULBs to observe economy in expenditure. Scrutiny of records revealed that while incurring expenditure from own fund, Tezpur MB did not maintain head wise classification of expenditure and out of its total expenditure of ₹ 9.93 crore during 2011-16, incurred expenditure of ₹ 1.73 crore on miscellaneous purposes viz. expenditure on cost of tea and sweets for board meetings, purchase of gamochas ⁷² , sign boards, other stationery items; celebration of Independence Day etc. Incurring of such expenditure, constituting 17.42 per cent of the total expenditure incurred by the MB during 2011-16, was injudicious, considering its magnitude, as also the fact that it reduced the quantum of funds available for civic services and development.
6	Unauthorised Expenditure	₹ 8.53 lakh	Barpeta Road MB incurred expenditure of ₹ 8.53 lakh during 2011-16 towards donations for different religious and cultural activities even though there was no provision for incurring such expenditure under the AM Act, 1956. Also, no resolution passed by the Board for incurring such expenditure. Such unauthorised expenditure, therefore, resulted in reduction of funds available for developmental work and public utility services. There were recorded instances of public complaints regarding not carrying out of some developmental/welfare activities like drainage and maintenance of roads for the last 6-7 years by the Board.

⁷⁰ A/c No. 597010100079851.⁷¹ Calculated on the basis of ₹ 50.00 per litre × 7215 litre = ₹ 360750: say ₹ 3.61 lakh.⁷² Traditional towel used for felicitation.

The above irregularities are indicative of weak internal control mechanism in the MBs and possibility of misutilisation of own funds cannot be ruled out.

5.8.4 Records not produced to audit

During 2011-16, MBs of Sivasagar and Tezpur incurred expenditure of ₹ 80.54 lakh towards procurement of Petroleum Oil and Lubricants (POL) *etc.* but essential records in support of receipt and utilisation of the POL so procured *viz.*, supply orders, delivery challans, bills, vouchers, actual payees' receipts (APRs), stock register of receipt and issue of POL, vehicle-wise log books *etc.*, were not maintained. In response to an audit query in this regard, Sivasagar MB stated that the related records were not readily available with the MB. Tezpur MB neither furnished any reply nor furnished the necessary records.

Further, Dibrugarh MB did not furnish the records/documents shown in the following **Table 5.11**, despite specific requisition and repeated reminders.

Table 5.11: Details of records not furnished by Dibrugarh MB

Sl. No.	Details of records not furnished
1	47 money receipt books in respect of miscellaneous receipts, pertaining to the period April 2011 to July 2015, involving 17 collectors were called for to ascertain collection and deposit of revenue.
2	List of parking places, Demand and collection registers, NITs, Bid documents, Allotment Orders <i>etc.</i> , of leased markets to ascertain whether relevant procedures followed in allotting and finalising parking places and markets <i>etc.</i> were transparent and all the sources of revenue were tapped.
3	Budget estimates for the financial year 2011-16 to ascertain whether estimates were prepared on realistic basis.

This indicated lapses on the part of the MBs in maintenance and upkeep of records. In the absence of records, authenticity of expenditure of ₹ 80.54 lakh on POL, incurred by the MBs could not be ascertained.

5.9 Municipal Infrastructure

5.9.1 Municipal Property List

Under section 62 of AM Act, 1956, MBs are required to maintain lists of Municipal Properties, *viz.* Municipal Markets, Parking Places, Ponds, Auditorium Halls, Cremation Ground *etc.* These properties constitute sources of revenue and taxation, with a view to strengthening their finances.

However, none of the test-checked MBs maintained such lists. As a result, the MBs failed to identify all potential sources of revenue.

5.9.2 Human Resource Management

The 4th ASFC recommended a definite staffing pattern, suggesting staff strengths of 78, 137 and 202 for MBs having populations of up to fifty thousand, up to one lakh and more than one lakh respectively.

However, the MBs did not follow any definite pattern in maintaining their staff strengths on the basis of the recommendations of the 4th ASFC. As a result, there was a shortage of staff in five out of the 10 selected MBs as benchmarked against the 4th ASFC recommendations, as shown in the following **Table-5.12**:

Table-5.12: Staff position of the selected MBs

Sl. No.	Name of MB	Population	Staff position			Staff position as recommended by 4 th ASFC and accepted by GoA	Shortage
			Regular	Temporary	Total		
1.	Hojai	36544	27	Nil	27	78	51
2.	Barpeta Road	35489	25	Nil	25	78	53
3.	Silchar	172709	134	Nil	134	202	68
4.	Tinsukia	98798	68	Nil	68	137	69
5.	Nagaon	116355	33	Nil	33	202	169

It may be seen from the table above that the shortage of staff ranged from 51 in Hojai to 169 in Nagaon. Further, there were instances of inspection and verification of the value of property holdings by non-technical persons (*Tax Darogas*) due to non-availability of technical persons. Besides, there were procedural lapses in maintenance of records and inefficiencies in the collection of taxes/fees due to lack of man power, resulting in huge arrears of receipts which adversely affected the generation of revenues, as elaborated in the preceding paragraphs.

5.10 Role of the Government in mobilisation of revenue resources of the MBs

(i) The Government of Assam constituted State Finance Commissions, at an interval of every five years, to look into the resource position of the ULBs and make recommendations to improve their financial position, as required under the 74th Constitution Amendment Act. The status of implementation of recommendations of the 4th ASFC, accepted by GoA, is shown in the following **Table 5.13**:

Table 5.13: Status of implementation of recommendations of the 4th ASFC accepted by GoA

Sl. No.	Accepted Recommendations of SFCs	Status of Implementation
1	Registration of Births and Deaths may be transferred to ULBs. (Para 11.48)	Not yet transferred. As a result, the MBs could not levy registration fees.
2	In the matter of Property Tax, the existing ARV ⁷³ method may be replaced by Unit Area Method. (Para 8.25)	Although amendments to the relevant Rules of the AM Act, 1956 for implementation of the Unit Area Method, have been carried out, most ⁷⁴ MBs continued to use the old ARV Method for assessing property values.

