136-111 (2)

ANNUAL TECHNICAL INSPECTION

REPORT

ON

URBAN LOCAL BODIES

GOVERNMENT OF ORISSA

In terms of the Technical Guidance and Supervision (TGS) by the Comptroller and Auditor General of India

FOR THE YEAR ENDED 31 MARCH 2008

Office of the Principal Accountant General (Civil Audit)
ORISSA, BHUBANESWAR

REPORT (PAC)

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Non-maintenance of asset register	2.19	17
Loss of revenue due to non-tapping of the sairat sources	2.20	17
Loss of revenue due to non-allotment of shopping units	2.21	18
Market complexes developed on encroached land	2.22	18
Land under unauthorized possession	2.23	19
Loss of revenue due to idling of road roller	2.24	19
Improper planning and utilization of NSDP funds	2.25	19
Delay in completion of remunerative projects under IDSMT scheme	2.26	20
Improper expenditure policy	2.27	22
Excess expenditure on establishment charges	2.28	23
Transparency in expenditure	2.29	23
Capacity buildings to administer and enforce levy of taxes	2.30	24
Monitoring and evaluation	2.31	24
Conclusion	2.32	25
Recommendation	2.33	26

CHAPTER – III TRANSACTION AUDIT		
Idle investment due to delay in construction of Market Complex	3.1	27
Unproductive expenditure on construction of Bus Stand within Jagatsinghpur Municipal area	3.2	27
Loss of funds due to non-adjustment of advance	3.3	28
Loss due to parking of scheme funds in P.L.Account	3.4	29
Undue favour to contractor by way of supply of materials worth Rs.16.89 lakh	3.5	30
Premature encashment of Term Deposits resulted in loss of interest	3.6	30
Excess payment on computerization of data base	3.7	31
Idle expenditure on purchase of Laparoscopic Unit	3.8	32
Extra expenditure due to non-acceptance of valid tender	3.9	33
Avoidable expenditure towards departmental charges	3.10	33
Idle investment due to non-allotment of Market Complex	3.11	34
Incomplete Valmiki Ambedkar Awas Yojana Houses	3.12	34
Loss of central subsidy	3.13	35
Allotment of VAMBAY house to non-slum dwellers	3.14	35
Diversion of National Slum Development Programme (NSDP) funds	3.15	36
Irregular expenditure	3.16	36
Non-payment of loan installments and interest	3.17	37
Non-provision of shelter for slum dwellers	3.18	38

List of Appendices

Appendix	Particulars	References	
		Para	Page
I	Assignment of taxation powers to ULBs	2.4	39
II	Statement showing the delay in revision of annual value of holdings	2.7	40
III	Statement showing the cases of expenditure incurred but no tax levied as user charges	2.10	42
IV	Statement showing the cases of excess expenditure than revenue collection	2.10	43
V (i),(ii),(iii)	Statement showing Demand Collection and Balance position of taxes	2.15	44 to 46
VI	Statement showing loss of revenue due to non-tapping of Sairat sources	2.20	47
VII	Statement showing non-allotment of shopping units	2.21	48
VIII	Statement showing outstanding rent of shopping units	2.21	49
IX	Statement showing CMC land under unauthorized possession	2.23	50
X	Statement showing details of loan repayment with interest	2.25	51
XI	Statement showing excess expenditure on establishment charges	2.28	52
XII	Statement showing unfruitful expenditure on construction of bus stand	3.2	53
XIII	Statement showing outstanding advance	3.3	54
XIV	Statement showing list of Incomplete VAMBAY houses	3.12	55
	Glossary of abbreviations		56

PREFACE

This Report has been prepared for submission to the Government of Orissa in accordance with the terms and conditions of the Technical Guidance and Supervision (TGS) over the maintenance of accounts and audit of Urban Local Bodies (ULBs) by the Comptroller & Auditor General (CAG) of India.

Based on the recommendations of the Eleventh Finance Commission, the State Government entrusted (May 2004) the audit of 20 *percent* of ULBs to the CAG of India under section 20(1) of the CAG's (Duties, Power and Conditions of Services) Act 1971 and TGS over the work of the Examiner, Local Fund Audit (ELFA).

This Report contains three chapters: Chapter I contains a brief introduction of the functioning of various levels of the ULBs in the State with the observations and comments on accounts, Chapter II deals with the findings of performance audit on Mobilisation of Revenue Resources by ULBs and Chapter III contains observations on transaction audit.

The cases mentioned in the Report are among those, which came to notice during the course of test audit of accounts conducted during the year 2008-09 as well those which had come to notice in earlier years but were not dealt with in the previous Reports.

OVERVIEW

ULBs did not revise the rates of user charges. There were instances of financial indiscipline, lack of accountability in optimum utilisation of funds and improper management of revenue earning assets leading to loss of revenue.

(Paragraph 2.10)

3. Audit of Transactions

- Bhubaneswar Municipal Corporation failed to takeover possession of the land and evict the unauthorised occupants which resulted in blockage of funds of Rs. 4.60 crore paid as the premium of the land.

(Paragraph 3.1)

- Failure of the Cuttack Municipal Corporation to keep funds received under Centrally sponsored Scheme in savings bank account resulting in loss of interest of Rs. 31.04 lakh.

(Paragraph 3.4)

- NAC, Belpahar prematurely withdrew the term deposit of Rs. 3.00 crore though the same was not required and kept the amount in current account and PL account resulting in loss of interest of Rs. 56.25 lakh.

(Paragraph 3.6)

- Injudicious decision of Bhubaneswar Municipal Corporation to establish Laparoscopic units without ensuring availability of qualified doctors for operation and maintenance resulted in idle expenditure of Rs. 20.50 lakh.

(Paragraph 3.8)

CHAPTER -I

AN OVERVIEW OF THE URBAN LOCAL BODIES & Comments on Accounts

CHAPTER- I

AN OVERVIEW OF THE URBAN LOCAL BODIES

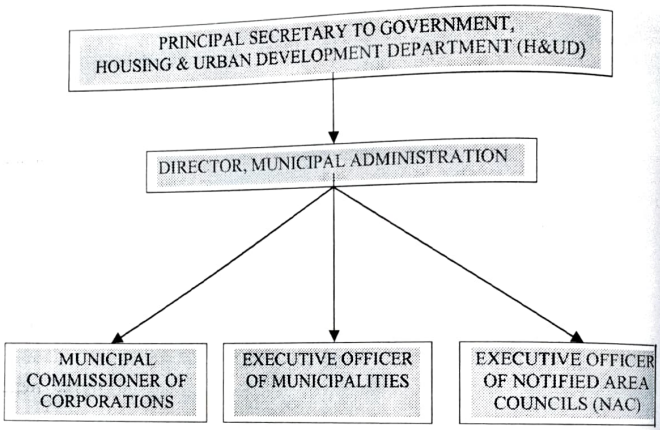
1.1 Introduction

Consequent to the 74th amendment of the Constitution, the State Government amended (2002) the Orissa Municipal Act, 1950 for transferring the powers and responsibilities to ULBs in order to implement schemes for economic development and social justice including those in relation to the matters listed in the Twelfth Schedule of the Constitution. At present the State has 103 ULBs (2 Municipal corporations, 35 Municipalities and 66 Notified Area Councils) covering 13 *per cent* of its total population. The State Government has also enacted the Orissa Muncipal Corporation Act in the year 2003 (Orissa Act 11 of 2003).

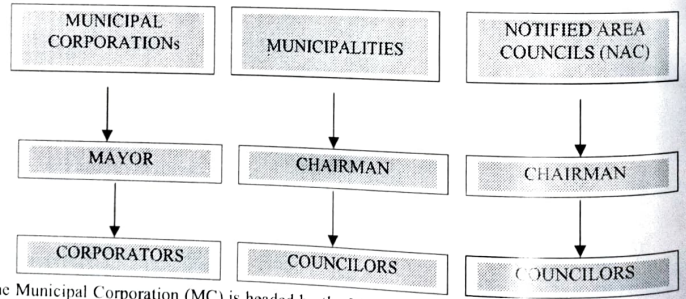
The Eleventh Finance Commission (EFC) recommended that the Comptroller & Auditor General of India (CAG) should be entrusted with the responsibility of exercising control and supervision over the proper maintenance of accounts and audit of all ULBs. Based on the recommendations of EFC, the State Government entrusted (May 2004) the audit of 20 *per cent* of ULBs to the CAG under section 20(1) of the CAG's (DPC) Act, 1971. Some of the ULBs are also being audited under Section 14 of the CAG's (DPC) Act, 1971.

1.2 Organizational Set up

The organizational set-up of the ULBs is as follows:



The Elected Body set-up of the ULBs is as follows: -



The Municipal Corporation (MC) is headed by the Mayor and Municipality/NAC by the Chairman who is elected from among the Corporators/Councilors of the respective ULBs.

ULBs execute various functions entrusted to them through Standing Committees such as Committee on Taxation, finance & accounts, PH & water supply, Public works, Planning & development, Licenses & appeal, grievances and Social justice. While 10 standing committees function in Municipal Corporations, five such committees function in Municipalities and NACs.

1.3 Sources of Funds

For execution of various developmental works, the ULBs mainly receive funds from the Government of India (GOI) and the State Government in the form of grants. The GOI grants include funds released under Centrally Sponsored Schemes and grants assigned under the recommendations of Finance Commissions (FC). The State Government grants include grants under various State schemes like MLALAD, WODC, Octroi compensation grants etc. devolved upon the ULBs through the State Budget based on the recommendations of State Finance Commission (SFC). Besides, the sources of funds include the mobilised revenue of the ULBs in the form of taxes, rent, license fees, which are assessed and collected as per the provisions of the Corporation/ Municipal Act and Rules made there under. The receipt and expenditure position of the ULBs for the last three years are as follows:

RECEIPTS *(Rupees in crore)*

GRANTS			
	2005-06	**2006-07**	**2007-08**
Central grants	7.99	9.29	167.73
State grants	6.78	2.29	41.36
EFC Grants	-	-	-
TFC Grants	20.80	77.05	42.05
Own revenue	19.54	21.87	24.58
Loans	-	-	-
Others	239.16	246.32	273.75
TOTAL	**294.27**	**356.82**	**549.47**
EXPENDITURE			
Capital	207.38	241.43	289.37
Revenue	86.89	115.39	260.10
TOTAL	**294.27**	**356.82**	**549.47**

Source: Information furnished by H & U D Department.

