

CHAPTER V
COMPLIANCE AUDIT
(URBAN LOCAL BODIES)

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COMPLIANCE AUDIT

Compliance Audit on Management of Municipal Funds including collection of revenue by Municipalities in Kancheepuram and Tiruvallur Districts, Madurai, Salem and Thanjavur City Municipal Corporations and Keelakarai and Kumbakonam Municipalities brought out instances of lapses in management of resources and failure in the observance of the norms of regularity, propriety and economy. These have been presented in the succeeding paragraphs.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

5.1 Management of Municipal Funds including collection of revenue by Municipalities in Kancheepuram and Tiruvallur Districts

5.1.1 Introduction

The 74th Amendment to the Constitution of India paved the way for Urban Local Bodies (ULBs) to function as local self-government. A robust municipal finance system is necessary for effective implementation and management of India's urban policy agenda and sound municipal finance was a pre-requisite for improved service delivery.

The Audit of Management of Municipal Funds including collection of revenue by Municipalities in Kancheepuram and Tiruvallur Districts was conducted covering the period 2013-16 in four Municipalities (Avadi and Thiruverkadu in Tiruvallur District and Maraimalai Nagar and Pallavaram in Kancheepuram District), selected based on the highest revenue collected through property tax and corresponding increase in population between 2001 and 2011. The objective was to assess whether there was efficient financial management system involving budgeting and collection of revenue. Records were test checked in the four Municipalities besides records at Municipal Administration and Water Supply (MAWS) Department at the Secretariat, Commissionerate of Municipal Administration and Office of the Regional Director of Municipal Administration, Chengalpattu Region. A meeting was held with the Principal Secretary, MAWS Department on 16 November 2016 to discuss important audit observations. Audit findings are discussed in succeeding paragraphs.

Audit Findings

5.1.2 Budget

(i) The budget estimates and the actuals of the four Municipalities pertaining to the financial years of 2013-14, 2014-15 and 2015-16 are detailed in **Appendix 5.1**. As per Paragraph 3.39 of Municipal Budget Manual, a budget variance report showing the allocation against each budget head for the whole year and the quarter and the revenue/expenditure for the quarter and year to date against that budget head should be prepared and presented to the Council by the Municipal Commissioner at the end of every quarter. Audit scrutiny revealed that there were significant variations in respect of both income and expenditure of Revenue and Capital fund in respect of all the three Municipal fund accounts indicating that the budgets were not prepared realistically. The Municipalities had also not carried out any variance analysis.

Government replied (November 2016) that suitable instructions have been issued to the Municipalities to ensure budgetary control to avoid variations in the budget provisions.

(ii) As per Paragraph 4.5 of the Municipal Budget Manual, every Municipality should prepare a performance budget along with the financial budget so as to measure the outcome of each project with reference to its corresponding outlay. It was observed that Pallavaram, Maraimalai Nagar and Thiruverkadu Municipalities had not prepared any performance budget during the last three years. Avadi Municipality prepared performance budget for 2013-14 only. As a result, the performance of the Municipalities could not be monitored by the Commissioner of Municipal Administration (CMA).

Government replied (November 2016) that due to shortfall in manpower, the Municipalities did not prepare performance budget; performance on implementation of each project with reference to the corresponding outlay was being critically reviewed periodically through Management Information System (MIS) available in the Municipalities and instructions were issued to the Municipalities to prepare performance budget along with financial budget in future.

The reply was not tenable in view of the fact that there were significant variations between Budget Estimate and actuals ranging between 50 and 125 *per cent* both on income and expenditure in 30 cases; staff constraint cannot be cited as reason for not performing essential municipal functions and reviewing MIS and issuing instructions cannot be a substitute for carrying out variance analysis and preparation of performance budget.

5.1.3 Finance

As per the Government Orders issued in January 2000, the Municipalities compile their accounts on accrual basis. The annual accounts comprising of three fund accounts viz. Revenue and Capital Fund, Water Supply and Drainage Fund and Elementary Education Fund are certified by the Director of Local Fund Audit (DLFA). The Municipalities should finalise their accounts within three months after the end of each financial year. All the four Municipalities had prepared their accounts and submitted the same to the DLFA within the scheduled dates. DLFA had certified the accounts upto 2013-14 for Pallavaram, Avadi and Thiruverkadu Municipalities and upto 2014-15 for Maraimalai Nagar Municipality.

Based on the final accounts of all the three Municipal fund accounts furnished by the Municipalities and after taking into account the actual revenue collected and actual expenditure incurred by them, the receipts and expenditure of the four Municipalities were worked out. The details for the years 2013-14 to 2015-16 are given in **Table 5.1**.

Table 5.1: Receipts and expenditure for the period 2013-16

(₹ in crore)

Particulars	Avadi			Maraimalai Nagar			Pallavaram			Thiruverkadu		
	2013-14	2014-15#	2015-16#	2013-14	2014-15	2015-16#	2013-14	2014-15#	2015-16#	2013-14	2014-15#	2015-16#
Revenue Receipts	68.61	70.13	81.87	42.47	47.57	36.79	60.95	61.01	69.55	25.82	22.90	27.32
Revenue Expenditure	47.03	39.74	45.19	11.10	10.90	10.93	31.68	31.90	38.71	4.84	6.30	7.45
Capital Receipts (Municipal contribution)	18.76	0	0	0	0	0	0	0	0	0	0	0
Capital Expenditure	122.66	61.09	86.23	71.18	77.40	39.57	48.55	42.53	47.12	32.54	18.88	36.72
Total Expenditure	169.69	100.83	131.42	82.28	88.30	50.50	80.23	74.43	85.83	37.38	25.18	44.17
Fiscal balance	(-82.32)	(-30.70)	(-49.55)	(-39.81)	(-40.73)	(-13.71)	(-19.28)	(-13.42)	(-16.28)	(-11.56)	(-2.28)	(-16.85)
Government Capital Grants	47.60	40.75	23.05	5.59	1.37	28.22	29.79	7.77	8.48	8.68	4.82	4.04

Accounts are yet to be audited and certified by the DLFA.

(Source : Figures worked out by Audit on actual basis from the Annual Accounts of the Municipalities)

It may be seen from the table that none of the Municipalities had contributed for Capital works from their income except Avadi Municipality, which had allocated ₹ 18.76 crore during 2013-14. Thus, the Municipalities had to largely depend on the Government grants for meeting their fiscal gaps, as discussed below:-

(i) Dependency factor on Grants

The main objective of the 74th Amendment of the Constitution of India was to enable the local bodies to function as local self-government and to achieve the same, the local bodies should raise their own revenue to become self reliant

and be less dependent on Government grants. Further, as per the Fiscal Management principles stipulated in the Tamil Nadu Municipal Budget Manual, the ULBs should manage expenditure consistent with the level of revenue generated. The dependence on Government grants by the four Municipalities is indicated in **Table 5.2**.

Table 5.2: Dependency factor on grants for incurring expenditure during the period 2013-16

(₹ in crore)

Name of the Municipality	Actual revenue grant received	Actual capital grant received	Total Grants	Total expenditure (Both Revenue and Capital)	Dependency Factor (in percentage)
Avadi	96.82	111.41	208.23	401.94	51.81
Maraimalai Nagar	22.65	35.18	57.83	221.08	26.16
Pallavaram	61.74	46.04	107.78	240.49	44.82
Thiruverkadu	18.54	17.53	36.07	106.73	33.80

(Source: Figures worked out by Audit from the Annual Accounts of the Municipalities)

As may be seen from the above, the dependency factor on Government grants ranged from 26.16 to 51.81 *per cent*, thus making it imperative for the Municipalities to improve the level of efficiency in raising their tax and non-tax revenue like property tax, lease rent and user charges for water supply and sewerage, as discussed in Paragraphs 5.1.4 and 5.1.5 respectively.

While accepting the audit observation, Government stated (November 2016) that as the revenue receipts of the Municipalities were not sufficient to meet the expenditure, grants were given to them to compensate the deficit.

(ii) Trend of Receipts and Expenditure

The trend of Revenue Receipts, Revenue Expenditure and Capital Expenditure of the Municipalities, as per the accounts compiled on accrual basis, is given in **Table 5.3**.

