

Chapter – IV Performance Audit

- **Management of own fund by Municipal Corporations and Municipal Councils including collection of revenue**

Chapter IV: Performance Audit

Urban Development and Housing Department

4.1. Management of own fund by Municipal Corporations and Municipal Councils including collection of revenue

Executive Summary

Urban Local Bodies (ULBs), viz., Municipal Corporations, Municipal Councils and Nagar Parishads provide basic civic facilities, which include functions like lighting public places, water supply, sewerage, garbage collection and disposal, construction and maintenance of roads and other public works, street lighting and taking measures to prevent the out-break, spread or recurrence of infectious diseases. Municipal Corporations/Municipal Councils (MCs) raise revenue in the form of taxes, fees and fines from the public.

Under MP Municipal Corporation Act, 1956 and MP Municipalities Act 1961, all moneys received by or on behalf of Corporation or Council are credited into Municipal Fund, which are applied for the purposes specified in the Act. The performance audit of Management of own fund by Municipal Corporations and Municipal Councils including collection of revenue for the period 2011-12 to 2015-16 was conducted in four Municipal Corporations and ten Municipal Councils of the State. The audit findings were as under:

- There was no mechanism available at State level to capture revenue resources and expenditure of Urban Local Bodies. The revenue raised by test checked ULBs was insufficient to meet out their expenditure. The share of own revenue remained between 37 per cent and 69 per cent of total expenditure in test checked Municipal Corporations, whereas in test checked Municipal Councils, it remained between 24 per cent and 64 per cent.

(Paragraph 4.1.6)

- Property Tax Board was constituted (March 2011) to assist MCs in determination and collection of Property Tax. However, the Board did not perform its mandated duties, as there was no manpower in the Board. Thus, the establishment of Board remained just a mere formality.

(Paragraph 4.1.7.1)

- The collection of Property Tax, Composite Tax and user charges for water supply was significantly less than the respective demands during 2011-16. The outstanding collection in test checked MCs was ₹ 145.38 crore in respect of Property Tax, ₹ 142.69 crore in respect of Composite Tax and ₹ 243.65 crore in respect of user charges for water supply as on March 2016.

(Paragraphs 4.1.7.2, 4.1.7.3 and 4.1.8)

- MC Indore failed to auction shops from last 18 to 25 years, which resulted in loss of revenue and encroachment. Further, an amount of ₹ 7.06 crore was outstanding for recovery on account of rent/premium of shops in test checked MCs as on 31 March 2016.

(Paragraph 4.1.10)

- Budget and Accounts were not prepared as per provisions of MP Municipal Accounts Manual. Bank Reconciliation was not carried out in test checked MCs, which was fraught with the risk of misutilisation of fund.

(Paragraphs 4.1.12.1 and 4.1.12.3)

- MCs did not comply with the orders of State Government for maintaining Reserve Fund and the short credit in the Reserve fund was ₹ 162.53 crore during 2011-16. Funds were drawn from Reserve Fund without sanction of competent authority.

(Paragraph 4.1.12.4)

- State Government was deprived of revenue of ₹ 18.60 crore due to failure of MCs to remit the State's share of Urban Development Cess in Government Account. Further, MCs did not deposit ₹ 7.66 crore of taxes deducted at source (TDS) in respect of Value Added Tax, Royalty, Labour Welfare Cess and Income Tax, which was utilised by MCs for their regular expenses.

(Paragraphs 4.1.12.6 and 4.1.12.9)

- There was acute shortage of staff in Revenue Department of MCs, which adversely affected the revenue recovery process. Further, demand of taxes were not monitored on the basis of Geographical Information System (GIS) Survey.

(Paragraph 4.1.13)

4.1.1 Introduction

Urban Local Bodies (ULBs), viz., Municipal Corporations, Municipal Councils and Nagar Parishads provide basic civic facilities, which include functions like lighting public places, water supply, sewerage, garbage collection and disposal, construction and maintenance of roads and other public works, street lighting and taking measures to prevent the out-break, spread or recurrence of infectious diseases. ULBs raise revenue in the form of taxes, fees and fines from the public. Under MP Municipal Corporation Act, 1956 and MP Municipal Council Act 1961, all moneys received by or on behalf of Corporation or Council are credited into Municipal Fund, which are applied for the purposes specified in the Act.

Despite the important role that ULBs play in the democratic process and in meeting the basic requirements of the people, the financial resources generated by ULBs fall far short of their requirements. The ULBs are heavily dependent on State Government and Grants-in-aid from Government of India for financial inflows, since the own income of ULBs are inadequate to meet their obligations both due to their inherent nature and inefficiency in collecting them.

4.1.2 Organisational set-up

Mayor-in-Council (MIC) headed by Mayor in Municipal Corporations and President in Council (PIC) headed by President in Municipal Councils are the elected bodies to govern the MCs. Commissioner, Municipal Corporation and Chief Municipal Officer (CMO), Municipal Council are the administrative

heads of MCs concerned. In Municipal Corporations, Commissioner is assisted by Additional Commissioner, Deputy Commissioner and Assistant Commissioner depending on population of the town.

In Municipal Councils, Revenue Officer and in Municipal Corporations, Additional Commissioner (Revenue) is head of the Revenue Department. At field level, Revenue Officer, assisted by Revenue Inspectors and Assistant Revenue Inspectors are responsible for collection of various types of taxes, rent and fee levied by MCs. The revenue collected by Revenue Department is credited into Municipal Fund. Expenditure out of Municipal Fund is governed by delegated financial powers under the Act.

4.1.3 Audit objectives

The objectives of the Performance Audit were to assess whether:

- the taxes, fees, rent etc., were assessed, imposed and collected for strengthening the revenue regime of Municipal Corporations and Municipal Councils (MCs);
- budgetary and accounting system was efficient and Municipal Fund was appropriated properly for the priorities, purposes and norms as laid down under the Act and Rules; and,
- role of the Government in mobilisation of revenue resources of MCs was adequate and monitoring mechanism existed for improving the revenue raising capabilities.

4.1.4 Audit scope and methodology

For the Performance Audit, four Municipal Corporations¹ out of 16 Municipal Corporations and ten Municipal Councils² out of 98 Municipal Councils of the State were selected on the basis of Simple Random Sampling without Replacement method. Records of Urban Administration and Development Directorate (UADD) and sampled Municipal Corporations and Municipal Councils for the period of 2011-12 to 2015-16 were test checked in the performance audit.

The Entry Conference was held with the Additional Commissioner, UADD on 17 March 2016 to discuss the audit objectives, scope and methodology. The draft report was issued to Government in October 2016. The audit findings were also discussed in the Exit Conference held with the Additional Commissioner, UADD, Bhopal on 06 January 2017. The replies of Government and views expressed during exit conference have been suitably incorporated in the report.

4.1.5 Audit Criteria

Following were the audit criteria for the performance audit:

- MP Municipal Corporation Act 1956 and Rules made thereunder;

¹ Dewas, Indore Ratlam and Rewa

² Amla (district Betul), Anuppur (district Anuppur), Badwah (district Khargone), Begumganj (district Raisen), Garhakota (district Sagar), Junnordeo (district Chhindwara), Pandhurna (district Chhindwara), Harda (district Harda), Nainpur (district Mandla), and Porsa (district Morena)

- MP Municipalities Act 1961 and Rules made thereunder;
- Madhya Pradesh Municipal Accounting Manual; and,
- Instructions and circulars issued by the State Government.

