

# **CHAPTER III**

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## **PERFORMANCE AUDIT ON ASSESSMENT, LEVY, COLLECTION AND ACCOUNTING OF PROPERTY TAX IN URBAN LOCAL BODIES**



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### PERFORMANCE AUDIT ON ASSESSMENT, LEVY, COLLECTION AND ACCOUNTING OF PROPERTY TAX IN URBAN LOCAL BODIES

#### 3.1 Introduction

Sections 230 to 233 of the Kerala Municipality Act, 1994 (KM Act) empowered the Urban Local Bodies (ULBs) to levy property tax on all buildings, including the land appurtenant thereto, situated within the jurisdictional area of the Corporations and Municipalities. Property tax comprises of a tax for general purposes and a service tax which may comprise of water tax, drainage tax, lighting tax and sanitary tax. Accordingly, Government of Kerala (GoK) has issued Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules on 14 January 2011 on the basis of powers vested under Sections 230 to 233 read with Section 565 of KM Act, which empowers the State Government to issue directions to ULBs.

Property tax is a major source of revenue of the Corporations and Municipalities in the State and constitutes about 48.28 *per cent* of their own revenue. In test-checked ULBs, the share of property tax in own revenue ranged from 23.32 *per cent* to 69.18 *per cent* from 2017-18 to 2021-22. The assessment of property tax on the basis of plinth area instead of annual rental value of properties was made applicable for new buildings from 01 April 2013 and for existing buildings from 01 April 2016 onwards. The minimum and maximum limits of rates of basic property tax applicable to various categories of buildings are fixed by Government. Subject to the limits fixed by Government, the rate at which basic property tax to be levied are determined by the respective Municipal Councils. The limits/rates once fixed were to be in force for five years and thereafter rates were to be revised by making an enhancement at the rate of 25 *per cent* on the existing limits, so as to be in force for the next five years. The application software suite ‘Sanchaya’ was developed by Information Kerala Mission (IKM) for computerisation of revenue system in Local Self-Government Institutions. Sanchaya consists of two modules, one which captures the details of tax payee/institution, demand and collection, etc. and the other, an e-payment module. A Performance Audit (PA) on the assessment, levy, collection and accounting of Property tax in ULBs was undertaken by Audit which revealed shortcomings in assessment, levy, collection and accounting of property tax.

##### 3.1.1 Organisational setup

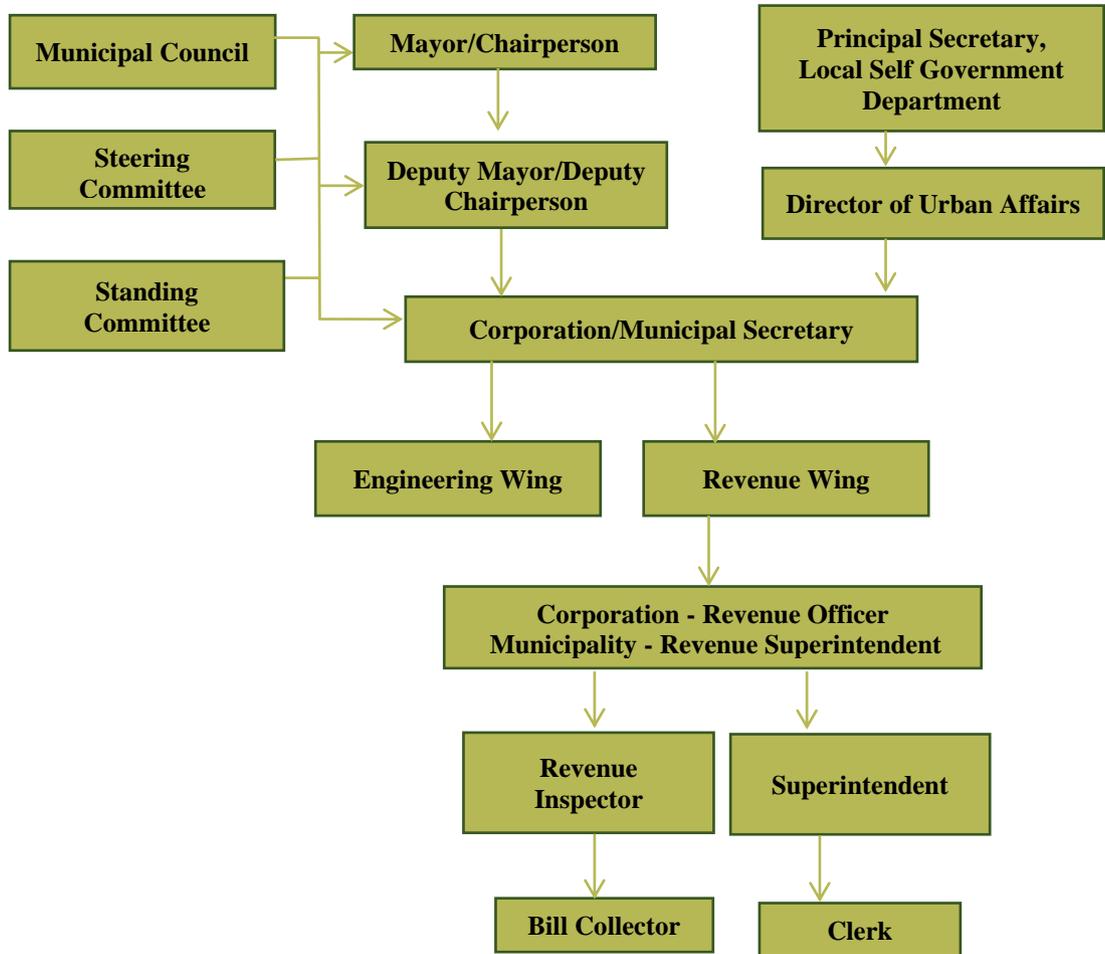
The Director of Urban Affairs (DUA) under the Local Self Government Department (LSGD) is the overall controlling authority of 93 ULBs<sup>18</sup> in the State. Under the DUA, there is a Joint Director (Administration) and three Regional Joint Directors (for southern, central and northern regions) entrusted

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<sup>18</sup> 87 Municipalities and six Municipal Corporations

with the duties relating to realisation of property tax. The Joint Directors concerned oversee tax collection in the Corporations and Municipalities within their jurisdiction. The Secretary of the Municipality/Corporation, assisted by the Revenue Officer, is in charge of assessment, levy and collection of property tax in the ULB. A diagrammatic representation of the organisational hierarchy of authorities involved in the different stages of realisation of property tax is presented below:

Figure 3.1: Organisational setup<sup>19</sup>



<sup>19</sup> Municipal/Corporation Council is the legislative body of Municipality/Corporation. Its responsibility includes formulation of budget, decision on taxes and fees, implementation of policies/programmes, etc.  
Steering Committee coordinates and monitors the functions of all the Standing Committees and has the powers as delegated by the Council.  
Standing Committees are permanent committees in ULBs, each committee dealing with separate functions, Health, Finance, Works, Welfare, etc.

### 3.2 Audit objectives

The PA was conducted to evaluate:

- whether the procedures followed by Urban Local Bodies in assessment, levy, collection and accounting of property tax were robust and efficient
- whether there has been timely revision of property tax contributing to enhancement of own revenue of Urban Local Bodies and
- whether a suitable monitoring mechanism was in place to ensure that no building/property assessable to tax escaped assessment.

### 3.3 Audit criteria

Audit observations were benchmarked against the criteria derived from:

- Kerala Municipality Act, 1994
- Kerala Municipality Building Rules, 1999 and amendments
- Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011
- Kerala Municipality Building (Regularisation of Unauthorised Construction) Rules, 2018
- Supreme Court and High Court judgments, Central/State Finance Commission Reports and various Government orders

### 3.4 Scope and methodology of audit

A Performance Audit on ‘Assessment and collection of property tax in Kochi Municipal Corporation’ was included in the Audit Report for the year ended March 2005. The PA was discussed<sup>20</sup> by the Local Fund Accounts Committee (LFAC) (2010-11) in May 2010. The current PA was conducted covering the period from 2017-18 to 2021-22. Based on appropriate sampling method, a sample of four (29 *per cent*) districts out of the total 14 districts was chosen for detailed scrutiny. Audit methodology included scrutiny of records and registers, issue of audit enquiries, joint physical verifications, measuring of plinth area of buildings, collecting photographic evidence, etc. The Entry Conference of the PA was conducted with the Additional Chief Secretary, Local Self Government Department (LSGD) on 12 May 2022, wherein the audit objectives, criteria, scope, selected institutions, etc., were discussed and the views of Government sought. Exit conference was conducted with the Principal Secretary, LSGD on 27 March 2023 to discuss the audit findings. The remarks offered by Government with respect to the audit findings have been considered in the finalisation of this Report.

<sup>20</sup> Recommendations of the Committee were included in 37<sup>th</sup> report of LFAC(2010-11) and further recommendations in 46<sup>th</sup> report of LFAC(2014-16)

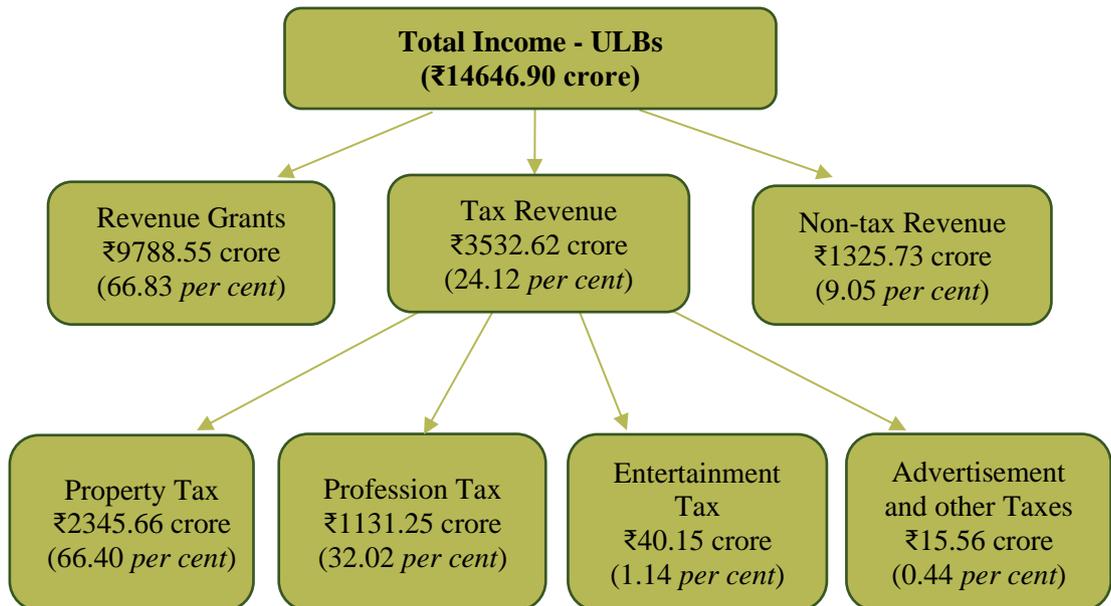
### 3.4.1 Sampling

The 14 districts in the State were divided into two categories, based on the geographical regions of north and south and two districts each were selected from these regions, using SRSWOR<sup>21</sup> method with IDEA software. Thiruvananthapuram and Ernakulam districts were selected from southern region and Kozhikode and Malappuram from northern region. Of the six Municipal Corporations in the state, three Corporations (50 per cent) falling in the selected districts viz., Thiruvananthapuram, Kochi and Kozhikode were selected. There are 87 Municipalities in the State of which 36 Municipalities are in the selected districts. Twenty five per cent of these 36 Municipalities were selected subject to minimum of two from each selected district (11 Municipalities), by applying SRSWOR method using IDEA. The details of units selected are shown in **Appendix 3.1**.