Though the entire receipts during a year is shown as expenditure in the State account, some amounts remained unutilized at the ULBs levels as analysed in succeeding para

(Para No1.11.1). This is due to the fact that after release of grants to the ULBs, the same is shown as expenditure in the State account even though the amounts remain unutilized with the ULB parked in Civil Deposits/Personal ledger Accounts.

1.4 Flow of Funds

The State Government on receipt of funds under the Centrally Sponsored Plan (CSP) Schemes releases the funds to the ULBs along with the matching share through the State budget. The State Government also releases funds for Plan and Non-Plan schemes through the State budget. except the EFC/TFC grants which are released directly to the ULBs through the State Government sanction orders immediately after receipt of the same from the Government of India.

1.5 Accounts

The Ministry of Urban Development in consultation with the CAG developed the National Municipal Accounting Manual (NMAM). The Government of Orissa decided (Sept 2007) to introduce double entry system of accounting (Accrual Based Accounting) in the ULBs across the state. Thus, a Municipal Accounting Manual was drafted in line with the provisions of the NMAM, and the draft Orissa Municipal Accounting Manual (OMAM) was finalized with formal approval of the CAG of India. However, the accrual system of accounting was not adopted in ULBs as of September 2009.

1.6 Internal Audit

There is no system/arrangement for regular internal audit of ULBs of the State. As and when circumstances warranted, the Housing and Urban Development Department (H & UD) constituted special audit teams.

1.7 Audit

The Examiner, Local Fund Audit (ELFA) is the Statutory Auditor and conducts audit of all the ULBs through the District Audit Officers, Audit Superintendents and Auditors as per the provisions of the LFA Act. As of March 2009, audit of 248 accounts in respect of 42 ULBs were in arrears.

Based on the recommendations of EFC, the CAG provided technical control and supervision to the State Government (May 2004) over proper maintenance of accounts and audit of all levels of PRIs and ULBs under the CAG's Technical Guidance and Supervision (TGS) parameters. It also stipulated that the State AG has to approve the Annual Audit Plan of ELFA and share mutual information and training of ELFA staff. The audit of 20 *per cent* of ULBs was also entrusted to the CAG under section 20(1) of the CAG's (DPC) Act, 1971. Some of the Urban Local Bodies are audited under Section 14 of CAG's (DPC) Act, 1971 by virtue of devolution of substantial grants to these Local Bodies.

1.8 Response to audit

The response to audit objections by the ULBs was very poor. During audit of two MCs (2007-08), even first reply was not furnished to the audit queries. As of March 2008, 696 paras raised through 37 Inspection Reports were pending for settlement due to non-furnishing of reply and no action had been taken for clearance of the pending paras.

1.9 Annual Technical Inspection Report

The Office of the Senior Deputy Accountant General (Local Bodies Audit and Accounts) under the administrative control of Principal Accountant General had issued two Annual Technical Inspection Reports on Local Bodies pertaining to the years 2005-06 and 2006-07 covering major audit findings in respect of transaction of ULBs to the State Government. But the State Government had not taken any further action for the discussion of the Audit Paras.

1.10 Result of audit

During the year 2008-09, 30 ULBs (2 MCs, 15 Municipalities and 13 NACs) were audited and the important audit observations are summarized in the succeeding chapters.

CHAPTER II

Performance Audit on Mobilisation of Revenue Resources of Urban Local Bodies

CHAPTER-II

2 Mobilisation of Revenue Resources by Urban Local Bodies

2.1. Introduction

As per the statement of objects and reasons behind 74th Constitution Amendment Act, of 1992, the Urban Local Bodies (ULBs) in the states were weak and ineffective on account of various reasons including inadequate devolution of powers and functions and the growth of their revenue was not commensurate with the rapid growth of urbanisation. The increase in their functional assignments having inflated resource needs had caused a fiscal imbalance making them totally dependent on Government grants. The amended Act conferred a constitutional status to the ULBs with functional autonomy to function as institutions of self Government. To make the decentralisation and self governance meaningful, the ULBs are now expected to ensure availability of adequate untied funds to provide basic civic services to the people and meet the expenses of governance. Even though, devolution of funds from Government is inevitable, mobilisation of funds from internal resources is extremely important for the reasons of efficiency and accountability. In this regard, considerable space has been provided to the ULBs in the Acts and Rules to generate income from internal resources. The successive Central and State Finance Commissions had given stress on inclusive growth of the ULBs through self governance and incentivising them to meet the expenses substantially from resources they themselves mobilise from internal sources. Though the ULBs were given autonomy to levy taxes / fees under the regulatory powers conferred on them, the State Government also provided grants and assistance to the ULBs for creation of productive infrastructure to boost their revenue income.

2.2 Audit coverage

A review covering a period of five years from 2003-04 to 2007-08 was conducted during the period from December 2008 to May 2009 with reference to records of 17 ULBs (Nine NACs, Six Municipalities and Two Municipal Corporations).

2.3 Sources of municipal revenue

The ULBs derived their taxation powers from section 131 of Orissa Municipal Act, 1950 and Section 192 of Orissa Municipal Corporation Act, 2003.

As per the provisions of the Acts and Rules, the ULBs derived revenue from the following two sources.

User charges are the most prominent non tax sources of the ULBs which are levied for the various kinds of services provided by them. Other non-tax sources of the ULBs include license fees under regulatory functions like issue of trade licences, hoarding fees, slaughterhouse fees, building plan approvals and rent from municipal properties etc.

2.4 State Finance Commission (SFC) Recommendations

The 74th Constitution Amendment Act required the State Government to constitute State Finance Commissions at an interval of every five years to look into the resource position of the ULBs and make recommendations to improve their financial position. Accordingly, the 2nd State Finance Commission constituted in June 2003, submitted its report in September 2004 with observations and recommendations. The SFC observed that most of the ULBs were grappling with narrow and non-expandable tax and non-tax base for which their sources of income were virtually stagnant. Besides, they were not innovative to mobilise their available potential resource base. To improve their resource base, the Commission had recommended for assignment of taxation powers to the ULBs on 14 items (***Appendix-I***), besides transfer of markets of Regulated Marketing Committees,

Sairat sources and minor minerals. Though the State Government accepted the above recommendations, (August 2006) those were not yet implemented (March 2009).

2.5 Audit Findings

The audit findings are detailed in the succeeding paragraphs:

2.6 Expansion of revenue base and enhancement of collection efficiency

The Municipal Act provides a number of revenue handles to the ULBs for resource mobilisation. They are empowered to levy holding related taxes u/s 131 of OM Act on items like holding, drainage, latrine, water and lighting with Council's approval and fix the rates within the maximum ceilings prescribed in the act. Test check of units revealed that none of the ULBs levied tax on all of the above five items. While six ULB levied tax on 4 items, six levied tax on 3 items, 3 on 2 items and balance one levied tax on one item only. The rate of tax was not uniform in all the ULBs across the State as the local ULB Councils fix the rate, considering the nature of services provided and quantum of expenditure incurred by their ULBs. No tax was levied by the test-checked units on (i) tax on profession (ii) Poll tax and (iii) holding tax on vacant land.

The ULBs are empowered to collect fees and fines under the regulatory powers exercised by them as per OM Act and amongst these, licenses issued under Section 290 of OM Act for various trades and hoarding are the major items. The rate of license fees for the above purpose was to be fixed by the Council after framing bye laws with Government approval. Scrutiny of records of test checked units revealed that in only four ULBs (Cuttack, Bhubaneswar, Rourkela and Balasore) there was collection of hoarding license fees while in other 13 ULBs no collection was made due to non framing of the bye-laws.

The total revenue collection from tax and non-tax source of the ULBs during the years from 2004-05 to 2007-08 was as follows.

(Rupees in Lakh)

Year	Amount
2004-05	1520.15
2005-06	1971.75
2006-07	2187.50
2007-08	2452.20

2.7 Non-revision of Annual value of Holdings

Holding related taxes such as holding, lighting, drainage and water taxes formed the major source of revenue of the ULBs. These taxes were levied as per the powers vested with the ULBs under Section 131 of OM Act as a percentage of annual value of holdings, which was determined under Section 137 of the Act. The guiding principle for levy of any tax is that it should be commensurate with the expenses incurred for providing the services

As per the provisions of OM Act under section 146, the annual value of the holdings should be revised at an interval of every five years by the ULBs adopting the latest schedule of rates of PWD. Scrutiny of records of the test checked ULBs revealed that they were totally dependent on the valuation team of H&UD Department for fixation of annual value of holdings which resulted in delay of revision & consequently in loss of revenue to the ULBs. As there was increase in the cost of services provided by the ULBs to the people, the non-revision of annual value in time affected the quality of the services. The period of delay in revision of the annual value with reference to the provisions of the Act noticed in the test checked ULBs is detailed in ***Appendix-II.*** It was noticed that the rates were very nominal in comparison with the maximum prescribed rate of tax (holding tax/light tax/drainage tax-10 *percent* and water tax-5 *percent*), and the ULBs had not considered for enhancement of the rate. Two cases of losses on account of delayed revision are discussed below:

In Jaleswar NAC, Rourkela Municipality and Nayagarh NAC the annual value of holdings was assessed by the Valuation team of H&UD Department in the years

2003, 2007 and 2008 respectively. There was abnormal delay in hearing of the objections and publication of the final list. In Nayagarh NAC, appeal cases relating to 510 holdings related to the year as far back as 1995 (294) and 2006 (216) were pending with the Appellate Authority for hearing. Due to delay in finalisation of the revised valuation of 2008, as many as 477 holdings remained out of tax net. While valuation list of Jalweswar NAC was given effect from 2007-08, the valuation list of other two ULBs remained not finalised (March 2009).

