

## CHAPTER-4

### RESULTS OF AUDIT OF URBAN LOCAL BODIES

The deficiencies noticed during audit of Urban Local Bodies in 2015-16 are discussed in the succeeding paragraphs.

#### 4.1 Accounting system

The ULBs were directed (April 2009) by the Director, Urban Development to adopt the double entry system of accounting. The ULBs test-checked during 2015-16 have maintained their accounts in double entry system.

##### 4.1.1 Non-preparation of Accounts

According to section 252 and 253 of HP Municipal Act, 1994 accounts of the income and expenditure of the municipality shall be kept in accordance with such rules as may be prescribed. The municipality shall within a period not exceeding three months from the end of the financial year prepare the accounts for that year.

During test-check of records of two ULBs (Municipal Council: Sundernagar and Nagar Panchayat: Mehatpur), it was noticed that annual accounts for the last seven years had not been prepared by Municipal Council Sundernagar whereas annual accounts for the years 2013-14 to 2014-15 had not been prepared by Nagar Panchayat Mehatpur. The Secretary/ Executive Officer stated (July 2015-November 2015) that annual accounts will be prepared regularly in future.

#### 4.2 Non-constitution of Planning Committee

According to section 49 (1) of Municipal Council Act, 1994, municipality shall constitute a Finance, Audit and Planning Committee having at least three elected members of the municipality. Section 50 (2) further provides that the Finance, Audit and Planning Committee shall perform the functions relating to the finances of the municipality, framing of budgets, scrutinising proposals for increase of revenue, examination of receipts and expenditure statements, consideration of all proposals affecting the finances of the municipality, general supervision of the revenue and expenditure of the municipality, co-operation, small saving schemes and any other function relating to the development of the municipal area.

Audit noticed that five municipalities<sup>9</sup> had constituted Finance, Audit and Planning Committee but no meeting of these committees had been convened, whereas four municipalities<sup>10</sup> had not even constituted the said committee as of March 2016. The Executive Officers concerned stated that owing to discussion of all matters in monthly meeting of the municipality, meeting of Finance, Audit and Planning Committee could not be held. The reply is not acceptable as timely meetings of the Finance, Audit and Planning Committee are required to be convened as per the provisions of the Act for effective functioning of the municipalities.

<sup>9</sup> MC: Jawalamukhi, Palampur, Paonta Sahib, Parwanoo and Sundernagar.

<sup>10</sup> MC: Baddi, Kullu, Sri Naina Devi Ji and Rohru.

### 4.3 Internal audit of ULBs

Under Section 161 (3) of Himachal Pradesh Municipal Corporation Act and Section 255 (1) of Himachal Pradesh Municipality Act, 1994, the accounts of the ULBs are to be audited by a separate and independent agency. The State Government issued (February 2008) a notification, according to which the Director, Local Audit Department (LAD) was required to prepare an annual plan for conduct of audit of ULBs. As per audit plan for the year 2015-16, 27 ULBs were planned for audit, of which audit of 21 ULBs had been covered upto 31<sup>st</sup> March 2016. The Additional Director LAD stated that (December 2016) the audit of remaining ULBs had in fact been started during 2015-16 but could not be completed up to 31 March 2016 owing to huge volume of work.

### 4.4 Budget estimates

#### 4.4.1 Preparation of budget without estimating expected expenditure

The budget estimates of ULBs are to be prepared as per Himachal Pradesh Municipal Accounts Code, 1975 in the prescribed form, keeping in view the expected income and expenditure for the next financial year and are placed before the House of the Committee. After passing of the budget by the House of the Committee, it is submitted to the Director, Urban Development for approval. The year-wise position of budget provision and the expenditure by the test-checked Municipal Corporation, Municipal Councils and Nagar Panchayats during 2012-15 is given in **Table-13**.

**Table-13: Budget estimates *vis-a-vis* expenditure**

(₹in crore)				
Year	Budget Estimate	Actual Expenditure	Savings (-) Excess (+)	Percentage of saving
2012-13	217.26	140.20	(-) 77.06	35
2013-14	304.80	144.63	(-) 160.17	53
2014-15	398.77	197.68	(-) 201.09	50

Note: Unit-wise position is given in **Appendix-15**.

It is evident from **Table-13** that preparation of budget estimates was not done in a realistic manner which resulted in persistent savings ranging between 35 and 53 *per cent* during 2012-15. The Joint Director of Urban Development Department stated (March 2017) that the ULBs are being directed to prepare their budget in realistic manner in future.

#### 4.4.2 Non preparation of budget estimates

Section 249 (1) to (5) of Municipal Council Act, 1994 and Sections 80(1) to (3) of Municipal Corporation Act, 1994 provide that the municipality prepare budget estimates including estimate of expected income and expenditure of the ensuing year, in the first week of February every year. The budget estimate passed in the House of the committee shall be submitted to the Director, Urban Development for approval through the Deputy Commissioner before the 31<sup>st</sup> day of March every year.