Table 5.3: Trend of Receipts and Expenditure

(₹ in crore)

Name of the Municipality	Revenue Receipts			
	2013-14	2014-15	2015-16	Percentage of increase - 2013-14 to 2015-16
Avadi	66.27	66.01	80.41	21.34
Maraimalai Nagar	40.20	43.43	36.11	(-) 10.17
Pallavaram	56.89	58.87	70.78	24.42
Thiruverkadu	24.18	21.60	26.29	8.73
Revenue Expenditure				
	2013-14	2014-15	2015-16	Percentage of increase - 2013-14 to 2015-16
Avadi	58.91	69.63	77.44	31.45
Maraimalai Nagar	30.19	33.74	20.82	(-) 31.04
Pallavaram	48.84	53.45	63.68	30.38
Thiruverkadu	19.41	20.19	25.63	32.04
Capital Expenditure				
	2013-14	2014-15	2015-16	Percentage of increase - 2013-14 to 2015-16
Avadi	122.66	61.09	86.23	(-) 29.70
Maraimalai Nagar	71.18	77.40	39.57	(-) 44.41
Pallavaram	48.55	42.53	47.12	(-) 2.95
Thiruverkadu	32.54	18.88	36.72	12.85

(Source: Annual accounts of the Municipalities)

From the table, it may be seen that the rate of increase of revenue expenditure in three Municipalities (except Maraimalai Nagar) was more than the corresponding increase of revenue receipts during 2013-16. In Maraimalai Nagar Municipality, both the revenue receipts and the revenue expenditure had decreased during 2013-16. There was a decline in capital expenditure in all the Municipalities except Thiruverkadu Municipality during 2013-16.

Government replied (November 2016) that the trend of receipts of the Municipalities was not commensurate to meet the expenditure of the Municipalities and there was deficit in receipts. The increase in revenue expenditure was due to increase in salary, establishment cost, maintenance of assets etc., whereas the revenue receipts were more or less static. Government stated that the main reason for the decline in capital expenditure in Avadi and Pallavaram Municipalities was that the water supply projects being executed by Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) were nearing completion.

The reply was not tenable as the Municipalities had not taken effective measures to levy and collect tax and non-tax revenues and also failed to collect the user charges for water and sewerage at the prescribed norms, which

would have enhanced the revenue receipts, as discussed in Paragraphs 5.1.4 and 5.1.5. The reply of the government with regard to capital expenditure in Avadi and Pallavaram Municipalities was not tenable as both the Municipalities had incurred capital expenditure on other core sectors such as storm water drains, roads and solid waste management, where their investments were much below the norms as indicated in **Table 5.4**.

(iii) Investment in infrastructure projects

A High Power Expert Committee (HPEC) was constituted (May 2008) by the Ministry of Urban Development, Government of India (GoI), to estimate the investment requirement for urban infrastructure services. The Committee in its report prescribed (March 2011) the investment requirements for core sectors like water supply, sewerage, solid waste management, storm water drains, urban roads and street lights. The assessment of investment requirements for fixing the expenditure norms was fixed by the HPEC based on the service standard benchmarks prepared by the Ministry of Urban Development, GoI.

Audit observed that the four Municipalities had been underspending on core activities such as water supply, sewerage, storm water drains, roads, street lighting and solid waste management, which was much below the norms as discussed below:-

- The investment requirement prescribed (March 2011) by the HPEC for the period 2012-31, based on 2009-10 prices for core urban infrastructure services and the actual investment made by the four Municipalities, is given in **Table 5.4**.

Table 5.4: Capital expenditure incurred by the Municipalities in core sectors upto 2015-16

(₹ in crore)

Core Sectors	Avadi Municipality		Maraimalai Nagar Municipality		Pallavaram Municipality		Thiruverkadu Municipality	
	Norms	Actual expenditure	Norms	Actual expenditure	Norms	Actual expenditure	Norms	Actual expenditure
Water Supply	204.20	0*	48.01	38.88	127.63	21.98	36.76	9.89
Under Ground Sewerage	117.58	0*	45.96	3.79	73.49	65.17	35.18	-
Storm Water Drains	178.38	39.51	22.78	24.02	111.50	31.08	17.44	16.42
Roads	1,010.84	197.95	182.25	152.27	631.81	139.47	139.53	109.90
Street Lighting	43.36	4.03	0.87	6.02	27.10	5.51	0.67	7.70
Solid Waste Management	14.13	3.47	1.66	2.60	8.83	4.31	1.27	1.95

* In Avadi Municipality, Water Supply and Under Ground Sewerage Schemes were in progress.

(Source: Details worked out by Audit based on the Report on Indian Urban Infrastructure and Services and Annual Accounts of Municipalities)

It may be seen from the above that the investment was far below the norms prescribed by HPEC in Avadi and Pallavaram Municipalities. In Maraimalai Nagar Municipality, the investment was below the norms in respect of water supply, under ground sewerage and roads. In Thiruverkadu Municipality, the investment was below the norms in respect of all core sectors except for street lighting and solid waste management.

Government replied (November 2016) that due to financial constraints, the Municipalities could not invest fund for capital expenditure on core sectors at the level prescribed by HPEC. The reply was not tenable in view of the fact that the Municipalities failed to improve the level of efficiency in raising their own revenue, which could have facilitated higher capital expenditure on core sectors as discussed in Paragraphs 5.1.4 and 5.1.5.

- The HPEC prescribed norms for per capita Operation and Maintenance (O&M) cost for various urban infrastructure services. The norms for O&M for the core sectors were reduced proportionately according to the actual capital expenditure incurred by the Municipalities. The details worked out by Audit and expenditure thereagainst are given in **Table 5.5**.

Table 5.5: Operation and Maintenance expenditure incurred by the Municipalities for core sectors

(₹ in crore)

Sector	Avadi Municipality		Maraimalai Nagar Municipality		Pallavaram Municipality		Thiruverkadu Municipality	
	Norms	Average O&M expenditure for three years	Norms	Average O&M expenditure for three years	Norms	Average O&M expenditure for three years	Norms	Average O&M expenditure for three years
Water Supply	NA	*	2.42	2.00	1.82	4.01	0.62	0.08
Under Ground Sewerage	NA	*	0.14	0	5.54	0	0	-
Storm Water Drains	0.60	0.29	0.36	0	0.47	0.11	0.25	0.07
Roads	3.56	0.09	2.50	0	2.51	0	1.81	-
Street Lighting	0.17	3.23	0.17	1.27	0.24	2.09	0.21	1.85
Solid Waste Management	1.14	2.40	1.44	0.39	1.42	2.51	1.08	0.55

NA : Not Applicable; As Water Supply and Under Ground Sewerage Schemes were in progress, norms were not worked out.

* In Avadi Municipality, Water Supply and Under Ground Sewerage Schemes were in progress

(Source : Details worked out by Audit based on the Report on Indian Urban Infrastructure and Services and Annual Accounts of Municipalities)

It may be seen from the above that all the four Municipalities had been spending more on maintenance of street lighting while Maraimalai Nagar and Thiruverkadu Municipalities were underspending on all other core sectors. Avadi Municipality spent less on maintenance of storm water drains and roads and more on solid waste management and Pallavaram Municipality spent less on maintenance of storm water drains and more on water supply and solid waste management.

Government replied (November 2016) that the O&M expenditure in road sector was reduced considerably due to adoption of latest standard specification of IRC 37:2012. The reply was not tenable as instead of maintaining the roads by incurring revenue expenditure for repair works as put forth in IRC 82:1982, the Municipalities were relaying the entire road by adopting IRC 37:2012 by incurring capital expenditure. Principal Secretary in the meeting (November 2016) further agreed that the benchmarks of HPEC would be analysed and strategy for adoption of norms worked out.

(iv) Short release of Central Finance Commission Grants

Based on the Fourth State Finance Commission (SFC) recommendations, Government of Tamil Nadu (GoTN) ordered (June 2013) to devolve 10 per cent of the net State's Own Tax Revenue as devolution grant and adopted the vertical sharing ratio of 58:42 between rural and urban local bodies and horizontal sharing ratio between the ULBs as 40:31:29 between Municipal Corporations, Municipalities and Town Panchayats. Further, GoTN had also ordered to adopt: (a) 2011 Census (80 per cent), (b) Area (15 per cent) and (c) Debt Outstanding (five per cent), as criteria and weightage for horizontal sharing of SFC devolution within each tier of ULBs. The same formula was to be adopted for release of Central Finance Commission (CFC) grants.

