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Report of the
Comptroller and Auditor General of India
on
Local Bodies

for the year ended 31 March 2016



Government of Assam

Report No. 2 of 2017

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GOVERNMENT OF ASSAM

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TABLE OF CONTENTS

Contents	Paragraph	Page (s)
Preface		v
Overview		vii-xii
PANCHAYATI RAJ INSTITUTIONS		
CHAPTER-I		
An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayati Raj Institutions		
Introduction	1.1	1
Organisational set-up in State Government and PRIs	1.2	2
Functioning of PRIs	1.3	2
Formation of various committees	1.4	4
Audit arrangement	1.5	5
Response to Audit Observations	1.6	6
Discussion of Audit Reports by Legislature	1.7	7
Ombudsman	1.8	7
Social Audit	1.9	7
Lokayukta	1.10	8
Submission of Budget	1.11	8
Submission of Utilisation Certificates	1.12	9
Internal Audit and Internal Control system in PRIs	1.13	9
Sources of funds	1.14	11
CHAPTER-II		
Compliance Audit of "Implementation of National Rural Livelihood Mission"		
Introduction	2.1	17
Audit Scope and Methodology	2.2	18
Deficiencies in planning	2.3	18
Allocation, release and utilisation of funds	2.4	22
Implementation	2.5	24
Monitoring and evaluation	2.6	30
Conclusion	2.7	31
Recommendations	2.8	32
CHAPTER-III		
Compliance Audit of PRIs		
Misappropriation at Golaghat Zilla Parishad (ZP)	3.1	33
Misappropriation at Sivasagar Anchalik Panchayat (AP)	3.2	34
Wasteful expenditure in Cachar ZP	3.3	35
Unfruitful expenditure in Agomoni AP	3.4	36
Idle expenditure in Lakhimpur ZP	3.5	38
Unfruitful expenditure in Kakodunga AP	3.6	40

URBAN LOCAL BODIES		
CHAPTER-IV		
An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Urban Local Bodies		
Introduction	4.1	43
Organisational set-up in State Government and ULBs	4.2	44
Functioning of ULBs	4.3	44
Formation of various Committees	4.4	45
Audit arrangements	4.5	46
Response to Audit observations	4.6	47
Ombudsman	4.7	48
Social Audit	4.8	48
Lokayukta	4.9	48
Budget formulation	4.10	49
Internal Audit and Internal Control system in ULBs	4.11	49
Sources of funds	4.12	51
CHAPTER-V		
Performance Audit of “Management of Own funds by Municipal Boards including collection of Revenue”		
Introduction	5.1	58
Sources of Revenue for Municipal Boards (MBs)	5.2	58
Organisational Set up	5.3	59
Audit Objectives	5.4	60
Audit Scope, Sampling and Methodology	5.5	60
Audit Criteria	5.6	60
Municipal Taxation	5.7	60
Municipal Finance	5.8	66
Municipal Infrastructure	5.9	69
Role of Government in mobilisation of revenue resources of the MBs.	5.10	70
Monitoring and Evaluation	5.11	71
Conclusion	5.12	71
Recommendations	5.13	72
CHAPTER-VI		
Compliance Audit of ULBs		
Expenditure on works not executed in Dokmoka Town Committee (TC)	6.1	73
Loss of revenue to Guwahati Municipal Corporation for making payment without verifying records submitted by NGOs.	6.2	74
Loss of revenue to Guwahati Municipal Corporation in collection of Municipal Solid Waste	6.3	76
Loss due to delayed implementation of Arbitration award by Guwahati Municipal Corporation	6.4	79
Undue advance extended to contractor by Dokmoka TC, leading to non-completion of project	6.5	81

APPENDICES		
Appendix No.	Details	Page (s)
I	Roles and Responsibilities of Standing Committees of PRIs.	85
II	Internal Control System at the level of PRIs	86
III	Statement showing details of PRIs which had not reconciled Cash Book with Bank Passbook	87
IV	Details of kist money collected and deposited in Bank	88
V	List of Taxes and Fees which MBs may impose as per the provisions of the Assam Municipal Act, 1956	89