Audit findings

4.1.6 Financial Resources of Municipal Corporations/Councils

As per provisions of Section 87 of MP Municipal Corporation Act, 1956 and Section 105 of MP Municipalities Act, 1961, there are mainly two sources of revenue for ULBs, viz. own revenue and Government grants. Own revenue of ULBs comprises of receipts from tax and non-tax revenue. The source of revenue of Municipal Corporations and Municipal Councils under MP Municipal Corporation Act, 1956 and MP Municipal Council Act 1961 includes:

- Property Tax which is a tax payable by owners of buildings or lands situated within the city with reference to gross annual letting value of the buildings or lands;
- a general sanitary cess, for construction and maintenance of public latrines and for removal and disposal of refuse and general cleanliness of the city;
- a general lighting tax, where lighting of public streets and places is undertaken by the Corporation or Council;
- a general fire tax for the conduct and management of fire services and for the protection of life and property in case of fire;
- user charges for services namely water supply, sewerage and management of solid waste; and,
- earning from Municipal enterprises like land, markets, shops etc., rent from hoardings and license and renewal fee for erecting cellular mobile towers.

Audit noticed that there was no mechanism available at State level to capture revenue resources and expenditure of ULBs. As a result, the information on financial resources and expenditure of ULBs in the State during 2011-16 was not available with the State Government. Thus, State Government did not monitor the financial management of resources of ULBs.

The financial resources of test checked ULBs vis-à-vis their expenditure during the period 2011-12 to 2015-16 was as detailed in **Table 4.1**.

Table - 4.1: Details of financial resources of test checked MCs

(₹ in crore)

| Name of MC | Own Revenue | Government Grants | Total financial resources | Total Expenditure | Share of own revenue in total financial resources (per cent) | Share of own revenue out of total expenditure (per cent) |
|-------------------------------|-------------|-------------------|---------------------------|-------------------|--|--|
| Municipal Corporations | | | | | | |
| Dewas | 203.62 | 265.50 | 469.12 | 543.88 | 43 | 37 |
| Indore | 2,600.96 | 1227.34 | 3,828.30 | 3,796.04 | 68 | 69 |

| Name of MC | Own Revenue | Government Grants | Total financial resources | Total Expenditure | Share of own revenue in total financial resources (per cent) | Share of own revenue out of total expenditure (per cent) |
|---------------------------|-------------|-------------------|---------------------------|-------------------|--|--|
| Ratlam | 201.60 | 137.85 | 339.45 | 391.80 | 59 | 51 |
| Rewa | 174.37 | 192.56 | 366.93 | 296.65 | 47 | 59 |
| Municipal Councils | | | | | | |
| Amla | 15.24 | 13.54 | 28.78 | 31.28 | 54 | 49 |
| Anuppur | 9.49 | 34.90 | 44.39 | 39.11 | 21 | 24 |
| Badwah | 18.33 | 12.29 | 30.62 | 28.96 | 60 | 63 |
| Begumganj | 15.29 | 25.71 | 41.00 | 32.99 | 37 | 46 |
| Garhakota | 11.30 | 27.94 | 39.24 | 32.06 | 29 | 35 |
| Harda | 57.26 | 33.38 | 90.64 | 89.13 | 63 | 64 |
| Junnordeo | 12.45 | 31.74 | 44.19 | 51.00 | 28 | 24 |
| Nainpur | 12.42 | 9.52 | 21.94 | 23.82 | 57 | 52 |
| Pandhurna | 35.68 | 35.61 | 71.29 | 97.49 | 50 | 37 |
| Porsa | 18.75 | 25.99 | 44.74 | 32.95 | 42 | 57 |

(Source: Information collected from test checked MCs)

Thus, the share of own revenue in total financial resources of test checked Municipal Corporations remained between 43 per cent (Dewas) and 68 per cent (Indore) and in test checked Municipal Councils, it remained between 21 per cent (Anuppur) and 63 per cent (Harda). During 2011-16, own revenue remained between 37 per cent and 69 per cent of total expenditure of test checked Municipal Corporations, whereas in test checked Municipal Councils, it remained between 24 per cent and 64 per cent. The revenue raised by test checked ULBs was insufficient to meet out their expenditure.

The comparison of own revenue and total expenditure of test checked Municipal Corporation and Municipal Councils during 2011-16 is depicted in Charts 4.1 and 4.2 respectively.

Chart - 4.1: Own revenue and total expenditure of test checked Municipal Corporations

(₹ in crore)

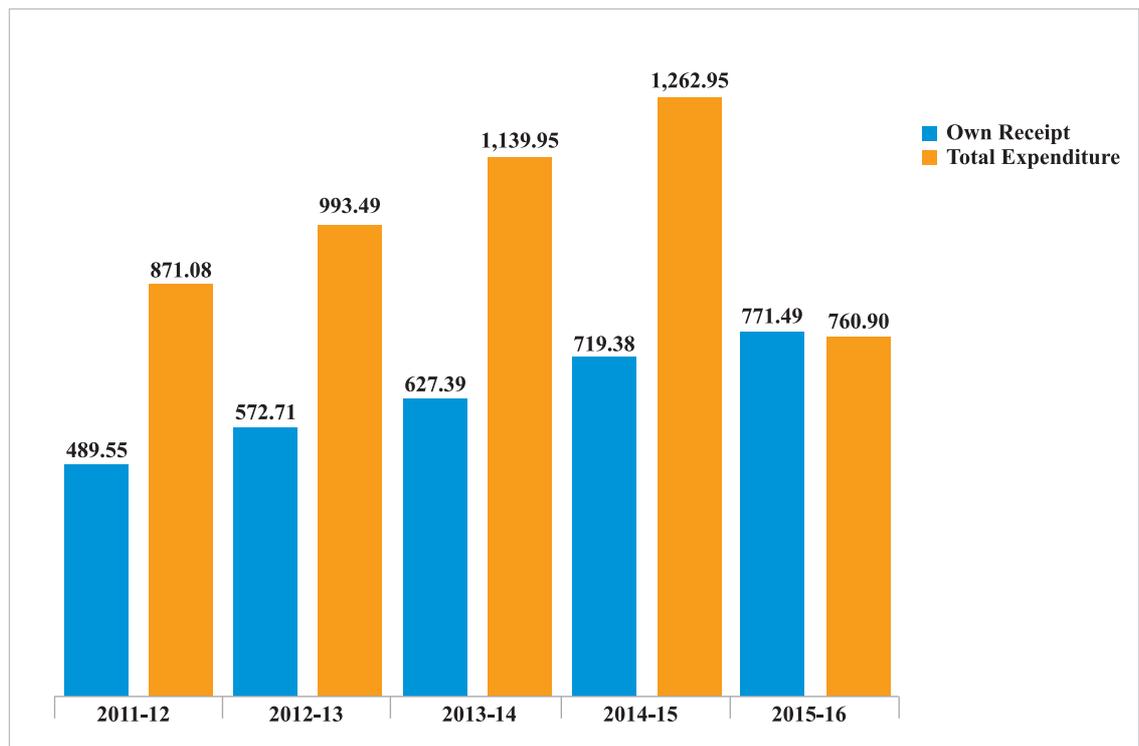
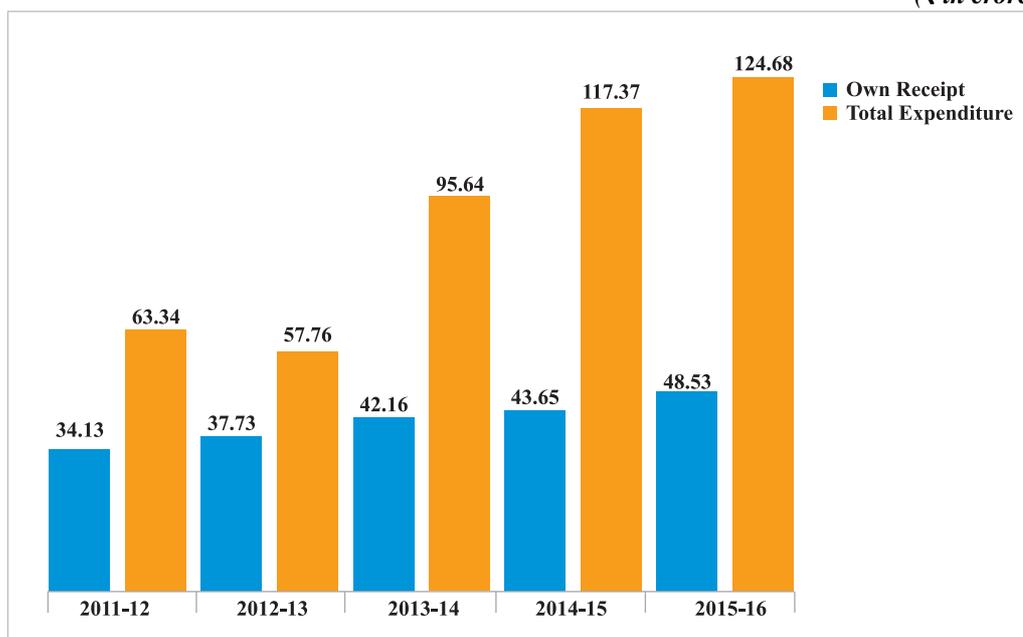