Scrutiny of records in the Office of the CMA revealed that while releasing the CFC Grants for the year 2014-15, CMA had adopted 2001 Census as criteria for apportionment of release of CFC grants between the Municipalities instead of adopting the 2011 Census and the formula prescribed by GoTN in June 2013. The incorrect adoption of population census by the CMA had resulted in short release of CFC grant to the test checked Municipalities, as given in **Table 5.6.**

Table 5.6: Short release of CFC grant

(₹ in crore)

Name of the Municipality	CFC grant eligible as per 2011 population	Grants actually released	Amount of short release of grant
Avadi	5.27	4.31	0.96
Maraimalai Nagar	1.52	0.91	0.61
Pallavaram	3.34	2.72	0.62
Thiruverkadu	1.03	0.60	0.43
Total	11.16	8.54	2.62

(Source : Details furnished by CMA)

Government replied (November 2016) that the proposal was prepared for the five year period 2011-15 adopting 2001 Census figures, which was available at that time and the grants were sanctioned by CFC accordingly.

The reply was not acceptable as the CFC guidelines clearly stipulated that the State Government should have applied the distribution formula of the most recent SFC. Since the GoTN had issued (June 2013) order accepting the Fourth SFC recommendation, the CMA should have apportioned the CFC grants for the year 2014-15 by adopting the 2011 Census population criteria as ordered by the GoTN in June 2013.

5.1.4 Revenue and Capital Fund

Revenue and Capital Fund consists of own revenue (tax revenue and non-tax revenue), assigned revenue, grants, contributions and loans. Property tax is a major source of tax revenue for the Municipalities. Deficiencies in levy and collection of own revenue are discussed below:

(i) Non-levy of Vacant Land Tax

As per Section 81 of the Tamil Nadu District Municipalities Act, 1920, (Act) property tax should be levied on all buildings and lands within the municipal limits. Section 81(3) (a) of the Act further stipulates that property tax should be levied on lands which are not used exclusively for agricultural purposes and are not occupied by, or adjacent and appurtenant to, buildings at such rates as the Council may fix, having regard to its location and subject to the minimum and maximum rates per sq.ft. as may be prescribed by the State Government. CMA instructed (July 1998) all the Municipalities to levy vacant land tax for the excess vacant land appurtenant to buildings over and above three times of plinth area of the building.

Scrutiny of records at Maraimalai Nagar Municipality revealed that land measuring 1,27,02,249 sq.ft. (291.336 acres (29,133.6 cents) x 436 sq.ft.) was owned by an industry. The vacant land available after deducting the plinth areas was 83,19,877 sq.ft. However, the Municipality had not levied vacant land tax for this area, which had resulted in a revenue loss of ₹ 3.29 crore¹ for the period from 2013-14 to 2015-16.

Government replied (November 2016) that the entire land measuring 1,27,02,249 sq.ft. mentioned by Audit was fully utilised by the Company by construction of buildings, roads, parking area, park, garden etc., and no open space was kept vacant; the entire property was assessed for property tax and the company was paying property tax without default and hence, there was no loss of revenue. The reply was not correct as no documentary evidence was furnished to Audit to substantiate the reply. The Principal Secretary agreed (November 2016) in a meeting to review and verify facts of the case.

¹ 83,19,877 sq.ft. x ₹ 0.66 per sq.ft. x six half years

(ii) Non-levy of property tax

As per Section 89 of the Tamil Nadu District Municipalities Act, 1920, if any building in a municipality is constructed, the owner shall give notice to the executive authority within 15 days from the date of completion or occupation of the building whichever is earlier. Further, Section 91 of the Act stated that for the purpose of assessing the property tax, the executive authority, may, by notice, call on the owner or occupier of any building to furnish him the details of the building.

Scrutiny of records of Avadi Municipality revealed that a residential complex (Kendriya Vihar-II) had 572 dwelling units, out of which possession of 570 dwelling units had been taken (January 2014). The Municipality had, however, levied property tax only for 27 dwelling units. The Municipality replied (July 2016) that out of 572 dwelling units, only 27 units were assessed and applications for assessment of property tax were being received for the remaining units and action would be taken to assess all units. Thus, failure of the Municipality to levy and collect property tax for the remaining dwelling units had resulted in non-realisation of revenue of ₹ 0.79 crore.

On this being pointed out, the Principal Secretary of MAWS Department agreed (November 2016) to look into the matter.

(iii) Non-levy of property tax for Canteens

As per Section 83 of the Tamil Nadu District Municipalities Act, 1920, buildings used for educational purposes including hostels attached thereto are exempted from levy of property tax. In this connection, CMA had instructed (October 2005) all ULBs to levy property tax for residential quarters of educational institutions (excluding hostels) and commercial buildings within the campus like Kalyana Mandapam, Automated Teller Machine, Shops, Canteen, etc.

(a) Scrutiny of records in respect of four out of six cases (two in Maraimalai Nagar and two out of four in Pallavaram Municipalities) revealed that property tax was not levied for canteen buildings, in the educational institutions, measuring 35,937 sq.ft. (Maraimalai Nagar: 24,007 sq.ft. and Pallavaram: 11,930 sq.ft.). Further, Maraimalai Nagar Municipality had not levied property tax for two staff quarters of educational institutions measuring 38,524 sq.ft. This had resulted in non-levy of revenue of ₹ 15.41 lakh (Maraimalai Nagar : ₹ 9.70 lakh and Pallavaram : ₹ 5.71 lakh) for the period 2013-14 to 2015-16.

Government replied (November 2016) that both the Municipalities had erroneously omitted to levy property tax and that the demand had since been issued by the respective Municipalities with retrospective effect to realise the property tax.

(b) Scrutiny of records in Thiruverkadu Municipality and joint inspection (October 2016) by Audit with Revenue Inspector of Thiruverkadu Municipality revealed that property tax was not levied for 12 cases in respect of canteen buildings, food stalls, shops and Automated Teller Machine, measuring a total area of 24,143 sq.ft. in five educational institutions. Similarly, property tax was not levied in respect of staff/residential quarters/nurses quarters and guest house measuring 84,282 sq.ft. in two educational institutions. Failure of the Municipality to levy property tax for those buildings resulted in a loss of revenue of ₹ 15.38 lakh for the period 2011-16.

CMA replied (November 2016) that the Commissioner, Thiruverkadu Municipality had been instructed to verify and take immediate action to realise the loss of revenue, if any.

Audit recommend that the CMA should review all such cases in all the municipalities and levy the tax and realise the revenue after following prescribed procedure.

(iv) Short assessment of property tax

In respect of one commercial assessment, Maraimalai Nagar Municipality levied (August 2009) and had collected ₹ 6.39 lakh per half year (upto 2012-13 second half year) as property tax for its 98,815 sq.ft. tiled structured building. The assessee sold out a portion of tiled structure measuring 24,000 sq.ft. in June 2013 and property tax for the sold out portion was levied (January 2014) separately. While reassessing property tax in December 2013 for the commercial establishment, the Municipality assessed property tax only for 48,600 sq.ft. instead of 74,815 sq.ft. (98,815 sq.ft. – 24,000 sq.ft.), which resulted in short assessment of property tax to the tune of ₹ 7.75 lakh for the period from 2013-14 to 2015-16 (six half years).

Government replied (November 2016) that the Municipality assessed and levied property tax for 98,815 sq.ft. on the basis of the planning permit, whereas the commercial establishment constructed the building only to an extent of 72,600 sq.ft. Government further replied that the property tax was correctly assessed for the actual tiled structure of 48,600 sq.ft. excluding the sold out portion of 24,000 sq.ft. and there was no short assessment of property tax.

The reply was not tenable as the total area of the building constructed was 98,815 sq.ft. as evident from the self assessment details furnished (July 2009) by the assessee at the time of initial assessment and property tax amounting to ₹ 6.39 lakh per half year was also levied (August 2009) and the assessee paid the property tax amount upto 2012-13 second half year on the total area of the building. As such, the Municipality was required to levy and realise property tax for the remaining area of 26,215 sq.ft. (74,815 sq.ft. – 48,600 sq.ft.).