OVERVIEW

OVERVIEW

This Report contains six chapters. The first and fourth chapters respectively contain an overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs). The second and third chapters respectively contain a Compliance Audit on “National Rural Livelihoods Mission” and Compliance audit paragraphs of PRIs. The fifth and sixth chapter respectively contain a Performance Audit of “Management of Own Fund by Municipal Boards including collection of Revenue” and Compliance audit paragraphs of ULBs. A synopsis of the findings is presented in this overview.

Chapter-I

An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of the PRIs in the State

The Administrative set up of panchayats in the State comprises of a three-tier system, Gram Panchayats (GPs) at the village level, Anchalik Panchayats (APs) at the intermediate level (co-terminus with Blocks) and Zilla Parishads (ZPs) at the District level. The Constitution enjoins the State Government to make appropriate legislation regarding devolution of powers and functions to the panchayats, in such a way as to enable them to function as Local Self Government Institutions (LSGIs)

(Paragraph 1.3.1)

The Third Assam State Finance Commission (TASFC) recommended a revised staffing pattern, of 30, 20 and 8, for each ZP, AP and GP respectively, from 2008-09. However, the revised staffing pattern recommended by TASFC was yet to be implemented by the Panchayat and Rural Development Department (PRDD).

(Paragraph 1.3.2)

Government of Assam (GoA) issued (June 2007), a notification regarding ‘Activity Mapping’, for 23 out of 29 subjects listed in the XIth Schedule of the Constitution of India, for devolution of ‘Funds’, ‘Functions’ and ‘Functionaries’ (3Fs) to the PRIs. Further, ‘Activity Mapping’ in respect of the remaining six subjects had not been completed (October 2016).

(Paragraph 1.3.3)

The Director of Audit, Local Fund (DALF), Assam, established under the Assam Local Funds (Accounts & Audit) Act, 1930 is the Primary Auditor of all tiers of PRIs in the State. There were arrears in the audit of PRIs, by the DALF, during the period 2011-16, ranging between 21 and 50 *per cent*.

(Paragraph 1.5.1.1)

Comptroller and Auditor General (CAG) of India conducts audit of substantially financed PRIs under Section 14 (1) of CAG’s (DPC) Act, 1971 and audit of specific grants to PRIs under Section 15 of the Act *ibid*. The audit of PRIs is also conducted by CAG under section 20 (1) of the Act, as per Technical Guidance and Support (TGS) arrangements. During April 2015 to March 2016, accounts of 80 PRIs (Four ZPs., 39 APs and 37 GPs) were audited.

(Paragraph 1.5.2)

PRI authorities are required to comply with the observations contained in the Inspection Reports (IRs), issued by the Accountant General, rectify the defects and omissions brought out in the IRs and report their compliance in this regard promptly, after the issue of IRs. However, since 2011-12, 5382 paragraphs with monetary value of ₹ 1535.38 crore were pending for settlement (March 2016) for want of replies from the concerned PRIs.

(Paragraph 1.6)

The primary objective of Social Audit (SA) is to bring the activities of PRIs under the close surveillance of people, to enable them to access the records and documents of PRIs.

In July 2014, the Government designated the State Institute of Rural Development (SIRD) as the Nodal Agency for conducting Social Audit of all Panchayati Raj Schemes and Rural Development Schemes of the Government of India (GoI)/GoA under PRDD. The State Institute of Rural Development (SIRD) conducted Social Audit of 2201 GPs during November 2014. However, the Social Audit Report is yet to be approved by the Government (October 2016).

(Paragraph 1.9)

Test-check of records, during 2015-16, revealed that there was short collection of *kist* (instalment) money of ₹ 2.10 crore in 21 PRIs which adversely affected revenue receipts of the PRIs to that extent.

