

## CHAPTER-4

### RESULTS OF AUDIT OF URBAN LOCAL BODIES

The deficiencies noticed during audit of Urban Local Bodies in 2016-17 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 2016-17 had maintained their accounts in double entry system.

##### 4.1.1 Non-preparation of Accounts

According to Section 252 of Himachal Pradesh 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, it was noticed that annual accounts for the years 2013-14 to 2015-16 had not been prepared in two ULBs<sup>15</sup> whereas these accounts were required to be prepared and approved by elected house of the Municipality. The Secretary and Executive Officer concerned stated (February 2017) that annual accounts will be prepared regularly in future.

#### 4.2 Preparation of Budget

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

The budget estimates of ULBs are to be prepared as per Himachal Pradesh Municipal Accounts Code, 1975, keeping in view the expected income and expenditure for the next financial year, and are placed before the House of the Committee thereafter. After passing of budget by the House of the Committee, budget estimates are submitted to the Director, Urban Development for approval. The year-wise position of budget provision and expenditure thereagainst in the test-checked one Municipal Corporation, 11 Municipal Councils and four Nagar Panchayats during 2013-16 is given in **Table-13**.

**Table-13: Budget provision vis-a-vis expenditure in 16 test-checked ULBs**

(₹ in crore)

Year	Budget Estimate	Actual Expenditure	Savings (-)/ Excess (+)	Percentage of saving
2013-14	275.47	118.56	156.91 (-)	57
2014-15	263.04	129.93	133.11 (-)	51
2015-16	269.95	184.16	85.79 (-)	32

Note: Unit-wise position is given in **Appendix-18**.

It is evident from **Table-13** that there were persistent savings ranging between 32 and 57 *per cent* during 2013-16 indicating that the budget estimates were not realistic. The Joint

<sup>15</sup> Municipal Corporation: Shimla and Nagar Panchayat: Joginder Nagar.

Director of Urban Development Department stated (March 2017) that suitable directions are being issued to the ULBs.

#### **4.3 Non-reconciliation with bank 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 two Municipal Councils<sup>16</sup> showed that there was a difference of ₹ 15.90 lakh between cash books and bank pass books at the close of the year 2015-16 which was not reconciled as of January 2017. The authenticity of accounts could not be ascertained in the absence of reconciliation with bank statements. The Executive Officers of the ULBs concerned stated (January 2017) that differences would be reconciled in future.

#### **4.4 Non-accounting of material**

##### **Material of ₹ 2.84 lakh was not accounted for in the stock register by the Municipal Council, Paonta Sahib**

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 Municipal Council, Paonta Sahib, showed that 960 cement bags purchased at a cost of ₹ 2.84 lakh were not accounted for in the relevant store and stock register. Hence, the possibility of pilferage or loss cannot be ruled out. This was also indicative of poor record maintenance on the part of MC. In reply, the Executive Officer of MC concerned stated (October 2016) 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 MC concerned.

#### **4.5 Revenue**

##### **4.5.1 Outstanding house tax**

##### **Due to ineffective monitoring, revenue of ₹ 8.11 crore on account of house tax in 12 ULBs remained unrealised.**

Rule 258 (2) of the Himachal Pradesh Municipal Act, 1994 stipulates that sum due to municipality is 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.

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<sup>16</sup> MC: Chamba: ₹2.15 lakh and MC Palampur: ₹ 13.75 lakh.

Audit noticed that house tax of ₹ 7.46 crore was outstanding in 12 ULBs as on 1<sup>st</sup> April 2015. Demand of ₹ 4.00 crore of house tax was raised during the period 2015-16 (**Appendix-19**) against which collection of ₹ 3.34 crore was made and rebate of ₹ 0.01 crore was provided. Thus, total revenue of ₹ 8.11 crore on account of house tax remained outstanding as of March 2016 in these 12 ULBs.

Test-check of house tax arrears in MC Nahan showed that 42 households had not paid house tax amounting to ₹ 23.77 lakh for the period 2001-16 resulting in accumulation of arrears for a period ranging from one to 15 years. This indicated that effective action had not been taken as per rule *ibid* even in cases of tax outstanding for long periods. The Executive Officers/ Secretaries of ULBs concerned stated (September 2016 - March 2017) that outstanding amount will be recovered. It was further stated that notices have been issued to the defaulters and efforts for recovery would be made.

#### 4.5.2 Non-realisation of rent

##### **Rent due from shops, booths and stalls amounting to ₹ 7.30 crore remained unrealised in 16 ULBs**

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.