(v) Non-collection of lease rent

Pallavaram Municipality leased out (March 2014) an office building located at Keelkattalai Bus Stand Shopping complex for the functioning of a Police Station at a lease rent of ₹ 25,000 per month with a condition to pay lease amount on or before 5th of every month. Audit scrutiny revealed that the lessee did not pay any lease rent for the premises occupied by them from April 2014 to June 2016 despite demand raised by the Municipality. This had resulted in loss of revenue of ₹ 6.75 lakh.

Government replied (November 2016) that the Police Department had not paid the lease rent despite demand raised by the Municipality and frequent reminders (November 2014, November 2015 and March 2016) were issued and stated that the lease amount would be paid by the Police Department on receipt of funds and the matter was being pursued to realise the revenue.

(vi) Time barred amount of taxes

Section 345 of the Tamil Nadu District Municipalities Act, 1920 stipulates that no distraint² should be made and no suit should be instituted and no prosecution should be commenced in respect of any sum due to the municipal council after expiration of 12 years from the date on which distraint might first have been made, a suit might first have been instituted, or prosecution might first have been commenced, as the case may be, in respect of such sum.

Audit scrutiny revealed that a sum of ₹ 2.07 crore³ pertaining to property tax, profession tax and water tax (for the period from 1989-90 to 2003-04) had become time barred in the four Municipalities. Failure of the Municipalities to take effective steps to collect the taxes in time resulted in revenue loss of ₹ 2.07 crore.

Government replied (November 2016) that certain items of long pending arrears had become irrecoverable as there were no buildings existing during site inspection and the assessed property was demolished and sold out and the whereabouts of the owner were not known. As regards profession tax, Government stated that due to closure of private establishments and transfer of staff, the pending amount became irrecoverable. Government further stated that the Municipalities were also advised to write off the irrecoverable revenue and to take effective action to collect all the recoverable arrears in a time bound manner.

The reply was not justified as necessary systems and monitoring mechanism for review were not in place to see that cases do not become time barred. Also, the plea of staff transfers etc., was not tenable as raising and recovering correct and timely tax demand is a statutory requirement and not dependent on

² Seizure of property in order to obtain payment of money owed, especially rent

³ Avadi : ₹ 1.20 crore (Property Tax); Maraimalai Nagar : ₹ 18.90 lakh (Property Tax) and ₹ 2.57 lakh (Water Tax); Pallavaram : ₹ 49.61 lakh (Property Tax), ₹ 8.54 lakh (Water Tax) and ₹ 5.06 lakh (Profession Tax) and Thiruverkadu : ₹ 2.74 lakh (Property Tax). **Total : ₹ 207.42 lakh (or) ₹ 2.07 crore**

such reasons. Accountability, thus, needs to be fixed for all such avoidable cases of loss of revenue to the Municipality.

5.1.5 Water Supply and Drainage Fund

As per the Accounting Manual for ULBs in Tamil Nadu, Water Supply and Drainage Fund consisted of water and drainage tax (apportioned from the property tax), user charges, grants and loans. Water Supply and Drainage Fund account was to be kept separate and distinct for accounting all income and expenditure pertaining to water supply and drainage in order to assess its self sufficiency. As per the reforms suggested by HPEC for strengthening non-tax revenue, user charges for water supply and sewerage should be so structured so as to meet O&M cost, debt servicing and depreciation towards the cost of the project by the Municipalities.

Audit observed that Water Supply Scheme (WSS) was fully completed (1983) and functional in Pallavaram Municipality. In Maraimalai Nagar Municipality, water was being supplied through pipeline only in seven out of 21 wards and while WSS was in progress in Avadi Municipality, there was no WSS in Thiruverkadu Municipality.

Under Ground Sewerage Scheme (UGSS) was completed (February 2012) and functional in Pallavaram Municipality. In Avadi and Maraimalai Nagar Municipalities, it was under progress. There was no UGSS in Thiruverkadu Municipality.

As WSS and UGSS were completed and functional in Pallavaram Municipality, Audit examined the levy of water and sewerage charges and observed as under:-

(i) Collection efficiency of Water Charges

The demand, collection and balance in respect of water charges in Pallavaram Municipality for the period 2013-16 is given in **Table 5.7**.

Table 5.7: Demand, Collection and Balance of water charges
(₹ in crore)

Year	Demand	Collection	Balance	Collection ratio (in percentage)
2013-14	3.38	0.95	2.43	28.10
2014-15	2.38	0.84	1.54	35.29
2015-16	2.79	0.74	2.05	26.52

(Source: DCB statement in Final Accounts for the respective years)

The water charges collection ratio in the Municipality ranged between 26.52 per cent and 35.29 per cent, which was far below the prescribed norms of 90 per cent for ULBs as prescribed in the Tamil Nadu Municipal Budget Manual.

As per the Gazette Notification (December 2002) for water supply connections for Pallavaram Municipality, water charges were to be paid within ten days from the due date i.e. last day of the month. If not paid, fine at the rate of ₹ 2 for every 100 rupees per day for the belated payments had to be levied. If the amount was not paid within 15 days from the due date, water connections were to be disconnected. However, fine was not levied by the Municipality.

Government replied (November 2016) that the water charges would be collected after improvement of existing water supply project, which was not adequate. The reply was not tenable as the Municipality should have taken action to levy penalty for non-payment of water charges as stipulated in the Gazette, to ensure collection of water charges.

(ii) Deficit position in Water Supply and Drainage account

The details of revenue income and O&M expenditure for water supply in Pallavaram Municipality during the period 2013-16 are given in **Table 5.8**.

Table 5.8: Details showing the deficit position in Water Supply and Drainage account

(₹ in crore)

Year	Revenue Income	O&M Expenditure excluding hire charges	Deficit in Income
2013-14	2.19	4.02	(1.83)
2014-15	2.48	3.66	(1.18)
2015-16	2.27	4.35	(2.08)

(Source: Revenue accounts of Water Supply and Drainage account of respective years)

Audit noticed that water charges were last revised by Pallavaram Municipality in 2002. Non-revision of water charges for the past 14 years had pushed the Municipality into a deficit position in Water Supply and Drainage Account and the Municipality could not meet even its O&M expenditure with its corresponding revenue income from water charges and water tax collected during the period 2013-16.

Government replied (November 2016) that due to insufficient water supply and public agitation and protest by the residential welfare associations, the Municipal Council had not increased the water charges. Government further stated that for meeting the shortfall, the Municipality was purchasing water from CMWSSB. Besides, the Municipality was incurring recurring expenditure on maintenance of hand pumps and mini power pumps and distribution of water through lorries to the uncovered and slum areas which led to increase in O&M expenditure. As the Municipality could not meet the O&M expenditure with the revenue income from water charges and water tax, the same was being met from the General Fund of the Municipality.

The reply was not tenable as even after excluding the lorry hire charges from the O & M cost, there was deficit in the account and the additional expenditure on O & M cost had eroded the General Fund of the Municipality.

(iii) Collection efficiency of UGSS charges and O&M expenditure

The demand, collection and balance in respect of UGSS charges in Pallavaram Municipality for the period 2013-16 is given in **Table 5.9**.

Table 5.9: Demand, Collection and Balance of UGSS charges
(₹ in crore)

Year	Demand	Collection	Balance	Collection ratio (in percentage)
2013-14	4.21	0.85	3.36	20.19
2014-15	5.75	1.58	4.17	27.48
2015-16	8.12	2.08	6.04	25.62

(Source: DCB statement in Final accounts for the respective years)

The UGSS charges collection ratio ranged between 20.19 *per cent* and 27.48 *per cent*, which was far below the prescribed norms of 90 *per cent* for ULBs as prescribed in the Tamil Nadu Municipal Budget Manual.

As per the Gazette Notification (November 2011) for UGSS connections for Pallavaram Municipality, UGSS charges should be paid within 15 days from the date of receipt of notice from the Municipality; if not paid within 15 days, an additional surcharge of 18 *per cent* for the belated payment should be collected. However, neither charges were recovered nor fine was levied by the Municipality.