In Jaleswar NAC, the last valuation was made in 1994-95 for which the revision was due in 1999-2000. However, the valuation camp of UD Department was deployed only in February 2003 with the stipulation to complete the valuation within 15 days. There was delay of around one and half years in publication of the not-final list of the valuation and after a further delay of more than 2 years for hearing of the objections, the final valuation list was published in December 2006. After council resolution, the tax revision was made effective prospectively from the 3rd quarter of 2007-08. The annual demand after revision was raised to Rs.3.53 lakh from Rs.0.65 lakh and for the period of delay, the loss of revenue was Rs.11.52 lakh as per the differential rate of increase in the demand.

2.8 Loss of revenue due to difference in rate

Steel Township Municipality of Rourkela was merged with Civil Township Municipality with effect from 1995 after declaration of Steel Township area as an industrial area. After more than 13 years of the merger, it was running with a parallel establishment under the same Executive Officer and elected council. While the nature and quality of services rendered by the Municipality were same for both the areas, there was imposition of different rate of taxes, which remained unrevised since 1993-94. The rate of tax of Steel Township Municipality was 15 *percent* while the rate of tax in Civil Township Municipality was 10.1 percent which resulted in loss of revenue of Rs. 58.20 lakh at the rate of Rs. 11.64 lakh per annum during the period from 2003-04 to 2007-08.

2.9 Non-imposition of property tax by Municipal Corporations

After enactment of OMC Act, 2003, the two Municipal Corporations of the State in the cities of Cuttack and Bhubaneswar were required to impose property tax on the holdings. Pending finalisation of the supporting byelaws by the Corporations, they continued to collect holding tax at prevalent rates levied by them under Municipal Act. This had caused further limitation on them to enhance the rate, which was overdue to compensate the increase in the cost of services. The holdings of BMC continued to be under valued as it was adopted on the PWD schedule of rates of 1995. The BMC adopted the rate of valuation of its holdings with RCC roofing at Rs.13.65 per sqr. mtr. which was very low. The non-imposition of property tax had caused considerable revenue loss to the Municipal Corporations.

2.10 Non levy/Short levy of cost of services provided

Linking the decisions to provide public services with revenue margin is extremely important to ensure efficiency and accountability in public service provisions. The principle to be adopted is to ensure that beneficiaries of public services should, by and large, pay for the services received and the burden of expenditure is not shifted to the non-residents. In the test checked ULBs, expenditure on certain services provided to the people was not made good by levy of user fees as per details in ***Appendix-III.*** In some cases, the expenditure incurred on certain services was far in excess than the revenue collections but the respective ULBs had not attempted for levy/ revision of rates as detailed in ***Appendix–IV.***

2.11 Inequitable distribution of assigned revenue

Octroi tax happened to be the major source of assigned revenue of the ULBs, which was taken over by the Government in the year 1999. Considering the same as the legitimate dues of the ULBs, Government paid compensation grants to them based on the average collection of the tax during the preceding three years.

Based on the above principle, the ULBs situated in the industrial towns like Paradeep, Rourkela, Sunabeda and Belpahar received comparatively higher amounts of compensation grants than the other ULBs of the state. The industries were the main assessees of holding tax of the above ULBs and they maintained their own infrastructure providing all sorts of basic civic services to the people of their areas prior to abolition of Octroi and hence the grants given to the ULBs were on higher side. Subsequently, the concerned industries disputed payment of holding tax to the ULBs as the services provided to them were very nominal. The payment of holding tax by the industries remained enmeshed in legal dispute for years together and the jurisdictional area of the ULBs was drastically reduced and they were not able to utilise the massive amount of compensation grants received by them for specific purposes like payment of salaries and providing limited civic services to the people. The accumulated balance as of March 2008 with Paradeep Municipality and Belpahar Municipality stood at around Rs.18 crore and Rs.8 crore respectively. The compensation grant received by Rourkela Municipality was mainly utilised for payment of arrear staff salary of a college maintained by it previously indicating that the compensation grants formula is not based on realistic and actual requirements of the ULBs.

2.12 Outstanding dues against PSUs/Companies.

As per agreement executed by Paradeep Municipalty with Pradeep Port Trust (PPT) in December 1999, the PPT was to pay holding tax at the rate of Rs.16 lakh per annum with effect from April 1999 till abolition of octroi and Rs.5 lakh thereafter. The rate was to be revised after every five years. The PPT had defaulted in payment of tax since 2004-05. Similarly Paradeep Phospates Ltd (PPL) who was paying holding tax of Rs 17.13 lakh annually deposited Rs 10 lakh per annum from 2001-02 to 2004-05 and stopped further payment after raising disputes. The disputes raised by both organization were yet to be resolved.

Further, the annual value of the holdings of M/S Kargil India Limited was assessed at Rs 83.99 lakh in the year 2005-06 on which holding tax payable was Rs.8.39 lakh annually at the prevailing rate of tax of 10 *per cent*. Though the appeal case preferred by the above industry was rejected in the same year, it had not paid taxes amounting to Rs.25.17 lakh till March 2009.

2.13 Non-assessment of holdings to tax

As per information furnished to audit, the following shopping complexes and housing apartments situated in various locations of the following ULBs remained unassessed to tax.

Name of ULB	No. of units
CMC	524 housing apartments, 6 shop rooms at fly over bridge, 22 shop rooms at Choudhury Bazar and one Engineering College named ABIT
Jaleswar NAC	115 nos. of marketing units in shopping complexes

These holdings were not assessed to tax due to non filing of application by the owners. Even though the buildings were constructed long back, the ULBs had not taken any action to bring them into their tax net. On being pointed out, it was stated (May 2009) that action would be taken to assess the buildings to tax.

The year of functioning of the marketing units and date of construction of the apartments was also not available with CMC.

2.14 Loss of revenue due to non-auction of hoarding

Issue of license for hoarding was a major source of revenue for CMC. The hoarding rights in CMC area was granted to M/s Classic Communications for the period from October 2001 to September 2004. The outstanding dues against the lessee and its partners for that period was Rs.1.02 crore, which remained unrealised (March 2009). CMC had leased out the rights of hoarding without any bank guarantee or insisting on advance payment against the dues due to which

arrears remained irrecoverable. The hoarding license for the subsequent period could not be given since 2004 due to uncertainties and litigation. Tenders floated for that purpose in December 2007 remained unsettled which had caused revenue loss of Rs.10.70 lakh per month as per the rate quoted by the highest bidder.

2.15 Low Collection of Tax

The position of demand, collection and balance of taxes of the test checked ULBs for the years from 2003-04 to 2007-08 is enclosed as **Appendix-V(i)**. Out of 17 test checked ULBs, the rate of collection of tax of seven ULBs was below 30 *per cent*. In six ULBs, it ranged between 31 and 50 *per cent* and in the balance four ULBs, it was between 51 and 71 *per cent* **Appendix-V(ii)**. The arrear demand of these ULB as of March 2008, was 47.26 *percent* of the total demand of that year. The per capita tax collection of the ULBs for the year 2007-08 ranged between Rs.4.36 (Belpahar Municipality) and Rs.154.65 (BMC) **Appendix-V(iii)**.

2.16 Non-issue of distress warrant

Orissa Municipal Act, 1950 under Section 161 and 162 provides for issue of distress warrant to the defaulters of tax within a period of 60 days from the date it became due and Section 346 provides the time limit for recovery of the dues, which is 3 years. As verified from the records, none of the test checked ULBs had issued distress warrant within the due dates except Balasore Municipality, which had issued warrants in limited cases. Due to non-issue of distress warrants, there was anticipated loss of revenue to the ULBs due to time limitation. The arrear demand as of March 2008 of the test checked ULBs stood as Rs.11.98 crore.

In NAC Balugaon, a holding bearing no. 106/234 under ward no. 4 owned by an individual was valued at Rs.6.48 lakh in the year 1996-97 by the valuation team. No demand notice was issued by the NAC to the house owner since its valuation and no tax was paid by the house owner. The outstanding holding tax against the above holding as of March 2009 was Rs.5.25 lakh as per the prevailing rate of tax.

2.17 Non-revision of trade license

Fees on issue of trade licenses by the ULBs under various regulatory functions are a major source of the non-tax revenue of the ULBs. The schedule of the trades and fees to be levied had been last fixed in 1994 by Government and it remained unchanged since then. In the State, BMC was the only ULB, which revised the rate and expanded the list of the items in the year 2007-08 by framing a bye-law with the approval of the State Government. As compared to the rate of license fee fixed by BMC, there was heavy loss of revenue to the other ULBs due to non-revision of the rates.

2.18 Improper Management of revenue earning assets

The ULBs were in possession of revenue earning assets acquired under their own funds and other scheme funds. Proper management of these assets was required for augmentation of the resource base. Scrutiny of records of the test checked ULBs revealed irregularities in management of the assets as discussed in the succeeding paragraphs.

2.19 Non-maintenance of asset register

The list of revenue generating assets like ponds, ferry ghats, slaughter houses and parking spaces etc. was not maintained by any of the test checked ULBs.