It was noticed that in 16 ULBs, rental charges amounting to ₹ 6.91 crore were pending for recovery as on 1<sup>st</sup> April 2015 (**Appendix-20**) against the tenants and lessees of shops and stalls owned and rented out by these ULBs. Further, demand of ₹ 5.08 crore was raised against the tenants and lessees of these shops and stalls during 2015-16. Against the total demand of ₹ 11.99 crore, ₹ 4.69 crore were recovered leaving recovery of ₹ 7.30 crore pending as of March 2016. The ULBs stated (June 2016-March 2017) that notices had been issued to the defaulters and the amount would be recovered shortly.

#### 4.5.3 Non-recovery of installation and renewal charges on mobile towers

##### **Failure to realise installation and renewal charges on mobile towers by 15 ULBs resulted in loss of revenue of ₹ 34.06 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 15 ULBs, mobile towers were installed during 2004-16 but the ULBs concerned had not recovered installation and renewal charges of ₹ 34.06 lakh (**Appendix-21**) in respect of 258 towers as of March 2016. This deprived the ULBs of their due share of revenue. The ULBs concerned stated (June 2016-March 2017) that action would be taken shortly to recover the dues.

#### 4.5.4 Outstanding sanitation/ safai tax, rehri/ tehbazari fee and trade tax

##### Collection of sanitation/ safai tax, rehri/ tehbazari fee and trade tax remained pending in four ULBs resulting in loss of revenue of ₹ 53.84 lakh

Rule 66 of Himachal Pradesh Municipal Act, 1994 provides that municipality is empowered to impose any toll, tax or fee such as sanitation tax, rehri/ tehbazari fee, trade tax, etc., in its jurisdiction.

(i) In two test-checked Municipal Councils (Nahan and Parwanoo) it was noticed that against the total demand of ₹ 60.73 lakh of sanitation/ safai tax for the period 2015-16, only ₹ 12.89 lakh (21 per cent) was collected as of September 2016 and balance amount of ₹ 47.84 lakh<sup>17</sup> remained outstanding. The Executive Officers stated (September 2016 to October 2016) that efforts are being made to recover the outstanding amount by issuing notices to the defaulters.

(ii) In two test-checked ULBs (Municipal Council, Chamba and Municipal Corporation, Shimla), rehri/ tehbazari fee amounting to ₹ 2.62 lakh<sup>18</sup> was pending for recovery as of March 2016. The Executive Officers of the ULBs concerned stated (January 2017) that notices have been served to recover the tehbazari fee from the defaulters. It was further stated that some cases are pending for decision in court and recovery will be made from those defaulters accordingly.

(iii) In two test-checked Municipal Councils (Nahan and Parwanoo), trade tax amounting to ₹ 2.77 lakh was pending for recovery as on March 2015. Further, demand of ₹ 0.83 lakh was raised against traders during 2015-16. Against the total demand of ₹ 3.60 lakh, ₹ 0.22 lakh were recovered leaving trade tax of ₹ 3.38 lakh<sup>19</sup> pending as of March 2016. The Executive Officers of Municipal Councils concerned stated (September 2016 - October 2016) that notices had been issued to the defaulters and the amount would be recovered shortly.

Thus, non-recovery of various taxes had deprived the ULBs of revenue which could have been utilised for other developmental works.

#### 4.5.5 Non-recovery of lease money

##### Municipal Corporation Shimla failed to realise lease money from shops and stalls resulting in loss of revenue of ₹ 53.64 lakh.

Municipal Corporation, Shimla had leased out shops/ stalls to 153 parties during the period 2014-15. It was noticed that lease money amounting to ₹ 32.89 lakh was pending for recovery against 153 shops and stalls as of March 2015. Further, demand of ₹ 67.88 lakh was raised during 2015-16. Against the total demand of ₹ 100.77 lakh, ₹ 47.13 lakh were recovered leaving recovery of ₹ 53.64 lakh pending as of March 2016.

<sup>17</sup> MC Nahan: ₹ 36.89 lakh and MC Parwanoo; ₹ 10.95 lakh.

<sup>18</sup> Municipal Council, Chamba: ₹ 1.11 lakh and Municipal Corporation, Shimla: ₹ 1.51 lakh.

<sup>19</sup> MC Nahan: ₹ 1.15 lakh and MC Parwanoo: ₹ 2.23 lakh.

The Executive Officer concerned stated (January 2017) that the main reason for shortcoming in the recovery of lease money is shortage of staff.