(Paragraph 1.13.4)

The State Government had to pay penal interest of ₹ 12.03 crore to the PRIs for late release of the 13th Finance Commission award funds during the period 2011-12 to 2014-15.

(Paragraph 1.14.4)

Chapter-II

Audit of implementation of National Rural Livelihoods Mission (NRLM) in Assam

Swarnajayanti Gram Swarajgar Yojana (SGSY) launched (April 1999) as an integrated programme for self employment for rural poor was restructured in June 2011 as the National Rural Livelihoods Mission (NRLM). Some important features were:

- Adoption of demand-driven strategy for capacity building of women Self Help Groups (SHGs); and
- Promotion of the two critical support structures for the SHGs *viz.*, Village federations and Cluster federations, and their members, in their journey out of poverty.

(Paragraph 2.1)

Audit analysed the implementation of NRLM and observed that lacunae in implementation of various components of NRLM, due to improper planning process; non-assessment of performance of SHGs, Village Organisations (VOs) and Cluster Level Federations (CLFs); improper identification of beneficiaries; lack of control over budget and management of resources affected the process of providing strong self-managed grass root institutions.

With a view to providing access to credit at affordable rates of interest to the rural poor and make their investments more viable, NRLM was to provide interest subsidy, comprising the difference between the interest charged by the bank and seven *per cent* per annum on all loans from main stream financial institutions to SHGs, which were regular in loan repayment.

It was observed that despite having a balance of ₹ 10.01 crore under the component “Interest Subvention” (as of 31.03.2016), Assam State Rural Livelihood Mission Society (ASRLMS) transferred Interest Subsidy of ₹ 15.05 lakh to the bank accounts of 1774 SHGs, against ₹ 39.36 lakh due to be transferred to the bank accounts of 5729 SHGs (as of March 2016). Thus, there was an outstanding of ₹ 24.31 lakh, to be paid to the bank accounts of 3955 SHGs (as of March 2016).

(Paragraph 2.5)

As NRLM is process intensive scheme, there is a need to constantly review, assess and learn from the progress achieved at various levels, both in terms of qualitative and quantitative targets. A robust IT-based Monitoring Evaluation and Learning system was to be in place to facilitate learning and continuous improvement and support decision making at all levels. However, lacunae in planning process and irregularities in the implementation of the scheme during the period 2011-12 to 2015-16 was indicative of lack of control over monitoring, evaluation and reporting at different levels of implementation.

Only three review meetings with the districts and block officers and staff was held by ASRLMS, for review of implementation of NRLM, during 2012-13 and 2013-14. Though ASRLMS had stated that it would convene 22 review meetings during 2014-15 and 2015-16, it could provide minutes of only seven review meetings.

(Paragraph 2.6)

CHAPTER-III

Compliance Audit of PRIs

Amount of ₹ 16.63 lakh and ₹ 13.85 lakh received from different lessees, were not deposited in Government Account by the respective Accountants of Golaghat ZP and Sivasagar AP.

(Paragraphs 3.1 and 3.2)

The Junior Engineers (JEs) under Cachar ZP changed the approved site for two market sheds to private lands, without any approval from the competent authority. One of the lands on which the market shed was constructed was re-occupied by the owner after the ZP had incurred an expenditure of ₹ 7.50 lakh and now stands abandoned. The construction work of the market shed at other site was also incomplete till March 2016, as the work was abandoned by the JE without citing any reason. This resulted in wasteful expenditure of ₹ 15 lakh.

(Paragraph 3.3)

The project “Construction of Road cum bundh from Md. Goyal SK house to Simalbari Parghat with boulder pitching at Kaimari PT-I, II & V”, under Agomoni AP, remained incomplete since August 2012 after execution of 35 per cent of work due to non-release of balance funds by the Project Director (PD), District Rural Development Agency (DRDA), Dhubri. The major portion of the constructed work was also gradually washed away resulting in unfruitful expenditure of ₹ 2.23 crore.