Audit noticed that two Municipal Councils<sup>11</sup> had not prepared budget estimates for the period 2013-16. The Executive Officer concerned stated (May-June 2016) that budget estimates could not be prepared due to shortage of staff and non-availability of trained staff.

#### **4.5 Non-preparation of bank reconciliation statements**

According to rule 19 (2) of the State Municipal Accounts Code 1975, general cash book shall be checked item-wise, closed and signed by the Executive Officer each day. At the end of the month it shall be compared and agreed with the bank pass book. Every item of receipt and expenditure shall be checked with the entries in the cash book and differences shall be explained and accounted for in the general cash book.

Scrutiny of records of Municipal Council, Sunder Nagar showed that there was a difference of ₹ 0.82 crore between cash books and bank pass books at the close of the year 2014-15 which was not reconciled by MC as of March 2015. The authenticity of accounts could not be ascertained in the absence of reconciliation with bank statements. The Executive Officer of the ULB concerned stated (July 2015) that differences would be reconciled in future.

#### **4.6 Non-conducting of physical verification**

Para 12.43 (c) of Chapter 12 of HP Municipal Account Manual, stipulates that at the end of the financial year, the Store in-charge, Accounts Department and the Executive Officer/ Secretary of MC/ NP or the official authorised, shall verify the stock lying in the store and compare it with the stock as per book records and in case of any difference, appropriate remedial steps as prescribed shall be taken.

Scrutiny of records showed that in three ULBs (MC Bilaspur, Rampur and Hamirpur), physical verification of store/ stock had not been carried out. Consequently, physical existence of the store/ stock could not be verified in audit. In reply, the Executive Officers of ULBs concerned stated (July 2015-August 2015) that the physical verification of stores/ stock would be conducted shortly.

#### **4.7 Non-accounting of materials**

##### **Material of ₹ 1.95 lakh was not accounted for in the stock register by the Nagar Panchayat, Sarkaghat**

Rule 15.4 (a) of HPFR Vol. I provides that all the material received should be examined, counted, measured, weighed as the case may be when delivery is being taken by a responsible Government servant who should see that quantity is correct and quality is good. A certificate in token of receipt of material is to be recorded and entry made in an appropriate register.

Scrutiny of records of Nagar Panchayat, Sarkaghat, showed that items of stock such as electrical appliances, poly vinyl chloride (PVC) items, tube starter/ choke, etc.,

<sup>11</sup> MC: Baddi (2013-15) and MC: Kullu (2013-16).

purchased at a cost of ₹ 1.95 lakh were not accounted for in the relevant store/ stock register. Hence, the possibility of pilferage/ loss cannot be ruled out. This was also indicative of poor record maintenance on the part of NP. In reply, the Secretary of NP concerned stated (November 2015) that the relevant entries would be made in the stock registers. The fact, however, remained that there was absence of proper check over maintenance of records by the NP concerned.

## **4.8 Revenue**

### **4.8.1 Outstanding house tax**

**Due to ineffective monitoring, revenue of ₹ 17.82 crore on account of house tax in 17 ULBs remained outstanding for a period ranging between one and more than 50 years.**

Rule 258 (2) of the Himachal Pradesh Municipal Act, 1994 stipulates that sum due to municipality had to be paid within 15 days failing which the sum shall be recovered, with all costs, by distraint and sale of the property of the defaulter.

Audit noticed outstanding house tax of ₹ 20.96 crore as on 01 April 2013 in 17 ULBs. Demand of ₹ 52.45 crore of house tax was raised during the period 2013-16 (**Appendix-16**). However, collection of ₹ 55.55 crore was made and also rebate of ₹ 0.04 crore was provided during the above period, resulting in outstanding balance of ₹ 17.82 crore as of March 2016. The pace of recovery was slow and this had impacted the revenue receipts of ULBs to the above extent which could have been utilised for other developmental activities.

A detailed review of house tax arrears in six<sup>12</sup> ULBs showed that 329 households/assesses<sup>13</sup> have not paid house tax amounting to ₹ 2.08 crore for the period 1964-2016 resulting in accumulation of huge arrears on account of house tax for a period ranging between one and more than 50 years. This indicated that effective action had not been taken as per rule *ibid* to act upon the cases involving outstanding rent for years together. The Executive Officers/ Secretaries of ULBs concerned stated (October 2014-March 2016) that house tax could not be collected due to shortage of staff. It was further stated that notices have been issued to the defaulters and efforts for recovery would be made.