Thus, GoA did not fully implement the accepted recommendations of the SFCs. This not only adversely affected the financial powers and functions of the MBs but also deprived them from additional sources of revenue.

(ii) As required under para 6.4.9 of the 13th Finance Commission Guidelines, GoA constituted a Property Tax Board (PTB), in March 2011, with the objective of monitoring the enumeration and assessment of all types of properties by the ULBs. The target for enumeration and assessment of properties, in a particular year, was 25 per cent for ULBs,

⁷³ For the purpose of calculation of Annual Rental Value (ARV) of a Holding, measurement of Carpet Area shall be calculated as under:
 (i) The rate of Rental Value per sq. ft. shall be fixed by the Board of the Municipality at a meeting, with prior approval of the Committee mentioned under Section 79-A.
 (ii) The Annual Rental Value shall be commuted at a multiple of the Carpet Area and the Rental Value fixed under sub-section (1), by the Board of the Municipality at a meeting, with prior approval of the Committee mentioned under Section 79-A.
 (iii) The Rental Value per sq. ft. of Carpet Area for different classes of holding shall be published from time to time by the Municipality with the approval of the Committee mentioned under Section 79-A.

⁷⁴ Only three out of the 10 selected MBs adopted self assessment system.

starting from financial year 2011-12. The DMA was required to depute the Chief Valuation Officer and other Valuation officers in the field to monitor the rates of collection and time taken for collection in a particular year. However, no Property Valuation Cell (PVC) was formed by the Government. The DMA stated that the PVC was not in existence due to introduction of the Self Assessment System, after amendment of the AM Act, 1956, in 2012. As a result, not only were the MBs deprived of the guidance of PTB, but also lacked direction in assessment of the value of properties. This was evident from the fact that six out of the 10 selected MBs were imposing and collecting property tax based on the value of assets fixed seven to 41 years before.

(iii) It was found that neither the Government nor the MBs had considered/taken innovative measures such as setting up of an improved information base or an effective Management Information System, introducing bill collection through outsourcing, holding of Tax Adalats *etc.*, to augment their revenue generation and increase their tax base, as had been adopted by some other States.

Thus, GoA failed to play an effective role in mobilising revenue resources of the MBs.

5.11 Monitoring and Evaluation

- As per the recommendations made by the 4th ASFC, a High Level Monitoring Committee, headed by the Chief Secretary and Monitoring and Evaluation Cell was to be set up in the DMA, to monitor the revenue raising capabilities of the MBs. However, neither the High Level Monitoring Committee headed by the Chief Secretary nor any Monitoring and Evaluation Cell was set up in the DMA.
- Although the rates of taxes were to be revised after every five years, the selected MBs did not revise the rates for a long period.
- GoA instructed the MBs to introduce the self-assessment system of property valuation. However, seven out of 10 test-checked MBs had not introduced the system (as on January 2016). GoA also did not initiate any follow-up action with regard to implementation of the instructions issued in this regard. DMA, GoA, was not aware of the status of implementation of these instructions by the MBs, as it had the relevant data pertaining to only 23 out of 34 MBs.
- Targets were not fixed for the tax collectors. No information or data base regarding the delivery of services was evolved by the MBs.
- Government did not monitor generation of revenues from the levy of taxes or revision of rates. GoA or DMA did not prescribe any report/return on generation of revenues by the MBs.
- There was no periodic evaluation of efforts for improving the revenue raising capabilities of MBs at the Government level.

Thus, monitoring and evaluation of the revenue raising capabilities of the MBs, through levy of taxes, was lacking both at the MB level, as well as at the Nodal Department level.

5.12 Conclusion

- The MBs did not utilise full potential of mobilising their own resources as relevant taxes and fees, prescribed under the AM Act, 1956 were not levied.
- Revision of taxes, through the self-assessment (Unit Area Method), was not implemented by most of the MBs.

- There was a short fall of 69 *per cent* in collection of taxes by the MBs during 2011-16 due to lack of planning, infrastructure and capacity building.
- Instances of short deposit and non-deposit of receipts on time by the collectors indicated lack of internal controls in revenue collection.
- MBs were utilising lesser proportions of their own resources on obligatory functions, resulting in non-provision of adequate civic amenities to citizens.
- The role of the MBs and GoA, in mobilising resources of the MBs, was not effective.
- Monitoring and evaluation of the management of own funds and collection of revenues was also lacking.

Thus, generation of revenue was inadequate, as ‘own resources’ accounted for only 12.91 *per cent* of total funds of MBs during 2011-16. Further, management of own funds by the MBs was also inefficient. As a result, the MBs were constrained to rely on Government grants for carrying out their allocated functions.

5.13 Recommendations

The GoA, as well as the MBs, may augment collection of revenue and manage own resources effectively by:

- Assessment and levy of taxes and fees as per statutory provisions and regular revision of rates of taxes and fees.
- Prompt collection of revenues through adoption of innovative measures such as setting up of an improved information base or an effective Management Information System, prompt bill collection, settlement of outstanding dues through special drives like holding of Tax Adalats *etc.* as had been adopted by some other States.
- Constitution of a Municipal Fund in each Board and preparation of financial statements by the Boards.
- Maintenance of a comprehensive database of properties, tax payers, licensees and tenants so as to facilitate preparation of realistic budgets.
- Periodic monitoring and evaluation of assessment and collection of taxes and dues.