

## CHAPTER-II

### PERFORMANCE REVIEW URBAN LOCAL BODIES

#### 2.1 Asset Management by Local Bodies

##### 2.1.1 Highlights

The assets owned by local bodies included movable and immovable assets, remunerative and non remunerative assets acquired or created by them from time to time. In the state the assets are being created by the local bodies as per their requirement and as per availability of funds. Besides, specific assets are also being created out of grants received from Government of India. The Asset Management includes, planning and decision making in creation or acquisition of assets, proper accounting of assets, utilization of assets, maintenance of assets and disposal of obsolete assets. Laxity in these areas is fraught with the risk of public funds invested on assets becoming unfruitful. Some of the significant points noticed are given in succeeding paragraphs.

- During 2007-09, ` 82.54 lakh for maintenance of roads, were not utilized by six ULBs.  
(Paragaraph-2.2.2)
- In seven ULBs, 21 assets (Parking, Shops, Hall and Rehan Basera) created at a cost of ` 61.70 lakh were lying idle.  
(Paragaraph-2.3.3)
- Four assets valued at ` 43.70 lakh were utilized for the purposes other then those for which these were created.  
(Paragaraph-2.3.5)
- In three ULBs, ` 37.79 lakh were rendered wasteful on three abandoned works.  
(Paragaraph-2.4)
- Twenty seven works sanctioned between 2000-09 for ` 6.30 crore were not started due to non-finalisation of sites.  
(Paragaraph-2.6)
- Rent of ` 7.70 crore was not recovered by 13 ULBs.  
(Paragaraph-2.8.1)

- Internal control system to assets management available in the ULBs was not effective as physical verification of assets was not being done. The assets registers were also incomplete.

(Paragaraph-2.10)

### **2.1.2 Audit Objectives:**

The audit objectives were to examine whether;

- the acquisition or creation of assets was properly planned and executed.
- all the assets owned by the local bodies were properly documented.
- the assets were properly utilized for the intended purpose.
- there was a system for the up keep and periodical maintenance of assets and
- there were losses, system deficiencies and lacunae in assets management.

### **2.1.3 Audit Criteria:**

The criteria used to assess the effectiveness of the ULBs in asset management were;

- Guidelines issued by the Government and reports of ULBs.
- Provisions of Municipal Committee Act, 1994.
- Norms fixed for upkeep and maintenance of assets.

### **2.1.4 Audit methodology and scope:**

Performance audit of the asset management by the ULBs covering the period 2004-05 to 2008-09 was conducted during October 2009 to January 2010. Three out of 12 districts were selected for audit scrutiny. Shimla District has been selected being capital district. Kangra and Mandi districts were selected on the basis of population. In the selected districts, one Municipal Corporation (Shimla)<sup>6</sup>, eight out of 20 MCs<sup>7</sup> and 12 out of 28 NPs<sup>8</sup> were selected for test check besides information supplied by the Director (UD).