Chart - 4.2: Own revenue and total expenditure of test checked Municipal Councils

(₹ in crore)



As evident from above, the collection of own revenue increased by ₹ 281.94 crore in test checked Municipal Corporations and ₹ 14.40 crore in Municipal Councils from 2011-12 to 2015-16. Further scrutiny revealed that the major increase in own revenue was attributed to increased grants-in-aid from State Government for compensation in lieu of Octroi and Passenger Tax, which increased by ₹ 203.06 crore in Municipal Corporations and ₹ 12.20 crore in Municipal Councils. There was no proportionate increase in own tax collection of MCs. The comparison of collection of major tax and non-tax receipts of test checked MCs during 2011-12 and 2015-16 are depicted in **Charts 4.3 and 4.4.**

Chart - 4.3: Comparison of major tax and non-tax receipts of test checked Municipal Corporations during 2011-12 and 2015-16

(₹ in crore)

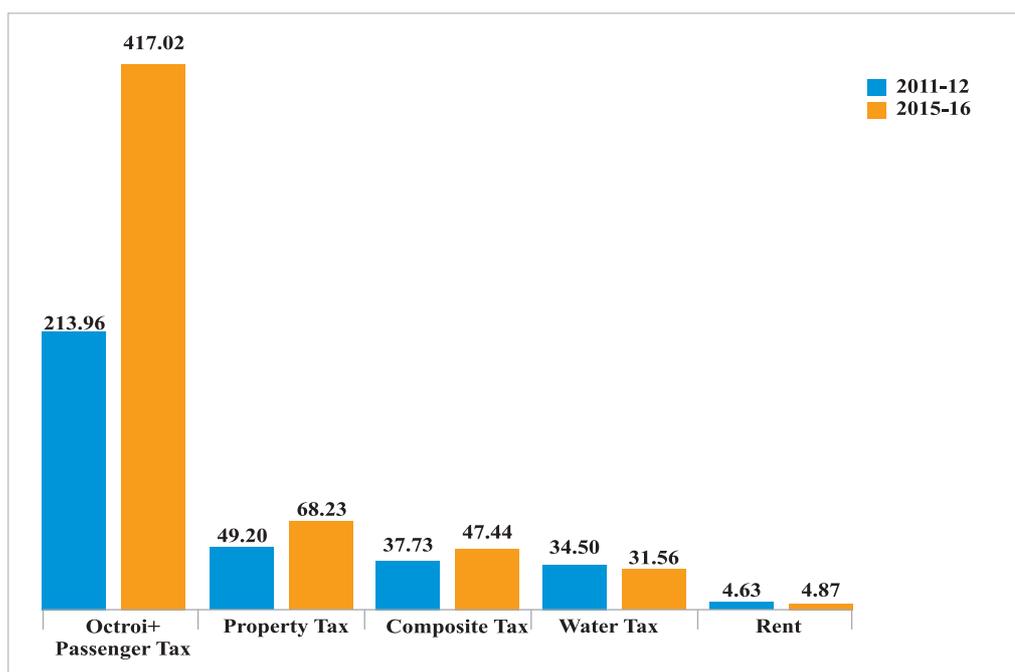
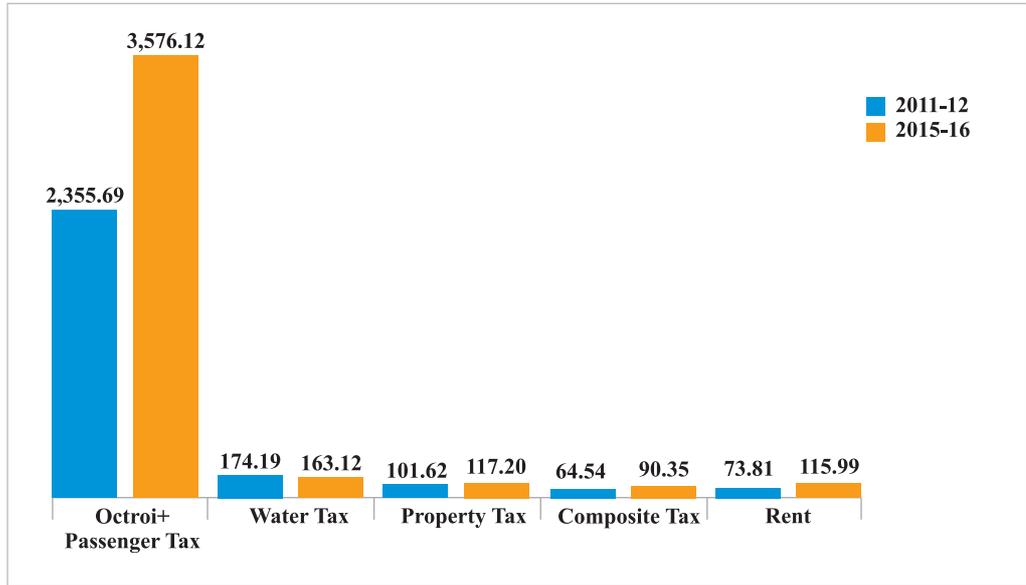


Chart - 4.4: Comparison of major tax and non-tax receipts of test checked Municipal Councils during 2011-12 and 2015-16

(₹ in lakh)



Evidently, grants-in-aid from State Government for compensation in lieu of Octroi and Passenger Tax was the main source own revenues for MC. Out of ₹ 771.49 crore of own revenue collected by four test checked Municipal Corporations during 2015-16, ₹ 417.02 crore (54 per cent) was received from Octroi and Passenger Tax only. Similarly, in ten test checked Municipal Councils, ₹ 48.53 crore of own revenue was collected, which comprised of ₹ 35.76 crore (74 per cent) of Octroi and Passenger Tax and ₹ 12.77 crore from other source of revenue.