(Paragraph 3.4)

Construction of Bharat Nirman Rajiv Gandhi Sewa Kendras remained incomplete in seven APs due to inaction on the part of the CEO, North Lakhimpur ZP and the respective APs in monitoring the schemes and submission of Utilisation Certificate (UCs) in time, resulting in idle expenditure of ₹ 1.32 crore.

(Paragraph 3.5)

The Executive Officer (EO), Kakodonga AP, failed to implement the Cashew nut plantation in a scientific and planned manner as recommended by the Department of Horticulture, Assam Agriculture University (AAU), Jorhat. This resulted in unfruitful expenditure of ₹29.35 lakh as the Plantation could not survive.

(Paragraph 3.6)

CHAPTER IV

An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of the ULBs in the State

Out of 18 subjects listed in the XIIth Schedule of the Constitution of India, only eight subjects were transferred and implemented by the ULBs as on March 2016. In respect of Gauhati Municipal Corporation (GMC), out of 18 functions listed in the XIIth Schedule, activities under four functions only were transferred to GMC as of March 2016.

(Paragraph 4.3.2)

Director of Audit, Local Fund (DALF) is the Primary Auditor to conduct the audit of ULBs of Assam. There were regular shortfall in coverage of audit by DALF during the period from 2011-12 to 2015-16, which ranged between 28 and 56 *per cent*.

(Paragraph 4.5.1.1)

The audit of ULBs is conducted by the CAG under Section 20(1) of the CAG's Duties, Powers and Conditions of Service Act 1971 as per the Technical Guidance and Support (TGS) arrangements. The CAG being the Secondary Auditor for the Local Bodies in Assam, only selective audit of ULBs are done. As such, during April 2015 to March 2016, accounts of 11 ULBs (one Municipal Corporation, six Municipal Boards (MBs) and four Town Committees (TCs) only were audited.

(Paragraph 4.5.2)

ULB authorities are required to comply with the observations contained in the IRs issued by the Accountant General, rectify the defects and omissions brought out in the Inspection Reports (IRs) and report their compliance in this regard promptly, after the issue of IRs. However, since 2011-12, 1755 paragraphs with monetary value of ₹557.47 crore were pending for settlement (March 2016) for want of replies from the concerned ULBs.

(Paragraph 4.6)

Out of the 94 ULBs in Assam, 54, 53, 32, 38 and 41 ULBs had not submitted budget proposals during 2011-12, 2012-13, 2013-14 2014-15 and 2015-16 respectively. Funds were nevertheless released by the Government, without taking into account the actual requirements of ULBs, thereby diluting the budgeting process.

(Paragraph 4.10)

The Urban Development Department (UDD) could not provide consolidated figures of actual receipts in respect of own revenues of all the ULBs in Assam. Thus, it lacked monitoring of own revenue resources of ULBs.

(Paragraph 4.12.1)

The ASFCs recommended for devolution of ₹849.44 crore during 2011-12 to 2015-16, out of which the GoA had released only ₹477.09 crore to ULBs. Thus, there was short release of ₹372.35 crore to the ULBs which affected implementation of various welfare activities for the overall economic development.

(Paragraph 4.12.4)

Chapter-V

Performance Audit of Management of Own Funds by Municipal Boards including collection of Revenue by Municipal Boards

The Municipal Boards (MBs) failed to maintain comprehensive lists of holdings in their respective municipal areas. This was indicative of non-assessment of taxes from all holdings in the municipal areas. As a result, a significant part of the potential revenue sources of the MBs remained untapped.

(Paragraph 5.7.2)

GoA issued guidelines for assessment of property tax adopting the Unit Area Method (UAM) However, 26 out of 34 MBs in the State did not adopt the UAM for revision in the methodology of assessment of Property tax, resulting into failure in enhancing the collections of holding tax.