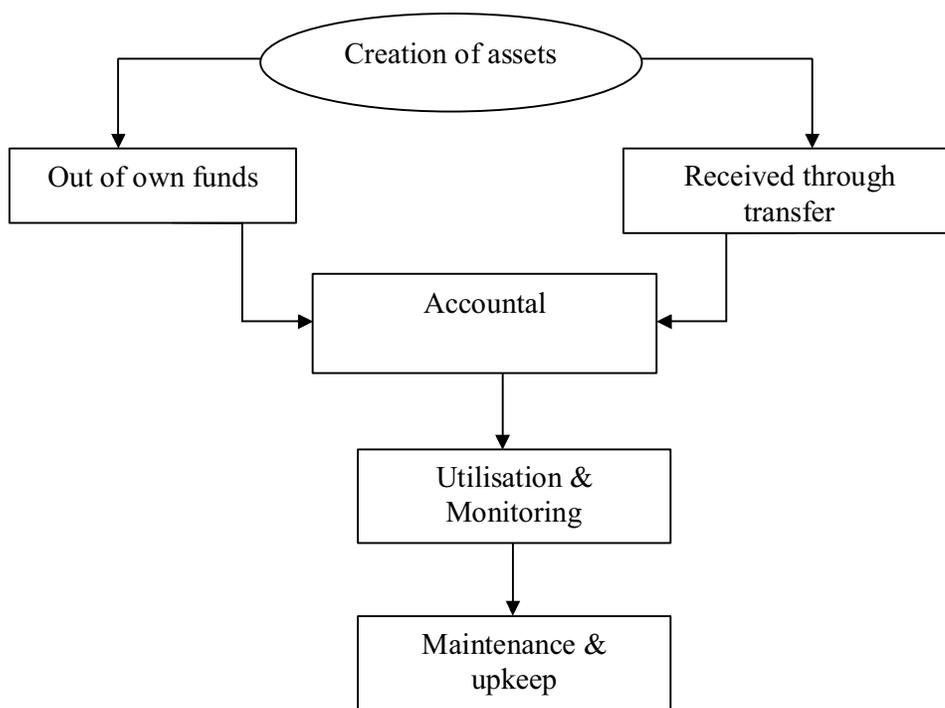
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<sup>6</sup> Municipal Corporation Shimla.

<sup>7</sup> Dharamsala, Kangra, Mandi, Nurpur, Palampur, Rampur, Sundernagar and Theog.

<sup>8</sup> Chopal, Dehra, Jubbal, Jogindernagar, Jawalamukhi, Kotkhai, Narkanada, Nagrota Bagwan, Rohru, Rewalsar, Suni & Sarkaghat.

The flow chart showing the components of asset management is given below



## 2.2 Financial profile:

Separate funds were not allotted/earmarked for the creation and maintenance of assets in the state except provisions made during 2008-09 for maintenance of assets such as roads, drains, lighting and toilets, etc., by ULBs. The assets were being created and maintained out of funds made available to the local bodies under Centrally sponsored and State sponsored schemes. Besides, assets were also created by the local bodies from their own resources. An expenditure of ` 398.96 crore was incurred by the Director (UD) during 2004 - 09 for implementation of various schemes through urban local bodies as under:-

(` in crore)

Year	Funds available	Expenditure
2004-05	68.86	63.92
2005-06	76.69	64.84
2006-07	80.96	82.24
2007-08	111.08	85.90
2008-09	102.10	102.10
<b>Total</b>	<b>439.690</b>	<b>398.96</b>

(Source Director UDD)

The position of funds available and expenditure incurred by ULBs test-checked during 2004-09 was as under:-

(` in crore)

Sr. No.	Year	Funds available	Expenditure incurred	Expenditure incurred on asset creation	Percentage of total expenditure
1	2004-05	44.73	36.77	9.71	26.41%
2	2005-06	55.05	36.34	9.27	25.50%
3	2006-07	69.59	42.54	10.77	25.31
4	2007-08	89.24	48.63	13.42	27.59%
5	2008-09	167.12	120.70	14.06	11.64%
<b>Total:</b>		<b>425.73</b>	<b>284.98</b>	<b>57.23</b>	<b>20.08%</b>

It would be evident from the above that average expenditure on asset creation was to the extent of 11.64 to 27.59 percent. Thus there was no uniformity in incurring of expenditure over period of time on creation of assets.

### 2.2.1 Non implementation of recommendation of State Finance Commission.

The State Finance Commission (SFC) had recommended for making the provision of expenditure for the maintenance of assets by ULBs but no provision had been made during the period 2004-05 to 2007-08 as under:-

(` In crore)

Year	Provision recommended	Provision made
2004-05	4.64	-
2005-06	5.10	-
2006-07	5.62	-
2007-08	4.96	-
2008-09	5.46	5.46

Reasons for not making the provision for maintenance of assets during 2004-05 to 2007-08 were not intimated.