In reply, Government stated (January 2017) that GIS survey of properties was being conducted and data of GIS survey would be linked with data of properties for enhancing the revenue raising capacity. To fulfill the condition of 14th Finance Commission, instructions had been issued to ULBs to increase their revenue. With these activities, dependency of ULBs on grant would get reduced.

4.1.7 Property Tax and Composite Tax

As per Section 132 of MP Municipal Corporation Act, 1956 and Section 127 of MP Municipalities Act, 1961, MCs shall levy and collect Property Tax and Composite Tax from all households of municipal area. Composite Tax comprises of general sanitary cess, general lighting tax and general fire tax, which is levied and collected along with property tax. These Acts further envisaged that assesseees were liable for payment of taxes and other demands within 15 days from the presentation of bill by MCs. In case of failure, such demands with all cost of recovery may be recovered under a warrant signed by the Commissioner/CMO by attachment of rent or sale of the immovable property.

4.1.7.1 Constitution and functioning of Property Tax Board

Thirteenth Finance Commission had recommended for establishment of a Property Tax Board to assist the ULBs in determination and collection of Property Tax. In compliance, a Property Tax Board was constituted in Madhya

Pradesh as per Gazette Notification of Government of Madhya Pradesh (March 2011). Commissioner, UADD was appointed as the Chairperson with five other members in Property Tax Board.

There was no manpower in Property Tax Board and its establishment remained a mere formality

Audit scrutiny, however, revealed that Property Tax Board was not functional. After its constitution on 25 March 2011, meetings of Property Tax Board were held only four times in December 2011, July 2012, September 2012 and May 2014. There was no manpower available in the Board and the Directorate informed (July 2016) that the recruitment was to be initiated. As a result, the Board did not perform its mandated duties, such as, to review the property tax system to suggest suitable basis for capital valuation of properties, to recommend tax rate of different classes of buildings or area or zone of the municipalities, to recommend for determining market value guidelines for the purpose of levying and collecting of property tax, and to undertake training of officers and employees of MCs for capacity building related to property tax.

In reply, Government stated (January 2017) that efforts were being made to strengthen Property Tax Board and its functioning.

Thus, State Government failed to strengthen the Property Tax Board and its establishment remained just a mere formality as it could not assist ULBs in revenue realisation.

4.1.7.2 Levy and collection of Property Tax

Scrutiny of records revealed that test checked MCs raised current year's demand for ₹ 300.91 crore of Property Tax (*Appendix 4.1*) during the period 2011-12 to 2015-16 against which collection was only ₹ 184.01 crore (61 *per cent*). The status of collection against the current year's demand of Property Tax in test checked Municipal Corporations and Municipal Councils during 2011-12 to 2015-16 was as depicted in **Table 4.2**.

Table 4.2: Status of current year's demand and collection of Property Tax in test checked MCs during 2011-12 to 2015-16

(₹ in crore)

| Year | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|-------------------------------|---------|---------|---------|---------|---------|
| Municipal Corporations | | | | | |
| Current Year's Demand | 49.66 | 51.14 | 60.16 | 63.66 | 70.19 |
| Collection | 29.88 | 29.89 | 35.15 | 37.32 | 47.43 |
| Collection percentage | 60 | 58 | 58 | 59 | 68 |
| Municipal Councils | | | | | |
| Current Year's Demand | 1.09 | 1.06 | 1.15 | 1.23 | 1.56 |
| Collection | 0.74 | 0.74 | 0.86 | 0.90 | 1.11 |
| Collection percentage | 68 | 70 | 75 | 73 | 71 |

Thus, MCs could not realise the current year's demand and the percentage of collection during 2011-12 to 2015-16 ranged between 58 *per cent* and 68 *per cent* in case of Municipal Corporations and between 68 *per cent* and 75 *per cent* in case of Municipal Councils. Further, there was collection of ₹ 88.65 crore against the outstanding demand of previous years leaving a cumulative unrealised Property Tax of ₹ 145.38 crore as of March 2016.

Further scrutiny revealed that MC Indore had outstanding recovery of ₹ 140.41 crore, which was 97 *per cent* of realisable outstanding Property Tax

of 14 test checked MCs. MC, Indore attributed (June 2016) the large outstanding collections of Property Tax to shortage of staff, dispute by assessee and court cases.

Audit further noticed that the closing balances of demand of previous year were not correctly carried forward as opening balance of next year in test checked MCs, except in case of Dewas and Begumganj. Thus, the figures of actual outstanding demand were not reliable.

In reply, Government stated (January 2017) that efforts were being made to realise outstanding taxes by organising recovery camps and other measures. However, the reply was silent on inaccuracy of data maintained by MCs for outstanding arrears of Property Tax.

Fact remains that MCs failed to collect Property Tax, which was the main source of their own revenue, from households after raising demand. Due to poor collection of Property Tax against demand together with inoperative Property Tax Board, MCs failed to exploit the potential of revenue collection in their jurisdiction.

4.1.7.3 Levy and collection of Composite Tax

MCs could collect only 55 per cent of Composite Tax against the current year's demand

During the period 2011-12 to 2015-16, test checked MCs raised demand of ₹ 230.03 crore for Composite Tax (*Appendix 4.2*) against which collection was only ₹ 127.07 crore (55 per cent). Further, collection against the demand of previous years during this period was ₹ 58.20 crore. As of March 2016, there was outstanding recovery of ₹ 142.69 crore of Composite Tax in test checked MCs. Status of collection against current year's demand of Composite Tax during 2011-16 was as depicted in **Table 4.3**.

Table - 4.3: Status of current year's demand and collection of Composite Tax in test checked MCs during 2011-12 to 2015-16

| (₹ in crore) | | | | | |
|-------------------------------|---------|---------|---------|---------|---------|
| Year | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
| Municipal Corporations | | | | | |
| Current Year's Demand | 38.65 | 41.22 | 46.76 | 47.94 | 51.52 |
| Collection | 21.35 | 21.70 | 24.36 | 26.13 | 31.72 |
| Collection percentage | 55 | 53 | 52 | 55 | 62 |
| Municipal Councils | | | | | |
| Current Year's Demand | 0.69 | 0.74 | 0.79 | 0.80 | 0.92 |
| Collection | 0.31 | 0.33 | 0.35 | 0.34 | 0.48 |
| Collection percentage | 45 | 45 | 44 | 43 | 52 |

Thus, collection of Composite Tax against current year's demand ranged between 52 per cent and 62 per cent in Municipal Corporations and between 43 per cent and 52 per cent in Municipal Councils. Out of total outstanding recovery of ₹ 142.69 crore of Composite Tax, ₹ 135.82 crore was due for recovery from MC Indore only, which was 95 per cent of realisable outstanding Composite Tax of 14 test checked MCs.