Government replied (November 2016) that the public and residential welfare associations were objecting to the rates fixed by the Municipality and refused to pay the UGSS charges that these rates were felt to be on higher side. Due to this, the Municipality could not achieve the prescribed level of collection. The reply was not tenable as the Municipality should have initiated action to levy additional surcharge of 18 *per cent* as stipulated in the Gazette.

(iv) Loss of revenue due to non-provision of UGSS service connections

Pallavaram Municipality completed (February 2012) the UGSS at a cost of ₹ 65.17 crore under Tamil Nadu Urban Development Fund Scheme. It was proposed to cover 35,866 domestic connections and 239 non-domestic connections within three years from the completion date. The Municipality fixed (November 2011) the user charges as ₹ 150 per month for domestic connections and ₹ 450 per month for non-domestic connections. However, as of March 2016, after four years of the completion of the scheme, the Municipality had given only 19,670 connections (domestic: 19,516 and non-domestic: 154). As per provisions contained in the Tamil Nadu District Municipalities Act, 1920, it was mandatory that domestic / non-domestic users to take sewerage connections. Thus, the failure of the Municipality to provide service connections as per the provisions of the Act resulted in a revenue loss of ₹ 2.99 crore⁴ for the period from April 2015 to March 2016.

⁴ 16,350 domestic connections (35,866 – 19,516) x ₹ 150 per month x 12 months : ₹ 294.30 lakh; 85 non-domestic connections (239 – 154) x ₹ 450 per month x 12 months : ₹ 4.59 lakh. **Total : ₹ 298.89 lakh (or) ₹ 2.99 crore**

Government replied (November 2016) that the Municipality had provided 22,897 domestic connections against the proposed 35,866 connections upto August 2016, and that the work of laying pipeline for collection system to the extended area, omitted area and developing area was in progress which was planned to be completed in April 2017. The reply was not tenable as the above work was meant for the extended, omitted and developing areas.

5.1.6 Elementary Education Fund

Section 35 (1)(b) of the Tamil Nadu Elementary Education Act, 1920 provides for the levy of Education Tax at a rate not exceeding five *per cent* per annum and credited to Elementary Education Fund (EEF) to improve the infrastructure facilities in municipal schools. The details of receipts and expenditure of the Municipalities (except Maraimalai Nagar and Thiruverkadu Municipalities, which did not have any municipal school under its jurisdiction) under EEF for the period 2013-16 is given in **Table 5.10**.

Table 5.10: Details of Receipts and Expenditure under EEF for the period 2013-16

(₹ in crore)

Particulars	Avadi Municipality			Pallavaram Municipality		
	2013-14	2014-15	2015-16	2013-14	2014-15	2015-16
Revenue Fund						
Income	2.46	2.78	2.46	3.76	3.370	3.38
Expenditure	0.90	0.38	0.32	0.02	0.005	0.01
Capital Fund						
Income	0.90	0	0	0	0	0
Expenditure	1.00	2.81	4.51	1.48	1.390	2.39

(Source: Annual Accounts of the Municipalities)

It may be seen from the table that the Pallavaram Municipality was spending less on improvement of infrastructure facilities in municipal schools when compared to the revenue earned.

Government replied (November 2016) that fast growth of private schools and socio-economic condition of the people resulted in parents admitting their children in private schools, which consequently resulted in reduction of admission in municipal schools; hence, creation of additional infrastructure was not warranted which led to accumulation of surplus fund in the EEF. The reply was not tenable as it was against the responsibility of the Municipality towards promotion of cultural, educational and aesthetic aspects entrusted to them under Schedule X (10) of the Tamil Nadu District Municipalities Act, 1920.

(i) Non-execution of work contemplated in the Budget Estimate

Pallavaram Municipality in its Budget Estimate for EEF for the year 2014-15 had proposed construction of buildings/additional buildings, toilets and maintenance works in municipal schools at a cost of ₹ 1.35 crore. Audit observed that construction of additional building for Hasthinapuram Higher Secondary School, estimated at ₹ 0.17 crore, was not taken up inspite of funds

being provided in the budget estimate for 2014-15 and availability of sufficient balance in the EEF account during the period 2013-16. As a result, the school had to accommodate students in the school laboratory.

Government replied (November 2016) that due to steep increase in the cost of cement and other building materials and shortage in supply of sand, the contractors had not taken up the work during 2014-15. Government further stated that work orders were issued in January 2016 and the work was in progress. The reply was not tenable as the balance amount in EEF could have been utilised to ensure timely completion of work.

5.1.7 Conclusion

There were significant budget variations as the Municipalities failed to carry out the variance analysis and prepare performance budget as prescribed in the Municipal Budget Manual. Due to negative fiscal balances, the Municipalities depended on Government grants for their functioning. There were underspending by the Municipalities on infrastructure projects as well as on Operation and Maintenance. There was a short release of Central Finance Commission grants amounting to ₹ 2.62 crore. There were lapses in levy and collection of property tax. Taxes amounting to ₹ 2.07 crore had become time barred due to failure of the Municipalities to collect taxes in time. Efficiency in collection of user charges on water supply and drainage by the Municipalities was far below the prescribed norms of 90 *per cent*. There was loss of revenue of ₹ 2.99 crore due to non-provision of UGSS service connections by Pallavaram Municipality.

5.1.8 Recommendations

Government/Municipalities may consider:

- Adherence to the provisions of Municipal Budget Manual while preparing the budget estimates.
- Adoption of norms prescribed by HPEC for provision of urban infrastructure facilities and their maintenance.
- Review of cases of non-levy/short levy of taxes and user charges to enhance the revenue of the Municipalities.
- Creation of monitoring mechanism to ensure the realisation of revenue of the Municipalities in time.

**MUNICIPAL ADMINISTRATION AND WATER SUPPLY
DEPARTMENT**

MADURAI CITY MUNICIPAL CORPORATION

5.2 Functioning of slaughter houses in Madurai City Municipal Corporation

5.2.1 Introduction

In Madurai City Municipal Corporation (Corporation) two slaughter houses - one conventional slaughter house in Nelpettai and the other one, a modernised slaughter house at Anuppanadi were functioning since 1915 and 2013 respectively. Based on the directions issued by the Supreme Court of India in the year 2000 that the local bodies should maintain slaughter houses so as to avoid slaughtering of animals in public places and to meet the conditions stipulated for ethical treatment of animals, the modernised slaughter house was established at Anuppanadi. Both the slaughter houses were leased out from April 2015 to private parties for slaughtering of animals. Records relating to these two slaughter houses for the period 2013-14 to 2015-16 were scrutinised in the Corporation during June and July 2016 to verify whether they complied with the norms prescribed by the Tamil Nadu Pollution Control Board (TNPCB) for operation of slaughter houses, food safety standards prescribed under Food Safety and Standards (Licensing and Registration of Food Businesses) Regulations, 2011 and Prevention of Cruelty to Animals (Slaughter House) Rules, 2001. The deficiencies noticed are discussed in the succeeding paragraphs.

(i) Operation of slaughter house without the consent of TNPCB

As per Section 21 of the Air (Prevention and Control of Pollution) Act, 1981, consent of the TNPCB was to be obtained for operating slaughter houses. The consent obtained by the Corporation in August 2010 to operate the modernised slaughter house at Anuppanadi was valid till March 2011. Thereafter, the same was not renewed till July 2016 and slaughtering of animals was being carried out without getting the consent of TNPCB.

Government replied (September 2016) that action was initiated to obtain licence for 2016 and the same would be continued for subsequent years. Further, Corporation replied (October 2016) that it had applied for renewal of licence on 14 October 2016. The reply was not tenable as the slaughter house was functioning without renewing the licence after March 2011 in violation of the Air (Prevention and Control of Pollution) Act, 1981.

(ii) Non-compliance of rules

(a) Food safety license not obtained

As per Regulation 2.1.2(3) read with Schedule I and Regulation 2.1.3 of Food Safety and Standards (Licensing and Registration of Food Businesses) Regulations, 2011 issued (August 2011) by Ministry of Health and Family Welfare, license for slaughter houses equipped to slaughter 150 or more small

animals including sheep and goats should be obtained from the Central Licensing Authority⁵. However, the Corporation, which had leased out the slaughter houses, had not obtained the license from the Central Licensing Authority even though 250 goats/sheep were slaughtered at the conventional slaughter house at Nelpettai and the modernised slaughter house at Anuppanadi was equipped to slaughter 600 goats/sheep per day.

