

CHAPTER VI

COMPLIANCE AUDIT PARAGRAPHS OF URBAN LOCAL BODIES

6.1 Excess payment of centage charges to the accredited agencies by three Urban Local Bodies

Kozhikode Corporation and Palakkad and Kottakkal municipalities paid centage charges at higher rates for works executed through accredited agencies in violation of Government orders resulting in excess payment of ₹50.35 lakh.

Local Self Government Department (LSGD), Government of Kerala accredited a few institutions/non-governmental organisations/labour contract co-operative societies⁶⁶ for implementation of public works in Local Self-Government Institutions and issued (May 2007) general guidelines for execution of public works through these agencies. According to the guidelines, two *per cent* of the estimated cost was to be paid to the accredited agency as management/centage charges for execution of the work. In case the accredited agency executed works using alternate technology⁶⁷ and prepared the plan, design and estimate by itself, 0.5 *per cent* of estimate cost was also to be granted to the agency as remuneration.

Subsequently, Finance (Industries and Public Works) Department issued guidelines in September 2007 for execution of public works by Government departments through accredited agencies. The guidelines prescribed centage charges ranging from five *per cent* to eight *per cent*, depending on the estimated cost⁶⁸ of the work. In July 2014 Finance Department clarified that centage charges on LSGD works would be based on Government orders issued from that department from time to time. Though the rates of centage charges were revised by Finance Department during the period 2014⁶⁹ to 2017⁷⁰, LSGD continued with the rates fixed in May 2007 till October 2020. In October 2020⁷¹, LSGD revised the rates of centage charges and permitted LSGIs to apply the rates fixed by the Finance Department in July 2017. LSGD had also clarified that the new rates would be applicable only to new works executed by LSGIs and centage charges at the rate of 2.5 *per cent* would be applicable for ongoing and completed works in LSGIs.

During the audit of Kozhikode Corporation and Palakkad and Kottakkal Municipalities, it was noticed that these Urban Local Bodies, instead of

⁶⁶ State Nirmithi Kendra, COSTFORD, Habitat Technology Group, etc.

⁶⁷ Adopting cost effective techniques and usage of local materials conforming to relevant standards without compromising quality and durability

⁶⁸ Centage charge of five *per cent* for works costing ₹five crore or more, six *per cent* for works costing between ₹three crore and ₹five crore, seven *per cent* for works costing between ₹50 lakh and ₹three crore, eight *per cent* for works costing less than ₹50 lakh

⁶⁹ Revised the limit for eight *per cent* from ₹50 lakh to ₹one crore in July 2014

⁷⁰ In July 2017, the percentages are retained with 'subject to a minimum amount of centage charges to be paid'. i.e. centage charge of five *per cent* for works costing ₹five crore or more subject to a minimum of ₹30 lakh; six *per cent* for works costing between ₹three crore and ₹five crore subject to a minimum of ₹21 lakh; seven *per cent* for works costing between ₹one crore and ₹three crore subject to a minimum of ₹eight lakh

⁷¹ GO(Rt) No. 1817/2020/LSGD dated 04 October 2020

allowing centage charges at 2.5 *per cent* to the accredited agencies, allowed centage charges at five to seven *per cent* in respect of five completed works, wherein agreements were executed during 2017-18 and 2018-19, resulting in excess payment of ₹50.35 lakh towards centage charges. Details are given in **Appendix 6.1**.

Thus, lapse on the part of ULB officials in adhering to the Government instructions resulted in excess payment of centage charges amounting to ₹50.35 lakh to the accredited agencies.

Government stated (March 2024) that Kozhikode Corporation and Palakkad and Kottakkal Municipalities entered into agreement with the agencies based on the order issued by the Finance Department. It was also stated that the effective date for applying the new centage charges was not clearly mentioned in the order issued by LSGD in October 2020.

The reply is not tenable as the order issued by Finance Department in July 2014 clearly states that centage charges on LSGD works would be based on Government orders issued from that department from time to time. Further, the order issued by LSGD in October 2020 does not mention any retrospective effect for it and the order specifies that the revised rate would be applicable only for new works executed by LSGIs. Audit observation was on works taken up by the ULBs during 2017-18 and 2018-19.

6.2 Short levy of property tax by Koduvally Municipality

Levy of incorrect rates of property tax by Koduvally Municipality resulted in loss/short collection of revenue of ₹14.48 lakh

According to Rule 4(3) of Kerala Municipality (Property Tax, Service Cess and Surcharge) Rules, 2011, the rate of basic property tax for all buildings of same category of use should be the same throughout the area of the local body. Further, as per Section 233(2) of Kerala Municipality (KM) Act, for the purpose of levying Property Tax, the Government should fix the minimum and maximum rates of basic property tax applicable to one square meter plinth area for different categories of buildings. Based on the minimum and maximum rate fixed by the Government, LSGIs, through a resolution, had to adopt the basic property tax rate applicable for each category of building in their area. Further, according to Section 282 of KM Act 1994, demand for tax claims should be made within four years from the date on which it has fallen due.