### 3.4.2 Sources of income of ULBs

Consequent upon the enactment of 74<sup>th</sup> Constitution Amendment Act which facilitated devolution of functions to ULBs, it was imperative that own resources of the ULBs were to be augmented for effective implementation of devolved functions. Even though the quantum of funds available to Local Self-Government Institutions (LSGIs) in Kerala has increased over a period of time, their dependence on grants from Central and State Governments remains significant. The extent of contribution of various taxes to the own revenue of ULBs in the State during the audit period of five years from 2017-18 to 2021-22 are shown in **Figure 3.2**.

**Figure 3.2: Extent of contribution of various taxes to the own revenue of ULBs in the State during the audit period**



(Source: Information furnished by Directorate of Urban Affairs)

<sup>21</sup> Simple Random Sampling WithOut Replacement

The fact that property tax with its share of 66.40 *per cent*, contributes the major share of tax revenue, underscores the need to step up collection of the tax by plugging loopholes at each level of its realisation.

The Demand, Collection and Balance (DCB) of property tax during the audit period as per DCB statements furnished by test checked ULBs is presented in **Table 3.1:**

**Table 3.1: Details of Demand, Collection and Balance in test checked ULBs**

Year	Demand (₹ in crore)			Collection (₹ in crore)				Balance (₹ in crore)			Percentage of collection
	Arrear	Current	Total	Arrear	Current	Book Adjustments	Total	Arrear	Current	Total	
2017-18	196.91	191.74	388.65	32.37	132.67	0.42	165.46	164.54	58.65	223.19	42.57
2018-19	222.98	226.38	449.36	55.80	153.82	3.09	212.71	167.18	69.48	236.66	47.34
2019-20	269.63	281.47	551.10	81.24	176.01	6.74	263.99	188.40	98.72	287.12	47.90
2020-21	304.15	277.00	581.15	79.33	166.76	5.08	251.17	224.82	105.17	329.99	43.22
2021-22	324.22	290.15	614.37	91.99	193.51	3.86	289.36	232.23	92.78	325.01	47.10

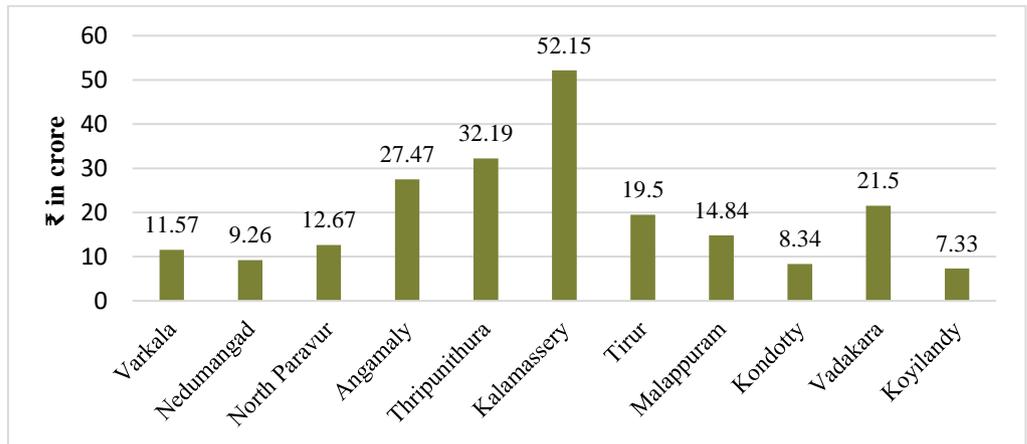
(Source: DCB data furnished by Revenue wings of test checked ULBs)

During the period from 2017-18 to 2021-22, the growth in collection of property tax was uneven in test checked ULBs. The rate of collection increased during 2019-20 and 2021-22, whereas it was considerably reduced during 2020-21, probably due to the impact of Covid-19 pandemic. The rate of collection of property tax compared to the tax demanded each year was always below 50 *per cent*. The closing balance of each year could not be reconciled with the opening balance of next year, which pointed at the incorrectness of DCB data of ULBs.

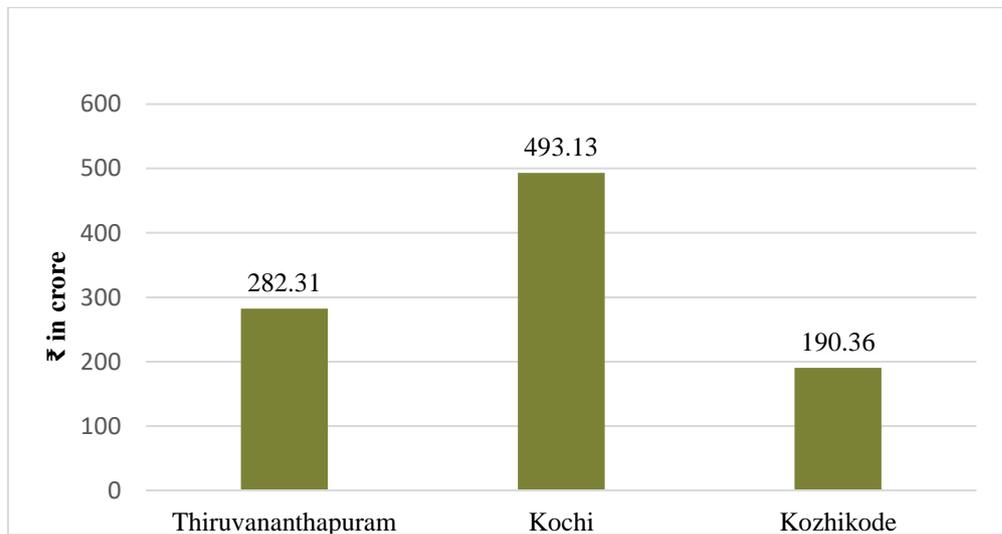
Accepting the audit observation, Government replied (April 2023) that discrepancies in DCB data were due to defective data entry, *viz.*, non-posting of collection of Government buildings, incorrect tax recorded for buildings, non-deletion of demolished buildings from Sanchaya database, non-recording of vacancy remission, exemption given to retired defence persons, etc. However, no detailed review was conducted till date to decide upon the corrective steps to be taken to address these issues.

Graphs showing total collection of property tax from Municipalities and Corporations during 2017-2022, as per DCB data furnished by test checked 14 ULBs are given as **Figure 3.3** and **Figure 3.4:**

**Figure 3.3: Total Collection for Municipalities during 2017-22**



**Figure 3.4: Total Collection for Corporations during 2017-22**



It was observed that total tax collection in respect of Kalamassery Municipality and Kochi Corporation during 2017-22 far exceeded that of the other Municipalities and Corporations, at ₹52.15 crore and ₹493.13 crore respectively.

### *Audit Findings*

## **3.5 Enumeration**

The primary step towards effective assessment and levy of properties with property tax is the creation of a comprehensive data base of taxable entities. Enumeration or counting of properties, enables creation of a comprehensive database of all properties which are to be levied and assessed to property tax in the jurisdiction of the local body. All properties that are legally in the tax net should be recorded in the property tax register and this register should be regularly updated to capture any new property or changes to existing properties.

As part of implementation of total e-governance in LSGD, Government accorded sanction<sup>22</sup> to create a revenue database through Sanchaya software so as to digitise base data pertaining to property tax. Government also instructed (February 2016) that IKM was to supervise GIS<sup>23</sup> mapping in local bodies and ensure that GIS mapping was integrated with the different software developed and deployed by IKM.

However, Audit observed that digital database generated by test checked ULBs was incomplete and not supported by door-to-door enumeration. It was further observed that many test checked ULBs have not adopted measures to integrate GIS mapped data with Sanchaya software and wherever such integration was attempted, deficiencies were noticed.

The existing Municipal Act/Rules do not have clear provisions mandating regular enumeration of properties. As per the system in practice, once a building is constructed and assessed, unless otherwise the owner himself reports on subsequent alterations to the building to the ULB, such modifications continue to escape assessment.

Various factors which hampered the effectiveness of timely and comprehensive enumeration of properties and creation of digital property tax register in test checked ULBs are listed in the following paragraphs.

### **3.5.1 Digitisation not supported by physical verification of existing properties**

With the advent of plinth area based assessment system (January 2011), the ULBs were required to maintain property tax assessment register in Form 4<sup>24</sup>, consisting of details such as types of buildings, plinth area, age, width of road, door numbers, etc. with respect to each building. The base data available with the ULBs in respect of existing buildings was in line with the annual rental value but devoid of details such as age of building, width of road access to the building, zone categorisation, etc. The municipal officials therefore were required to visit each property and collect all relevant data in Form 6 for proper and accurate assessment.

Audit noticed that the ULBs deputed agencies to upload base data recorded in existing registers. The data uploaded in Sanchaya was to be compared with the data collected from the field and verified at multiple levels before being finally approved by the Secretary of the ULB. While analysing details in Sanchaya, Audit noticed instances wherein information available in Form 6 assessments were similar to the data in old property tax registers of ULBs. Random examination of data pertaining to 1,150 numbers of existing buildings by Audit resulted in identification of 85 variations (7.39 *per cent*) with respect to unassessed plinth area, unauthorised constructions, wrong classification of buildings, etc. as compared to the data captured in Sanchaya. This indicates

<sup>22</sup> Government Order No.2380/2013/LSGD dated 25 September 2013

<sup>23</sup> Geographic Information System

<sup>24</sup> Rule 12 of Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011

absence of upgradation, purification, valuation or verification of uploaded data with respect to digitisation of existing buildings. Creation of digital property records by digitising existing property records without appropriately incorporating adequately verified data emanating from field survey would eventually lead to short demand and short realisation of property tax.

### **3.5.2 Undue delay in digitisation of property tax records**

The Municipalities and Corporations commenced digitisation of property tax assessment records from 2013. The digital database with respect to property tax would essentially include plinth area of the building, name and address of the assessee, building type, width of road access to the building, age, etc. As part of digitisation, the ULBs entrusted entry of base data to different agencies. The data thus entered had to be validated and authenticated by responsible officers. Noticing delay of six years in digitisation of revenue database, Government, in March 2019, directed the ULBs to complete enumeration of all buildings, collection of all data in Form 6 and verification and approval of all buildings by September 2019.

Audit noticed that the extent of digitisation of database ranged from 85 *per cent* to 100 *per cent* in test checked Municipalities and from 25 *per cent* to 100 *per cent* in Corporations. Excepting Varkala and Vadakara Municipalities and Thiruvananthapuram Corporation, the entry of base data was yet to be completed in remaining 11 test checked ULBs. Instances of entering data from old property tax registers without ascertaining their updated status through field visits were observed. In the light of shift in basis of assessment from annual rental value (ARV) to plinth area, this exercise would be grossly inadequate, as revealed from the instances of non/short assessment mentioned in paragraphs 3.6.1 and 3.6.2 of this report. In Kozhikode and Kochi Corporations, 35,000 and 25,104 door numbers were missing respectively from Sanchaya data. This pointed to the possibility of ULBs either not uploading entire data from old property tax registers or not deleting the building numbers of demolished buildings. Further, the entries in the database were not seen validated by Revenue Inspector/Revenue Officer concerned, resulting in errors in data entry going unnoticed. The ULBs did not conduct comprehensive enumeration prior to digitisation, resulting in omissions in assessable units.

Regarding Kozhikode Corporation, Government replied (April 2023) that immediate action would be undertaken for data collection and to complete digitisation process. With respect to the data on 35,000 buildings mentioned as missing, it was replied that this included demolished buildings also and that the number of buildings not digitised would add up to 15,550.

Since creation of a comprehensive database was essential for micro level planning and scaling up of tax revenue, incomplete database would result in incorrect budgeting and inaccurate demand assessment. Further, a foolproof digital database would facilitate online payment of taxes by citizens. The delay in completion of digitisation denied the ULBs of opportunity to make full

advantage of technological advancements as in Kochi Municipal Corporation detailed below.