On this being pointed out by Audit, Government replied (September 2016) that action had been initiated by the Corporation to obtain licence from Food Safety and Standards Authority of India.

(b) Fitness of animals slaughtered not assessed

As per Rule 3(2) of Prevention of Cruelty to Animals (Slaughter House) Rules, 2001, no animal which was pregnant or has an offspring less than three months old or under the age of three months or not certified by a veterinary doctor that it was in a fit condition should be slaughtered. Rule 4(2) of the above Rules also stipulates that a veterinary doctor should not examine more than 12 animals per hour and not more than 96 animals per day.

In this regard, Audit observed that on an average, 250 animals were being slaughtered in the Nelpettai slaughter house since December 2013, which required three veterinary doctors. In the modernised slaughter house at Anuppanadi, on an average 30 animals were being slaughtered daily, which required the services of one veterinary doctor. Thus, as against the requirement of four veterinary doctors, the Corporation was having only one doctor and that post too was lying vacant since April 2013. In the absence of veterinary doctors, it could not be ensured in Audit as to how the norms prescribed in the above Rules were being complied with.

Corporation replied (July 2016) that a proposal has been sent to the Commissioner of Municipal Administration (CMA) for posting suitable number of veterinary doctors either through deputation or transfer from Veterinary Department. Government replied (September 2016) that Senior Health Inspector of the Corporation was temporarily looking after the fitness of animals. The reply was not acceptable as the Senior Health Inspector was not an authorised person under the above Rules to certify the fitness of animals. Moreover, no records were maintained by the Corporation to ensure that the fitness of animals was certified by the Senior Health Inspector.

(c) Resting of animals before slaughter not followed

As per Rule 5 of Prevention of Cruelty to Animals (Slaughter House) Rules, 2001, every animal after being subjected to veterinary inspection should be passed on to a lairage for resting for 24 hours before slaughter and such lairage should be constructed so as to protect the animals from heat, cold and rain. However, lairages were not available in both the slaughter houses and animals were directly taken for slaughtering. Thus, the norms prescribed in the above

⁵ Central Licensing Authority means a designated officer appointed by the Chief Executive Officer of the Food Safety and Standards Authority of India in his capacity of Food Safety Commissioner

Rules for resting of animals for 24 hours before slaughter were not being followed.

(d) Stunning of animals before slaughter not done

As per Rule 6(4) of Prevention of Cruelty to Animals (Slaughter House) Rules, 2001 and as per the letter of Animal Welfare Board of India issued (July 2010) to all the Municipal Corporations in the State, stunning⁶ of animals should be done before slaughtering them. However, the same was not followed by the Corporation in view of the stated reason of practice of stunning being against the religious belief of butchers.

Government endorsed (September 2016) the reply furnished by the Corporation in July 2016, which stated that the Corporation could not create the anticipated awareness to the public as well as to the butchers' unions and make them shift over to the hygienic and pollution free new techniques in the art of slaughtering the animals. Government further stated that the Corporation required time to create more awareness in public, butcher groups and associations to overcome the orthodox beliefs and religious sentiments. The reply was not acceptable as the Corporation failed to enforce the provisions of rules made under Prevention of Cruelty to Animals Act, 1960 and should have taken adequate awareness measures to address the issues.

(e) Slaughtering of animals at unrecognised places

The conventional slaughter house at Nelpettai was closed on 24 August 2010 and the modern slaughter house was inaugurated at Anuppanadi on 25 August 2010. However, the butchers' association submitted (March 2011) a representation to the Corporation to establish sufficient number of slaughter houses in Madurai City. Further, based on the Writ Petition filed by the association in this regard, the High Court directed the Corporation to dispose off the representation on its own merits and in the light of provisions of Madurai City Municipal Corporation Act, 1971. Subsequently, in December 2013, the slaughter house at Nelpettai was reopened after renovation. As there was no response for the newly constructed modernised slaughter house at Anuppanadi due to it being at a distance from the city as claimed by the butchers' association and also based on their reluctance to accept the practice of stunning of animals before slaughter, it was also not operational till May 2013. On being asked by Audit as to how the animals were slaughtered when the slaughter house at Nelpettai was closed, the engineering and sanitary officials of the Corporation stated (July 2016) that few animals were slaughtered at the modernised slaughter house and major portion of goats/sheep were slaughtered by private butchers in their respective shops. This was against Rule 3 of Prevention of Cruelty to Animals (Slaughter House) Rules, 2001 which stipulated that no person should slaughter any animal within a municipal area except in a slaughter house recognised or licensed by the concerned authority empowered under the law for the time being in force to do so.

⁶ Stunning is a process of rendering animals immobile or unconscious without killing the animal prior to their slaughtering

Government replied (September 2016) that no such incidents had occurred within the Corporation's limits and sometimes, the private butchers used to slaughter the animals outside the Corporation area and transport the same during nights. The reply was not acceptable as the Corporation levied a fine of ₹ 18,950 on 38 occasions during 2010-16 (upto October 2016) for slaughtering of animals at unrecognised places, including a fine of ₹ 1,300 collected on four occasions during the period from 26 August 2010 to 14 May 2013 when both the slaughter houses were not functioning, which proves that slaughtering of animals was taking place at unrecognised places.

(iii) Splitting up of works

As per Tamil Nadu Government Extraordinary Gazette Notification No.258 dated 26 August 2008, approval has to be obtained from the Government for any work estimated above ₹ 1 crore.

Scrutiny of records revealed that the Corporation Council had resolved (March 2007) construction of a new modernised slaughter house at Anuppanadi at an estimated cost of ₹ 75 lakh for which administrative sanction was accorded by the CMA in April 2007. The work was awarded to a contractor in September 2007.

When the construction work was in progress, estimates were prepared in March 2008 and January 2009 for provision of machinery and equipment in the modernised slaughter house at a cost of ₹ 0.49 crore (two works) and ₹ 1.93 crore (five works) and work orders were issued (June 2008 - November 2009) to the same contractor after following tender procedure. The works were completed at a cost of ₹ 2.42 crore. However, Audit observed that the Corporation had split the estimate prepared in January 2009 for provision of machinery and equipment into five different works and awarded to the same contractor, in order to avoid obtaining sanction from the Government, though the total value of the work had exceeded ₹ 1 crore.

On this being pointed out by Audit, the Government replied (September 2016) that splitting up of works was done by the Corporation only in the interest of public welfare. The reply was not acceptable as the action of splitting up of work was against the Government notification. Also, the fact that the preparation of five estimates for procurement of machinery and equipment was done on the same date and awarded to the same contractor was indicative that this was done to avoid Government sanction, for which responsibility may be fixed, after investigating the matter about violation of existing instructions/orders on the issue.

(iv) Idle investment

(a) Purchase of machinery and equipment

Audit observed that after completion of civil works and supply of machinery and equipment, the modernised slaughter house at Anuppanadi was inaugurated on 25 August 2010. It was noticed from the records of Revenue Section of the Corporation that the modern slaughter house started functioning

only from May 2013 using conventional method of *Halal*⁷. Joint inspection by Audit along with Corporation officials revealed that the machinery and equipment procured at a cost of ₹ 2.42 crore resultantly remained idle for more than six years as these were to be used for new method of slaughter based on stunning.

Government replied (September 2016) that modernisation of slaughter house was done not on commercial venture, but to provide basic amenity to the public and no time frame could be fixed for ascertaining the optimum utilisation of the created capital asset. The reply was not tenable as efforts should have been made for utilising the machinery and equipment purchased at a cost of ₹ 2.42 crore within a stipulated time frame instead of keeping them idle for more than six years. Thus, the Government had failed to achieve the objective of establishing hygienic and pollution free slaughter houses.