(Paragraph 5.7.3)

There was shortfall in collection of revenues totalling ₹ 170.24 crore (68.81 per cent of the total demand), in respect of 10 test checked MBs.

{Paragraph 5.7.4 (a)}

Penalties on arrear collections was not imposed by the 10 test-checked MBs which led to loss of revenue amounting to ₹ 1.30 crore.

(Paragraph 5.7.5)

All the 10 test-checked MBs failed to identify the potential sources of revenue as they did not maintained lists of Municipal Properties, as required under section 62 of AM Act, 1956.

(Paragraph 5.9.1)

The MBs lacked direction in assessment of the value of properties as no Property Valuation Cell was formed by the Government. Six out of the 10 selected MBs were imposing and collecting property tax based on the value of assets fixed seven to 41 years before.

{Paragraph 5.10 (ii)}

Chapter-VI

Compliance audit paragraphs of ULBs

Out of ₹ 1.23 crore allotted for the service work of the project “Construction of Business Centre at Dokmoka Town Committee”, ₹ 87.25 lakh was drawn as advance by the Chairman, Dokmoka Town Committee but no work was executed. Further, there was also no evidence of execution of any work by the two contractors who had been paid advance of ₹ 34.03 lakh for execution of internal electrification and sanitary works.

(Paragraph 6.1)

Submission of fake/forged Bank Pay-in-Slip by Non-Government Organisations (NGOs) and irregular payment of commission, without verifying records of actual deposit, resulted in loss of ₹ 29.20 lakh to the GMC. Further, there was an unauthorised payment of ₹ 5.83 lakh, as commission, to the NGOs.

(Paragraph 6.2)

The GMC made payment to the NGOs irrespective of the actual collection and deposit of user charges. Though, ₹ 6.62 crore was paid to the NGOs for collection of Municipal Solid Waste (MSW) from the households, only ₹ 1.21 crore as user charges was collected by the

NGOs against due collection of ₹8.07 crore, which led to loss of revenue to the GMC to the tune of ₹6.86 crore. Similar loss of revenue was also found in case of collection of MSW from commercial holdings as well.

(Paragraph 6.3)

Lack of timely action on part of the GMC in settling the disputes with construction firms, not challenging the Arbitration award and delayed implementation of the Arbitration award, led to loss of ₹4.86 crore, besides diversion of ₹7.80 crore from 4th Assam State Finance Commission (ASFC) fund.

(Paragraph 6.4)

The Chairman, Dokmoka TC, paid the full amount of ₹3.06 crore, in advance, to the contractor, prior to completion of the project. The project remained incomplete as the contractor abandoned the work after getting the full amount. Besides, penalty of ₹30.56 lakh was also not levied on the contractor for not completing the work.

(Paragraph 6.5)

Part - A

Panchayati Raj Institutions

CHAPTER I

**An overview of the Functioning, Accountability
Mechanism and Financial Reporting issues of
Panchayati Raj Institutions**

Chapter-I

An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Panchayati Raj Institutions (PRIs)

An Overview of the Functioning of the PRIs in the State

1.1 Introduction

The 73rd Constitutional Amendment Act, 1992 conferred Constitutional status to the Panchayati Raj Institutions (PRIs) and recognised them as the third tier of Government to ensure a more participative Government structure in the country. The amendment provided for devolution of powers and responsibilities with respect to preparation of plans and programmes for economic development and social justice. It also provided for transferring of 29 subjects, listed in the XIth Schedule of the Constitution of India for PRIs. Accordingly, the State was required to entrust PRIs with respective, functions and functionaries, so as to enable them to function as Local Self Government Institutions (LSGIs). The Constitutional Amendment provided for establishment of a uniform system within the States, conducting of regular elections, regular flow of funds *etc.* The legislative framework for conduct of business of the PRIs includes:

- Assam Panchayat Act, 1994 (AP Act, 1994);
- Assam Panchayat (Financial) Rules, 2002 [AP (F) Rules, 2002];
- The Assam Panchayat (Administrative) Rules, 2002 [AP (A) Rules, 2002]; and
- Government instructions, issued from time to time.