### *Improper implementation of property tax digitisation project in Kochi Municipal Corporation*

Kochi Municipal Corporation (KMC) decided (October 2008) to implement e-governance with the objective of providing efficient services to the citizens under JNNURM<sup>25</sup>. The project envisaged digitisation of property tax registers so as to enable online payment of property tax by citizens along with other services in electronic mode. The total cost of the project was ₹8.70 crore, of which ₹5.57 crore was released to Tata Consultancy Services (₹4.99 crore) and Wipro<sup>26</sup> (₹0.58 crore). Despite spending ₹5.57 crore, the project was abandoned, primarily due to lack of proactive intervention by KMC to tackle the impediments in various stages of digitisation, which would have facilitated smooth transition to e-governance process.

The ineffective implementation of e-governance project resulted in delay in digitisation using Sanchaya software by eight years. Audit noticed that the property tax records of buildings constructed prior to 2013 were still maintained in old physical registers which were in torn and mutilated state.



*Figure 3.5: Torn and mutilated property tax registers in Kochi Corporation. Photograph taken by Audit party on 22 August 2022*

Government did not offer any remarks on the delay in digitisation in KMC and other test checked ULBs.

### **3.5.3 Failure in adopting GIS based mapping**

Geographic Information System (GIS) and Remote Sensing are the tools to identify the exact location of properties with relevant tax attributes. Each property unit has both spatial and non-spatial data. The integration of both data sets can improve the efficiency of property tax assessment procedures and monitoring systems. The introduction of geospatial technologies to the existing databases will not only simplify the assessment and management of property tax, but also improve the collection efficiency. The tax assessment variables such as zones, tax categories, road access to property, building types of properties can be observed and updated with the help of GIS and remote sensing techniques. This would make the property tax system more transparent, efficient and updated.

<sup>25</sup> Jawaharlal Nehru National Urban Renewal Mission

<sup>26</sup> The Tata Consultancy Services was the system integrator for the implementation of e-governance project and Wipro was the project management consultancy.

Based on the request of interested ULBs, M/s ULCC Ltd.<sup>27</sup> was entrusted (February 2016) to undertake the GIS related mapping for property tax management in these ULBs. The implementation of GIS was to be supervised by Information Kerala Mission (IKM). The IKM was to integrate GIS mapped data with various application software developed for assessment, levy and collection of property tax besides collection of sociological data. Audit noticed that among the test checked ULBs, Nedumangad, Varkala and Vadakara Municipalities undertook GIS mapping with an estimated cost of ₹21 lakh, ₹33.82 lakh and ₹58.24 lakh respectively.

The mapping of Nedumangad Municipality undertaken by an agency Karakulam Grameena Patana Kendram, was stated to have been completed by October 2020. Though the agency handed over GIS mapped data to the ULB, the data could not be integrated with various software developed by IKM. Further, IKM did not also validate the GIS data mapping by combining it with door-to-door survey to ascertain the plinth area and other details required for property tax assessment.

The GIS mapping of Varkala Municipality was undertaken by M/s ULCC Ltd. utilising ₹33 lakh. Though M/s ULCC Ltd. completed the exercise, the ULB could not integrate GIS mapping with the software of IKM or carry out any further additions or deletions to the data. The Municipality stated that though IKM was to depute technically competent persons to supervise the mapping task, this was not done. It was also stated that the field survey data as well as the base map have not yet been handed over to the Municipality by M/s ULCC Ltd.

In the case of Vadakara Municipality, the door-to-door survey of plinth area for GIS mapping could not be completed in five of the 47 wards, due to public protest. In the 42 wards where survey was completed, the plinth area details collected by ULB varied significantly with the data uploaded in Sanchaya.

Thus, despite Government issuing orders enabling GIS mapping and designating agencies to perform the task, the test checked ULBs failed in performing GIS mapping of properties for better realisation of property tax. Even in those ULBs where GIS mapping was launched, it failed to capture all the required parameters and get them validated by ground level verification, and integrate mapped data with other software under the supervision of IKM, which would have facilitated realistic assessment and enhancement in collection of property tax. Audit observed<sup>28</sup> that GIS based Municipal Tax and Fee Collection System introduced in Raipur Municipal Corporation in 2018 supported with door-to-door survey enhanced demand by 74 per cent from the demand for the previous year.

Government assured in reply (April 2023) that Varkala and Nedumangad Municipalities would initiate action to integrate GIS mapped data with various

<sup>27</sup> Uralungal Labour Contract Co-operative Society Limited.

<sup>28</sup> 'A Toolkit for Property Tax Reforms Volume 1' issued by Ministry of Housing and Urban Affairs, Government of India

IKM software. With regard to other ULBs it was stated that action would be taken to initiate GIS mapping without delay. The Principal Secretary, LSGD opined that existing GIS mapping is a one-time exercise and constant updating of data is required for its fruitfulness, which is being addressed in the new software proposed to be launched by Government.

***Recommendations:***

***Government should consider incorporating suitable provisions relating to periodic enumeration of properties in the Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules.***

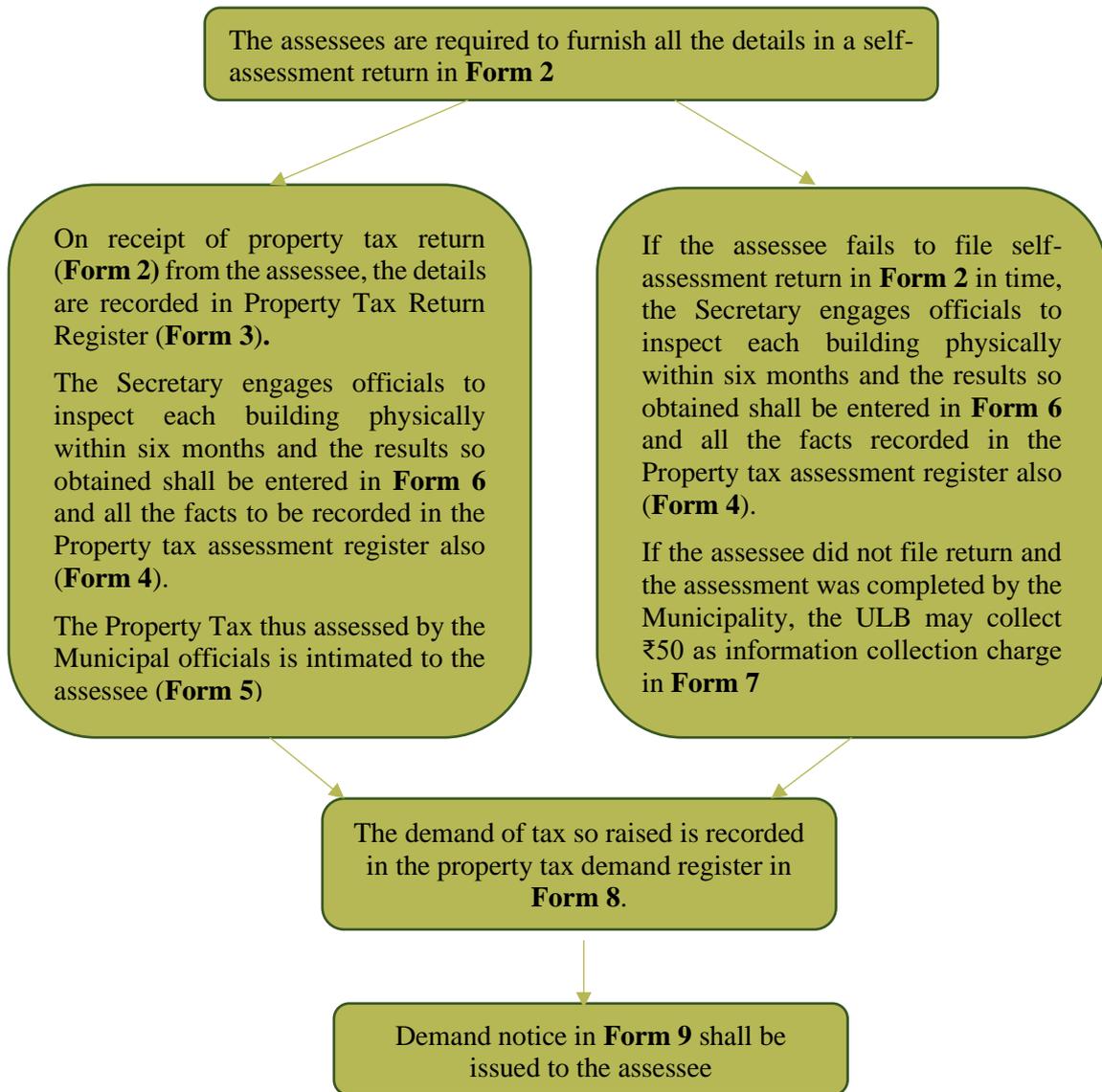
***Digital enumeration should make full use of technologies including GIS mapping along with door-to-door survey and unique identification numbers to the buildings. Government may issue Standard Operating Procedure (SOP) with detailed timelines for implementation and effective integration of GIS mapping with Property Tax data.***

### 3.6 Assessment

The LSGIs are empowered to assess every building with property tax, in the manner and rates fixed as per Sections 230, 231, 232 and 233 of Kerala Municipality Act, 1994 and Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011.

Assessment of properties refers to the exercise of assessing the tax of a particular property within the parameters defined by State for the purpose of taxation. The buildings are categorised according to usage into residential, industrial, schools and hospitals, amusement parks, mobile telephone towers, commercial, other purposes, etc. According to Kerala Municipality Building Rules, 1999 (KMBR), any person who intends to develop any land or construct any building should submit to the Secretary of the ULB an application for permission, accompanied by plans and connected documents and necessary application fee. The Secretary, after verifying the documents should grant/refuse permission for execution of the work. On receipt of completion report from the owner and after confirming that the construction has been carried out in accordance with the approved plan, the Secretary issues the Occupancy Certificate (OC) for the building and assesses property tax thereon. The amount so assessed shall be the annual property tax of the building payable in two half yearly instalments. Various stages in the assessment of properties are explained with the help of the flowchart below:

**Figure 3.6: Various stages in assessment of properties**



Rule 12(4) of Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011 stipulates that the official engaged by the Municipal Secretary shall physically verify the details furnished by the owner of the building and assess property tax within six months. As per Rule 12(7), the loss incurred to the Municipality due to lapse in scrutiny of property tax return furnished by the owner or laxity in physical verification shall be recovered from the official concerned. Despite the above provisions mandating assessment of property tax within prescribed time limits, Audit came across 10,285<sup>29</sup> instances of short

<sup>29</sup> Technopark-11 buildings, Kochi Metro -12, Thiruvananthapuram International Airport- one, Hospitals - three, Budget Hyper Market- one, Serviced Apartments -15, Oberon Mall-one, Cochin Shipyard -14, Cochin Port Trust -1,260, Application of incorrect rate of property tax -2,092, Erroneous application of zonal deduction -2,971, Incorrectly exempted units-3,904 as revealed in analysis of ULB records and Sanchaya data.

assessment of property tax amounting to ₹38.27 crore. In test-checked ULBs, 442 instances of non-assessment of property tax amounting to ₹10.20 crore (excluding penalty) were observed. The details of non/short assessment are listed below.

### 3.6.1 Non-assessment of property tax

#### 3.6.1.1 QuEST Global Engineering Services Private Limited

QuEST Global Engineering Services Private Limited is a company located in Technopark Campus. As per the Annual Reports of Technopark, the company has the ownership of 1.85 acres of land and a building with plinth area of 41,806.37 sq.m.