Audit further noticed that except in case of MCs Dewas and Begumganj, the closing balances of demand of previous years were not correctly carried forward as opening balance of next year. Thus, the figures of actual outstanding demand of Composite Tax was not reliable.

In reply, Government stated (January 2017) that efforts were being made to realise outstanding taxes by organising recovery camps and other measures. However, the reply was silent on inaccuracy of data maintained by MCs for outstanding arrears of Composite Tax.

4.1.7.4 Failure of MCs to realise obligatory taxes

**MCs Porsa,
Begumganj and
Garhakota
failed to levy
obligatory taxes**

- As per orders of UDHD (October 1999), Education Cess was to be levied with Property Tax on lands/buildings, other than those lands/buildings which were exempted from property tax within the municipal area, at a rate not exceeding five *per cent* of annual letting value of the land/building. Test check of records (April 2016 to July 2016) revealed that Municipal Council, Porsa did neither determine the rate of cess nor levy the Education Cess during 2011-16. Further, Municipal Councils, Begumganj and Garhakota did not levy Education Cess during the years 2011-12 and 2012-13.

- UDHD, GoMP issued orders (November 2010) to levy Urban Development Cess at a rate of two *per cent* of annual letting value of land/building within the municipal area. Test check of records (April 2016) revealed that Municipal Council Porsa did not levy Urban Development Cess during the 2011-12 to 2015-16.

In reply, Government stated (January 2017) that instructions would be issued to concerned ULB to levy and realise obligatory taxes.

4.1.8 Water charges

4.1.8.1 User charges for water supply from individual connections

As per Section 221 of MP Municipal Corporation Act, 1956, the Commissioner may supply water for any purpose on receiving a written application specifying the purpose for which such supply is required and the quantity likely to be consumed. As per Section 222 of the Act, the Commissioner shall provide a water meter and charge rent for the same. Further, under Section 127-B of MP Municipalities Act, 1961, Municipal Council shall impose user charges for water supply in respect of lands or building in which a water supply is furnished by Council.

Audit scrutiny revealed that none of the test checked MCs fixed water meters to measure consumption of water and collection of user charges accordingly. The water charges were collected on monthly rates fixed by MCs. Thus, MCs failed to levy water charges on the basis of actual consumption recorded in the water meters.

**User charges
amounting to
₹ 243.65 crore for
water supply
remained
outstanding as on
31 March 16**

Scrutiny of records revealed that test checked MCs raised current year's demand of ₹ 227.75 crore for water user charges during the period 2011-12 to 2015-16 against which the collection was ₹ 102.75 (45 *per cent*), as detailed in *Appendix-4.3*. Further, there was collection of ₹ 51.99 crore against the outstanding demand of previous years leaving a cumulative unrealised water user charge of ₹ 243.65 crore in test checked MCs as of March 2016. Out of total outstanding recovery of ₹ 243.65 crore, 94 *per cent* (₹ 229 crore) was outstanding for recovery in MC Indore only. Further, in MC Indore, there were 1,829 water connections where outstanding dues of user charges for water supply was above ₹ 50,000.

Audit noticed that outstanding demand of previous year was not correctly carried forward in the following year by any test checked MCs. In Municipal Council Junnardeo, the demand of current year of user charges for water supply remained constant at ₹ 8.15 lakh during 2011-12 to 2015-16. Thus, the figures of levy and collection of user charges for water supply were not realistic.

In reply, Government stated (January 2017) that instructions have been issued to concerned ULBs for recovery of outstanding tax and monitoring would be done from State level to ensure the recovery.

4.1.8.2 User charges for water supply from bulk connections

Test check of records of the Office of Executive Engineer, Public Health Engineering Department, Division-I, Mandleshwar and Maintenance Division-II, Musakhedi under Municipal Corporation Indore, revealed the following:

User charges amounting to ₹ 30.62 crore remained outstanding in respect of 46 bulk water supply connections

- Out of 76 bulk water connections under Maintenance Division-II, Musakhedi, water meters were not installed on 15 connections. Out of 61 bulk water connections where bulk meters were installed, 16 bulk meters were not working and water user charges were levied on average basis. Audit noticed that ₹ 16.17 crore was outstanding for recovery from 40 out of 76 bulk connections as on March 2016. Major defaulters of bulk connections were Gram Panchayat, Gabli Palasiya (₹ 5.54 crore) and Gram Panchayat Kodariya under Janpad Panchayat Mahu, Indore (₹ 9.27 crore).

- In Maintenance Division-I, Mandleshwar, an amount of ₹ 14.45 crore was outstanding for recovery from six bulk water connections as on 31 March 2016. Out of which, ₹ 13.53 crore was outstanding for recovery from Nagar Parishad Mandleshwar.

In reply, Government stated (January 2017) that instructions had been issued for recovery of outstanding tax and monitoring would be done at State level to ensure the recovery.

4.1.9 Building Permission Fee

As per Gazette Notification of Government of Madhya Pradesh (June 2012), application fee for building permission should be collected at the rate of ₹ one per square metre of proposed built up area. Building permission fee for granting permission should be collected at different rates from residential, commercial or industrial properties. Along with the building permission fee, different kinds of fees such as water conservation charges, drainage fee, water harvesting charges etc. as decided by MIC/PIC should also be collected from the applicants. During test check of records, we noticed that:

- In Municipal Corporation Indore, application fees for building permission was being collected at the rate of ₹ 30 to ₹ 100 for ground floor and thereafter ₹ 20 per floor as per resolution of Parishad dated 30 March 2002. Audit scrutiny revealed that the revised rate prescribed by the Government, vide Gazette Notification dated 01.06.12, was not complied with by the MC. As a result, there was short realisation of ₹ 11.77 lakh on account of application fee for building permission in respect of permissions granted in 111 test checked cases of high rise buildings during 2013-14 to 2015-16. On

being pointed out, MC Indore updated (4 April 2016) online building permission system incorporating the revised rate.

- Municipal Council Porsa, district Morena did not maintain data related to grant of building permission. Therefore, the collection of building permission fee could not be ascertained in audit.

In reply, Government stated (January 2017) that uniform software was being developed for building permission at State level after which the leakages would be stopped. However, instructions for collection of fee as per rules would be issued to ULBs.

The reply was not acceptable, as test checked MCs failed to collect the fee at prescribed rates notified in the Gazette and therefore, responsibility for loss of revenue were required to be fixed.

4.1.10 Rent from shops

4.1.10.1 Failure to auction shops from last 25 years

As per Rule 3 of MP Transfer of Immovable Properties Rules, 1994, the Commissioner may with the sanction of the Corporation, sell, let out on hire or otherwise any immovable property which may be a source of income of the Corporation to the highest tenderer by inviting open tender.

Audit scrutiny revealed that MC Indore was not aware of actual number of vacant shops. Market Department of the MC intimated (December 2015) the Additional Commissioner (Revenue) of the MC that there were 107 vacant shops within municipal area. However, Local Fund Audit observed (December 2015) that total 268 shops of Corporation were vacant for auction from last 18 to 25 years within the Municipal area. In response, a physical verification was carried out and Market Department ascertained 80 vacant shops for auction and also identified encroachment in another 28 shops.