The Administrative set-up of panchayats in Assam consists of a three-tier system; Gaon Panchayats (GPs) at the Village level; Anchalik Panchayats (APs) at the intermediate level (co-terminus with Blocks); and Zilla Parishads (ZPs) at the District level.

There were 2,412 PRIs in the General Areas¹ of Assam, as on 31 March 2016. The Panchayati Raj system does not exist in the Sixth Schedule Areas, where local governance is vested with the Autonomous District Councils (ADCs).

Statistics related to the rural population of the State and the numbers of PRIs, as per census of 2011, are given in the following **Table 1.1:**

Table 1.1: Statistics related to the rural population and PRIs in Assam

Sl. No.	Indicator	Unit	Value
1	Population	Crore	3.12
2	Population density	Persons / Sq.km.	398
3	Rural population	<i>Per cent</i>	86
4	Rural Sex Ratio	Per thousand	960
5	Rural Literacy Rate	<i>Per cent</i>	69.34
6	Zilla Parishads (ZPs)	Numbers	21
7	Anchalik Panchayats (APs)	Numbers	189
8	Gaon Panchayats (GPs)	Numbers	2,202

Source: Economic Survey, Assam 2015-16.

¹ Areas not listed in the sixth schedule of the Constitution of India

The position of PRIs in Assam, in terms of number, average area and average population, is given in the following **Table 1.2**.

Table 1.2: Position of PRIs

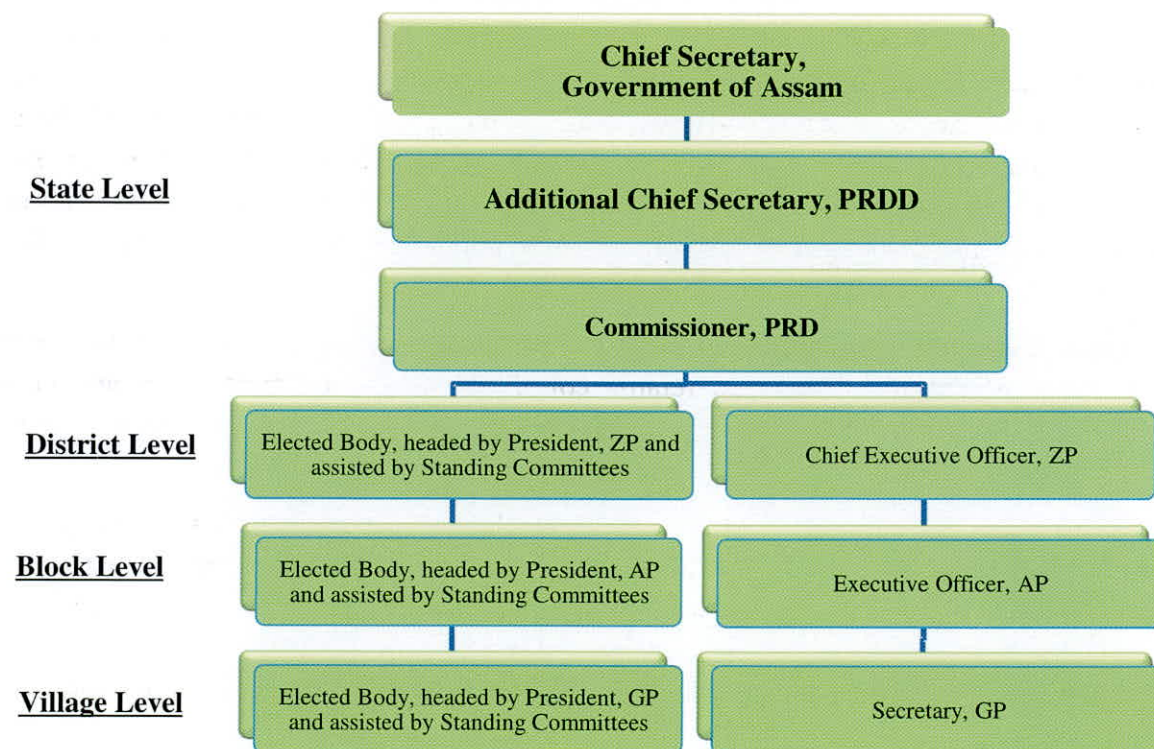
Level of LB	No.	Average Area per PRIs (Sq Km)	Average population
		<i>As per 2011 census</i>	
Zilla Parishad (ZP)	21	2032.93	1188256
Anchalik Panchayat (AP)	189	219.78	128460
Gaon Panchayat (GP)	2202	18.46	10793