### 2.2.2 Non utilization of maintenance grants.

During the period from 2007-08 to 2008-09 funds of ` 112.59 lakhs were released to six ULBs (**Appendix-3**) by the Director (UD) for maintenance of ULBs roads. However, expenditure of ` 30.04 lakh could only be incurred during the aforesaid period leaving unspent balance of ` 82.54 lakh. Non

utilization of maintenance funds thus resulted in blockage of funds besides non maintenance of ULB roads. The concerned ULBs stated that the funds could not be utilized due to winter season and will be utilized during the current year.

### **2.3. Creation/acquisition and utilisation of assets:**

#### **2.3.1 Planning**

Acquisition of assets involves sizable investment for which project specific business plans have to be prepared for timely completion of the project for deriving optimal intended benefits. Assets intended to be acquired or created by local bodies should be commensurate with the immediate and long term requirement.

It was noticed in audit that no policy for formulation of long/short term planning for creation, periodical counting, monitoring and maintenance of assets had been prepared by the Urban Development Department (UDD). In the absence of any policy, the ULBs had been creating assets according to their own requirement keeping in view the availability of funds.

#### **2.3.2 Status of Public utility and Income Generating Assets**

In 21 test checked ULBs, 2716 assets valued at ` 21.70 crore (**Appendix-4**) were created from 1967-68 to 2003-04 of which 2406 assets valued at ` 20.79 crore were being utilized and remaining 310 assets like urinals, toilets, stalls, street light points, etc. valued at ` 91.70 lakh were not in use. In the absence of monitoring, the utility of these 310 assets could not be verified in audit as no reasons for non-utilisation of these assets were advanced by concerned ULBs.

#### **2.3.3 Non utilisation of Assets**

ULBs acquire assets as part of the infrastructure development for better civic services and also to augment their revenue resources. Since acquisition/creation of assets involves investment of scarce resources, proper planning is required before investment to ensure economic viability and usefulness of the assets to be created. Audit scrutiny revealed that 21 numbers of assets (Parking, Shops, Hall and Rehan Basera) created/completed at a cost

of ₹.61.70 lakh between March 2005 and December 2008 were lying, idle as of March 2009 as detailed below:-

( ₹ In lakh)

Sr. No.	Name ULB	Name of Asset	Date of completion of asset	Value of asset	Reason for non-utilisation
1	M C Kangra	Parking near Mission Hospital	2006-07	5.70	Due to non completion of Rehan Basera building.
2	MC Palampur	Shopping Complex	12/2008	24.00	Being allotted
3	NP Jawalamukhi	12 shops/Hall etc	3/2005	9.00	For want of demand
4	NP Narkanda	5 shops	8/2008	4.94	For want of decision of house
5	NP Rohru	Rehan Basera	3/2008	17.83	For want of inauguration
6	NP Rewalsar	Town Hall	9/1998	0.23	Office shifted & town hall vacated.
<b>Total</b>				<b>61.70</b>	

Non utilisation of assets resulted in idle investment and deprived the ULBs of intended income.

### 2.3.4 Unfruitful expenditure on Assets

(i) To generate annual income of ₹ 15.00 lakh, a Community Center (six suits, dinning hall, one big hall with stage along with two dressing rooms, kitchen and covered parking in ground floor for about 20 vehicles) was constructed (October 2004) in Dharamshala Town at a cost of ₹74.00 lakh.

Scrutiny of records revealed that income of ₹.24.97 lakh was generated during the period from 2004-05 to 2008-09 against expenditure of ₹ 20.80 lakh incurred on its running and maintenance as detailed below:

( ₹ in lakh)

Year	Income	Expenditure
2004-05	2.68	0.78
2005-06	6.76	2.92
2006-07	5.45	8.42
2007-08	3.91	5.43
2008-09	6.17	3.25
<b>Total</b>	<b>24.97</b>	<b>20.80</b>

Thus the net income generated was much below the projected income of ₹.15.00 lakh annually. The Executive Officer stated (January 2010) that less

income was due to less demand by the public. The assessment of income to be generated was thus unrealistic.