#### **4.5.6 Non-imposing of House Tax**

Rule 65 of Himachal Pradesh Municipal Act, 1994 provides that Municipal Council is empowered to impose house tax on building and land which shall not be less than 7.5 per cent and not more than 12.5 per cent of the annual value of such building and land.

In the case of Municipal Council (MC) Baddi, audit noticed that the MC is providing various facilities to the households falling within the MC area such as maintenance of roads, paths, streetlights, cleanliness, collection of garbage, etc.; but the house tax as per the above provision has not been imposed by the MC. The Executive Officer concerned stated (September 2016) that the house tax was not imposed due to non co-operation of households and preparatory work of geographic information system (GIS) based property tax survey was in process for imposition of property tax.

#### **4.5.7 Non-collection of property tax by Municipal Corporation Shimla**

**Non-collection of property tax of ₹ 1.77 crore from the lessee deprived the Municipal Corporation Shimla of its due share of revenue.**

Section 90(1) of HPMC Act, 1994 provides that taxes on lands and buildings shall be primarily leviable upon owner and in absence of the owner, it shall be leviable and recovered from the occupier including tenants.

Test-check of records of Municipal Corporation, Shimla revealed that project-site sub-lease deed was made on 12 October 2011 between Himachal Pradesh Bus Stands Management and Development Authority (HPBS&DA) (the lessor) and M/s CK Infrastructures Limited (the lessee) to design, finance, construct, operate and maintain the Tutikandi bus terminal project at Shimla. Clause 17 of the said deed stipulates that lessee shall be liable to pay all taxes imposed by the State Government and Municipal Committees during the lease period on the structure and land.

Scrutiny further revealed that Municipal Corporation Shimla had raised bills for property tax amounting to ₹ 1.77 crore for the period 2011-12 to 2015-16 against the lessee but collection of the property taxes remained pending as of January 2017. Municipal Corporation, Shimla had not initiated any action to recover the tax in the manner prescribed under section 124 of HP Municipal Corporation Act, 1994. The Commissioner Municipal Corporation stated (January 2017) that the lessee had returned the bill with the observation that it was not the owner of the premises and the matter is pending before the Divisional Commissioner, Shimla Division. The fact, however,

remains that non-collection of property tax deprived the Municipal Corporation Shimla of its due share of revenue during the above period.

#### **4.6 Blocking of funds**

##### **4.6.1 Blocking of funds under various schemes**

##### **Funds of ₹ 4.39 crore remained blocked in 10 ULBs on account of non-started and incomplete works.**

(i) In seven ULBs, funds amounting to ₹ 2.46 crore were available during 2006-16 for execution of 104 development works<sup>20</sup> such as construction of retaining walls, ambulance roads, sewerline, repair of paths, community centre, parking, etc. These works were to be completed within a period of six months to one year. However, no expenditure had been incurred out of these funds on execution of works as of January 2017 which resulted in depriving the beneficiaries of intended benefits. The Executive Officers of the ULBs concerned stated (September 2016-March 2017) that the works could not be started due to non-fulfilment of codal formalities, land disputes, etc., and efforts are being made to start the works at the earliest. Replies are not acceptable as codal formalities should have been completed before getting the works sanctioned and release of funds.

(ii) In seven ULBs, funds amounting to ₹ 3.84 crore were received under various schemes during 2005-06 to 2015-16 for execution of 47 development works like construction of parking, paths, solid waste management, installation of light, etc. These works were to be completed within a period of one year. Out of these funds, ₹ 1.91 crore were utilised upto January 2017 and funds amounting to ₹ 1.93 crore<sup>21</sup> (50 per cent) remained unutilised with these ULBs. The Executive Officers concerned stated (October 2016- January 2017) that the works could not be completed due to land disputes, court cases and non-availability of suitable land. The fact, however, remains that the works remained incomplete and funds remained unutilised, and availability of suitable land should have been ensured before sanction of works and release of funds.

##### **4.6.2 Blocking of funds received under 13<sup>th</sup> Finance Commission**

Director, Urban Development, Shimla had released (January 2014) special grants-in-aid, received under Thirteenth Finance Commission, amounting to ₹ 93.23 lakh to Municipal Council Shri Naina Devi Ji. The funds were to be spent under three sectors i.e. parking (₹ 35.00 lakh), drainage (₹ 25.00 lakh) and solid waste management (SWM) (₹ 33.23 lakh) and utilised within the financial year 2013-14.