Source: Assam State Finance Commission's report submitted for 14th CFC.

1.2 Organisational Set-up in State Government and PRIs

The Additional Chief Secretary, Panchayat and Rural Development Department (PRDD), is the administrative head of the Department. He is assisted by the Commissioner, Panchayat and Rural Development (P&RD), in the allocation of funds, overall control and supervision of functions and implementation of different schemes at the State level. The organisational set-up of PRIs is depicted in **Chart 1.1**:

Chart 1.1: Organisational set-up of PRIs



1.3 Functioning of PRIs

1.3.1 Administrative machinery in PRIs

The Administrative set up of panchayats in the State comprises of a three-tier system, GPs at the village level, APs at the intermediate level (co-terminus with Blocks) and ZPs at the District level. The Constitution enjoins the State Government to make appropriate legislation regarding devolution of powers and functions to the panchayats, in such a way as to enable them to function as LSGIs.

Subject to the provisions of the AP Act, Panchayats may make bye-laws to carry out their functions. The 73rd Constitutional Amendment empowered them with powers and authority in

revenue mobilisation and gave them access to such resources as the State Legislature may, by law, confer on them. Accordingly, the AP (F) Rules were framed in 2002 and amended in 2004, empowering all the three tiers to levy and collect taxes. Through the AP (F) Rules, GPs got the power to levy certain taxes *viz.*, tax on houses and structures and tax on trades *etc.* However, the relevant bye-laws were not framed (March 2016).

1.3.2 Staffing pattern of PRIs

Regarding the staffing pattern fixed by the AP (A) Rules 2002, the Third Assam State Finance Commission (ASFC) observed that there was an acute shortage of staff at all levels of PRIs and recommended a revised staffing pattern, of 30, 20 and 8, for each ZP, AP and GP respectively, from 2008-09, as against the staffing pattern of 18, 8 and 3, which had been in existence, at the ZP, AP and GP levels, respectively, prior to the Third ASFC recommendations. It was observed that the revised staffing pattern recommended by Third ASFC has not been implemented by the PRDD (July 2016).

PRDD could not fill up the vacant posts of PRIs, inspite of necessary approval having been given by the Finance Department. Regarding new staffing patterns, Commissioner, P&RD stated (March 2016) that the proposed staffing pattern was under consideration of the Government.

The posts of Chief Accounts Officer (CAO) and Chief Planning Officer (CPO) had been created in each ZP, to provide advice on financial matters, as also to ensure the preparation of the ZP's Annual Accounts and Budget, and to advise the ZP on plan formulation. In February 2016, the State Government had given additional charge of the post of Chief Accounts Officer to 11 Finance & Accounts Officers (FAO) in 11 ZPs, in addition to their normal duties. However, full-fledged appointments were not made (March 2016) by the State Government.

The Third ASFC also observed that inadequacy of staff not only stands in the way of efficient performance of functions, but also retards collection of revenue from taxes and duties allocated to PRIs. It, therefore, recommended that the staffing pattern needed suitable modification, in conformity with the expanding activities of PRIs.