2.20 Loss of revenue due to non-tapping of the Sairat sources

Revenue from Sairat sources like, ponds, ferry ghats, slaughter houses and parking spaces etc as detailed in **Appendix-VI** remained uncollected in 12 test checked ULBs which caused revenue loss of Rs 29.31 lakh approximately to the ULBs during the period from 2003-04 to 2007-08. The amount of loss had been assessed on the basis of previous year's income and off set price. These sources practically remained untapped due to improper maintenance of the assets and their records and regular follow up of auctions/tendering or maintenance of relevant records to collect the dues.

2.21 Loss of revenue due to non-allotment of shopping units

Eighty eight shopping units of six ULBs as detailed in **Appendix-VII** were lying vacant long after their construction due to lack of proper infrastructural facilities and non-availability of interested persons. These units were constructed without proper survey and consequently remained vacant rendering the investment infructuous. The loss of revenue of Rs 26.89 lakh was due to non-allotment of these units as per the rate of rent fixed by the respective ULBs. The 24 shopping units of Balasore Municipality, were completed in 2007-08, but rent was not yet fixed by the Council.

Shopping units were given to allottees on a monthly rent initially for a period of one year through execution of agreements in prescribed formats, which were renewable for further periods on execution of fresh agreement. The allotees remained in possession of the units for years together without renewal of the period of allotment and revision of rent.

In some cases, the allottees defaulted in payment of the rent, but no action was taken by the ULBs for eviction of the shop rooms and collection of the dues. The outstanding rent against the defaulters was Rs 46.17 lakh as per the details given in **Appendix-VIII**.

2.22 Market complexes developed on encroached land

The main commercial area of Jaleswar NAC was developed in the Railways and PWD land which was unauthorisedly encroached. There were market complexes, hotels and shopping units with permanent constructions on both sides of the roads of the Railways land which happened to be in the prime location of the NAC. The NAC could not make any investment on construction of market complex due to functioning of private market complexes and other commercial buildings in the encroached lands of Railways and PWD which were situated in the prime location of the NAC.

The NAC was unable to bring them into the tax net for years together though the encroachers enjoyed all sorts of civic facilities provided by the NAC. The mushrooming growth of illegal marketing units in the encroached land was detrimental to the commercial interests of NAC to expand its activities besides entailing heavy loss of revenue due to non assessment of the units to holding tax and trade licenses.

2.23 Land under unauthorized possession

In CMC, land situated in different commercial locations measuring 18.206 acres and valued at Rs.14.11 crore (**Appendix-IX**) were unauthorisedly encroached. CMC failed to evict the encroachers and put the land to commercial use due to non- maintenance of basic records like assets registers etc. This resulted in considerable revenue loss to CMC.

2.24 Loss of revenue due to idling of road roller

As per the OPWD codes, the average running hour of a road roller is 2000 hours per annum and the State Government fixed the existing rate of hire charges is Rs. 182.50 per hour. The MCs, Bhubaneswar and Cuttack owned four road rollers each, which remained grossly under utilised. These Corporations had outsourced the work of construction of their roads to contractors and as per the agreement executed with them, they were allowed to use private road roller. These MCs could have safeguarded their own interest by insisting contractors on use of their road rollers in corporation's works to avoid idling of the road rollers. The amount of revenue collected by the MCs was very nominal in the past five years. The loss of revenue due to idling of the road rollers of the corporations was Rs.29.20 lakhs annually.

2.25 Improper planning and utilization of NSDP funds

The ULBs availed loan assistance under National Slum Development Programme (NSDP) scheme during the years 2002-04 and 2005-06 for undertaking developmental activities in slum areas. As the borrowed funds were accounted for as capital liability, the ULBs were required to make provisions for revenue generation and creation of a reserve fund for repayment of the loan with interest. In the test checked ULBs, there was a gap between the credit and development planning to achieve economic growth and revenue generation. The funds of NSDP scheme was mostly spent in providing public utility services in the slum areas and no provision for levy of taxe/user's charges was made for revenue generation of the ULBs except BMC, which had made provision in the budget for colletion of user's charges from the year 2008-09. Consequently, the ULBs defaulted in repayment of the loan for which the State Government was constrained to deduct the

loan dues with penal interest from the assigned revenue of octroi compensation grant. Repayment of loan and interest was a major area of concern for the ULBs where huge outgo of funds from assigned revenue was made causing reduction of resource base for the ULBs. In test checked ULBs, the State Government deducted an amount of Rs. 3.78 crore (Principal 0.75 crore and penal interest Rs.3.03 crore) from octroi compensation grant as detailed in **Appendix-X.**

2.26 Delay in completion of remunerative projects under IDSMT scheme

Under Integrated Development of Small and Medium Towns (IDSMT), some ULBs received loan assistance and grants from Central and State Government for infrastructure development. The scheme remained operative till 2006 after which it was subsumed into Urban Infrastructure Development for Small and Medium Towns (UIDSMT). Test check of records of selected ULBs revealed that the ULBs had not utilized the funds received in the first phase of assistance within the scheduled time due to which they were deprived of further assistance. Due to inconsistencies in planning, delay in preparation of project reports, legal disputes and above all, non-availability of adequate funds, most of the projects taken up by these ULBs remained incomplete. While no revenue could be derived from these remunerative projects, the outstanding liability remained ever mounting up. Some of the instances are cited below.

Udala NAC

The Udala NAC received first phase of Central Government loan assistance of Rs.20.84 lakh and State Government grant of Rs.15.23 lakh in the year 2003-04 against the approved outlay of Rs.1.03 crore for 10 projects. Despite availability of funds, the NAC could not complete the construction of projects in time and as of March 2009, most of the projects remained incomplete. Due to non-utilization of funds in time, the NAC lost further central assistance for which two commercial projects, which were due for completion in March 2005 could not be completed. The loss of revenue to the NAC on this account was Rs.7.95 lakh per annum as per the projected rate of revenue. Further the NAC had not made any provision in the budgets for creation of any reserves for repayment of the loan and interest.

Nowrangpur Municipality

The State Government approved the projects consisting of both remunerative and non-remunerative categories with project outlay of Rs. 1.15 crore during 1994-95. The Municipality received central loan assistance of Rs. 47.47 lakh and State Government grant of Rs.16.77 lakh during the period from 1995 to 2003. During 2004, the Municipality submitted substitution proposal for construction of a super market complex estimated at Rs. 34.28 lakh against the sanctioned projects. The construction of super market complex was, however, not taken up due to non-receipt of Government approval. Due to delay in taking up of the project, the estimate was enhanced time and again and finally the work was put to tender with sanctioned estimate of Rs.97.54 lakh in the year 2007 and awarded to a contractor for completion of the project by March 2008. The work remained abandoned since April 2008 after payment of Rs. 22.29 lakh to the contractor due to land dispute and preparation of defective site plan. Due to non-completion of the project, the Municipality suffered loss of revenue besides being liable for repayment of the loan with penal interest. The loss of revenue could not be assessed due to non-availability of project report. The loan liability of the Municipality as of March 2008 stood at Rs.50.87 lakh at the rate of 14.75 *percent* per annum. The Municipality did not create any revolving fund or reserve fund for repayment of the loan and interest.

Nayagarh NAC

The Nayagarh NAC received approval for construction of 11 projects out of which only four projects were taken up due to non-availability of funds. These included two remunerative projects like Kalyan Mandap and Yatri Nivas estimated at Rs. [illegible] lakh. Despite availability of funds in the years 2003 and 2005, these projects could not be completed and made functional as of March 2009. The loss of revenue assessed as per the rate fixed in the project report was Rs.14.93 lakh per annum.

Soro NAC

The Soro NAC received Central and State assistance totalling Rs.1.36 crore during the period from 1999 –2000 to 2005-06. Due to inconsistency in preparation of the project report and other technical formalities, the execution of the project got delayed which

entailed extra expenditure in shape of enhancement in the estimate. The cost of the project included under commercial category estimated at Rs.42.54 lakh in the year 1999-2000 was raised to Rs.54.04 lakh and the work was put to tender in 2007. The construction of Kalayan Mandap estimated at Rs. 28.00 lakh which was due for completion in June 2007 remained incomplete as of March 2009. Loss of revenue and interest liability could not be assessed due to non-availability of the project reports.

Balugaon NAC

The NAC received approval for eight projects with sanctioned outlay of Rs. 45.90 lakh, which consisted of three remunerative projects. The NAC received funds of Rs.23.33 lakh consisting of both Central and State assistance during 2001-02 and 2002-03 for execution of the project. The NAC was able to complete only one project as of March 2009 leaving one project incomplete and other one abandoned due to shortage of funds. The construction of Yatri Nivas, which was due for completion by March 2003, remained incomplete as the contractor left the work in the midway. The projected amount of revenue to be collected from the Yatri Nivas was Rs.7.90 lakh per annum and for the delay in completion of the project of six years, there was loss of revenue of Rs. 47.40 lakh.

2.27 Improper expenditure policy

For any institution to grow, it has to pursue the requisite expenditure policy that would provide impetus for acquisition of revenue productive infrastructure. In the test checked ULBs, the available funds were utilised without following the above principle due to which the revenue earning asset generation of the ULBs during the past five years was "nil" except ULBs like BMC and Junagarh NAC. The principle adopted by the other ULBs was to distribute the available funds amongst the wards, which had led to thin spreading of funds over a number of projects leaving no scope for acquisition of assets with bigger costs.

evolved on the delivery of service provided by the ULBs and quantity of revenue generated from the provision of the services for levy of taxes and revision of rates.