### **4.8.2 Non-realisation of rent**

**Eighteen ULBs failed to realise the rent due from shops / booths/ stalls amounting to ₹ 5.43 crore**

Section 258 (i)(b)(2) of the Himachal Pradesh Municipal Act, 1994 provides that if any amount due to the municipality remains unpaid for 15 days, the Executive Officer/ Secretary may serve notice of demand upon the persons concerned.

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<sup>12</sup> Dharamshala, Kullu, Palampur, Parwanoo, Sri Naina Devi Ji and Sundernagar.

<sup>13</sup> Out of 329 cases, house tax was due since 1964-65 in one case, since 1970-71 in two cases, since 1976-77 in two cases and since 1988-89 in eight cases.

It was noticed that in 18 ULBs, rental charges amounting to ₹ 5.39 crore were pending for recovery as on April 2013 (**Appendix-17**) against the allottees of shops/ stalls, owned by these ULBs. Further, demand of ₹ 10.04 crore was raised against the tenants/ lessees of these shops/ stalls during 2013-16. Against the total demand of ₹ 15.43 crore, ₹ 10.00 crore were recovered leaving recovery of ₹ 5.43 crore pending as of March 2016. The ULBs stated (May 2015-November 2015) that notices had been issued to the defaulters and the amount would be recovered shortly.

#### **4.8.3 Non-recovery of installation/ renewal charges on mobile towers**

##### **Failure to realise installation/ renewal charges on mobile towers by 10 ULBs resulted in loss of revenue of ₹ 24.43 lakh**

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

In 10 ULBs, mobile towers were installed during 2001-15 but the ULBs concerned had not recovered installation/ renewable charges of ₹ 24.43 lakh (**Appendix-18**) in respect of 117 towers as of March 2016. This deprived the ULBs of their due share of revenue. The ULBs concerned stated (May 2015-November 2016) that action would be taken shortly to recover the dues.

#### **4.8.4 Non-collection of Sanitation/ Safai Tax**

##### **Two Municipal Councils failed to collect *safai* / sanitation tax resulting in loss of revenue of ₹ 18.38 lakh**

(i) Municipal Council, Rohru vide house resolution No. 553 (January 2012) prescribed that cleaning/ *safai* tax will be collected from hotels, dhabas, fruit/vegetable/chicken sellers and beer bars owners at the rate of ₹ 70/- per month and from other shopkeepers (dry businesses) at the rate of ₹ 40/- per month.

It was noticed that against the total demand of ₹ 15.94 lakh for the period 2012-16, only ₹ 0.18 lakh (*one per cent*) was collected as of March 2016. While admitting the facts, the Executive Officer stated that cleaning/ *safai* tax could not be collected due to shortage of staff. The fact however remains that non-collection of cleaning/ *safai* tax resulted in loss of revenue to the tune of ₹ 15.76 lakh.

(ii) According to notification of Himachal Pradesh Government (March 1993) sanitation tax was imposed in MC Parwanoo which was required to be collected from the residential/commercial/industrial establishments at a prescribed rate<sup>14</sup>.

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<sup>14</sup> **Residential buildings:** Ranging between ₹ two and ₹ 20 per month depending upon type of Plot/ flat; **Industries:** ₹ 200 (medium industry) and ₹ 75 (small industry) per month **and Commercial Agencies:** Ranging between ₹ 10 and ₹ 100 per month depending upon type of establishment.

It was noticed in audit that sanitation tax amounting to ₹ 2.62 lakh was pending for recovery from 15 assesseees during 2008-16. The Executive Officer stated that notices are being issued to assesseees for recovery of sanitation tax and matter would be discussed in the house of MC for declaration of these assesseees as defaulters. The fact, however, remains that non-recovery of sanitation tax resulted in loss of revenue to MC Parwanoo to the extent of ₹2.62 lakh.

#### **4.9 Blocking of funds**

##### **4.9.1 Blocking of funds due to non start of development works**

In Six<sup>15</sup> Municipal Councils and three<sup>16</sup> NPs, funds amounting to ₹ 4.63 crore were available during 2008-15 for execution of 93 development works. However, no expenditure had been incurred out of these funds on execution of works as of March 2015. Non-utilisation of funds for development works resulted in depriving the beneficiaries of the intended benefits. The Executive Officers of the ULBs concerned stated (May 2015 - November 2015) that due to land dispute, non-completion of codal formalities, works could not be started. The reply is not tenable as such issues should have been resolved before getting the works sanctioned and funds released from the funding agencies.

##### **4.10 Outstanding recovery of building tax and energy charges**

As per recommendations (October 2002) of 2<sup>nd</sup> State Finance Commission, the MC is authorised to levy/ collect building and energy tax<sup>17</sup> from owners of buildings in its jurisdiction.