(b) Construction of Effluent Treatment Plant

The Effluent Treatment Plant (ETP) constructed at the modernised slaughter house at a cost of ₹ 25 lakh (August 2010) could not be tested for effluent treatment as the slaughter house was not functional till May 2013 and the collection of effluent from May 2013 was meagre to run the ETP. Further, it was noticed during the Joint Inspection (July 2016) by Audit along with Corporation officials that the entire ETP was surrounded by bushes and was not under use. Government replied (September 2016) that the ETP was functioning normally. The reply was not acceptable as the Joint Inspection conducted again in November 2016 revealed that the ETP was still not utilised for want of collection of effluent and the Corporation was not maintaining any log book for operation of ETP, as it was not functional since inception.

Thus, Audit observed from the above that the directions of the Supreme Court of India for ethical treatment and care of animals were compromised, as there were deficiencies in the functioning of slaughter houses. The Corporation, therefore, needs to take appropriate action in the matter.

⁷ Halal is a Quranic term which means 'permitted, allowed, authorised, approved, sanctioned or lawful' method

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

5.3 Overpayment

KEELAKARAI MUNICIPALITY

5.3.1 Overpayment due to usage of lower cost pipes in water supply works

Failure of the Municipal Engineer to ensure the correctness of the specification of pipes used in the work by the contractor before recording measurements resulted in overpayment of ₹ 46.37 lakh.

As per Para 4.2.3 of Engineering Manual for Urban Local Bodies in Tamil Nadu, the Municipal Engineer was responsible for seeing that Measurement Books are carefully kept and measurements are properly recorded. Para 4.3.9 of the Manual also stipulated that municipal works should be test checked by the concerned Regional Executive Engineer in order to ensure that the work was done generally in accordance with plans and estimates and to satisfy himself about the quality of work. Further, as per Para 18 of Tamil Nadu Building Practice Code, all materials, articles supplied by the contractor should conform to the contract specifications.

With a view to improving the basic amenities, Government of Tamil Nadu sanctioned (January 2012) ₹ 58.80 crore under Integrated Urban Development Mission for water supply works in Urban Local Bodies. Commissioner of Municipal Administration (CMA) accorded (February 2012) administrative sanction for ₹ 1 crore for taking up water supply works by Keelakarai Municipality (Municipality). Further, as per the administrative sanction, photographs were to be taken by the Municipality before commencement, during execution and after completion of the work. Technical sanction was accorded (February 2012) by the Regional Executive Engineer (REE), Office of the Regional Director of Municipal Administration, Madurai for executing the work of renovation of pipe lines in the East and West zones of the Municipality at an estimated cost of ₹ 50 lakh each. Tenders were invited (February 2012) combining both the works as a single package and the work was awarded (May 2012) to a contractor for ₹ 95.49 lakh (4.65 per cent above the cost put to tender). The works were completed in January 2014 at a cost of ₹ 99.97 lakh.

Scrutiny of records in the Municipality relating to the period 2013-15 revealed (December 2015) that the estimate technically sanctioned by the REE provided laying of 100 mm dia Ductile Iron Class K9 Flanged Pipes as per IS 8329/2000 in the works and the same was adopted in the tender schedule and bid documents. It was noticed from the photographs taken by the Municipality during execution of the work and also from the manufacturer's test certificate furnished by the contractor that the contractor executed the work using Ductile Iron Class K7 Socket/Spigot Pipes, the cost of which was lesser than the Ductile Iron Class K9 Flanged Pipes. Audit observed

that despite the use of Ductile Iron Class K7 Socket/Spigot Pipes in the work, Municipal Engineer made incorrect entries of use of Ductile Iron Class K9 Flanged Pipes in the Measurement Book. The REE, who verified the Measurement Book, also failed to notice this discrepancy. Though the agreement conditions stipulated that third party checks and inspection by State Quality Monitors would be taken up to ensure quality of work, the Municipality had failed to observe these requirements. However, payment was made by the Municipality based on the incorrect entries made in the Measurement Book for the higher cost pipe i.e. Ductile Iron Class K9 Flanged Pipes for a length of 5,524 metres, which resulted in overpayment of ₹ 40.33 lakh⁸.

Further, it was also seen that for joining the Ductile Iron Class K9 Flanged Pipes, 1,400 joints (700 joints in each work) were provided in the estimate taking into account the quantity of pipes required (2,800 metres for each work) and the length of one pipe as four metres. The rate provided in the estimate for the joint was ₹ 111 per joint and the rate quoted by the contractor for the same was ₹ 116.30 per joint. Payment of ₹ 6.42 lakh was made for the entire length of 5,524 metres of pipe work executed instead of restricting the payment for the required 1,381 joints (5,524 metres/4 metres). By adopting the rate for joining the Ductile Iron Class K7 Socket/Spigot Pipes, which was ₹ 27.21 per joint (4.65 per cent above the Schedule of Rates (SoR) of ₹ 26 of Tamil Nadu Water Supply and Drainage (TWAD) Board for the year 2011-12), the overpayment worked out to ₹ 6.04 lakh⁹.

Thus, the failure of the Municipal Engineer to ensure the correctness of the specification of pipes used in the work before recording measurements and the failure of the REE to verify its correctness with regard to the plans and estimates had resulted in overpayment of ₹ 46.37 lakh as referred to above, which calls for fixing of responsibility of the officials at fault for failing to perform their assigned duties.

The matter was referred to Government in June 2016. Government replied (September 2016) that an amount of ₹ 24.39 lakh had been recovered from the deposit/withheld amount of the contractor and the balance amount of ₹ 21.99 lakh would be recovered from the contractor from the next running account bills of ongoing works. The fact, however, remains that Government was yet (September 2016) to fix the responsibility of the concerned officials for their lapses. Besides, action against the contractor may be taken for not executing the work as per terms and conditions of the work, entailing extra expenditure as brought out above.

⁸ Rate quoted by the contractor - ₹ 1,605 per metre (4.65 per cent above the estimate price for the same pipe); Cost of one metre of Ductile Iron Class K7 Socket/Spigot Pipes as per SoR of TWAD Board for the year 2011-12 - ₹ 836; Rate arrived at 4.65 per cent above the estimate price for the same pipe - ₹ 874.87 per metre; Excess payment : ₹ 730.13 per metre (₹ 1,605 (-) ₹ 874.87) x 5,524 metres = ₹ 40,33,238 (or) ₹ 40.33 lakh

⁹ Payment made : ₹ 6.42 lakh (-) payment to be made : ₹ 0.38 lakh (1,381 joints x ₹ 27.21 per joint)

**MUNICIPAL ADMINISTRATION AND WATER SUPPLY
DEPARTMENT**

5.4 Loss of revenue due to short levy

SALEM CITY MUNICIPAL CORPORATION

5.4.1 Short levy of property tax

Failure to adopt the revised property tax assessment method by Salem City Municipal Corporation resulted in short levy of ₹ 31 lakh.

Under Section 121 of Coimbatore City Municipal Corporation Act, 1981 (Act) (which was applicable to Salem City Municipal Corporation), property tax should be levied on all buildings and lands within the city. Government of Tamil Nadu (GoTN) ordered (November 2007) revision of property tax in all the Municipal Corporations, Municipalities and Town Panchayats with effect from 01 April 2008. Instructions issued (February 2008) by GoTN *inter alia* provided for fixation of separate basic value by the concerned local body in respect of buildings coming under special category such as star hotels, theme parks, multiplexes, shopping malls, etc. Accordingly, Salem City Municipal Corporation Council resolved (March 2008) to revise the property tax with effect from 01 April 2008 and fixed the basic value for special category of buildings at four times of the basic value applicable to the area in which the property lies for arriving at the annual value for special category for assessing property tax.

Scrutiny of records (June 2015) relating to the period 2014-15 revealed that in respect of one assessment (Shopping Mall), property tax was short levied by adopting three times of the basic value treating it as commercial building instead of four times applicable for special category buildings for arriving at the annual value. This had resulted in short levy of ₹ 31 lakh for the period from the second half year of 2013-14 to the second half year of 2015-16 as detailed below:-

Sl. No.	Type of Special Building	Area (in sq.ft.)	Annual Value adopted (₹ in lakh)	Annual Value to be adopted (₹ in lakh)	Tax levied and collected (₹ in lakh)	Actual Tax to be levied (₹ in lakh)	Short levy of property tax for one half year (Col.7 - Col.6) (₹ in lakh)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Shopping Mall	4,17,847	150.42	185.52	26.56	32.76	6.20
Total							6.20*

* ₹ 6.20 lakh x 5 half years (from the second half year of 2013-14 to the second half year of 2015-16) = ₹ 31 lakh

The matter was referred to Government in July 2016. Government accepted (August 2016) the audit observation and stated that notice revising the

property tax had been issued to the assessee. However, the differential amount was yet to be collected by the Salem City Municipal Corporation (August 2016).