2.32 Conclusion

Despite the functional autonomy given to the ULBs, they remained incapable of expanding their resource base due to low capacity building to administer and enforce the tax measures. The State Government had failed in its mundane duty in moulding the system of governance of the ULBs which were inept in the hands of self serving political bodies that were apathetic to levy tax for political considerations. The meagre amount of revenue generated internally by the ULBs was grossly misutilised towards payment of salary to staff and settling other committed liabilities leaving hardly any amount for capital formation and basic service provisions. There were manifestations of financial indiscipline, lack of accountability in optimal utilisation of funds and improper management of revenue earning assets, which caused loss of revenue to the ULBs. For providing civic services, the ULBs, continued to heavily rely on the State/Central Government's grants. After more than one and half decades of enactment of the 74th Constitution Amendment Act, the objectives of achieving inclusive growth with self governance remained a distant possibility. With inadequate resource base, the ULBs failed to build up the infrastructure for providing qualitative services to the people, rather as per the ground realities, the ULBs of the State lived in the past showing a rural face. They lacked both vision and conviction of becoming self-dependent.

2.33 Recommendation

- Financial Management requires strengthening, at ULB level, necessary arrangement for assessment, regular revision and timely collection of earnings and immediate conversion of assets into revenue earning assets as also adjustment of advances timely. Similarly tight budgeting control over scarce resources need to be exercised to avoid idle/unfruitful investments, misutilisation/diversion and avoidable costs.
- Devolution of resources through levy of taxes/assignment of taxation powers may be reviewed at State Government level to augment additional revenues of ULBs and funds recommended by SFC and funds received from GOI may be made available to ULBs timely. Tax/non-tax recovery mechanism may be strengthened.
- Costing of service charges wherever required may be introduced and assets created may be converted into revenue earning assets wherever possible.

CHAPTER III

TRANSACTION AUDIT

The District Works Execution Committee took a decision in January 2003 to construct a Bus stand in village Mukundpur/Durgapur in the suburb of Jagatsinghpur town with an estimated cost of Rs 10.00 lakh. Scrutiny of records of Jagatsingpur Municipality revealed that the Municipality had not prepared a detailed plan and estimate for execution of the above work and expenditure of Rs 24.52 lakh had been incurred in piece-meal basis between 2003-04 and 2005-06 **(Appendix-XII)** and still the work remained incomplete.

Joint verification of the site made by a team of engineers[†] as per the instructions of the District Planning Committee, reported in February 2007 that the works were in damaged condition due to misuse of the area by outsiders. The team suggested that an additional fund of Rs 81.55 lakh is required to make the bus stand operative.

Thus, lack of proper planning and improper utilization of funds resulted in non-completion of the bus stand rendering the expenditure of Rs 24.52 lakh unproductive.

3.3 Loss of funds due to non-adjustment of advance

As per Rule 138 of the Orissa Municipal Rules, 1953, advances made to individuals/ contractors/suppliers for departmental purposes should be promptly adjusted and the unspent balances refunded/recovered immediately. Government of Orissa, Finance Department (GOFD) letter (January 2006) and Rule 509 of OTC Vol-I provided that advances paid to Government servant and outsiders were to be adjusted promptly within a month. Further GOFD Circular (February 2002) specifically reiterated that unadjusted advances of more than one year shall be treated as a loss and disciplinary action shall be initiated against the officers concerned.

Scrutiny of records of CMC (November 2008) revealed that an amount of Rs.48.45 lakh paid as works advance was lying unadjusted against the following two officials.

[†] (i) Executive Engineer, DRDA, Jagatsinghpur, (ii) Municipal Engineer, Jagatsinghpur Municipality, (iii) Asst. Engineer (R&B) and (iv) Junior Engineer, Jagatsinghpur Municipality.

Name	Amount (Rs.)	Period of payment
Sri Biren Ch. Mohanty, AE	Rs.12,85,032	1997-98 to 1999-2000
Sri Padma Ch. Nayak, JE	Rs.35,59,497	Not available
Total:	**Rs.48,44,529 or say Rs.48.45 lakh**	

The above officials after transfer from the CMC retired from the service without adjustment of their outstanding advances. The H & UD Department directed (August 2006) the CMC to initiate criminal proceedings against the delinquent officials and called for a detailed report on the action taken by CMC for adjustment of the advances. However, no action was taken by CMC for adjustment of the outstanding advance so far.

Due to non-adherence of the codal provision, there was loss of Rs 48.45 lakh to CMC by way of works advance, given to the officials.

Apart from this, in nine test checked ULBs, it was further revealed that advances of Rs 64.22 crore **(Appendix-XIII)** had not been adjusted and were outstanding for a long time. On a detailed scrutiny of the advances, it was observed that no age wise detail of the advances was on record. It was also noticed that advances were pending from 1988 onwards. The ULBs did not take any effort for adjustment of advances despite repeated audit observations.

On being pointed out, the ULBs agreed (2008-09) to recover the advances early. As the advances were outstanding for a pretty long period the possibility of their recovery was remote.

3.4 Loss due to parking of scheme funds in P.L. Account

Guidelines in respect of Centrally Sponsored Schemes stipulate that both Central and State share of the funds shall be kept in interest bearing savings bank accounts. The interest earned on these accounts shall be treated as additional grant of the schemes. Scrutiny of records revealed that CMC had kept a total of monthly minimum balances of (Rs 8.8 crore Rs 106.43 crore +12) in Personal Ledger (PL) Account during 2007-08 instead of keeping the

same in interest bearing savings bank account. This resulted in loss of interest of Rs 31.04 lakh (Rs.106.43 crore ÷ 12 × 3.5) for the period from April 2007 to March 2008 to the scheme funds calculated on the minimum balance at the prevailing simple rate of interest of 3.5 *percent* per annum.

3.5 Undue favour to contractor by way of supply of materials worth Rs. 16.89 lakh

The BMC was executing the cleaning, sweeping, waste removal and other civic functions mainly through outside agencies. An agreement had been executed with six private agencies for execution of the above work on a monthly lump sum basis and the amount of the contract includes cost of all other expenses for utilization of machineries such as T & P charges.

As per Government instructions (November 2007), BMC had purchased (January 2008) sweeping equipment for its own use from M/s Prabhu Dayal Om Prakash, New Delhi (Rs.4.15 lakh) and from M/s Syntex Industries Limited, Kolkota (Rs.25.76 lakh) and the materials were received in May 2008. On request of Private Agencies Municipal Commissioner issued various items amounting to Rs. 16.89 lakh free of cost (Tricycle-22, push cart – 212 @ Rs14502 and Rs 6462 each respectively) though as per the terms of the contract private agencies had to arrange these items for cleaning and sweeping purpose.

As the private agencies were assigned with sanitation works on lump sum monthly contract basis, supply of equipments at the cost of the Corporation without collection of hire charges resulted in a loss of earning and extension of undue favour to the contractors.

On being pointed out, BMC did not furnish any reply.

3.6 Pre-mature encashment of Term Deposits resulted in loss of interest

Section 115 of Orissa Municipal Act, 1950 read with Rule 148 of Orissa Municipal Rules, 1953 provide that Municipalities may invest any surplus funds not required for immediate use either in Government securities or in other securities approved by Government.

Scrutiny of records (January and March 2009) of NAC, Belpahar revealed that an amount of Rs.3.63 crore being the Octroi duty received from Tata Refractory Ltd (TRL) based on Court order was deposited in a Savings Bank Account of SBI, Samada. Of this, Rs 1.00 crore was invested in a five year term(s) deposits and Rs 2 crore in February 2001 for one year term deposit. When TRL's case for refund of Octroi was rejected in appeal (December 2005), the Term Deposits Receipt (TDR) were encashed by the NAC and an amount of Rs 3.88 crore (including interest) was transferred to current account. As the NAC was invariably maintaining cash balance exceeding Rs 3.10 crore on each day in the P.L and current accounts, there was no immediate requirement of cash and hence encashment of interest bearing deposit was unwarranted. Further, due to premature encashment of securities, the bank recovered a sum of Rs 9.43 lakh from the amount of interest due to the NAC till date of encashment.

Thus, premature encashment of term deposits of Rs 3.00 crore without specific requirement and parking the same in current and PL account resulted in avoidable loss of interest of Rs 56.25 lakh calculated at a minimum of 6.25 *per cent* per annum during the period from February 2006 to January 2009.

The matter was referred (April 2009) to the Commissioner-cum-Secretary to the Government of Orissa, H&UD Department and reply awaited (July 2009).

3.7 Excess payment on computerization of database.

CMC maintained computerized data base on birth and death since May 2002 and prior to that the same was maintained manually. The Corporation decided (July 2005) to computerise the database on birth and death prior to May 2002 (From 1975 to 2001) also. Accordingly, tenders were called for (June 2006) and the work was entrusted to M/S DIGIPRO INDIA being the lowest bidder @ 14 paise for each birth field entry and 16 paise for death field entry which was inclusive of VAT @ 12.5 percent of the value of work.

Scrutiny of records revealed that the manual records on birth and death contains a maximum of 25 and 21fields respectively. As against the actual fields required for the data base, CMC created 39 and 33 fields for computerization of old data for which no

data was available in manual records which resulted in creation of excess data base fields of 14 and 12 respectively. Due to excess creation of data base field there was an excess payment of Rs 10.66 lakh to the firm as given below:-

Nature	Actual payment made	Amount for required fields	Extra payment made.
Birth	Rs. 2128713.00	Rs. 1364560.00	Rs. 764153.00
Death	Rs. 831415.00	Rs. 529082.00	Rs. 302333.00
		Total	**Rs. 1066486.00**

Apart from above, CMC made payment of Rs 3.63 lakh towards VAT to the firm, which was not admissible since the rate was inclusive of VAT. Hence there was a total excess payment of Rs 14.29 lakh to the firm, for the extra field not required.

On being pointed out, no reply was furnished by CMC.