(ii) Similarly Town Hall (Multipurpose Hall, four VIP suits, two change rooms, Tennis hall and four dormitories) was constructed (February 2003) in Mandi town at an expenditure of ` 2.14 crore. It was noticed that income of ` 5.22 lakh was generated in six years (February 2003 to March 2009) against expenditure of ` 7.52 lakh incurred on its running and maintenance as detailed below:

( ` in lakh)

Year	Income	Expenditure
2003-04	1.25	0.37
2004-05	0.64	0.99
2005-06	0.36	0.76
2006-07	0.75	1.70
2007-08	1.06	1.80
2008-09	1.16	1.90
<b>Total</b>	<b>5.22</b>	<b>7.52</b>

The income from the Town hall was thus negligible as compared to huge investment of ` 2.14 crore. No cogent reasons were advanced for less income.

(iii) A Community Center (two halls with attached facilities and nine rooms inclusive of one VIP suit) was completed (1997-98) at a cost of ` 27.76 lakh in Nagrota town. Income of ` 9.74 lakh was generated upto March 2009 against expenditure of ` 2.44 lakh incurred on its running and maintenance. The income generated was thus not commensurate with the expenditure incurred. The Secretary stated that less income was due to less demand. Obviously economic viability of the Community Hall was not foreseen before taking up the construction.

(iv) A Rest House (five suits and one hall with attached facility) was constructed (1990-91) in Nagrota town at a cost of ` 7.09 lakh. Income of ` 8.17 lakh was generated upto March, 2009 against an expenditure of ` 10.75 lakh incurred on its running and maintenance. The purpose of generating the income from the Rest House was thus defeated. This was also attributed to less demand.

Obviously the assets had not been created in accordance with the realistic demand and resultantly, expenditure incurred on their creation remained largely unjustified.

(v) Construction of Rest House at Shimla was approved (March 1992) by the Municipal Corporation, Shimla for ` 10.59 lakh. The contractor to whom work was awarded (January, 1994) for ` 16.28 lakh executed the work to the extent of ` 18.25 lakh upto 1997. Total expenditure of ` 27.44 lakh had been incurred on the construction of the building and sanitary electric fittings etc. The work had been lying abandoned since October 2001 by the contractor as he refused to execute the work beyond awarded amount. The house (September, 2002) referred the case to the Vigilance department for investigation of irregularities alleged in the construction of the building. The investigations were completed and report was sent (June 2009) to the Commissioner MC Shimla. In the enquiry report the Assistant Engineer and one Junior Engineer of Corporation were indicted for irregularities in the construction. However, action against the official had not been taken as of December 2009.

In order to put the rest house into use, works valued at ` 19.90 lakh as on 30.0.2002 were required as detailed below:

( ` in lakh)

Sr. No.	Name of Item	Estimate amount required
1.	Building portion	4.19
2	Boundray Wall with railing	1.08
3.	M/T Work of compound	1.38
4	Part rate payment of contractor	1.85
5	MS pipe railing and septic tank etc.	1.40
6	Furniture and fixures	10.00
<b>Total</b>		<b>19.90</b>

Thus the expenditure of ` 27.44 lakh had been rendered as unfruitful besides loss of revenue to ULB which could have been generated from hiring of Rest house. The Commissioner stated (December, 2009) that revised estimate for the remaining work was being framed.

### **2.3.5 Utilisation of assets for other purpose**

The assets created should to be utilized for the purpose for which these were created.