Audit noticed that Thiruvananthapuram Corporation has neither issued occupancy certificate nor assigned any building number to the company till March 2022. Since construction of the building was completed in March 2011, rate of tax applicable on plinth area of the building was effective from 2013-14 onwards. Non-assessment of property tax has resulted in loss of ₹3.46 crore to the ULB, for the period from 2013-14 to 2021-22.



Figure 3.7: QuEST Global building at Technopark Campus, Thiruvananthapuram

Government replied (April 2023) that the ULB has, at audit instance, assessed the building and issued demand notice for ₹59.83 lakh for the period 2011-12 to 2012-13<sup>30</sup> on ARV basis, and ₹3.79 crore for the period 2013-14 to 2022-23 on plinth area basis. It was also stated that revenue recovery proceedings will be initiated on non-payment of tax due.

#### 3.6.1.2 Centre for Development of Advanced Computing (C-DAC)

The C-DAC is an autonomous scientific society under the administrative control of Ministry of Electronics and Information Technology (MeitY), Government of India. The C-DAC has in possession, 1.75 acres of land in Technopark Thiruvananthapuram and a building with an area of 27,870.91 sq.m constructed and occupied in 2012. Audit noticed that no building numbers were assigned to C-DAC and no property tax /service charge levied on the building till date.

Since this institution is an autonomous society which is a distinct and separate legal entity, immunity created for GoI institutions under Article 285(1) of the Constitution would not be applicable. Hence, property tax was required to be levied and demanded from C-DAC from 01 April 2013. Since no property tax

<sup>30</sup> QuEST Global acquired 'NeST Software' in November 2014

has so far been assessed, tax due thereon works out approximately to ₹25.64 lakh per year and ₹2.31 crore for the period from 2013-14 to 2021-22.

Government informed (April 2023) that the ULB has assessed the building and issued demand notice for ₹2.50 crore for the period 2013-2023 on 13 March 2023, as pointed out by Audit.

### 3.6.1.3 *Unaided educational institutions*

By virtue of Section 235(b) of KM Act, 1994, buildings exclusively used for educational purposes or allied purposes under the ownership of educational institutions owned by Government, aided or functioning with the financial assistance of Government shall be exempted from property tax. Government of Kerala issued (October 2009) orders re-iterating enforcement of the above provisions. The buildings of unaided recognised educational institutions were liable to be assessed from 14 January 2011<sup>31</sup>. The circular issued (April 2012) by Local Self Government Department also clarified that the buildings of unaided recognised educational institutions were liable to be assessed to tax.

Audit observed that seven unaided educational institutions in three test checked ULBs were not paying property tax. Tax due thereon for the period from 2016-17 to 2021-22 amounted to ₹54.41 lakh, as detailed in **Appendix 3.2**. These instances clearly point out the lack of diligence on the part of ULBs in ensuring that the properties falling in their jurisdiction are assessed in a timely manner and demand raised.

Government stated (April 2023) in reply that self-financing colleges will be assessed and levied with property tax.

### 3.6.1.4 *Service Charge from Government of India buildings*

By virtue of Article 285(1) of the Constitution, property tax was not leviable on Government of India (GoI) buildings. As per Rule 30 of Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011, in the case of GoI buildings which have been exempted from property tax, the Municipality may levy service charge on sanitation, water supply, streetlight and drainage as fixed by the Council. Government of India specified that service charges shall be calculated at the rate of 75 per cent, 50 per cent or 33<sup>1</sup>/<sub>3</sub> per cent of tax levied on property owners, depending on utilisation of full or partial or nil services<sup>32</sup>.

It was however noticed that 11 out of 14 test checked ULBs have not assessed service charge from GoI buildings. Only Thiruvananthapuram Corporation and Nedumangad and Angamaly Municipalities collected service charge at the rate of 75 per cent of the property tax with effect from 2016-17. Though Kozhikode Corporation decided to levy service charge at the rate of 50 per cent of the property tax from 2019-20 onwards, this was not seen implemented. The

<sup>31</sup> The date on which Kerala Municipality (Property tax, Service Cess and Surcharge) Rules, 2011 came into effect treating these institutions as new assesses.

<sup>32</sup> Hon'ble Supreme Court of India confirmed this fact in November 2009. The Fifth State Finance Commission also recommended that the Government shall enforce the statutory provisions to collect service charge on GoI buildings by the ULBs.

Councils of the remaining ULBs did not take any action to assess and levy service charge, despite providing all services to the GoI institutions.

Audit worked out that, had the test checked ULBs decided to levy service charge, the ULBs could have earned ₹50.13 lakh from 126 GoI institutions in three test checked ULBs during the period from 2016-17 to 2021-22, as detailed in **Appendix 3.3**.

Government intimated (April 2023) that action was being taken to assess and demand service charge from GoI buildings in ULBs.

#### **3.6.1.5 BSNL Buildings**

The Bharat Sanchar Nigam Limited (BSNL) is a GoI company incorporated (September 2000) under the Companies Act, 1956. Since the company is thus distinct and separate from GoI, no claim for exemption from payment of tax under Article 285(1) of the Constitution of India would be legally permissible. Government had clarified (December 2004) that unlike other GoI Institutions, property tax at full rate as per Section 230 of KM Act was to be realised in respect of buildings owned by BSNL.

Deviating from the above provisions, four test checked ULBs<sup>33</sup> did not assess property tax on BSNL buildings in their jurisdiction. Non-assessment of property tax on 219 BSNL buildings including residential quarters in these ULBs worked out to ₹2.91 crore for the period from 2016-17 to 2021-22. In respect of 60 buildings in the remaining 10 ULBs, property tax pending collection as on 31 March 2022 amounted to ₹0.80 crore (**Appendix 3.4**).

Government stated (April 2023) that action has been initiated to assess and levy property tax on BSNL buildings situated in the jurisdiction of ULBs. However, the reply failed to address the possibility of realisation of tax pending collection.

#### **3.6.1.6 State Government Buildings**

Sections 230 to 233 of the Kerala Municipality Act, 1994 empowered the Municipalities and Municipal Corporations to levy property tax on all buildings and land situated within the jurisdictional area of the Municipalities and Municipal Corporations. All buildings owned by State Government unless otherwise specifically exempted, were hence taxable as per the above provisions.

In the test checked ULBs, though the buildings owned by State Government were not specifically exempted from levy of property tax under any rules, it was observed that the assessing authorities had not assessed such buildings. Audit noticed 83 State Government buildings in Kozhikode Corporation which were not assessed till date. Amount of property tax not levied on these buildings worked out to ₹35.38 lakh. In four<sup>34</sup> test checked ULBs, though GoK buildings were assessed, property tax was not paid till date. This resulted in huge

<sup>33</sup> Kochi, Kozhikode and Thiruvananthapuram Corporations and Koyilandy Municipality

<sup>34</sup> Thiruvananthapuram and Kochi Corporations, Tirur and Malappuram Municipalities.

accumulation of arrears as on March 2022 amounting to ₹26.49 crore, as detailed in **Appendix 3.5**.

Government stated (April 2023) that action has been initiated to assess and levy property tax on buildings of State Government. However, the reply was silent on tax pending collection.

### 3.6.1.7 Kerala Health Research and Welfare Society Pay Wards

Kerala Health Research and Welfare Society (KHRWS) is a society registered under the Travancore Cochin Literary Scientific and Charitable Societies Registration Act-XII of 1955. The KHRWS had 13 pay wards attached to various Government hospitals in the State. As per section 235 of KM Act, KHRWS was not entitled to exemption from property tax and hence, Government did not specifically exempt any of these pay wards from payment of tax. Audit noticed that as against the above provisions, Kozhikode and Kochi Corporations as well as Thrissur and North Paravur Municipalities had not assessed or claimed property tax during the audit period. Non assessment of property tax for the period from 2016-17 to 2021-22 in these ULBs worked out to ₹12.61 lakh. It was also noticed that amount of tax pending collection from pay wards of KHRWS at Thiruvananthapuram Corporation as of March 2022 was ₹2.04 crore.

Government informed (April 2023) that ULBs, based on the audit findings, have issued notices to KHRWS for remitting property tax. The reply was silent on the possibility of realisation of ₹2.04 crore of tax due.

### 3.6.2 Short-assessment of property tax

Audit also came across instances wherein buildings were short-assessed to tax, resulting in loss of revenue to ULBs, as shown in **Table 3.2**:

**Table: 3.2: Details of short-assessment of buildings in test checked ULBs**

Sl. No.	Details of the building	Plinth area (sq.m)	Short assessed area (sq.m)	Period of loss of revenue	Total amount due (₹ in crore)
1	11 buildings in Technopark, Thiruvananthapuram Corporation	195653.70	118385.30	2013-14 to 2021-22	10.32
2	Kochi Metro Rail Limited (KMRL)- (short assessment/non assessment)	47686.30	22073.30	2017-18 to 2021-22	1.14
		38427.90 <sup>35</sup>	38427.90	2017-18 Second half to 2021-22	1.49
		14628.94 <sup>36</sup>	14628.94	2017-18 to 2021-22	0.72
3	Terminal II of Thiruvananthapuram International Airport	35023	4576	2016-17 to 2022-23 First half	1.03

<sup>35</sup> Ernakulam (South), Kadavanthra, Elamkulam ,Vytila, Thaikoodam, Petta

<sup>36</sup> Kalamassery, Cochin University, Pathadipalam

Sl. No.	Details of the building	Plinth area (sq.m)	Short assessed area (sq.m)	Period of loss of revenue	Total amount due (₹ in crore)
4	MIMS Hospital, Baby Memorial Hospital and National Hospital in Kozhikode Corporation	91375.21	49844.78	2016-17 to 2021-22	0.84
5	Budget Hypermarket, Malappuram Municipality	2443	2203.70	From January 2019 to 2021-22	0.09

(Source: Records furnished by ULBs)

Government/ULBs stated (April 2023) that appropriate action would be initiated to make good the loss suffered in the above cases.

### 3.6.2.1 Serviced Apartments

A serviced apartment is a fully furnished apartment, available for short term and long-term stay, providing amenities for daily use<sup>37</sup>, housekeeping and a range of other services, all included within the rental price. As per Rule 30 of KMBR, 1999, Lodging Houses and Special Residential buildings shall include all lodging or rooming houses, dormitories, tourist homes, tourist resorts, hostels, hotels with or without conference halls, dining halls or assembly rooms, etc. Therefore, serviced apartments which fall within this category were to be levied property tax accordingly.

Audit party conducted joint physical verification in 20 residential buildings in Thiruvananthapuram, Kochi and Kozhikode Corporations and noticed that 15 buildings used as serviced apartments were being levied tax at residential rates which resulted in short demand of ₹27.63 lakh as detailed in **Appendix 3.6**.

In the exit conference (March 2023), the Secretaries of ULBs intimated that demand notices have been issued to the building owners concerned, in compliance with the audit observations.

### 3.6.2.2 Irregular application of Property Tax on Annual Rental Value

With the introduction of Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011, the new system of assessment based on plinth area would be applicable for existing buildings with effect from 01 April 2016. Audit noticed instances of buildings which were still being assessed on the basis of Annual rental value (ARV) instead of plinth area. Revenue implication for the ULBs was to the tune of ₹6.79 crore, as shown in **Table 3.3**:

<sup>37</sup> Serviced apartments include an equipped kitchen, washing machine, separate bedrooms, living rooms, bathrooms, Wi-Fi services, television, water, electricity and even a periodic housekeeping service.