3.8 Idle expenditure on purchase of Laparoscopic unit

BMC decided (April 2006) for establishment of one Laparoscopic unit in its hospital located at Old Town, Bhubaneswar. Tender was called for (September 2006) and the offer of M/S Vishal Surgical Equipment Company, Hyderabad was accepted. The firm supplied the equipments (August 2007) and the test operation of the unit was made (August 2007) by the Professor of Surgery, S.C.B.Medical College, Cuttack after which the firm was paid Rs 20.50 lakh (July 2008).

Scrutiny of records (January 2009) revealed that BMC hospital had no Surgery Specialist and other trained personnel for operation of the Laparoscopic unit. In the absence of qualified persons for operation, the unit could not be put to use and the entire unit was lying idle since the date of its installation (August 2007).

Injudicious decision of BMC to establish Laparoscopic unit without having supporting qualified doctors for operation and maintenance resulted in idle expenditure of Rs 20.50 lakh. On being pointed out, no reply was furnished by BMC (March 2009).

3.9 Extra expenditure due to non-acceptance of valid tender.

BMC took the construction of a Kalyana Mandap at VSS Nagar in Bhubaneswar at an estimated cost of Rs 22.42 lakh. The work was put to tender (May 2006) and five tenderers submitted quotations for the work. The first lowest tenderer was asked to execute the work (September 2006) at a tender value of Rs 11.33 lakh. As the tenderer did not turn up, the tender was cancelled by the Standing Committee and no attempt was made to negotiate with the second lowest tenderer whose quoted rate was Rs 11.75 lakh. Fresh tenders were again invited (March 2007) and awarded to the lowest tenderer at his quoted rate of Rs 20.21 lakh. The contractor executed (October 2007) the work at his quoted rate.

Had the work been awarded to the second lowest tenderer after proper negotiation the extra expenditure of Rs 8.46 lakh paid due to invitation of fresh tender could have been avoided.

In another case, tenders were invited by BMC (February 2006) for construction of drain from Institute of Hotel Management to Badambadi Chhak of VSS Nagar at an estimated cost of Rs 16.72 lakh. Three tenderers offered their rates and the lowest tender of Rs 13.77 lakh was accepted. As the contractor did not turn up, the tender was cancelled (December 2006). In this case also, BMC did not make any attempt to go for the second lowest tenderer (Rs 14.52 lakh) and instead fresh tenders were invited (March 2007) and the work was entrusted to the lowest tenderer at an offered price of Rs 18.38 lakh. The work was completed by the contractor at an expenditure of Rs 17.22 lakh (November 2008) and BMC incurred an avoidable extra expenditure of Rs.2.70 lakh.

On this being pointed out, no reply was furnished by the BMC.

3.10 Avoidable expenditure towards departmental charges.

Developmental works such as construction of road, drain, water supply, sanitation, and street lighting etc. are executed by BMC through engagement of contractors. These works were executed under the supervision of two Executive Engineers, Assistant Engineers and Junior Engineers posted in BMC. BMC obtained the services of two

Executive Engineers from P.H Department on deputation for supervision of water supply and sanitation works.

Scrutiny of records revealed that BMC has paid Rs 24.04 lakh (one *percent* towards contingencies and 17 *percent* towards departmental charges) to the P.H.Division III for installation of 194 tube wells for the year 2007-08 (100) and 2008-09 (94) despite availability of sufficient engineers for supervision of the works.

Thus payment of 18 *percent* of the total cost of the work (Rs. 133.57 lakh) i.e. Rs.24.04 lakh towards departmental charges for supervision of the work was avoidable.

3.11 Idle investment due to non-allotment of Market complex

CMC completed (November 2006) construction of one market complex with 22 shopping units at Chaudhury Bazar, Cuttack at a cost or Rs 13.36 lakh. As per the Project Report, the offset price of one shopping unit was Rs 800 per month. These shopping units were to be allotted through public auction. No auction was conducted by the CMC for allotment of these shopping units. Due to non allotment of the shopping unit by the CMC even after the lapse of two years since its completion, there was a loss of revenue of Rs 4.22 lakh besides idle investment of Rs.13.36 lakh.

3.12 Incomplete Valmiki Ambedkar Awas Yojana Houses

In six test checked ULBs out of 586 houses taken up for construction under Valmiki Ambedkar Awas Yojana (VAMBAY)[‡], 376 houses on which an amount of Rs.62.25 lakh was incurred, were still lying incomplete (April 2009). The concerned beneficiaries did not avail all the four/five instalments to complete these houses and were left at different stages of construction **(Appendix-XIV).**

Thus, a sum of Rs.62.25 lakh spent on these incomplete houses became unfruitful and 376 homeless beneficiaries were deprived of getting a dwelling unit.

‡ Vambay is a centrally sponsored housing scheme launched during 2001-02 for the benefit of slum dwellers in urban areas.

The E.O, Anandpur Municipality and the EO, Chatrapur NAC, attributed (March 2009) the non-completion of VAMBAY houses to lack of interest by the concerned beneficiaries, whereas in the remaining four selected ULBs, non completion was mainly due to non release of requisite Central Subsidy for want of deposit of matching share by the ULBs, delayed submission of UCs and non construction of house in time. Even though BMC deposited the balance matching share of Rs.30 lakh in the designated VAMBAY account, release of matching Central Subsidy was not considered by HUDCO and no reasons were on record.

3.13 Loss of Central subsidy

As per the VAMBAY scheme, Central Subsidy (CS) of 50 *percent* would be released by HUDCO through State Urban Development Agency (SUDA) only after deposit of State matching share of 50 *percent* by the ULBs in their VAMBAY accounts and submission of utilization certificates by SUDA to HUDCO.

During 2002-06, proposals were submitted (24 ULBs) for construction of 1564 VAMBAY houses for which CS of Rs.3.13 crore (Rs.20, 000 per DU) was to be released by HUDCO. As per the proposal, State matching share of Rs 3.13 crore was to be deposited by the ULBs in their designated VAMBAY accounts against which only Rs 2.16 crore was deposited. Despite deposit of State matching share of Rs.2.16 crore for 1080 DUs by the ULBs, CS of only Rs 1.24 crore was released by HUDCO for 620 DUs resulting a short release of Rs 91.90 lakh (Rs 215.90 lakh – Rs 124.00 lakh). Further, due to short deposit of the State matching share of Rs 96.90 lakh (Rs 312.80 lakh – Rs 215.90 lakh) by the ULBs, there was non-release of CS to that extent.

Thus there was total loss of CS Rs 1.89 crore (Rs 91.90 lakh + Rs 96.90 lakh) during the above period.

3.14 Allotment of VAMBAY house to non-slum dwellers

The target group under VAMBAY is slum dwellers who do not possess any house. In Anandpur Municipality, out of 50 VAMBAY houses, 40 houses were allotted to non slum dwellers. A sum of Rs.15.76 lakh was spent on the construction of these houses which included CS for Rs 8 lakh. Thus scheme funds to that extent were misutilised.

On this being pointed out, the EO, Anandpur Municipality replied that the houses were allotted to the beneficiaries as per resolution of the Municipal Council. The reply is not acceptable as the decision of the Municipal Council violated the guidelines and spirit of the scheme.

3.15 Diversion of National Slum Development Programme (NSDP) funds

The guidelines of NSDP envisage that funds released under the scheme is to be utilised only for upgradation of slum. Out of Rs.40.92 lakh allotted to Rayagada Municipality under NSDP for 2004-05, a sum of Rs.22.12 lakh was utilised on 51 projects (seven roads, 21 drains, two Solid Waste Management projects and 21 Electricity Projects) in areas other than slums during 2005-06 to 2007-08. Thus, the slum dwellers of the municipality were deprived of getting benefit of the scheme to that extent.

On being pointed out, the E.O, Rayagada Municipality stated that the council had resolved to undertake same volume of work in slum areas in order to compensate the diversion of funds. But works were not taken up in any slum areas as of April-2009.

Similarly in Anandpur Municipality and Bargarh Municipality, Rs.3.52 lakh and Rs.0.50 lakh were utilised towards purchase of electrical fitting (2006-07) and purchase of chairs and durry (May 2007) respectively. The Electrical fittings were utilised mainly in non-slum areas in Anandpur Municipality, whereas the chairs and durry were retained by the Bargarh Municipality for office use and meetings. Thus scheme funds to the tune of Rs.4.02 lakh was diverted for other purposes and misutilised by these two Municipalities.

3.16 Irregular Expenditure

There are 377 slums including 279 non-recognised slums in BMC area. Against the allotment of Rs.1.56 crore to BMC under NSDP for 2004-05, Rs.68.19 lakh (44 *percent*) was utilised in 81 projects undertaken in non-recognised slums during 2005-08. Since developmental activity in non-recognised slums would encourage mushrooming of more slums and illegal encroachment of corporation/government land, these projects should not have been executed.

In reply the Slum Improvement Officer (SI0), BMC replied that the works were under taken due to demand of slum dwellers and as per the approval of the BMC. The reply is not acceptable as it violates the spirit of the scheme guidelines.

3.17 Non payment of loan installments and interest

The loan component of NSDP (70 *percent* of the NSDP funds) carried interest ranging from 10 *percent* to 14 *percent* fixed by the GOI from time to time. As per the conditions of sanction, the period of loan was 20 years and 50 *percent* of the loan was to be recovered from the ULBs in 20 equal annual installments. The balance 50 *percent* enjoyed five years grace period, after which repayment would be effected in 15 annual equal instalments. In the event of default in repayment of principal and/or interest, 2.75 *percent* extra would be charged on all the overdue installments.

Scrutiny of loan ledger maintained by the H&UD Department revealed that against the release of loans for Rs.20.95 crore under the scheme to 103 ULBs from November 1999 onwards, Rs.18.25 crore towards principal was outstanding as of March 2008. Out of 103 ULBs in the State, only 10 ULBs have fully cleared up their loans and interest thereon. The remaining 93 ULBs defaulted the payment of principal as well as interest due there on. Over due principal of Rs.2.31 crore and cumulative overdue interest of Rs.7.51 crore were pending for recovery from these 93 ULBs.