It was noticed that four assets created by ULBs at a cost of ` 43.70 lakh between 2004-05 and 2005-06 were not put to the intended use as detailed below:-

( ` in lakh)

Sr. No.	Name of ULB	Name of Asset	Year of completion	Cost of construction	Intended purpose	Purpose for which put to use
1	MC Mandi	Rehan Basera	2004-05	9.94	For the welfare of slum dwellers	Rented out to judicial department for office and now rented out to SBI
2	MC Theog	Slaughter House	January 2005	9.55	For slaughtering the animals.	The building remained vacant upto 1/2007 and thereafter handed over to Technical Education Department for running of ITI
3	MC S/Nagar	Rehan Basera	2005-06	14.21	For the welfare of slum dwellers	Rest House purpose
4	NP Chopal	Relhan Basera	2005-06	10.00	For the welfare of slum dwellers	Office purpose
<b>Total</b>				<b>43.70</b>		

### 2.3.6 Utilisation of assets without charges

The State Government provides assistance to ULBs for various developmental activities in the ULBs. Out of these funds, ULBs have been providing facilities to the town by way of community centers in various wards of the town.

Scrutiny of records revealed that nine Community Centers/halls were constructed between 1998-99 and 2007-08 at a cost of ` 20.39 lakh (NP Jawalamukhi 6 Nos ` 8.98 lakh and NP Nagrota Bagwan 3 No. ` 11.41 lakh) in various wards of respective towns.

These Community Centers are being used by the public free of cost since their construction and no charges for their use had been fixed by the concerned ULBs whereas expenditure on electricity, water charges and scavenging etc. is being met by the concerned ULBs. Construction of these centers had thus created an additional liabilities on the ULBs for their maintenance. The concerned ULBs stated (January 2010) that matter will be placed before the house for fixation of token charges.

### 2.3.7 Wasteful expenditure on creation of Assets

i) The Executive Officer M.C.Kangra purchased (May 2000) a Mobile toilet van at a cost of ` 1.91 lakh for use in M.C. area. The van remained idle upto March 2002 and was used by the N.P. Jawalamukhi for three months from April 2002 to June 2002 for which charges of ` 0.06 lakh were remitted to M.C. Kangra. Thereafter the vehicle had been lying idle as of September 2009. Non-utilisation of van was attributed to non-availability of sewage disposal facility. The van was thus purchased without ensuring the disposal facility and has resulted in wasteful expenditure.

ii) In M.C. Palampur, land measuring 0.38.76 hectare valuing ` 3.00 lakh was purchased in August, 2005 on the basis of no objection certificate issued by the Gram Panchayat for setting up dumping site at Tikka Glharnot G.P. Nouri Jhikli. However the concerned Panchayat withdrew the NOC in September 2006 due to resentment by the villagers for setting of solid waste dumping site and the land has been lying unutilized as of January 2010 as this land is 14 Km away from Palampur town. The entire expenditure had thus been rendered as wasteful. The Executive Officer stated (January 2010) that this land will be utilized for creation of asset or disposed of in near future.

### 2.4. Abandoned works

Three works undertaken by ULBs between 2004-09 for creation of assets were abandoned after spending ` 37.79 lakh due to non availability of funds, land dispute etc as detailed below:-

Sr. No.	Name of ULB	Particular of Asset/ year of commencement	Expenditure incurred	Date since when abandoned being incomplete	Reason for non completion/ abandoned.
1	MC Palampur	C/o Shops for SC/ST/2004-05	12.50	2005	For want of funds
2	NP Jawalamukhi	Channelisation of nallh/parking/2004-05	16.83	2004-05	Due to land dispute.
3	NP Narkanda	C/o Shopping complex etc./2004-05	8.46	2005	Work stopped by higher authority.
<b>Total</b>			<b>37.79</b>		

Thus the expenditure of ` 37.79 lakh had been rendered as wasteful/unfruitful and the beneficiaries were deprived of the intended benefits. Thus these works were taken up without assessing provision of funds/availability of free hold land, etc.

## **2.5. Incomplete works**

Twenty two works taken up for execution between 2000-01 and 2008-09 were lying incomplete after incurring expenditure ` 5.74 crore detailed in **(Appendix-5)**.

Thus the expenditure incurred on this works had remained unfruitful so far.