The Executive Officer (EO), MC Hamirpur had served (March 2014) demand for ₹ 1.45 crore as building tax (₹ 1.33 crore for the period 2013-14) and energy charges (₹ 0.12 crore for the period April 2013 to February 2014) to the Electrical Engineer (EE) Division no. II of Himachal Pradesh State Electricity Board Limited, Hamirpur. It was observed in audit that neither had EE, Electrical Division deposited the tax as of August 2015 nor had the EO, MC served any revised demand/ notice to the EE. The Executive Officer concerned stated (August 2015) that matter would be taken up with the concerned authority. The reply is not acceptable as the MC Hamirpur failed to recover the outstanding building tax and energy charges as per *ibid* provision resulting in loss of revenue due to MC to above extent.

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<sup>15</sup> MCs: Chamba: ₹ 60.85 lakh, Dharamshala: ₹ 35.22 lakh, Sundernagar: ₹ 12.45 lakh, Kullu: ₹ 18.46 lakh, Mandi: ₹ 20.19 lakh and Bilaspur ₹ 33.50 lakh.

<sup>16</sup> NPs: Srakaghat (₹ 8.00 lakh), Mehatpur (₹ 3.00 lakh) and Jwalamukhi (₹ 271.05 lakh).

<sup>17</sup> **Building tax:** ₹2.50 per sq. meter for residential and government building and ₹ five per sq. meter for commercial and other buildings **and energy tax:** one paisa per unit.

#### 4.11 Non-vacation of accommodation

**Failure to realise charges on account of rent, electricity, water and other expenses resulted in loss of revenue of ₹ 31.68 lakh**

##### 4.11.1 Non-vacation of accommodation by the Assistant Commissioner (Protocol)

Municipal Council, Parwanoo had given two rooms to Assistant Commissioner (Protocol), Parwanoo for office purposes since October 1992 without any written agreement. Municipal Council, Parwanoo vide resolution No. 7 (February 2001) raised a demand bill amounting to ₹ 12.69 lakh on account of rent, electricity charges, water charges and other expenses for the period from October 1992 to April 2011 and further accumulated to ₹ 29.72 lakh as on 31 March 2016. It was, however, noticed that in the absence of agreement neither the amount had been recovered, nor the accommodation was got vacated as of March 2016. The Executive Officer concerned stated that the matter was taken up with the Deputy Commissioner for vacation of accommodation but the reply was awaited.

##### 4.11.2 Non-vacation of RehanBasera by the Police department

Vide resolution No. 119/2013 passed in the House of MC Sundernagar the RehanBasera was allotted to the Police Station (January 2014) for one year on temporary basis; it was also decided by the House that if the Police Department did not vacate the RehanBasera after one year they should have to pay rent of ₹ 0.07 lakh per month.

Audit noticed that the Police Department had neither vacated the accommodation nor paid rent from the date of occupation (January 2014) of RehanBasera which resulted in loss of revenue to the tune of ₹ 1.96 lakh (₹ 0.07 lakh x 28 months) to MC Sundernagar. The Executive Officer stated that valuation of the building was under review by the Public Works Department (PWD) Sundernagar, owing to which rent could not be recovered from the Police Department. The reply is not acceptable as monthly rent fixed had not been recovered as per the resolution.

##### 4.11.3 Non-vacation of the Municipal Council building by Police department

Four rooms<sup>18</sup> in the Municipal Council building were occupied (1998) by the Police Department for running Police Chowki at Akhara Bazar, Kullu. Since the occupation of the rooms, MC, Kullu had neither received any rent from the Police Department nor had made any effort in this regard. It was further noticed that MC, Kullu was bearing all expenses like electricity bills, water bills and other maintenance charges of above accommodation. The Executive Officer stated that efforts are being made to vacate the building.

<sup>18</sup> Ground Floor: Two Rooms and First Floor: Two Rooms.

#### **4.12 Non-adjustment of Temporary Advances**

**The MC Kullu sanctioned temporary advances of ₹ 26.09 lakh during 2011-12 to 2014-15 without adjustment of previous advances**

As per Rule 189 (1) to (4) of Himachal Pradesh Financial Rules, 2009, head of office is authorised to sanction advances to a Government servant for purchase of goods or for hiring services or for any other special purpose, as may be prescribed. Rule further provides that adjustment bills along with balances, if any, had to be submitted within 15 days of the drawal of advance. Second advance shall not be granted until the Government servant concerned has submitted adjustment account of the first advance.

Audit noticed that temporary advances of ₹ 26.09 lakh sanctioned during 2011-12 to 2014-15 to a government official for carrying out Dussehra *Safai* arrangements within MC area of Kullu and other purposes was pending for adjustment for a period of more than one to five years. Subsequent advances were being given without adjustment of previous advances. This indicated laxity on the part of MC in enforcing codal provisions regarding adjustment of advances involving substantial amount.

Audit findings were referred to the Government in March 2017. Reply had not been received (April 2017).

Shimla  
Dated:

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