On being pointed out, it was stated that as the financial condition of most of the ULBs was not sound, they were unable to repay the outstanding loan. Reply of H&UD Department is contrary to actual financial position of the ULBs who had surplus funds. However, part of the outstanding dues were being recovered regularly from octroi compensation grants of the defaulted ULBs.

3.18 Non provision of shelter for slum dwellers

As per the guidelines, 10 *percent* of the allocation to State under the scheme should be utilised for construction and /or upgradation of houses for the urban poor. A sum of Rs.64.20 lakh (10 *percent* of Rs 642.00 lakh of NSDP funds released to ULBs in 2005-06) should have been utilised for construction of 128 new houses (Rs.40,000 per unit) and up gradation of 65 existing houses (Rs.20,000 per unit) against which only 31 new houses were constructed as reported by SUDA in 2005-06. In 11 test checked ULBs, neither any new house was constructed nor any existing house upgraded.

The Executive Officers concerned stated that provision for shelter could not be made due to insufficient release of funds. The reply was not acceptable in view of the fact that funds available with the ULBs were utilised by them fully.

05/03/10

5 MAR 2010

Bhubaneswar
The------ day of-------2010

(S. Palit)
Deputy Accountant General
(Local Bodies Audit & Accounts),
O/o the Principal Accountant General (CA)
Orissa, Bhubaneswar.

Countersigned

5 MAR 2010

Bhubaneswar
The------ day of-------2010

(B.R.KHAIRNAR)
Principal Accountant General (Civil Audit)
Orissa, Bhubaneswar.

APPENDICES

Appendix-I
Assignment of taxation powers to ULBs

(Ref. Para 2.4; Page-09)

The Urban Local Bodies in the State are starving for funds and have no expandable tax-base. The commission for the same reasons recommend (in Chapter-VI) for the following taxation measures in respect of ULBs.

1. Possession tax on encroached land (Para 6.68 to 6.69)
2. Turnover tax on Commercial Agricultural Farms (Para 6.70)
3. Livestock Registration and Licence Fee (Para 6.71)
4. Capital / Property Transaction Fee (Para 6.73)
5. Population Welfare Cess (Para 16.74)
6. Pisciculture Cess (Para 6.75 to 6.77)
7. Education, Environment and Health Care Cess on Industries (Para 6.78)
8. Education, Environment and Health Care Cess on Mines (Para 6.79)
9. Education, Environment and Health Care Cess on Ports and Jetties (Para6.80)
10. Education, Environment and Health Care Cess on Power Plants (Para 6.81)
11. Parking Fee (Para 6.82)
12. Licence Fees from shops on the basis of annual turnover (Para 6.84)
13. Local Body Health Fee from Private Hospitals and Nursing Homes (Para 6.88)
14. Pilgrim Fee (Para 6.89)

Appendix-II
Statement showing the delay in revision of Annual value of holdings

(Ref. Para 2.7 ; Page-11)

Name of the ULB	Year of last revision	Percentage of taxation	Revision due on	Revision done	Period of delay
Gopalpur NAC	1995-96	[$]HT-6 LT-6 WT-7	2000-01	--	9 years
Jaleswar NAC	1994-95	HT-3 LT-2	1999-2000	2007-08	8 years
Balasore Munici-pality	1995-96	HT-2 LT-5 WT-5	2001-02		6years
Cuttack Municipal Corpn.	1961-62	Total Taxation-20.5	1967-68		41 years
Sunabeda NAC	2002-03	HT-5 LT-5 DT-2.5 WT-2.5	2007-08		1 year
Junagarh NAC	1995-96	HT-5 LT-3 WT-3	2000-01		9 year
Belpahar NAC	1995-96	HT-6 LT-1	2000-01	2008-09	9 years
Rourkela (CT) Rourkela (ST)	1993-94	HT-5(10) LT-5(0.1) DT-2 (Nil) WT-3(Nil)	1999-2000		10 years
Bolangir Municipal	2002-03	HT-2 LT-1.75 WT-2	2007-08		1 year
Soro NAC	1988-89	HT-5 LT-3 WT-3	--	--	--
Nayagarh NAC	1995-96	HT-6 LT-4 WT-3	--	--	--
Paradeep Munici-pality	2001-02	HT-10	--	--	--

[$] HT-Holding Tax, LT-Latrine Tax, DT-Drainage Tax and WT-Water Tax.

Name of the ULB	Year of last revision	Percentage of taxation	Revision due on	Revision done	Period of delay
Pattamun-dai NAC	1997-98	HT-3	--	--	--
Balugaon NAC	1995-96	HT-4 LT-3			
Bhubane-swar Munc. Corpn	1995	HT-8 LT-3	2005		
Nowaran-gpur Munici-pality	2003	HT-2 LT-7 WT-6	Not due		
Udala NAC	1996	HT-4 LT-2 DT-2	2001 – 02	--	6 years

Appendix-V (i)

Statement showing the demand, collection and balance of taxes of the 17 test checked ULBs for the year 2003-04 to 2007-08.

(Ref. Para 2.15; Page-16)

(Rupees in lakh)

Year	Demand	Collection	Balance
2003-04	1831.68	858.10	972.98
2004-05	1767.53	715.11	1052.42
2005-06	2265.67	1120.95	1144.72
2006-07	2457.70	1252.20	1205.50
2007-08	2675.43	1410.76	1264.67

Appendix -V (ii)

Statement showing the rate of collection of taxes to the demands during 2003-04 to 2007-08 of the Test checked ULBs.

(Ref. Para 2.15; Page-16)

(Rupees in lakh)

Sl No.	Category of ULBs as per range of collection in percentage	Name of the Unit	Percentage of rate of collection to the demand during 2003-04 to 2007-08	Total demand as on 1.4.07	Balance as on 31.03.08	Percentage of balance of 31.3.08 to the demand on 1.4.07
1.	Below 30	E.O, Balugaon NAC	9.64 to 18.47	28.86	23.54	81.57
2.		E.O, Nayagarh NAC	11.21 to 25.87	39.29	30.41	77.40
3.		E.O, Udala NAC	7.94 to 21.34	10.45	9.61	91.96
4.		E.O, Sunabeda NAC	7.99 to 11.43	109.29	97.83	89.51
5.		E.O,Bolangir Municipality	14.49 to 20.42	56.66	48.45	85.51
6.		E.O,Belpahar Municipality	1.42 to 2.48	81.59	80.15	98.23
7.		E.O,Rourkela Municipality	19.22to29.73	282.29	198.38	70.27
8.	31 to 50	E.O, Gopalpur NAC	25.65 to 38.54	10.76	8.00	74.35
9.		E.O,Pattamundai NAC	32.12 to 47.35	8.05	4.89	60.75
10.		E.O, Junagarh NAC	25.49 to 38.15	9.15	6.08	66.45
11.		E.O,Balasore Municipality	30.89 to 36.52	84.88	53.88	63.48
12.		E.O,Paradeep Municipality	5.72 to 33.53	121.28	114.34	94.28
13.		E.O,Nabarangpur Municipality	25.86 to 37.82	45.98	34.08	74.12
14.	51 to 71	E.O, Jaleswar NAC	64.55 to 70.85	5.55	1.76	31.71
15.		E.O, Soro NAC	44.09 to 63.46	11.59	6.28	54.18
16.		Commissioner, CMC	58.95 to 64.09	357.41	136.85	38.29
17.		Commissioner, BMC	56.17 to 70.96	1412.35	410.12	29.04
			Total	**2675.43**	**1264.65**	**47.26**

Appendix -V (iii)

Statement showing the unit wise per capita income of Tax Revenue of the ULBs

(Ref. Para 2.15; Page-16)

(Rupees in lakh)

Sl No.	Name of the ULB	Tax Revenue as on 31.03.08 (Rs. in lakh)	Population as per 2001 census	Per capita tax (Rupees)
1.	Balasore Municipality	31.00	1,06,082	29.22
2.	Jaleswar NAC	3.79	21,387	17.72
3.	Gopalpur NAC	2.76	6,663	41.42
4.	Commissioner CMC	220.54	5,34,654	41.25
5.	Balugaon NAC	5.33	15,823	33.69
6.	Paradeep Municipality	6.94	73,625	9.43
7.	Pattamundai NAC	3.16	32,730	9.65
8.	Nayagarh NAC	8.88	14,314	62.04
9.	Soro NAC	5.31	27,794	19.10
10.	Udala NAC	0.83	11,712	7.09
11.	Bolangir Municipality	8.21	85,261	9.63
12	Rourkela Municipality (Civil Town)	60.62	2,24,987	37.30
	Rourkela Municipality (steel Town)	23.29		
13.	Belpahar Municipality	1.43	32,826	4.36
14.	Junagarh NAC	3.08	15,759	19.54
15.	Nabarangpur Municipality	11.89	28,005	42.46
16.	Sunabeda NAC	11.46	58,884	19.46
17.	BMC, Bhubaneswar	1002.24	648032	154.65

Appendix-VI

Statement showing Loss of revenue due to non-tapping of Sairat sources

(Ref. Para 2.20; Page-17)

(Rupees in lakh)

Sl No.	Name of the Test checked units.	Nature of source	Loss of Revenue during 2003-04 to 2007-08
1.	Balasore Municipality	Pisciculture tanks	0.51
2.	Jaleswar NAC	Tank and ferry ghat	0.11
3.	Gopalpur NAC	Brakish water, ferry ghat cabin rent & Beach parking	1.84
4.	Balugaon NAC	Pisciculture tank & kine house	0.48
5.	Nayagarh NAC	Pisciculture Tank	0.22
6.	Udala NAC	Cattle Pond, Tank	0.17
7.	Bolangir Municipality	Tank, Slaughter House cycle stand	2.73
8.	Rourkela Municipality	Kine House, Hat truck parking space sauchalaya	17.19
9.	Junagarh NAC	Tank, Kine house	0.59
10.	Sunabeda NAC	Tank, Ferryghat, Slaughter house	5.47
		Total	**29.31**