## **2.6 Non commencement of works**

Twenty nine works sanctioned between 2001-02 and 2008-09 for ` 8.35 crore and required to be completed within one year from the dates of sanction were not taken up by 12 ULBs as detailed in **(Appendix-6)**. Most of the ULBs stated that the works could not be started for want of finalisation of sites.

## **2.7 Asset accounting**

The assets are acquired/created with certain specific objectives. To ensure that the objectives have been achieved, proper up keep and maintenance, timely disposal and replacement are necessary for which proper accounting of the assets is required. Periodical verification of assets is an important process in assets management for which proper records are to be kept. Points noticed during scrutiny of records relating to assets accounting by ULBs are discussed below:-

### **2.7.1 Asset register not maintained**

As per Chapter V, Article 58 of HP Municipal Act 1994 the municipality shall maintain an inventory and a map of all immovable property of which the municipality is proprietor, or which vests in it or which it holds in trust for the State Government

It was noticed that Municipal Corporation, Shimla has maintained asset register but was not kept upto date. In twenty test checked ULBs the Asset register/mapping of all immovable property had not been maintained/done. In the absence of which the exact position of creation of assets could not be

verified. The concerned ULBs stated that the requisite register will be maintained and mapping done in future. The replies were not tenable as the provision of rules had not been followed.

### 2.7.2 Physical verification of created assets

It was noticed that none of the test checked ULBs had conducted the periodical physical verification of assets as required. The existence of assets created could thus not be verified in audit. The concerned ULBs stated that the verification will be conducted in future.

### 2.7.3 Disposal of assets

Immovable assets are acquired for earning revenue or providing civic services and are not intended for sale or disposal. However, moveable assets such as machinery, tools and equipment and vehicles have to be maintained by local bodies, only so long as they deliver the services or generate revenue. Once such assets become unserviceable/obsolete and are no longer capable of yielding further services, they have to be disposed of without delay to fetch maximum re-sale value and to avoid the expenditure on supervision, storage, maintenance and security.

It was noticed in audit that nine vehicles valuing ` 12.02 lakh were lying idle/unserviceable in six ULBs as under:-

( ` In lakh)

Sr. No.	Name of ULB	Name of machinery	Value	Date since when lying idle/unserviceable
1.	MC Sundernagar	Tractor	0.40	2/2005
2.	MC Dharamsala	1.Truck 2. Auto three wheeler	2.65 1.49	3/2009 6/2007
3.	MC Mandi	Three wheeler	1.78	5/2007
4.	MC Nurpur	Auto three wheeler	0.70	4/2005
5.	NP Jawalamukhi	i)Toyota ii)Tipper	1.10 5.12	10/1998 -do-
6.	NP Rewalshar	Three Wheeler	0.69	4/2004
		<b>Total:</b>	<b>12.02</b>	

Prolonged retention of these idle assets/vehicle would reduce their resale value. The concerned ULBs stated that action was being taken to dispose of these vehicles.

## **2.8 Hiring of assets.**

### **2.8.1 Non realization of rent**

The ULBs had been maintaining shops and were leasing out them on monthly rental basis to increase their income.

Scrutiny of records revealed that an amount of ` 7.70 crore was outstanding in 21 ULBs (**Appendix-7**) from various tenants on account of rent of shops as of March 2009. No specific reasons were advanced for non- recovery of rent. Non recovery of rent has deprived the concerned ULBs of revenue to the extent of ` 7.70 crore which could have been utilised for developmental works.

### **2.8.2 Loss of revenue due to non-revision of rent**

As per policy the rent of shops/stalls is required to be revised at the rate of ten percent after every five years.

It was noticed that in 13 ULBs (5 Municipal councils and 8 Nagar Panchayats) the rent of 661 shops (**Appendix-8**) had not been revised as per condition of the agreement. Non revision of rent has resulted in loss of revenue of ` 41.49 lakh. Cogent reasons for non revision of rent were not advanced. The ULBs stated that matter will be placed before the elected house for revision of rent. The replies were not tenable as non revision of rent since long has deprived the ULBs of recurring revenue which could have been utilized for other developmental works.