**Table 3.3: Details of buildings assessed on the basis of ARV during the period 2016-2022**  
(₹ in lakh)

Sl. No	Details of buildings	Amount levied annually on ARV basis	Amount leviable annually on plinth area basis	Annual short levy excluding penalty	Short levy for the period 2016-2022	Remarks
1.	Oberon Mall	42.13	72.27	30.14	180.84	Issues relating to enhancement of tax under ARV basis pending for settlement in the Hon'ble High Court. Government replied (April 2023) that tax revision shall be effected only on the basis of final decision of the Court.
2.	Cochin Shipyard	2.54	12.24	9.70	58.17	Fourteen office buildings and halls were assessed on ARV basis.
3.	Cochin Port Trust	9.40	78.21	68.81	440 <sup>38</sup>	Assessment on ARV basis continues, based on agreement executed in the year 2000 between KMC and Cochin Port Trust, without the approval of Government. Amount due to KMC works out to ₹4.40 crore, of which ₹2.34 crore would become time-barred.
<b>Total</b>					<b>679.01</b>	

(Source: Records furnished by Kochi Municipal Corporation)

### 3.6.2.3 Loss due to application of incorrect rate

On introduction of plinth area based assessment system to levy property tax vide Kerala Municipality (Property Tax, Service Cess and Surcharges) Rules 2011, Government suggested different rates of taxes for commercial buildings such as hotels, shops and godowns having plinth area up to 100 sq.m and above 100 sq.m. Similarly, different rates of taxes were suggested for supermarkets/shopping malls having plinth area up to 200 sq.m and above 200 sq.m. Audit analysis of data pertaining to selected ULBs in Sanchaya software revealed that many commercial buildings and supermarkets/shopping malls were assessed at lower rates fixed for buildings below 100 sq.m and 200 sq.m respectively. Such erroneous assessment resulted in loss of property tax amounting to ₹7.66 crore for the period from 2016-17 to 2021-22 in test checked ULBs as detailed in **Appendix 3.7**.

The above error in input of incorrect rate by the ULBs could have been averted, had proper input controls been put in place while mapping of business rule in Sanchaya software. The plinth area of buildings, which are already available in the database could have been linked with the applicable rate in a ULB and input control put in place to avoid the errors.

In acceptance of audit observation, IKM stated (March 2023) that the problem would be corrected by including validations in the software.

<sup>38</sup> Including three unassessed new buildings.

#### 3.6.2.4 *Erroneous application of deductions relating to zones*

As per Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011, the area of a Municipal Corporation needs to be categorised into primary, secondary and tertiary zones, for the purpose of tax assessment depending upon the status of development of the area and deductions on basic tax allowed in that particular area. There is a deduction of 10 *per cent* on basic tax calculated on plinth area basis for buildings in secondary zone and 20 *per cent* for buildings in tertiary zone.

However, due to non-mapping of business rule with respect to categorisation of zones and absence of input controls in Sanchaya, the rates corresponding to the applicable zone were not applied correctly by the ULBs in many instances. Incorrect deductions were given to buildings due to wrong selection of zones during data entry. Audit noticed short assessment of property tax amounting to ₹85.46 lakh during the period from 2017-18 to 2021-22 in Thiruvananthapuram, Kochi and Kozhikode Corporations due to this input error.

Government replied (April 2023) that ULBs would initiate steps to re-assess properties on the basis of zonal categorisation and raise demand accordingly.

#### 3.6.2.5 *Buildings not exempted being assessed with nil tax*

Every building which was not exempted under Section 235 of KM Act had to be taxed as per Section 233 of KM Act and Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011. Further, Government, vide orders issued in April and December 2015, exempted residential buildings with plinth area below 61.33 sq.m from paying property tax with effect from 2015-16, provided that the building owner did not have other buildings in his name. Residential buildings owned by ex-service men/widows of ex-service men, residential buildings of retired Central Armed Police Personnel, Indian Coast Guard Personnel, etc. were also exempted from paying property tax. However, this rule was not seen mapped correctly in Sanchaya software as a result of which, a number of residential buildings with plinth area above 61.33 sq.m were also seen exempted. Failure to collect property tax from 3,904 such buildings resulted in a loss of ₹7.06 crore for the period from 2016-17 to 2021-22, in test checked ULBs.

Accepting the observation, Government stated (April 2023) that ULBs are to verify the Sanchaya database and initiate action to levy property tax in respect of residential buildings above 61.33 sq.m, which were incorrectly exempted.

In compliance with Rule 12(7) of Kerala Municipality (Property tax, Service Cess and Surcharge) Rules, 2011, responsibility needs to be fixed on the officials of ULBs, whose negligence in assessment of tax contributed to revenue loss to the Municipalities.

**Recommendations:**

*Urban Local Bodies should ensure that any lapse in physical verification leading to short assessment and consequent short collection of tax should be followed up with disciplinary action against the officials responsible, as provided in the Rules.*

*Urban Local Bodies should implement a time bound action plan to assess property tax/service charges on all buildings not exempted by the relevant provisions of KM Act. Instances of non-assessment may be investigated and responsibility fixed.*

### 3.7 Levy

As per section 233(13) of KM Act, 1994, on the basis of the return submitted by the owner of the building and on the findings of the Secretary on physical verification, the Secretary shall assess the annual property tax of the building and levy property tax by issuing demand notice to the owner of the building. Further, as per section 230(4) of KM Act, 1994, ULBs are empowered to levy Service Cess for the facilities provided to public like water supply, sanitation, streetlight and drainage at a total of 10 per cent of property tax.

#### 3.7.1 Non-levy of Service Cess

The intention to impose service cess for a particular service and the rate of imposition was to be decided by the ULB by a resolution, provided that the rate shall not be less than the rate prescribed for each category of service. The procedure for assessing and demanding property tax was to be applicable to service cess also. Audit noticed that laxity in collecting service cess by 10 out of 14 test checked ULBs resulted in loss of ₹84.40 crore as presented in **Table 3.4:**

**Table 3.4: Details of loss/unrealised revenue due to non-levy of Service Cess**

(₹ in crore)

Urban Local Bodies	Loss/non-realisation of potential revenue	Remarks
Thiruvananthapuram Corporation	15.54	Non-demand on existing buildings from 2013-14 to 2015-16, despite Council deciding to levy
Kozhikode Corporation	11.21	Council took decision to levy from 2019-20 onwards
Vadakara Municipality	0.21	Levied on residential buildings only
Kochi Corporation, Malappuram, Kondotty, Koyilandy, Kalamassery, Angamaly, North Paravur Municipalities	57.44	Council had not taken decision to levy
<b>Total</b>	<b>84.40</b>	

(Source: Details furnished by test checked ULBs)

As ULBs are providing civic services to the public as mandated in the Act, they are rightly eligible to collect service cess as a percentage of property tax collected. Inaction by the ULBs in levying service cess resulted in loss of

potential revenue. Government replied (April 2023) that four ULBs had submitted proposal to collect service cess to the respective Councils. Audit noted that no pro-active action was taken by the remaining ULBs to comply with codal provisions.

***Recommendation: As the ULBs are providing various civic services to the public, action may be taken to levy service cess mandatorily.***

### 3.7.2 Levy of service charge instead of property tax

Audit noticed instances of levy of service charge instead of property tax as explained below.

- As Airport Authority of India (AAI) is an autonomous body, exemption to Government of India institutions vide Article 285 (1) of the Constitution was not applicable. However, Audit noticed that Thiruvananthapuram Municipal Corporation (TMC) assigned building numbers to certain buildings of Thiruvananthapuram International Airport<sup>39</sup> and levied service charge at the rate of 75 per cent of property tax for the period from 2016-17 to first half of 2022-23. The act of TMC in levying and demanding service charge instead of property tax on above mentioned buildings of AAI resulted in short demand of property tax amounting to ₹54.51 lakh for the period from 2016-17 to first half of 2022-23.
- Brahmos Aerospace Thiruvananthapuram Limited (BATL) is a public limited company involved in the manufacture of aerospace products for PSLV and GSLV programme of ISRO and satellites of ISRO. The TMC assigned building numbers to various buildings of BATL and levied service charge at the rate of 75 per cent of property tax, resulting in short demand of ₹5.16 lakh for the period from 2016-17 to 2021-22.

Government accepted the audit observation and replied (April 2023) that the buildings would be assessed and appropriate tax will be levied.

## 3.8 Collection

Multiple channels are available for payment of property tax, viz., cash, cheque, demand draft, online banking, etc. The field collectors appointed for the purpose visit the assessee every half year and collect property tax and issue receipts for the amounts received. The collections are remitted to the Municipal fund account. The assessee can also remit property tax through cash counters in offices of the Municipality/Corporation. Online facility for payment of property tax has been made available with the technical assistance of the IKM using the Revenue and Licence System 'Sanchaya'.

<sup>39</sup> Changed to Adani Thiruvananthapuram International Airport Limited since January 2021

### 3.8.1 Collection efficiency

Collection efficiency means the payment received against the demand raised including the arrears. Collection efficiency is dependent on the completeness of billing and administrative efficiencies in the collection process. Absence of updated property tax registers incorporating the accurate number of properties contributed to poor collection efficiency. As per DCB statements furnished by test checked ULBs, the average collection efficiency of three selected Municipal Corporations was 42.51 *per cent* and that of 11 Municipalities were 69.39 *per cent* during the audit period.

As per Rule 19 of the Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011, where the owner of a building refuses to remit property tax within the stipulated time as stated in the demand notice, the Secretary may take action to recover the property tax by way of revenue recovery, prosecution, etc. Audit noticed that though arrears in property tax mounted year after year, revenue recovery proceedings were initiated only in 14 cases amounting to ₹1.84 crore in two test checked ULBs during the period 2017-22.

As on 31 March 2022, property tax pending collection in test checked ULBs as per DCB details furnished to audit was ₹325.01 crore. Age-wise analysis of arrears by audit revealed that ₹106.45 crore (32.75 *per cent*) pertaining to Thiruvananthapuram Corporation was related to over five years.

#### *Waiver of penal interest*

As per Section 538(2) of KM Act, 1994, the instalment in respect of any half-year shall be paid on or before the last day of the said half-year and if not paid within that date, shall be recovered together with penalty at the rate of one *per cent* per month from the date from which it was due. Audit noticed that Government continually exempted penal interest with effect from 31 December 2016 till 31 December 2022 vide 14 Government orders, on the condition that the defaulters pay the arrears in single lumpsum. The 14 test checked ULBs incurred a loss of ₹117.25 crore during the period from 2016-17 to 2021-22, on account of waiving penal interest. The waiver of penal interest by State Government is against statutory provisions and defeats the will of the Legislature as observed by Sixth State Finance Commission.

The primary task post assessment of property is to ensure that all the assessed properties are levied property tax and that the tax demanded is collected in a timely manner. The method of levying and collecting property tax needs to be transparent and capable of easy administering. The test checked ULBs cited staffing deficits, poorly designed processes, etc. as retarding factors contributing to low collection efficiency.

### 3.8.2 Non-demand of property tax

#### *3.8.2.1 Development Authorities*

The Development Authorities (DA) were constituted for the implementation of planned and scientific development of cities and adjoining areas. There are two

DAs in the State, viz., the Greater Cochin Development Authority (GCDA)<sup>40</sup> and the Trivandrum Development Authority (TRIDA)<sup>41</sup>. Both the DAs owned several buildings and land attached to them. The main source of revenue of DAs were centage charges at the rate of 0.5 *per cent*<sup>42</sup> of the total sum of money credited during the preceding year to its Planning and Development Fund by Municipal Corporations concerned and the rent collected from different shopping complexes of DAs.

In consonance with provisions laid down by Sections 230 to 233 of the Kerala Municipality Act, 1994, the DAs being independent organisations, buildings belonging to these organisations were liable to pay property tax. However, Audit noticed that during the years up to 2018-19, property tax was adjusted against the centage charges payable by the Corporations to the DAs.

Government directed (January 2018) all local bodies under the jurisdiction of GCDA to pay the admissible centage charge to GCDA from their own funds. Further, the collection of property tax by GCDA from shop owners was dispensed with and the shop owners were instructed to pay property tax directly to Kochi Municipal Corporation (KMC). As per details furnished by nine zones in KMC, total property tax receivable from 2018-19 till 2021-22 was ₹1.73 crore, against which only ₹30.41 lakh was collected by KMC.