Further scrutiny revealed that MC Indore decided minimum offset value³ of ₹ 1.62 crore for 48 shops in February 2012. The tender for auction of these shops was invited in November 2012. However, bid of ₹ 0.95 crore was received for 16 shops only, which was cancelled by MIC (Resolution no. 620 dated 20.12.14). Thereafter, no tender has been called for auction of vacant shops (February 2016). In reply, the Commissioner stated (April 2016) that auction of 82 vacant shops and survey for determining status of encroachment of shops was under process.

The fact remains that MC Indore could not auction vacant shops from last 18 to 25 years resulting in loss of revenue, beside encroachment of shops.

In reply, Government stated (January 2017) that enquiry would be done from State level and corrective action would be taken.

4.1.10.2 Rent/Premium of shops remained outstanding for recovery

As per Rule 57, 59 and 60 of MP Municipal Accounts Rules, 1971, lease rent/premium on the immovable property was to be imposed and recovered by the MCs. Scrutiny of records revealed that an amount of ₹ 7.06 crore was

MC Indore failed to auction shops from last 18 to 25 years resulting in loss of revenue and encroachment of shops

³ Minimum rate (per square feet) decided by MC for auction of shops

₹ 7.06 crore was outstanding for recovery on account of rent/premium of shops

outstanding for recovery on account of rent/premium of shops in three Municipal Corporations⁴ and eight Municipal Councils⁵ as on 31 March 2016.

In reply, Government stated (January 2017) that instruction would be issued to concerned ULBs from State level for recovery.

4.1.11 Advertisement Fee

4.1.11.1 Advertisement on unipoles

As per resolution passed by Mayor-in-Council of MC Indore (September 2007), tender for advertisement on both sides of unipoles at six places within Municipal area for three years was accepted at ₹ 38.88 lakh. The agreement ended in October 2010. Audit scrutiny revealed that MC Indore did not advertise for tender for advertisement of unipoles and tenders were invited in July 2011, i.e., after a gap of eight months. However, the agreement could not be executed as the firm which quoted the highest bid of ₹ 81.00 lakh did not accept the letter of acceptance (LoA). Thereafter, the tender was reinvited in October 2012 after a lapse of about one year. The agreement for advertisement on unipoles was entered into (June 2013) for a period of three years with a firm, which quoted the highest bid of ₹ 46.21 lakh.

As per condition of the tender documents, full amount of the tender value was to be recovered from successful bidder. Even in case of vacating the sites of advertisement before the completion of agreement period, full amount was to be recovered under 'Right of Occupation'. Further, the contract provided for depositing 40 per cent of the sanctioned cost within seven days, 30 per cent in first week of second year and remaining 30 per cent in first week of third year.

MC Indore did not recover ₹ 27.73 lakh from a firm for advertisement on unipoles

Audit noticed that the firm deposited the first instalment of ₹ 18.48 lakh, but the second and third instalments were not deposited. The firm intimated (July 2014) the MC that the firm was not able to use these unipoles from last one year due to encroachment of religious and political institutions and asked the MC to refund the remaining amount after adjustment of premium deposited. Further scrutiny revealed that MC did not take any action on the firm for recovery of balance ₹ 27.73 lakh under the contract condition regarding the liability of contractor to pay full amount even in case of vacating the sites of advertisement before the completion of agreement period. Moreover, MC did also not re-invite tender for advertisement on unipoles. Thus, MC extended undue benefit of ₹ 27.73 lakh to the contractor.

In reply, Government stated (January 2017) that draft advertisement policy at State level was in the process of finalisation. However, this case would be enquired by the Department.

4.1.11.2 Loss of revenue on hoarding rent

As per Rule 3 of MP Transfer of Immovable Properties Rules, 1994, the Commissioner may with the sanction of the Corporation, sell, let out on hire or otherwise any immovable property which may be a source of income of the Corporation to the highest tenderer by inviting open tender.

⁴ Dewas (₹ 24.41 lakh), Indore (₹ 300.00 lakh), Ratlam (₹ 53.97 lakh)

⁵ Amla (₹ 2.10 lakh), Anuppur (₹ 1.56 lakh), Begumganj (₹ 9.92 lakh), Garhakota (₹ 6.59 lakh), Harda (₹ 23.45 lakh), Junnordeo (₹ 57.52 lakh), Nainpur (₹ 13.65 lakh) and Pandhurna (₹ 212.76 lakh)

Scrutiny of records of MC Indore revealed that the permission of hoardings for advertisement on 733 places was given by the MC to 107 agencies during the year 1991 to 2009. However, instead of calling annual tenders, the advertising agencies were granted extension every year up to 2014-15. Audit noticed that the rate of hoarding was revised from ₹ 75 to ₹ 85 per square feet (March 2009) and from ₹ 85 to ₹ 100 per square feet (August 2012). Thereafter, the rates were not revised till March 2015, which resulted in undue financial benefits to advertising agencies.

Further scrutiny revealed that the average hoarding rent during the period 2010-11 to 2014-15 was ₹ 3.68 crore. However, no hoarding rent was collected during the year 2015-16 due to cancellation of permission by MIC. Thus, cancellation of permissions without selecting the advertising agencies for hoarding resulted in loss of revenue to MC, which ranged⁶ between ₹ 3.14 crore and ₹ 4.94 crore during 2010-11 to 2014-15.

In reply, Government stated (January 2017) that draft advertisement policy at State level was in the process of finalisation. As soon as it is finalised, uniform policy would be there. However, these cases would be enquired by the Department.

4.1.12 Budgeting, Accounting and Appropriation of Revenues

4.1.12.1 Improper maintenance of budget and accounts

GoMP published (April 2007) Madhya Pradesh Municipal Accounting Manual (MPMAM) for adoption of accrual basis accounting system by MCs from 1 April 2008. As per Section 126 of MP Municipal Corporation Act, 1956 and 121 of Municipalities Act, 1961, as soon as the annual accounts has been passed, it would be transmitted to the Government in prescribed format.

Audit noticed that budget estimates and accounts of the period 2011-12 to 2015-16 of MCs Indore, Ratlam and Rewa were prepared as per provisions of MPMAM. However, Municipal Corporation Dewas and all test checked Municipal Councils did not prepare its budget and accounts in prescribed format. Further, the annual accounts of Municipal Corporations Dewas, Indore, Ratlam and Rewa were not passed by the Corporation.

In reply, Government stated (January 2017) that commercial audit of ULBs had been started from this year. Conversion to double entry system was under process and monitoring was being done from State level.

4.1.12.2 Preparation of unrealistic budget estimates

As per Rule 3 of MP Municipalities (Budget Estimates) Rules, 1962, the budget estimates should be prepared on the basis of comparative statements of actual income and expenditure of previous three years of the ULB.

Audit scrutiny revealed that there was large variation between budget estimates and actual income and expenditure which indicated improper budget formulation, as detailed in *Appendices-4.4 (A) and (B)*. The actual income varied from the budget estimates up to 81 per cent during 2011-12 to 2015-16. During this period, the variation in actual vis-à-vis estimated expenditure was

Budget estimates were not prepared on realistic basis

⁶ ₹ 3.28 crore (2010-11), ₹ 4.94 crore (2011-12), ₹ 3.57 crore (2012-13), ₹ 3.46 crore (2013-14), ₹ 3.14 crore (2014-15)

up to 80 *per cent*. Thus, budget estimates was not prepared on realistic basis as envisaged under the MP Municipalities (Budget Estimates) Rules, 1962.