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

5.5 Avoidable expenditure

THANJAVUR CITY MUNICIPAL CORPORATION AND KUMBAKONAM MUNICIPALITY

5.5.1 Avoidable expenditure due to non-exclusion of service tax component in the estimates

Failure to exclude the exempted service tax component in the estimates prepared by Thanjavur City Municipal Corporation and Kumbakonam Municipality resulted in avoidable expenditure of ₹ 47.82 lakh.

As per Clause 12(e) of Notification No.25/2012-Service Tax dated 20 June 2012 of Ministry of Finance, Government of India (GoI), services provided to the Government, local authority or a governmental authority by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of pipeline, conduit or plant for (i) water supply, (ii) water treatment, or (iii) sewage treatment or disposal were exempted from paying Service Tax from 01 July 2012.

Thanjavur City Municipal Corporation (Corporation) and Kumbakonam Municipality (Municipality) resolved (July 2012 and March 2012 respectively) to engage private contractors for the work of Operation and Maintenance (O&M) of sewage pumping stations, sewage collection system and sewage treatment plant. Estimates for the work were prepared by the Corporation and the Municipality for a period of three years from 2013-14 allowing an escalation of 10 *per cent* over the previous year's rate. Commissioner of Municipal Administration (CMA) and Chief Engineer of the Office of CMA accorded clearance for the bid documents for the above work relating to the Municipality and Corporation in May 2013 and January 2014 respectively. The works were awarded to the successful bidders during August 2013 and March 2014 in respect of the Municipality (₹ 5.30 crore) and Corporation (₹ 5.12 crore) respectively.

Scrutiny of records relating to execution of the work revealed that the Corporation and the Municipality incorrectly included the Service Tax component at 12.36 *per cent* in the approved bid documents. Accordingly, the monthly payments inclusive of Service Tax were made (Corporation from April 2014 to March 2015 and Municipality from 16 September 2013 to January 2016) to the contractors. As the estimates were prepared by the

Corporation and the Municipality only after the issue of Service Tax exemption notification, they should not have included the Service Tax component in the estimates and also in the bid documents.

Thus, failure on the part of the Corporation and the Municipality to exclude the Service Tax component while preparing the estimates and bid documents resulted in avoidable expenditure of ₹ 47.82 lakh¹⁰ for the period from 16 September 2013 to 31 January 2016.

The matter was referred to Government in July 2016. Government replied (October 2016) that in respect of Thanjavur City Municipal Corporation, the Service Tax amount was remitted by the contractor to the Government account. The reply was not tenable as the work was exempted from Service Tax, payment of Service Tax to Government was avoidable. Further, payment of the amount to GoI deprived the local body of funds to the tune of ₹ 13.82 lakh. In respect of Kumbakonam Municipality, Government replied (November 2016) that recovery orders had been issued (August 2016) by the Municipality to adjust ₹ 19.02 lakh from the retention money available with them; ₹ 4.13 lakh had been recovered during August 2016 from the O&M bills of the contractor and the balance amount would be recovered from the remaining O&M bills.

Thus, the amount of Service Tax paid in both the above cases, requires to be recovered as it was not payable as per GoI's notification as referred to above.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY DEPARTMENT

5.6 Idle investment

MADURAI CITY MUNICIPAL CORPORATION

5.6.1 Non-achievement of the objective of regulation of auto/taxi fare despite investment on construction of prepaid Auto Bay and Taxi stand

Failure of Madurai City Municipal Corporation to get the fares fixed for prepaid Auto/Taxi system from the Regional Transport Authority resulted in non-achievement of the objective of regulation of auto/taxi fare.

In order to decongest the traffic in front of the Madurai Mattuthavani Bus Terminus (MMBT) and to regulate the fare of the Autos/Taxis, Madurai City Municipal Corporation (MCMC) decided (June 2013) to construct a prepaid

¹⁰ Thanjavur City Municipal Corporation : ₹ 13.82 lakh (₹ 1,15,190 per month x 12 months from April 2014 to March 2015) and Kumbakonam Municipality : ₹ 34 lakh (₹ 11,84,036 from 16 September 2013 to 31 August 2014 and ₹ 22,16,172 from September 2014 to January 2016) **Total : ₹ 47.82 lakh**

Auto Bay and Taxi stand in MMBT. The Madurai Corporation Council resolved (June 2013) for laying of paver block for the Auto Bay and Taxi stand at an estimated cost of ₹ 33.30 lakh and ₹ 33 lakh respectively. Both the works were awarded (August 2013) to a contractor and were completed (October 2013) at a total cost of ₹ 66.10 lakh.

Subsequently, another work of construction of prepaid token counter and stainless steel pipe chain link arrangement for the Auto Bay and Taxi stand was approved (July 2013) at an estimated cost of ₹ 34.50 lakh. The work was also awarded (February 2014) to the same contractor, after following proper tender procedure, and completed (April 2014) at a cost of ₹ 34.45 lakh. Though the above works were completed in all aspects, the Auto Bay and Taxi stand was yet (October 2016) to be commissioned for public usage.

As per the amendment to Sections 97, 98 and 99 of MCMC Act, 1971 issued in August 2008, the approval of State Government is required for executing works valuing above ₹ 1 crore. However, as seen from above, the MCMC split up the same work into three components viz. (i) laying of paver block for Auto Bay (₹ 33.30 lakh), (ii) laying of paver block for Taxi stand (₹ 33 lakh) and (iii) construction of prepaid token counter and stainless steel chain link arrangements (₹ 34.50 lakh) and each of it was approved separately, almost during the same period in June-July 2013. The defective planning and failure in taking up the above mentioned works in a holistic manner led to splitting up of the works, apparently to avoid prior sanction from the State Government.

Audit further observed that as per Section 67 (1) (d) (i) of the Motor Vehicles Act, 1988, the State Government was empowered to fix the fares and freights for stage carriages, contract carriages and goods carriages. In this regard, scrutiny of records revealed (February 2016) that the Commissioner of MCMC requested (November 2014) the Regional Transport Authority (RTA) of the district viz., the District Collector to fix the fares for Autos/Taxis. Audit requested (July 2016) the RTA calling for the reasons for not fixing the fares for prepaid Autos/Taxis. Subsequently, RTA informed (July 2016) MCMC that the letter sent by MCMC in November 2014 was not traceable. Further, Audit observed that neither follow-up action was taken by MCMC after November 2014 to expedite the matter with RTA inspite of several periodical road safety meetings convened by the District Collector nor the RTA had taken any action. The fares for Autos/Taxis were not fixed by the RTA till July 2016.

After Audit pointed this out, the RTA stated (July 2016) that the letter sent by MCMC was not acted upon and had requested the MCMC to furnish necessary details in this regard. Further, the MCMC replied (July 2016) to an audit query that the prepaid Auto Bay and Taxi stand would be put to public usage after the receipt of the prepaid fares from the Government.

Thus, the lackadaisical attitude of MCMC to take effective follow-up action and inaction by RTA to fix the fares for prepaid Auto/Taxi resulted in the infrastructure facilities created at MMBT at a cost of ₹ 1.01 crore remaining idle for more than two years and non-achievement of the objective of fixation of auto/taxi fares. Moreover, the work was split into three parts to avoid the approval of the State Government though the cost of the entire works was more than ₹ 1 crore, for which responsibility needs to be fixed.

Government replied (October 2016) that the Auto Bay/Taxi stand was being used as parking place of vehicles by auto and taxi drivers at present. The reply was not acceptable as the objective of regulation of auto/taxi fare had not been achieved even after construction of prepaid Auto Bay and Taxi stand, on which an amount of ₹ 1.01 crore was incurred.

Chennai
The 27 February 2017



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The 01 March 2017

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India