Section 99 of the Kerala Town Planning and Country Planning Act, 2016, providing for payment of centage charge of 0.5 *per cent* of own revenue of the local body to DA was deleted vide notification dated 14 November 2021. As such, non-demand of property tax for the period from November 2021 till March 2022 from TRIDA by Thiruvananthapuram Municipal Corporation (TMC) would result in non-collection of property tax to the tune of ₹35.54 lakh from 13 buildings owned by TRIDA.

Government replied (April 2023) that TMC had served TRIDA with demand notice. In the case of KMC, it has been decided to convene a meeting to resolve the dispute regarding payment of centage charge.

### 3.8.2.2 Vacant rooms

As per Section 239 of the KM Act, 1994, when any building whether ordinarily let or occupied by the owner himself has been lying vacant and unlet for a half-year, the owner shall be entitled to a remission of tax for that half year. To obtain vacancy remission of property tax, the owner of the building was to apply well in advance for it, before commencement of the half year concerned of the property tax. The Revenue Inspector was to verify and confirm the request of the applicant and place it before the Finance Standing Committee for approval.

Audit noticed that an eight storey (G+7) building, Amrita Trade Tower with 73 units in Ernakulam South, was assessed to property tax amounting to ₹5.28

<sup>40</sup> Constituted in 1976 under the Madras Town Planning Act, 1920

<sup>41</sup> Constituted in 1980 under the Travancore Town Planning Act, 1945

<sup>42</sup> Section 99 of Kerala Town Planning Act, 2016

lakh<sup>43</sup> per year. Of the 73 units, Kochi Corporation sanctioned vacancy remission for 90 half year periods (HYP) (out of total 730 HYP) and the total amount of vacancy remission was ₹3.29 lakh. Of the remaining 640 HYPs, property tax was paid for 42 HYPs. Non-demand of property tax for 598 HYPs during the period from 2017-18 to 2021-22 resulted in loss of revenue of ₹21.71 lakh.

Negligence is noticed on the part of the Secretary of the ULB, who is responsible for the revenue loss due to non-demand of property tax as per Rule 12(7) of Kerala Municipality (Property tax, Service Cess and Surcharge) Rules 2011.

Government replied (April 2023) that the ULB has issued notices to the owners of the building for remitting property tax, failing which revenue recovery procedures would be initiated.

***Recommendation: The ULBs should augment their tax collection capabilities by initiating revenue recovery actions as provided in the Rules, to recover arrears of property tax.***

## 3.9 Accounting

### 3.9.1 Non-compliance with mandatory provisions

Rules 21 to 24 of Kerala Municipality (Accounts) Rules, 2007 stipulate that the collections during a day, received in cash, money, cheques, etc. shall be deposited in the designated bank accounts/Treasury Saving Accounts on the next working day. The cashier is to submit a Head of Account-wise summary of daily collection to the Accounts wing. The Accountant is to get Bank/Treasury statements on a weekly basis and confirm that remittances have been fully credited to the Bank/Treasury Savings Account. Any discrepancy in remittances shall be reported immediately to the Accounts Officer/Secretary as the case may be. The Accounts Officer and Secretary have to verify the Remittance Book on a daily basis and weekly basis respectively. The Fifth State Finance Commission had also recommended creation of the post of Accountant in ULBs.

Audit observed that no post of Cashier or Accountant existed in any of the test checked ULBs and their zonal offices, to ensure compliance of the above rules/recommendation. In their absence, the clerical staff undertook the duties as per priority assigned on day-to-day basis. The deficiency of sanctioned posts mandated in the Rules might have contributed to incidents of misappropriation of cash<sup>44</sup> amounting to ₹32.97 lakh from three<sup>45</sup> zonal offices of Thiruvananthapuram Corporation in 2020. The Zonal Charge Officer had also not monitored remittances of tax amount collected. Further, the Corporation had no system for periodic reconciliation of property tax remittances made by zonal

<sup>43</sup> 2 x ₹2,64,022 (half year tax)

<sup>44</sup> Detected by the Corporation

<sup>45</sup> Nemom, Sreekaryam and Attipra

offices. The Corporation informed that seven employees have been suspended in connection with the fraud, and that the embezzled amount has not been recovered, as investigation was under progress. Such mishandling of amounts collected from taxpayers could be averted only by ensuring compliance, by each designated officer, to relevant provisions in Rules.

Government stated (April 2023) that disciplinary action was initiated against seven officials held responsible for the misappropriation in three zonal offices of Thiruvananthapuram Corporation and that inspection squad has been constituted in the accounts wing of the Corporation, as a preventive step. The reply was silent on the extent of compliance to the recommendation of Finance Commission on the appointment of Accountant.

### 3.9.2 Incorrect adjustment of service cess

The Councils of Tirur and Thrippunithura Municipalities decided to levy service cess at the rate of 10 *per cent* of property tax with effect from 2013-14 onwards. However, GoK decided (March 2019) that the revised rate of property tax for existing buildings was to be collected from April 2016 only. It was also instructed that any excess amount of property tax collected due to application of revised rate for existing buildings prior to April 2016, was to be adjusted against the future demands of the taxpayer.

Audit scrutiny revealed that the Municipalities, instead of adjusting the excess amount of property tax alone for existing buildings, recovered service cess also, which was irregular. This resulted in a loss of ₹1.87 crore<sup>46</sup> to the two Municipalities.

Government replied (April 2023) that the incorrect adjustment of service cess occurred due to changes made in the software by IKM and ULBs had intimated IKM to rectify the defect.

### 3.9.3 Irregular credit of dishonoured cheques

Audit observed that there was no effective system to watch over cancellation of entries regarding realisation of time barred/dishonoured cheques/Demand Drafts (DD), etc. made in Sanchaya, which resulted in unintended benefit to the payees. When a cheque is submitted to the cash counter at the office of the ULB by a property tax payer, a printed receipt is issued to the payer and the amount is updated as collection in Sanchaya software with the receipt number. As per Rule 20 of Kerala Municipality (Accounts) Rules, 2007, in the event of a cheque being dishonoured by the bank, the Municipality shall cancel the office copy of the receipt and report the same at once to the tenderer of the cheque, intimating that the receipt issued for payment through cheque stands cancelled and that she/he has to make payment in cash or DD only, along with the bank charges debited by the bank, if any.

Scrutiny of dishonoured cheque register in Thiruvananthapuram Corporation revealed that 26 cheques were dishonoured by the bank during 2019-2022. Of

<sup>46</sup> ₹60.46 lakh to Tirur and ₹1.27 crore to Thrippunithura

these, though 21 cases were settled subsequently, in five cases involving ₹5,61,194, receipts already issued were not cancelled in Sanchaya software even in the absence of cash credit or other means, and in one case, even after three years from the date of dishonouring of the cheque. This resulted in undue benefit to the payees as detailed in **Appendix 3.8**.

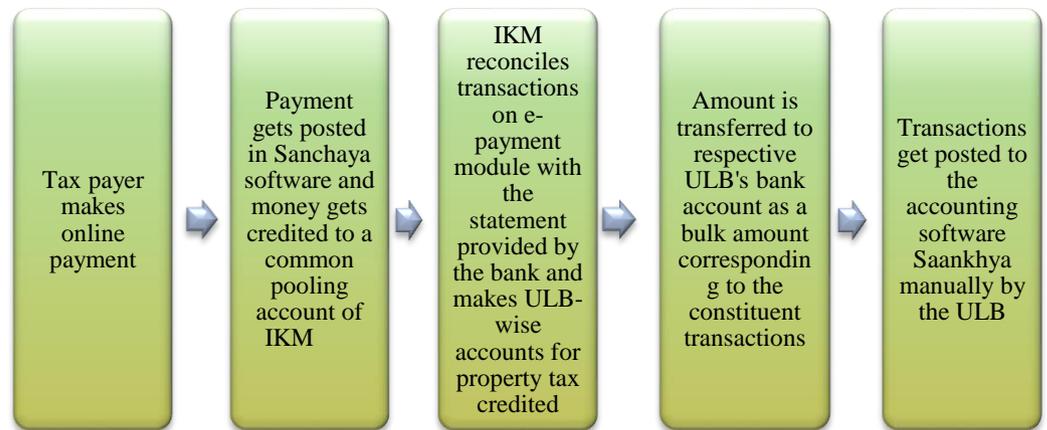
Government replied (April 2023) that in two cases, the tax amount including bouncing charge has been recovered from the owner. The Secretary of the ULB informed that in one case, reverse entry for collection of property tax was made and demand re-instated. The reply was silent regarding the remaining two cases.

Audit observed that the Secretary, Thiruvananthapuram Municipal Corporation should have put in place a system to monitor the cancellation of the receipts and reversal of entries in the Sanchaya Software as similar instances occur frequently. Responsibility should be fixed for the above lapses.

**3.9.4 Delay in transfer of tax amount collected to the bank account of the ULB concerned**

Government accorded (May 2011) permissive sanction to IKM for the establishment of e-payment facilities for LSGIs in Kerala. All receipts in favour of the local bodies concerned, routed through a pooling account maintained by IKM in State Bank of India (SBI),<sup>47</sup> would be credited to the account of the local body concerned within one day or on the succeeding working day, if there is an intervening holiday. The following chart depicts the cash flow in the e-payment module of Sanchaya till 04 February 2022<sup>48</sup>.

**Figure 3.8: Chart depicting the cash flow in the e-payment module of Sanchaya till 04 February 2022**



Audit observed that a balance of ₹41.84 lakh was kept untransferred (November 2022) in the pooling account corresponding to the property tax amounts of LSGIs credited online during the past years. Had the e-payment tax receipts

<sup>47</sup> At Nanthancode Branch, Thiruvananthapuram

<sup>48</sup> The pooling account was not used for e-payment since 04 February 2022, and a new pooling account and new e-payment process was implemented.

been transferred in a timely manner, the LSGIs could have earned interest of ₹94,197<sup>49</sup> during the period from April 2017 to March 2022.

Audit also noticed that IKM transferred ₹1.46 lakh to three Grama panchayats<sup>50</sup>, based on their requests which indicates that, contrary to the directions envisaged in the Government order, the e-payment process did not ensure timely reconciliation of fund transfers after identifying the failed transactions. This resulted in holding of funds of ULBs in pooling account.

In the new e-payment system which came into effect on 04 February 2022, amount collected online is credited to the pooling account of IKM maintained in the bank and then to the account of local body concerned, within the next 48 hours. Prior to the new e-payment system, funds were transferred to the ULBs as bulk payment corresponding to the day along with a reconciled statement prepared by IKM. However, in the new e-payment system where fund transfers are made in baskets of transactions at pre-determined intervals by the system without any manual intervention, the reconciliation has to be done by the ULB itself. Audit noticed that effective training in the new system was not imparted to the ULB staff, resulting in non-reconciliation of funds received from IKM with Sanchaya data since February 2022.

The IKM stated (March 2023) that the balance in the old pooling account is due to transaction errors that occurred while transferring the fund to the local body's account through SBI portal, and that the process of transferring the balance amount is going on.

The reply is not acceptable as IKM could have foreseen scenarios such as failed transactions and put in place processing controls to facilitate identification of beneficiary LSGIs and re-attempt transfer after verifying other parameters relating to the tax remitter. Responsibility must be fixed on the officials who failed to remit or delayed the remittance of tax amounts to ULBs.