Appendix-VII

Statement showing Loss of Revenue due to Non-allotment of shopping units

(Ref. Para 2.21 ; Page-18)

(Rupees in lakh)

Sl No.	Name of the Unit	Nature	No of shops	Loss of Revenue as on March 2008
1.	Paradip Municipality	Non allotment of shops/sheds	8	8.10
2.	Pattamundai NAC	-do-	26	4.86
3.	Balugaon NAC	Non-allotment shops/sheds	4	1.62
4.	Bolangir	Non-allotment shops/sheds	3	4.16
5.	Nabarangpur Municipality	-do-	20	2.41
6.	CMC, Cuttack	Non allotment of shops Idle market	27	5.74
		Total	**88**	**26.89**

Appendix-VIII

Statement showing the outstanding dues of shop room rent/ licence fee

(Ref. Para 2.21 ; Page-18)

(Rupees in lakh)

Sl No.	Name of the Unit	Outstanding shop room rent as on March 2008
1.	Nayagarh NAC	0.15
2.	Bolangir Municipality	14.60
3.	Rourkela Municipality	11.20
4.	Rourkela Steel township	6.10
5.	Belpahar Municipality	9.12
6.	Junagarh NAC	3.18
7.	Nabarangpur Municipality	1.82
	Total:	**46.17**

Appendix-IX

Statement showing the CMC land under unauthorized possession

(Ref. Para 2.23 ; Page-19)

(Rupees in lakh)

Number of the Unit	Place	Area in acre	Rate per acre	Value	Remarks
25	Jobra	2.464	75.00	184.80	Encroachment
13	Chandinichowk	0.600	87.50	52.50	-do-
26	Sikharpur	9.060	75.00	679.50	-do-
6	Uttar Deula Sahi	4.527	75.00	339.53	-do-
11	Oriya Bazar	0.207	70.00	14.49	Subjudice
20	Cuttack Town	0.164	100.00	16.40	-do-
37	Badambadi	1.086	100.00	108.60	-do-
22	Markand Patna	0.098	150.00	14.70	-do-
		18.206		1410.52 or 14.11 crore	

Appendix-X

Statement showing the Details of loan repayment with interest

(Ref. Para 2.25 ; Page-19)

(Rupees.in lakh)

No.	Name of the ULBs	Amount of loan availed	Principal Amount	Interest
1.	Paradeep Municipality	Nil		
4.	CMC	256.26 (1997-98 to 2005)	17.61	77.27
1.	Balasore Municipality	Nil	--	--
11.	Bolangir Municipality	Nil	--	--
15.	Nowarangpur Municipality	10.40 (1999 to 2005)	0.37	1.67
5.	Balugaon NAC	2.90 (1999 to 2005)	0.39	2.22
7.	Pattamundai NAC	Nil		
17.	BMC	252.59	54.13	202.52
16.	Sunabeda NAC	--	--	--
3.	Gopalpur NAC	--	--	--
2.	Jaleswar NAC	--	--	--
13.	Belpahar Municipality	--	--	--
10.	Udala NAC	14.50 (1998-2002)	1.51	9.06
9.	Soro NAC	--	--	--
8.	Nayagarh NAC	35.00 (1999-2007)	0.65	10.06
14.	Junagarh NAC	--	--	--
12.	Rourkela Municipality	59.30 (96-97 to 99-2000)	NA	NA
	Total	**630.95**	**74.66**	**302.80**

Appendix-XI

Statement showing excess expenditure on Establishment charges

(Ref. Para 2.28 ; Page-23)

Sl No.	Name of the ULB / Period	Percentage of Revenue collection to total expenditure	Percentage of Establishment expenditure. to revenue collection	Percentage of Revenue to cost of collection
1.	BMC , (05-06 to 06-07)	21.55 to 24.22	11.72-24.00	
2.	Sunabeda NAC (06-04 to 07-08)	7.52 to 11.65	23.63-43.63	36.53 -56.35
3.	Belpahar Municipality (03-04 to 07-08)	10.00- 36.47	37.61-140.44	31.70 – 71.30
4.	Junagarh NAC (03-04 to 07-08)	5.62-19.46	31.31-71.04	43.15 to 142.32
5.	Rourkela Municipality	11.01-17.58	10.73-23.63	28.19 – 42.04
6.	Udala NAC (05-06 to 06-07)	7.35-23.04	45.52-77.81	72.50 – 121.43
7.	Soro NAC (03-04 to 07-08)	6.28-16.51	40.30-126.44	113.57 – 222.29
8.	Nayagarh NAC (05-06 to 07-08)	16.72 –20.01	13.48-15.89	-------
9.	Pattamundai NAC (03-04 to 07-08)		25.00-157.87	-------
10.	Paradeep Municipality (03-04 to 07-08)	18.51-202.16	11.16-58.95	------
11.	Balugaon NAC (03-04 to 06-07)	10.58-20.15	10.64-13.66	60.00
12.	CMC (04-05 to 06-07)		433.58-517.56	----
132.	Nabarangpur MC (03-04 to 07-08)	9.91-33.61	16.34-57.32	10.34-38.98
14.	Gopalpur NAC (03-04 to 06-07)	--	28.41-44.95	

Appendix-XII

Statement of Unfruitful expenditure on construction of Bus Stand.

(Ref. Para 3.2; Page-27)

(Rupees in lakh)

Sl.No	Details of works	Sources of funds	Amount (Rupees in lakh)
1.	Construction of Platform	Special Problem fund	02.27
2.	Construction of Boundary wall	Special Problem fund	05.32
3.	Construction of Bus stand	MPLAD	01.99
4.	Construction of Platform	MPLAD	09.03
5.	Construction of Platform and Boundary wall	MLALAD	03.50
6.	Construction of Bus stand	Municipal fund	02.41
		Total:	**24.52**

APPENDIX-XIII

Statement on outstanding Advance

(Ref. Para 3.3; Page-28)

(Rupees in lakh)

Sl No.	Name of the ULBs	Period	Amount
Municipal Corporation			
1	Bhubaneswar	1988 to 2008	6142.37
2	Cuttack	1997 to 2000	48.45
Municipality			
1	Biramitrapur	1991 to 2008	104.13
2	Karanjia	1999 to 2008	7.73
3	Deogarh	1991 to 2008	70.98
4	Patnagarh	2000 to 2008	6.13
5	Baripada	1968 to 2008	15.00
N A C			
1	Burla	1995 to 2008	13.19
	Khariar	1971 to2008	5.44
2	Gunupur	2004 to 2008	8.86
		Total	**6422.28**

Appendix-XIV

Statement showing incomplete VAMBAY houses

(Ref. Para 3.12 ; Page-34)

(Rupees in lakh)

Sl. No	Name of the ULBs	No of DUs for which Proposal submitted	No of DUs Sanctioned.	No of DUs taken up.	No of incomplete DUs.	Status of DUs				
						Work not started.	Plinth level.	Lintel Level	Roof level	Expenditure incurred on incomplete works.
1.	BMC	250	100	146	105	17	10	44	34	25.59
2.	Anandpur	50	50	50	7	-	-	-	7	2.36
3.	Bhadrak	41	19	53	21	-	-	21	-	4.20
4.	Puri	200	60	222	222	25	153	44	-	25.80
5.	Chatrapur	22	22	15	1	-	-	-	1	0.30
6.	Malkangiri	100	80	100	20	-	-	20	-	4.00
	Total	**663**	**331**	**586**	**376**	**42**	**163**	**129**	**42**	**62.25**

Glossary of abbreviations

A

AAP	Annual Action Plan
ATIR	Annual Technical Inspection Report

B

BMC	Bhubaneswar Municipal Corporation
BPL	Below Poverty Line

C

CDF	Community Development Funds
CDS	Community Development Society
CMC	Cuttack Municipal Corporation
CS	Central Subsidy
CSP	Centrally Sponsored Plan

D

DU	Dwelling Unit
DUDA	District Urban Development Agency

E

EFC	Eleventh Finance Commission
ELFA	Examiner Local Fund Audit
EO	Executive Officer
EWS	Economically Weaker Section

G

GOI	Government of India

H

HAL	Hindustan Aeronautics Ltd
H&UD	Housing & Urban Development
HUDCO	Housing and Urban Development Corporation

I

IDSMT	Infrastructure Development of Small and Medium Towns
IHSDP	Integrated Housing and Slum Development Programme
IR	Inspection Report

L

LBA&A	Local Bodies Audit and Accounts

M

MC	Municipal Corporation

N

NAC	Notified Area Council
NMAM	National Municipal Accounting Manual
NSDP	National Slum Development Programme

O

OMAM	Orissa Municipal Accounting Manual
OTC	Orissa Treasury Code

P

PL	Personal Ledger
PPL	Paradeep Phosphates Limited
PPT	Paradeep Port Trust

R

RMC	Regulatory Market Committee

S

SCA	Special Central Assistance
SFC	State Finance Commission
SIO	Slum Development Officer
SUDA	State Urban Development Agency

T

TAC	Town Advisory Committee
TFC	Twelfth Finance Commission
TGS	Technical Guidance and Supervision
TRL	Tata Refractory Limited

U

UC	Utilization Certificate
ULB	Urban Local Bodies
UEPA	Urban Employment and Poverty Alleviation

V

VAMBAY	Valmiki Ambedkar Awas Yojana

Printed at : GOPINATH OFFSET
RTS-35, Rasulgarh Industrial Estate, Bhubaneswar, Cell : 9437355694