In reply, Government stated (January 2017) that instructions would be issued to all ULBs for preparation of budget on realistic basis.

4.1.12.3 *Bank reconciliation statement not prepared*

According to Rules 97 and 98 of Madhya Pradesh Municipal (Accounts) Rules, 1971, reconciliation of differences, if any, between the balances of cash book and bank accounts should be conducted every month.

Bank reconciliation was not carried out by test checked MCs

Audit scrutiny revealed that bank reconciliation was not carried out by any of the test checked MCs during the period 2010-11 to 2015-16. The difference between closing balances of cash book and bank pass book as on 31.03.16 in these MCs is shown in *Appendix-4.5*. The difference in closing balances of cash book and bank pass book could not be ascertained in case of MCs Indore and Ratlam, as these MCs were not maintaining cash book in prescribed format.

Further scrutiny revealed that the balance in bank accounts of Municipal Corporations Dewas, Rewa and Municipal Councils Anuppur, Badwah, Begumganj and Garhakota was less in comparison to balances mentioned in Cash Book, which was fraught with the risk of misutilisation of fund in the absence of bank reconciliation.

In reply, Government stated (January 2017) that instructions would be issued to concerned ULBs to prepare bank reconciliation. Under accounting reform, the handholding of the ULBs would be done by consultants and thereby whole accounting process including bank reconciliation would be strengthened.

4.1.12.4 *Reserve Fund*

- *Short credit of ₹ 162.53 crore in Reserve Fund*

As per GoMP orders (March 1998), five *per cent* of daily income of the ULBs, including grants-in-aid for compensation in lieu of octroi and passenger tax, should be credited in Reserve Fund of the ULB. The Accounts of Reserve Fund was to be maintained separately from the accounts of ULB. The Reserve Fund was to be utilised for emergency works or other works of public utility for which there was no budget provision.

Test checked MCs short credited ₹ 162.53 crore in the Reserve Fund

Audit scrutiny revealed that test checked MCs were required to credit ₹ 169.33 crore to Reserve Fund during the period 2011-12 to 2015-16 (*Appendix-4.6*). However, only ₹ 6.81 crore was credited, thereby resulting in short credit of ₹ 162.53 crore in the Reserve Fund of test checked MCs. Further, MC Dewas and Indore did not constitute the Reserve Fund.

In reply, Government stated (January 2017) that cases of Indore and Dewas would be enquired from State level and instructions would be issued to other ULBs to deposit short credit.

- *Funds drawn from Reserve Fund were not recouped*

As per GoMP order (March 1998), the funds drawn from Reserve Fund were required to be recouped in maximum 24 instalments. The first instalment of recoupment becomes due after a month from the date of drawal from Reserve

Fund. Scrutiny of records of MC Amla revealed that ₹ 2.50 lakh was drawn from reserve fund in 2003-04 for construction of shops. However, the funds had not been recouped even after a lapse of 13 years, which was in violation of the orders of State Government.

In reply, Government stated (January 2017) that the cases would be examined and necessary action would be taken.

• ***Irregular expenditure of ₹ 4.84 lakh from Reserve Fund***

As per GoMP order (March 1998), no fund can be drawn from Reserve Fund without prior sanction of the Director, UADD. Funds drawn from Reserve Fund could be expended only for non-recurring expenditure for which there was no budget provision. Audit scrutiny of records in MC Badwah revealed that fund amounting to ₹ 4.84 lakh was drawn from Reserve Fund (January 2016) for payment of salaries of employees of MC. The approval of Director, UADD was not obtained for drawal of fund, though it was required as per State Government's instructions (March 1998). Further, the expenditure from Reserve Fund on payment of salaries, was contrary to orders of the Government.

In reply, Government stated (January 2017) that the cases would be examined and necessary action would be taken.

4.1.12.5 Delay in discharge of liability

As per Section 88 of MP Municipal Corporation Act, 1956, the moneys from time to time credited to municipal fund shall be applied in following order of preferences - Firstly, in making due provisions for repayment of all loans payable by the Corporation, Secondly in discharge of all liabilities imposed on the Corporation and Thirdly, in payment of all sums, charges and cost necessary for purposes provided for carrying out the Act into effect.

MCs Dewas and Indore did not pay ₹ 500.83 crore of electricity bill

Audit scrutiny revealed that MCs Dewas and Indore did not discharge the liability of Corporation towards electricity bill. In MC, Dewas, the outstanding bill for electricity of street light, water supply etc. was ₹ 1.75 crore as on 31 March 2016, which was due since the year 2002. In MC, Indore, the outstanding bill for electricity of water supply was ₹ 499.08 crore as on 31 March 2016, which pertained to period prior to year 2012. However, no budget provision was made for payment of outstanding electricity bills.

MC, Indore stated (April 2016) that the liability would be reflected in the budget and annual accounts of next year. In reply, Government stated (January 2017) that instructions for ensuring timely payment of electricity bill would be issued.

4.1.12.6 Deposit of taxes deducted at source

Taxes deducted at source amounting to ₹ 7.66 crore was not deposited in the account of the Government

Scrutiny of records of MCs Anuppur, Dewas and Rewa revealed that these MCs did not remit ₹ 7.66 crore of Value Added Tax, Royalty, Labour Welfare Cess and Income Tax deducted to the account of State Government, Madhya Pradesh Building and Other Construction Workers' Welfare Board and Government of India respectively as detailed in ***Appendix-4.7***. Further scrutiny revealed that MCs unauthorisedly utilised these taxes deducted at source for their regular expenses.

In reply, Government stated (January 2017) that instructions would be issued to deposit the taxes immediately.

4.1.12.7 Diversion of scheme funds for expenses of Municipal Council

Scrutiny of records of MC Badwah revealed that the MC received ₹ 6.69 crore under Urban Infrastructure Development Scheme for Small and Medium Town (UIDSSMT) for water supply project. However, the MC utilised ₹ 69.54 lakh of UIDSSMT fund for regular expenses of the MC such as payment of electricity bills and running bills of contractors during September 2014 to March 2015.

CMO, MC Badwah (June 2016) informed that the fund of UIDSSMT scheme was spent for due payments of MC as per sanction of President and CMO, which would be refunded in scheme fund in future. The reply was not acceptable as CMO and President were not competent to sanction utilisation of UIDSSMT fund for purpose other than those for which it was received.

In reply, Government stated (January 2017) that the case would be examined and necessary action would be taken.

4.1.12.8 Diversion of Education Cess for transportation of mid day meal to schools

As per orders of UADD, GoMP (October 1999), ULBs were permitted to levy Education Cess at a rate not more than five *per cent* of the annual letting value of those land/buildings on which Property Tax was imposed. Further, GoMP issued orders (October 2012) regarding utilisation of Education Cess on maintenance, sanitation and providing potable water facilities to Government Schools within the municipal area.

Audit scrutiny revealed that MC Indore irregularly utilised ₹ 9.75 crore of Education Cess during 2011-12 to 2015-16 on transportation of cooked food under Mid Day Meal (MDM) Scheme. On this being pointed out, the Commissioner replied (June 2016) that Education Cess was spent for transportation of food under MDM as per resolution passed by MIC. However, copy of resolution of MIC was not furnished to audit.