***Recommendations:***

***Government should ensure creation of post of Accountant in all ULBs in the State as recommended by Fifth SFC to improve the efficacy of accounting mechanism.***

***Government should ensure that Municipal Corporations put in place a system for periodic reconciliation of property tax remittances made by zonal offices.***

### 3.10 Revision/Reforms of Property Tax

As per section 233(4) of KM Act, 1994, the limits of rates of basic property tax fixed by the Government and the rates of basic property tax once determined by the Council shall be in force for five years from the date on which they come

<sup>49</sup> Audit computed this figure by calculating simple interest at the rate of 2.75 per cent per annum for the monthly average of amounts transferred beyond three days to ULBs' accounts (Monthly average of receipts transferred beyond 3 days x 30 x 2.75/100 x 1/365)

<sup>50</sup> Chottanikkara, Muttar and Kodombelur

into force. Thereafter, on completion of every five years, the Government and the Council shall revise the rates of basic tax by making an enhancement at the rate of 25 *per cent* on the existing limits, so as to be in force for the next five years. The Secretary shall, in accordance with such revision of rates, fix the revised property tax in respect of every building before the expiry of the period. The rates of basic property tax fixed by the Council for the first time under sub-section (3) shall come into force on such date as the Government may, by notification, decide on this behalf.

Audit noticed failures/delay in timely revision of property tax by Government and timely adoption of revised rates by ULBs as detailed below:

### **3.10.1 Delay in revision of property tax/non-implementation of periodical enhancement**

Though KM Act was amended in October 2009 to levy property tax based on the plinth area of buildings, detailed order to give effect to the provisions of the amended Act was issued by the Government only on 14 January 2011, which was made applicable to new buildings from 01 April 2013 and existing buildings from 01 April 2016, after a delay of two years and five years respectively. The delay in formulation of Rules and subsequent postponement of their dates of effect, severely affected the pace of realisation of property tax at enhanced rates. Further, contrary to the provisions laid down by Section 233(4) of KM Act, 1994, Government neither revised the rate of property tax as per KM Act, nor reviewed the process of revision of tax.

As plinth area based assessment was implemented in ULBs with effect from 01 April 2013 for new buildings, subsequent enhancement at the rate of 25 *per cent* was to be made applicable from 2018-19 onwards and in respect of existing buildings, from 2021-22 onwards. Non-implementation of revision as laid down by the Act would result in loss of ₹55.93 crore to the test checked ULBs, as on March 2022.

Government replied (April 2023) that in the absence of specific orders, timely revision of property tax rates could not be effected. It was stated that Government prescribed (March 2023) annual enhancement of property tax at five *per cent* for the next five years from 01 April 2023, and that necessary amendments have been made to the KM Act and Gazette notification issued in this regard.

### **3.10.2 Delayed revision proceedings at Kozhikode and Kochi Corporations**

Audit noticed that though Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules were published in January 2011, two test checked ULBs, Kozhikode and Kochi Corporations showed inordinate delay in revising tax. Both the Corporations commenced the assessment proceedings during the period 2019-20 and 2020-21 respectively. Kozhikode and Kochi Corporations had 2,54,331 and 2,30,955 existing buildings respectively as on 14 January 2011. As on November 2022, the Corporations could complete 2,14,238 and

1,46,620 assessments only, leaving assessment of existing buildings of 40,093 and 84,335 pending. Even though the Corporations demanded property tax with effect from 2016-17, the assesseees were not bound to pay arrears prior to three years, as demand is barred by limitation as per Section 539 of KM Act. Due to undue delay in completion of assessments, Kozhikode and Kochi Corporations lost aggregate arrears of ₹19.91 crore for the period from 2016-17 to 2018-19.

Government informed (April 2023) that though Kozhikode and Kochi Corporations have acknowledged the delay in revision of property tax, the issue of time barred loss of arrears has not been reported in these ULBs. The reply is not tenable since these ULBs could not complete revision in respect of 40,093 and 84,335 buildings respectively as of November 2022, against which the tax payer was not legally bound to pay tax pertaining to period prior to three years. Further, Section 539(2) of the Act specifically states that if any amount has been barred by limitation due to the default of any officer, the amount lost to the ULB shall be realised with 12 *per cent* interest thereon from the officer.

### 3.10.3 Non-implementation of revision of property tax on the basis of fair value of land

In order to compensate the loss in revenue caused to the Central and State Governments by COVID-19 pandemic, Ministry of Finance, Government of India had allowed additional borrowing of two *per cent* of Gross State Domestic Product (GSDP) to States for the financial year 2020-21, subject to the implementation of certain state level reforms<sup>51</sup> for strengthening ULBs. On successfully implementing the 'Ease of doing business' reform, the State of Kerala became eligible (January 2021) to mobilise additional financial resources of ₹2,261 crore through open market borrowings.

The State had decided (June 2020) to derive a formula for re-assessment of property tax as part of implementing reforms in the sector. The Director of Urban Affairs submitted a proposal for the assessment of property tax on the basis of the fair value of the land, based on which GoK issued (February 2021) orders to notify the re-assessment of property tax in Municipalities. The rate of property tax was to be fixed on the basis of fair value of land for each category of building in accordance with the use of buildings. The annual upward revision in the rate of tax was to be by five *per cent* or hike in consumer price index, whichever is lower, from second year onwards as per the existing rules.

However, Audit noticed that property tax revision based on fair value of the property has not so far been implemented in the State (February 2023).

The Principal Secretary, LSGD informed during the exit conference (27 March 2023) that a sample study in a couple of wards in Thiruvananthapuram

<sup>51</sup> Implementation of One Nation One Ration Card System, Ease of Doing Business Reform, Urban Local Body/Utility Reforms, Power Sector Reforms, etc. The Ease of Doing Business Reforms included completion of first assessment of district level Business Reform Action Plan, elimination of requirements of renewal of registration certificates/approval/licences, computerisation of central random inspection system, etc.

Corporation is being conducted by Gulati Institute of Finance and Taxation (GIFT) and the report is awaited. This is indicative of the fact that the Government order was issued and additional borrowing of GSDP availed, even before conducting a sample study.

#### **3.10.4 Non-implementation of SFC recommendations**

As per Section 206 of KM Act, 1994, the State Finance Commission (SFC) is constituted every five years to recommend measures needed to improve the financial position of the Municipalities in the State. The SFCs had offered valid recommendations to improve efficiency in collection of property tax. The recommendations relating to property tax offered by various SFCs formed till date, and the status of implementation of major recommendations are shown in **Appendix 3.9**. Audit observed that none of these recommendations, though accepted, have been implemented by the State. This points out the lax approach of Government in implementing measures to facilitate enhancement of revenue from property tax, which might also have contributed to revenue loss amounting to ₹145.20 crore, as discussed in various paragraphs in this report.

#### **3.10.5 Non-constitution of Property Tax Board**

The 15<sup>th</sup> Central Finance Commission (CFC) recommended that grants to local bodies (other than health grants) would be distributed among states based on population and area, with 90 *per cent* and 10 *per cent* weightage, respectively. The CFC also recommended that computerised property records had to be integrated with the registration of transactions and the market value of properties was to be captured. Further, the State Governments were to streamline the methodology of property valuation. Audit noticed that though State Government issued orders to integrate value of properties with that of property tax, implementation of the order is yet to be materialised (February 2023).

Based on the recommendation of 13<sup>th</sup> CFC, GoK proposed (February 2011) constitution of an independent Property Tax Board to review the property tax system and suggest suitable basis for valuation of properties and modalities for periodic revision. This was reiterated by the sixth SFC in its recommendations. Government also accorded (May 2018) sanction for constituting a committee of nine members with the Principal Director, LSGD as Convener. The committee was to suggest recommendations to assess gaps in the extent of realisation of own revenue of LSGIs and to prevent leakage of tax revenue. Audit observed that the Property Tax Board has not been constituted in the State and the Committee has not met till date.

Some of the major functions of Property Tax Board as noted below could not be carried out due to its non-constitution.

- Review the property tax system and suggest suitable basis for valuation of properties including charges in the parameters involved in the formula used for assessing property tax in the State
- Recommend modalities for periodic revision

- Ensuring collection and imposition of tax for all taxable properties

***Recommendation: Government should constitute Property Tax Board to review the property tax system and suggest suitable basis for valuation of properties and modalities for periodic revision.***

### 3.11 Monitoring

Section 22 of KM Act, 1994 empowers the Standing Committee for Finance of the ULB to carefully watch the timely assessment and collection of taxes, fees, rents and other sums due to the ULB. It also entrusts the Standing Committee to check the monthly demand, collection and balance and abstract of receipts and expenditure of the preceding months as furnished by the Secretary. However, the Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011 do not provide any institutional mechanism which would enable the Standing Committee to effectively exercise its powers and responsibilities.

Audit observed several instances of monitoring failures which resulted in unauthorised constructions and lapses in internal control as detailed below.

#### 3.11.1 Unauthorised constructions

Section 242 of KM Act, 1994 stipulated that where any person has unlawfully constructed or reconstructed any building, the owner of such building shall be liable to pay property tax that would have been paid, had the said building been constructed lawfully, with twice the amount towards property tax, from the date of completion or occupation whichever is earlier, till the date of demolition/regularisation of that building. The building constructed unlawfully was to be given special building number, purely for taxation purpose.

During joint physical verification, audit noticed 36 cases of unauthorised construction undertaken without the permission of Municipalities/Corporations concerned, in 10 test checked ULBs. The Municipalities had not taken any action to regularise/demolish the building or to issue special building number and realise property tax at compounded rate. The tax due thereon worked out to ₹4.87 crore for the period from 2016-17 to 2021-22 as detailed in **Appendix 3.10**.

One of the important duties assigned to Revenue Inspectors and Bill Collectors was to detect unassessed and under assessed properties within their jurisdiction. The Building Inspectors were to detect unauthorised constructions within their jurisdiction. Audit observed that both Revenue section and Town planning section in ULBs failed to detect unassessed/unauthorised buildings.

Government replied (April 2023) that ULBs have initiated action to assess and levy property tax in respect of unauthorised constructions mentioned in the paragraph.

***Recommendation: Government/ULBs may initiate urgent action to detect all unauthorised constructions in ULBs through co-ordinated action of Revenue and Town Planning sections and levy property tax at compounded rates.***

### 3.11.2 Lack of synchronisation between Revenue and Town planning sections in ULBs

Government directed (May 2020) that, property tax shall be assessed with effect from the date of issue of occupancy certificate. The Town planning section of ULB issues building permits and occupancy certificates and the Revenue section assesses the tax on the basis of occupancy certificate issued by the Town planning section. However, this business rule is not mapped in Sanchaya, as a result of which the Revenue wing could make assessment of tax on a building without valid building permit. Further, no control was built in Sanchaya to ascertain whether a valid building permit/occupancy certificate was issued by Town planning section before issue of door number. This is evident from the analysis of details of building permits captured in Sanchaya, wherein it was seen that out of 3,13,068 new buildings assessed (after first half of 2013) in the test checked ULBs, details of building permits were captured for 2,00,455 buildings (64.03 per cent) only.

In the course of field level verification, Audit noted that Kozhikode Corporation had identified (2021-22) 24 building numbers allotted to illegal constructions by its Revenue section, after modifying data through the front end of Sanchaya application by unauthorised use of user-id and password. This tampering of data was done without the knowledge of Town planning section of the Corporation.

Audit observed that lack of synchronisation between the Revenue and Town planning wings makes it difficult for the Secretary/Council to monitor the updating of database and collection efficiency of property tax.

### 3.11.3 Ineffective inspections to detect unauthorised constructions

Rule 157 of KMBR, 1999 and order issued (August 2009) by LSGD necessitated formation of squads at district/municipal level for detecting unauthorised constructions and initiating steps to stop such constructions. The Local Fund Accounts Committee, while discussing the paragraph on assessment and collection of Property tax in Kochi Municipal Corporation which appeared in the Audit Report of Comptroller and Auditor General of India on Local Self-Government Institutions for the year ended 31 March 2005, had pointed out the lapse in formation/functioning of squads and sought reasons for non-functioning of squads. The Government is yet to furnish a report on the above.