### **2.8.3 Irregular waiving of rent**

Rules provide that if any amount exceeding rupees two hundred due to the Municipal Council has become irrecoverable should be written off as loss with the approval of the Deputy Commissioner in case of second class Municipality and of the state Govt. in respect of first class municipality.

In two Municipal Councils an amount of ₹ 1.85 lakh (Rampur ₹ 1.67 lakh and Kangra ₹ 0.18 lakh) was remitted between 2002 and 2007 by the municipalities on account of waiving of rent through adoption of Resolution by the elected house without obtaining approval either from the Deputy Commissioner or from the Government. In the absence of approval for remission of amount of ₹ 1.85 lakh the waiving of rent by these MCs was irregular. The Executive Officer of MC Rampur stated that the case had been referred (June 2008) to D.C. Shimla but approval was awaited as of October 2009. No action had been taken by M.C. Kangra to obtain the sanction of the Government as of October 2009.

## **2.9 Allotment of land**

As per section 57(4) of M.C. Act 1994, the Executive Officer with the prior approval of M.C. may grant a lease not exceeding a period of ten years and sell or grant a lease in perpetuity of any immovable property, the value of which does not exceed one lakh rupees or the annual rent of which does not exceed ten thousand rupees.

It was noticed that vacant land measuring 166 square meters valuing ₹ 14.28 lakh (calculated at present market rate of ₹ 8600 per sq.m.) was allotted in June 1987 to D.A.V. College Kangra on token rental value of rupees ten per year. As per agreement executed with DAV College by the Municipal Council Kangra neither the purpose for which the land was leased out nor any lease period was specified in the agreement. As such the allotment of land on token rent for un-limited period to a commercial educational institution was not justified.

Scrutiny of records of M.C. Kangra further revealed that 40 sites measuring 492 sq.mt. situated in urban area were allotted for construction of shops/Khokas between 1987 and 2008 to private parties on nominal rent ranging between ₹ 30 and ₹ 40 per month. The rent was revised to ₹ 100 per month in October 2007. These sites were allotted without considering the market value of land. Moreover, no period was specified in the agreement for which these sites were allotted. As these sites were allotted for construction of

shops/khokas it would not be possible for the council to get the sites vacated after raising structures by the allottees.

#### **2.10 Internal Control System**

The internal control system relating to assets management available in the ULBs was weak and was not effective. Physical verification of assets was not being done in any of the test checked ULBs, as a result of which the ULBs could not ensure whether all the assets accounted for in the Stock Register/Assets Register were physically available or not. Encroachment of xcimproper/non- utilization of assets, etc. were attributable to the weak internal control system. Incomplete maintenance of Asset Register was again an internal control failure which may lead to loss and non maintenance of assets.

#### **2.11 Monitoring**

There was no monitoring system with regard to upkeep and timely maintenance of assets in any of the ULBs test checked. As a result the track of assets created or transferred could not be kept properly leading to non utilization or loss of assets. No register and records were kept to enable the ULBs to ensure optimum utilization of assets. Also no periodical review of the performance of the assets was conducted

#### **2.12 Conclusion**

- The acquisition and creation of assets was not properly planned. This resulted in dead investment of capital which could have been utilized for other productive purposes.
- The documentation and accounting of the assets acquired/ created/transferred from the Government was incomplete, indicating weak and ineffective internal control system.
- The utilization of assets was not satisfactory resulting in idle capital investment.
- Non-utilisation of remunerative assets resulted in loss of revenue.

#### **2.13 Recommendations**

- Acquisition of assets should be properly planned and implemented.
- A proper system of asset accounting should be developed by the ULBs.

- Consistent efforts are required on the part of the Government and ULBs to avoid under/non utilization of assets.
- Government should consider entrusting the responsibility of ensuring timely implementation of projects relating to creation/acquisition of assets and their proper utilisation to the District Planning Committee.
- The internal control system in ULBs should be strengthened.