Government of Kerala (GoK) introduced (January 2011) plinth area based assessment of property tax in ULBs and was made applicable⁷² to new buildings from 01 April 2013 and to existing buildings from 01 April 2016. Koduvally Grama Panchayat was upgraded as Municipality with effect from 01 November

⁷² vide GO (Rt) No. 540/2019/LSGD dated 06 March 2019

2015⁷³ and the Municipal Council revised⁷⁴ (September 2016) the property tax rates of all buildings to match with the rates prescribed by GoK for Municipalities. Audit noticed that though Municipality levied property tax at revised rates on all buildings constructed after the date of upgradation, Municipality omitted to levy revised rates for commercial/hospital/assembly buildings that existed before the date of upgradation and continued with the rates applicable to Grama Panchayats. Further, change in categorisation⁷⁵ of jurisdictional areas on upgradation as municipality was also not taken into account for calculation of property tax in respect of these buildings. This resulted in loss⁷⁶ of revenue of ₹6.21 lakh during the period from 2016-17 to 2018-19 and short collection of revenue of ₹8.27 lakh during the period from 2019-20 to 2022-23 in 111 test checked cases⁷⁷ as detailed in the **Appendix 6.2**.

Thus, failure on the part of the Municipal authorities in ensuring proper implementation of revised property tax rate resulted in revenue loss of ₹14.48 lakh⁷⁸.

Government response to the paragraph is awaited (February 2025).

6.3 Excess payment of Goods and Services Tax to accredited agencies - ₹68.61 lakh

Awarding of works based on estimates prepared as per Delhi Schedule of Rates 2016 and cost indices inclusive of Value Added Tax and payment of GST at the rate of 12 per cent additionally on the value of work done resulted in excess payment of GST to the tune of ₹68.61 lakh to the accredited agencies by three ULBs.

Goods and Services Tax (GST) notified by Government of India came into effect from 01 July 2017. Accordingly, GoK in November 2017 issued orders enforcing GST for all public works executed since July 2017. As the Delhi Schedule of Rates (DSR) 2016⁷⁹ and cost indices, based on which estimates were prepared for public works, were inclusive of Value Added Tax (VAT),

⁷³ vide GO (MS) No. 152/2015/LSGD dated 30 April 2015

⁷⁴

| | Commercial buildings up to 100 sq.m. (₹ per sq.m.) | Commercial buildings >100 sq.m (₹ per sq.m) | Hospital (₹ per sq.m) | Assembly buildings (₹ per sq.m) |
|-------------------|--|---|-----------------------|---------------------------------|
| Panchayat rate | 50 | 60 | 5 | 30 |
| Municipality rate | 70 | 90 | 15 | 50 |

⁷⁵ As per Kerala Municipality (Property Tax, Service Cess and Surcharges) Rules 2011, the whole area in a Municipality needs to be categorised into primary, secondary and tertiary zones, for the purpose of tax assessment depending upon the status of development and deductions 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 deduction for buildings in tertiary zone.

⁷⁶ Tax prior to 2019-20 has become time barred

⁷⁷ Commercial/Hospital/Assembly Buildings for which building number allotted before 01 November 2015

⁷⁸ ₹1379102 Property tax + ₹68955 Library Cess (Five per cent)

⁷⁹ Delhi Schedule of Rates (DSR) published by Central Public Works Department, is a comprehensive document that outlines the standard rates for various construction and maintenance works. These rates are used for estimating costs and are crucial for budgeting and financial planning in public projects. DSR is used by Central and State Government departments, Institutions, PSUs, etc.

GoK in December 2017 directed all Government departments and agencies to exclude VAT/GST while preparing estimates for procurement of Works. It was also directed to indicate GST separately for obtaining Administrative Sanction. Further, the rates quoted by contractors should be exclusive of VAT/GST and while making payment to contractors applicable GST was also to be sanctioned along with total value of work done. GoK in March 2019 issued the revised cost indices to be applied to DSR 2016 rates and these cost indices were without VAT component.

During the audit of Palakkad, Kottakkal and Kasaragod Municipalities, Audit noticed that these ULBs had entered⁸⁰ (March 2018–March 2019) into agreement with two accredited agencies viz., M/s Habitat Technology Group, Thiruvananthapuram/Thodupuzha and M/s Steel Industries Kerala Limited, Thrissur for execution of eight works with estimated cost of ₹24.50 crore. The accredited agencies had prepared the estimates based on DSR 2016 and the Municipal Councils accorded Administrative Sanctions⁸¹ based on these estimates. Technical Sanctions were accorded⁸² by the agencies themselves. Audit noticed that though these agencies had prepared the estimates without excluding VAT component present in the DSR 2016 cost indices, the ULBs failed to verify and exclude VAT in the estimates while according to Administrative Sanction/executing agreements. Further, though all the payments to these agencies were made after publication of revised cost indices by GoK, the ULBs had not excluded the VAT component in the estimates and the agencies were sanctioned 12 *per cent* GST on the total value of work done. Payment of 12 *per cent* GST without excluding VAT had resulted in excess payment of GST of ₹68.61 lakh. Details are given in **Appendix 6.3**.

Thus, negligence on the part of ULBs in complying with Government direction to exclude VAT/GST from the estimates resulted in excess payment of ₹68.61 lakh to the implementing agencies.

Government response to the paragraph is awaited (February 2025).

⁸⁰ Palakkad Municipality – March 2018, Kottakkal Municipality – March 2019 and Kasaragod Municipality – March 2018

⁸¹ Palakkad Municipality – June 2017, Kottakkal Municipality – August 2018 and Kasaragod Municipality – December 2017

⁸² Palakkad Municipality – March 2018, Kottakkal Municipality – September 2018 and Kasaragod Municipality – February 2018