In reply, Government stated (January 2017) that revised instruction for utilisation of Education Cess had been issued (July 2016).

Fact remains that the instructions of October 2012 for utilisation of Education Cess was in force during 2011-12 to 2015-16, which was required to be followed by MC, Indore and accountability for overruling the orders of State Government without authority was required to be fixed.

4.1.12.9 State Share of Urban Development Cess was not remitted

MCs did not remit State Share of Urban Development Cess of ₹ 18.60 crore

As per provision of MP *Upkar Adhinyam* 1981, MCs were required to levy and realise Urban Development Cess on land and buildings within Municipal area. As per Gazette Notification of Finance Department, GoMP (February 2008), ULBs were required to deposit 40 *per cent* of the Urban Development Cess realised by them in the accounts of the State Government.

During the period 2010-11 to 2015-16, test checked MCs collected ₹ 46.85 crore as Urban Development Cess (**Appendix-4.8**). Thus, an amount of ₹ 18.74 crore (40 *per cent*) was to be deposited in the accounts of the

Government. However, only ₹ 0.14 crore was deposited by MCs Garhakota, Harda and Nainpur. Other test checked MCs did not deposit any amount in accounts of the Government. Thus, State Government was deprived of revenue of ₹ 18.60 crore due to failure of MCs to credit Urban Development Cess in the Government Account.

In reply, Government stated (January 2017) that instructions would be issued to concerned ULBs to deposit the requisite amount in account of the Government.

4.1.13 Monitoring

4.1.13.1 Lack of staff in Revenue Department for recovery of taxes

Collection of revenue is the main source of earnings of ULBs, so sufficient staff should be posted in Revenue Department for revenue realisation. Scrutiny of records of six test check MCs⁷ revealed that there was acute shortage of staff in Revenue Department of these MCs, as detailed in *Appendix-4.9*. The vacancy against sanctioned posts of Revenue Department was 94 per cent of posts in Dewas, 70 per cent of the posts in Indore, 77 per cent of posts in Ratlam, 46 per cent of posts in Badwah, 40 per cent of posts in Porsa and 36 per cent of posts in Rewa. The shortage of staff adversely affected the revenue recovery process, as discussed in paragraphs 4.1.7.2 and 4.1.7.3.

In reply, Government stated (January 2017) that efforts were being made to rationalise the staff at ULB level.

4.1.13.2 Demand of taxes not monitored on the basis of GIS survey

Under the Madhya Pradesh Urban Infrastructure Investment Programme (MPUIIP), State Government selected (July 2013) MC Dewas for the pilot project of preparation of assessment and demand register of Property Tax. After conducting the survey, the outstanding Property Tax arrears of ₹ 41.21 crore and outstanding user charge for water supply of ₹ 6.08 crore were ascertained as on March 2013 in MC Dewas.

Audit scrutiny, however, revealed that MC did not monitor recovery of these outstanding arrears and the demand of outstanding tax arrears were reflected in the Recovery Statement as ₹ 8.25 crore in respect of Property Tax and ₹ 2.95 crore in respect of user charge for water supply. Thus, the failure of MC Dewas to follow up the ascertained demand worked out on the basis of survey resulted in short raising of demand of ₹ 36.09 crore of Property Tax and user charge for water supply.

In reply, Government stated (January 2017) that Property Tax had been covered under urban reforms and GIS based Property Tax collection was being implemented across the State under supervision of Directorate, UADD. However, report from the ULB would be called for.

4.1.13.3 GIS survey of properties not completed in MC Indore

Scrutiny of records (April 2016) of Commissioner, MC, Indore revealed that MC entered into an agreement (March 2007) with an agency for GIS survey of

⁷ Badwah, Dewas, Indore, Porsa, Ratlam and Rewa

properties of municipal area at a cost of ₹ 1.50 crore and the work order was issued in January 2008. As per the work order, the survey work was to be carried out up to May 2008 and thereafter, GIS based computer application system was to be developed in the next month.

Incomplete work of GIS data base resulted in unfruitful expenditure ₹ 50.74 lakh

Further scrutiny revealed that MC made payment of ₹ 37.50 lakh (February 2009) and ₹ 13.24 lakh (March 2010) on the basis of progress of work. However, the agency did not complete the GIS survey and data base of properties. After issuing several notices to the agency, the MC terminated (June 2012) the contract. Thus, the desired objective could not be achieved due to incomplete work of GIS database which resulted in unfruitful expenditure of ₹ 50.74 lakh.

In reply, Government stated (January 2017) that GIS survey of all the ULBs was under process at State level. Case of MC Indore would be enquired and report would be asked from the Corporation.

4.1.14 Summary of conclusion and recommendations

- The revenue raised by ULBs was insufficient to meet out their expenditure. The share of own revenue remained between 37 *per cent* and 69 *per cent* of total expenditure in test checked Municipal Corporations, whereas in test checked Municipal Councils, it remained between 24 *per cent* and 64 *per cent*. Further, the major increase in own revenue during 2011-16 was attributed to increased grants-in-aid from State Government for compensation in lieu of Octroi and Passenger Tax and there was no proportionate increase in own tax collection of MCs.

Recommendation: State Government and MCs should take effective steps for exploiting the potential of demand and collection of own revenue in their jurisdiction by capturing database of assessee through GIS survey.

- Property Tax Board, which was constituted to assist MCs in determination and collection of Property Tax, did not perform its mandated duties due to lack of manpower in the Board.

Recommendation: State Government should strengthen Property Tax Board so that it may assist and guide the MCs regarding levy and realisation of taxes to enhance their revenue raising capabilities.

- Budget and Accounts were not prepared as per provisions of MP Municipal Accounts Manual. Bank Reconciliation was not carried out in test checked MCs, which was fraught with the risk of misutilisation of fund.

Recommendation: State Government should ensure preparation of Budget and Accounts by MCs according to MP Municipal Accounts Manual.

- There was short credit of ₹ 162.53 crore in Reserve Fund by test checked MCs. State Government was deprived of revenue of ₹ 18.60 crore due to failure of MCs to remit the State's share of Urban Development Cess in Government Account. Further, MCs did not

deposit ₹ 7.66 crore of taxes deducted at source (TDS) in respect of Value Added Tax, Royalty, Labour Welfare Cess and Income Tax, which was utilised by MCs for their regular expenses.

Recommendation: MCs should ensure that statutory dues, such as TDS in respect of Value Added Tax, Royalty, Labour Welfare Cess and Income Tax are deposited with respective authorities within prescribed time.

- The collection of Property Tax, Composite Tax and user charges for water supply was significantly less than the respective demands during 2011-16. The outstanding collection in test checked MCs was ₹ 145.38 crore in respect of Property Tax, ₹ 142.69 crore in respect of Composite Tax and ₹ 243.65 crore in respect of user charges for water supply as on March 2016. There was acute shortage of staff in Revenue Department of MCs, which adversely affected the revenue recovery process. Further, demand of taxes were not monitored on the basis of GIS Survey.

Recommendation: MCs should strengthen the procedure for recovery of current taxes and arrear of taxes by periodic monitoring and providing adequate staff in the Revenue Department.