Audit observed that only two<sup>52</sup> of the test checked ULBs formed squads, conducted seven inspections and detected 13 unauthorised constructions during the audit period. Non-constitution of squads in the remaining 12 ULBs contrary to the provisions of KMBR reveals the lackadaisical approach of ULBs towards identification of unauthorised buildings and additional construction to existing buildings. Audit, in the course of joint physical verifications with Municipal staff, identified 36 unauthorised constructions, 19 incorrect assessments due to escaped plinth area and 15 wrongly classified buildings. Absence of regular and

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<sup>52</sup> Kondotty and Malappuram

periodical enumeration would impact adversely upon the extent of unauthorised/additional constructions detected and assessed to tax.

Government stated (April 2023) that though Kozhikode Corporation did not constitute squads for inspection, Overseers and Revenue Inspectors conducted inspections to detect unauthorised constructions. The reply, which justifies non-formation of squads, is not acceptable as ULBs were to form squads with the composition as prescribed by Government and conduct periodical inspections to streamline the process of detecting unauthorised constructions.

#### 3.11.4 Undue benefit extended to Malayala Manorama building

A mention was made in CAG's Audit Report on Local Self-Government Institutions for the year ended March 2012 on Thiruvananthapuram Municipal Corporation (TMC) not initiating action to assess the new press building<sup>53</sup> constructed by Malayala Manorama with a plinth area of 1,139.82 sq.m. Audit had then pointed out that, the building being an unauthorised construction, property tax due at compounded rate from second half of 2005-06 to 2011-12 amounted to ₹33.40 lakh. The observation was accepted by TMC and assurance regarding realisation of tax due was provided to Audit. However, TMC did not initiate any favourable action in this regard.

Audit, in connection with this PA, noticed that Malayala Manorama completed the fourth floor and undertook extension of first floor and ground floor of the building, with an additional area of 1,012.37 sq.m. The construction of the structures was completed in November 2015 and regularisation of construction sought in November 2018. Since regularisation was effected only in the second half of 2015, tax due at compounded rate, amounting to ₹30.50 lakh for the period from 2012-13 to the first half of 2015-16 was also to be realised. However, TMC regularised the unauthorised construction and issued occupancy certificate in August 2019 giving retrospective effect with effect from November 2015, after collecting permit fee of ₹1.07 lakh at compounded rate. TMC did not take any action to collect the already accumulated tax of ₹63.90 lakh<sup>54</sup>.

Audit further observed that, plinth area of the existing old building<sup>55</sup> was 2,846.28 sq.m and that of the new press building (with additional fourth floor and extended ground floor and first floor) was 2,152.19 sq.m. Government orders on tax revision issued from time to time, had re-iterated that all office buildings were to be assessed on plinth area basis with effect from 2016-17. However, revenue assessment was done on plinth area basis for the newly constructed building alone, at the office rate of ₹80. The existing building was levied with tax on ARV basis, amounting to ₹9,270 only. This incorrect

<sup>53</sup> The building had obtained permit for four floors (Ground floor + three floors); however, an unauthorised floor (fourth floor) was also constructed.

<sup>54</sup> ₹33.40 lakh + ₹30.49 lakh

<sup>55</sup> The old press building constructed in 1987.

assessment resulted in short demand of property tax to the tune of ₹15.07 lakh<sup>56</sup> for the period from 2016-17 to 2021-22.

Government intimated (April 2023) that Thiruvananthapuram Corporation has issued notice in connection with initiating revenue recovery proceedings against Malayala Manorama. However on further enquiry, Audit observed that the ULB has only sought for receipts of remittance claimed to have been made by Malayala Manorama.

Despite Audit pointing out the irregular taxation in the C&AG's Audit Report for the year ended 31 March 2012 and the Local Fund Accounts Committee discussing the audit observation in July 2022, TMC not only refrained from realising arrear tax amount for the new building, but also failed in assessing tax on plinth area basis for the existing building.

### **3.11.5 Unauthorised Mobile Towers**

As per Rule 130 of KMBR, 1999, no person shall erect or re-erect any non-governmental telecommunication tower/pole structures without first obtaining a separate permit for each such tower/pole structure from the Secretary of the ULB. Property tax is leviable on these structures in accordance with Kerala Municipality (Property tax, Service Cess and Surcharge) Rules, 2011. According to Section 242 of KM Act, 1994, municipalities are empowered to levy on such structures, property tax that would have been paid, had the said building been constructed lawfully, with twice the amount towards property tax on unauthorised constructions.

Audit noticed that several unauthorised towers were located in the test checked ULBs. The permit fee and property tax at compounded rate due for these unauthorised constructions worked out to ₹47.20 lakh and ₹173.07 lakh respectively as detailed in **Appendix 3.11**.

Government stated (April 2023) that action was being initiated to identify unauthorised mobile towers and to assess and levy them with property tax. However, the reply was silent on whether penalty was levied on these constructions.

### **3.11.6 Pendency in settling court cases**

As per Rule 18 of the Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011, where the owner failed to remit property tax fully or partially for a building, the Secretary may issue demand notice to the possessor of the building to remit property tax within 15 days and the amount paid by him can be recovered from the owner concerned. Similarly, Rule 19 stipulates that where the owner of a building refused to remit the property tax within the stipulated time as stated in the demand notice, the Secretary may take action to recover the property tax by way of revenue recovery, prosecution, litigation, etc.

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<sup>56</sup> Plinth area based assessment of the existing building works out to basic tax of ₹2,27,703 annually.

Scrutiny of case diaries of test checked ULBs revealed that as of March 2022, 412 cases related to property tax were pending in various courts, of which, 336 cases were pending in the High Court. For 28 cases, pendency was over five years.

### 3.11.7 Segregation of duties

Segregation of duties is a proven way of ensuring that transactions are properly authorised and recorded and that assets are safeguarded. Separation of duties occurs when one person provides a check on the activities of another. It is also used to prevent a single person from carrying out an activity from start to end without the involvement of another person.

Separation of duties is a fundamental control requirement as it reduces the risk of error and fraud. This can be achieved through the existence of, and compliance with, job descriptions.

The duties in Revenue wing in ULBs are segregated as follows.

- Data entry in Sanchaya by Revenue Section Clerks (Data Entry Operators).
- Verification of data entry by the Superintendent.
- Approval of entry by the Revenue Officer.

Audit analysed the transaction details and user tables in Sanchaya to assess whether well-defined job characteristics and segregation of duties were implemented in Sanchaya. On analysing 3.10 lakh file processing activities<sup>57</sup> in the selected ULBs, audit found that,

- Data Entry Operator and Verifier are same in 1211 instances.
- Verifier and Approver are same in 203 instances.
- Data Entry Operator and Approver are same in 337 instances.

It is thus evident that the benefit of segregation of duties was bypassed, thereby exposing the system to fraud and manipulation of data. The controls in Sanchaya failed in ensuring that duties of data entry, verification and approval are performed by different persons. Moreover, processing activities are seen completed in a short span of time, i.e., within a few seconds between Data Entry Operator and Verifier and between Verifier and Approver, which is unusual when viewed against the normal pattern of delay in majority of cases (**Appendix 3.12**).

Sharing of login credentials among multiple levels of users has also occurred, compromising the security of the system and enabling fraudulent transactions, as noticed in the following instances:

- Thiruvananthapuram Corporation engaged (September 2013) Human Resource Employment Development Centre (HREDC) for data entry in

<sup>57</sup> Transactions resulting from activities like address change, demolition, exemption, assessment of new buildings, revision of tax, vacancy remission, etc.

online Sanchaya portal for creation of database of property tax. The data entered by HREDC had to be verified by Revenue Inspectors (RI) and approval accorded by the Revenue Officer (RO) through their dedicated login ID and passwords. However, it was observed that 3,11,924 numbers of data entered were verified and approved by HREDC, the same agency entrusted with data entry. The fact that the data was not verified by the RIs was confirmed by Audit on random verification. Verification and approval of data entry was done by the data entry operators themselves, since the login ID and passwords of RI and RO had been shared with them.

- Thiruvananthapuram Corporation informed IKM that building numbers were given without obtaining valid building permit/occupancy certificate from Town planning section in four instances. The transaction details pertaining to 22 June 2022 and 03 July 2022 extracted by IKM and furnished to the Corporation revealed that the data entry, verification and approval took place in very short intervals which establishes the fact that a single person had attempted all three processes, misusing the login ID and passwords of higher officers.

Government replied (April 2023) that Thiruvananthapuram Corporation has terminated the services of the officials who misused the Sanchaya login ID and password. Further, measures have also been taken to ensure the security of login ID and password.

### **3.11.8 Non-restriction of privileges assigned to users**

Sanchaya software was rolled out initially in rural local bodies and later in ULBs. The Municipal Corporations have zonal offices with large number of tax payers, which are functioning more or less like individual local bodies. Access control deficiencies have crept into Sanchaya, while introducing it in ULBs by adopting the system already in use in rural local bodies. The user access through Verifier or Approver login was not restricted to the zonal offices in which they are currently working. Due to the absence of this control, users working in one zonal office could deliberately or inadvertently alter/verify the data relating to other zonal offices.

Instances of allotting numbers to unauthorised constructions by misusing the user ID and passwords of Revenue Officer (RO) were detected by Kozhikode Corporation. It was seen that 1,476 buildings in the wards under the Main office of the Corporation were illegally approved using digital signatures of ROs working in zonal offices. Further, it was also detected that 1,432 buildings in wards under the zonal offices were illegally approved using digital signatures of ROs working in the Main office.

Information Kerala Mission stated (March 2023) in reply that the software is configured in such a way that the users working in one zonal office can process the data of the respective zonal office only. The reply is not factually correct as Audit found 673 instances of verification and 1,254 instances of approval of file processes pertaining to different zonal offices/main office by users within the

same day using a single user ID. This was further confirmed by Audit by verifying the front end of Sanchaya and observing that a user login through a single user ID can verify and approve details of buildings coming under other zonal offices/main office.

Government did not furnish response to the audit observation (December 2023).

**Recommendations:**

***Government should introduce Management Information System or other software solutions which would enable effective monitoring of efficiency of property tax collection by public representatives and executives.***

***Government should ensure data security by defining and enforcing password policy. Incidents of fraud and data manipulation resulting from bypassing segregation of duties may be guarded against.***

### 3.12 Conclusion

The Municipal Act/Rules do not have clear provisions mandating regular enumeration of properties, resulting in the ULBs not possessing a list of entire buildings that could be assessed to property tax. Undue delay in completing digitisation of the database denied the ULBs of opportunity to make full advantage of technological advancements. Government of Kerala/BSNL buildings were not assessed to property tax by several ULBs resulting in loss of ₹3.26 crore. Service charge amounting to ₹50.13 lakh was not levied from GoK buildings. Though ULBs were eligible to collect service cess since they are providing services, certain ULBs did not avail of this option to step up their revenue, resulting in loss of ₹84.40 crore. Non-assessment of property tax amounting to ₹10.20 crore and short assessment of property tax amounting to ₹38.27 crore was noticed. Substantial amount of property tax remained uncollected in test checked ULBs. On an average, only 43 *per cent* and 69 *per cent* of property tax demanded were collected in Municipal Corporations and Municipalities respectively. Though arrears in property tax mounted year after year, revenue recovery proceedings were initiated only in negligible cases. Waiver of penal interest on defaulters by GoK resulted in loss of ₹117.25 crore in the 14 test checked ULBs. Absence of the post of Accountant in the ULBs unlike PRIs, could have resulted in internal control failures leading to instances of misappropriation in Thiruvananthapuram and Kozhikode Corporations. Failure/delay on the part of GoK and ULBs in timely revision and adoption of rates of property tax resulted in loss of ₹75.84 crore. There was failure on the part of ULBs in detecting unauthorised constructions resulting in loss of ₹4.87 crore. Instances of system failures in Sanchaya software and process failures like lack of synchronisation between Revenue and Town planning wings in the ULBs were also noticed, which hampered efficient monitoring.