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<sup>20</sup> Municipal Corporation, Shimla: ₹ 165.19 lakh (53 works), MC Nurpur: ₹ 8.04 lakh (07 works); MC Chamba: ₹ 16.61 lakh (07 works); MC Una: ₹ 14.58 lakh (11 works); MC Santokhgarh: ₹ 5.15 lakh (02 works); MC Nahan: ₹ 29.65 lakh (21 works) and MC Parwanoo: ₹ 6.50 lakh (03 works).

<sup>21</sup> MC Una: ₹ 10.19 lakh (04 works); MC Paonta Sahib: ₹ 61.55 lakh (05 works); Municipal Corporation Shimla: ₹ 43.28 lakh (23 works); MC Chamba: ₹ 12.67 lakh (11 works); MC Nahan: ₹ 15.35 lakh (01 work); MC Palampur: ₹ 8.16 lakh (01 work) and NP Talai: ₹ 41.53 lakh (02 works).

Scrutiny of records showed that Municipal Council, Shri Naina Devi Ji, had not utilised the entire special grant of ₹ 93.23 lakh as of January 2017. Construction work of parking had not been started for want of approval for cutting standing trees at selected site whereas funds required to be spent on providing drainage/ solid waste management facility in Shri Naina Devi Ji were not utilised in time due to non-completion of codal formalities. The Executive Officer concerned stated (January 2017) that the grant was not utilised as codal formalities for start of work could not be completed due to shortage of staff.

#### **4.6.3 Blocking of funds received under 14<sup>th</sup> Finance Commission**

As per guidelines of the 14<sup>th</sup> Finance Commission, grants received by urban and local bodies shall be utilised for the specified purposes within six months from the receipts of such funds.

Audit noticed that in Nagar Panchayat, Daulatpur Chowk, funds amounting to ₹ 11.52 lakh were received under 14<sup>th</sup> Finance Commission during 2015-16. The whole amount remained unutilised as of December 2016 due to failure of NP to finalise estimates in time. The Executive Officer concerned stated (December 2016) that the amount could not be utilised as approved estimates of schemes were awaited from Project Officer, DRDA Una. The reply is not acceptable as the process should have been completed and funds should have been utilised within the stipulated period.

#### **4.6.4 Blocking of funds received for sewerage schemes**

Urban Development Department released funds amounting to ₹ 1.80 crore to three test-checked ULBs<sup>22</sup> for execution of sewerage schemes during 2014-15. These funds were required to be further released to the Irrigation and Public Health (IPH) Department as per their requirement to execute the sewerage schemes in respective ULBs.

Audit noticed that the work of sewerage schemes had not been taken up for execution as of January 2017 and these funds were either lying deposited in the bank account of IPH Department (in case of Nagar Panchayat, Gagret) or in the savings bank account of MCs (Municipal Council Paonta Sahib and Una) resulting in blocking of funds. The reasons for non-execution of sewerage scheme were neither available on record nor assigned by the ULBs concerned. The Executive Officer and Secretary of the ULBs concerned, however, stated that (November 2016 to January 2017) the matter will be taken up with the IPH Department to start the work of sewerage schemes. The reply is not acceptable as the funds had been lying unutilised even after lapse of more than two years from the date of release besides resulting in non-achievement of the intended benefits.

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<sup>22</sup> NP Gagret: ₹ 100.10 lakh; MC Paonta Sahib: ₹ 69.39 lakh and MC Una ₹ 10.97 lakh.

#### 4.7 Non-adjustment of temporary advances

##### Three MCs sanctioned temporary advances of ₹ 18.84 lakh during 1988-89 to 2016-17 without adjustment of previous advances

As per Rule 189 (1) to (4) of Himachal Pradesh Financial Rules, 2009, head of the 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 in three Municipal Councils (Baddi, Chamba and Una), temporary advances of ₹ 18.84 lakh sanctioned between 1988-89 and 2016-17 to 10 Government officials/ Public Works Department for carrying out development works, festival celebration and election expenditure, purchasing stores, etc., were pending for adjustment for a period of more than one to 29 years (**Appendix-22**) as of January 2017. Subsequent advances were being given to the officials without adjustment of previous advances. Further, some officials have been transferred to other places without the advance(s) having been adjusted. In MC Chamba, one official had retired from service but the adjustment bills for advances amounting to ₹ 9.27 lakh advanced to him between April 1994 and October 2016 were neither submitted by him nor adjusted by the Department at the time of his retirement. This indicated laxity on the part of MCs in enforcing codal provisions regarding adjustment of advances involving substantial amount.



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