In the absence of an appropriate administrative machinery in the PRIs, a substantial portion of the budgetary outlays, under Plan and Non-plan, in the revenue accounts, earmarked for panchayats against transferred subjects, was being spent through the respective line departments.

1.3.3 Status of devolution of functions, funds and functionaries

For meaningful devolution, devolution of functions, from the line departments, to the PRIs, was a pre-requisite. However, the approach adopted by the State Government in this regard was partial, as out of 29 subjects listed in XIth Schedule of the Constitution of India, activity mapping of only 23 subjects were done by the GoA. Activity Mapping for the remaining six subjects were not done (July 2016). Further, out of the 23 subjects mapped, Government had issued orders for devolution of only seven subjects to the PRIs. Though GoA accepted (February 2014) the recommendation of the fourth ASFC for transfer of all activities listed in Schedule XI of the Constitution of India to the PRIs, along with requisite funds and functionaries, action in this regard was yet to be taken (October 2016) by the Government.

Apart from this, every year, a substantial portion of budgetary outlays, under Plan and Non-Plan revenue account were earmarked for PRIs, against transferred subjects. Till March 2016,

however, only Central Finance Commission (CFC) and State Finance Commission (SFC) funds were being passed on to the PRIs on a regular basis. Apart from this, the PRIs got funds under the District Development Plan (DDP). In addition, central funds channelised through the Backward Regions Grant Fund (BRGF) were received by PRIs at all levels, wherein the funds under other Centrally Sponsored Schemes (CSS) viz., Indira Awas Yojana (IAY), Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) etc., were received by the APs and GPs from the DRDAs of the District. The position of allocations made and actually released to PRIs, under CSS and SFC, is depicted in the following **Table 1.3:**

Table 1.3: Position of allocations and release under CSS and SFC to PRIs

Source of fund	Total Allocation	Released to PRIs	Short release	Short release
				(in per cent)
(₹ in crore)				
CSS	14187.10	8865.79	5321.31	37.50
ASFC	1985.03	900.46	1084.57	54.64
Total	16172.13	9766.25	6405.88	

It is evident from the above table that devolution of funds to the PRIs, in respect of the transferred subjects, was far below the allocation, as there were shortfalls of 37.50 and 54.64 per cent, in release of allocated funds, under CSS and SFC, respectively, to the PRIs. The GoA had created a Panchayat window in the State Budget and, every year, a substantial portion of budgetary outlays, under Plan and Non-Plan, in the revenue account, was earmarked for panchayats, against the transferred subjects. However, the earmarked amounts were actually being spent by the line departments.

1.4 Formation of various committees

1.4.1 Standing Committees

Sections 22, 52 and 81 of the Assam Panchayat Act, 1994 stipulate that PRIs shall constitute Standing Committees to perform functions assigned under the Act. Details of constitution of the Standing Committees and their roles and responsibilities are given in **Appendix-I**.

1.4.2 District Planning Committee (DPC)

As per Article 243ZD of the Constitution of India, the State Government is required to constitute a District Planning Committee (DPC), consisting of (i) members of the House of the People, who represent the whole or part of the District, (ii) members of the Assam Legislative Assembly; and (iii) number of persons, not less than four-fifth of the total number of members, from amongst the members of the ZP in districts, to consolidate the plans prepared by the panchayats in the District and to undertake integrated development of the District. Accordingly, Section 3 of AP Act, 1994 and AP (F) Rules 2002 framed thereunder, provide that the State Government shall constitute a DPC, with a tenure of one year, in every district. The Deputy Commissioner is a permanent invitee to the DPC of the District, while the President of the ZP is the Chairman and the CEO of ZP is the *ex-officio* Secretary of the DPC.

1.4.2.1 Role of the DPC

As per the AP Act, 1994, the DPC is to consolidate the plans prepared by the panchayats in the District, and prepare a draft Development Plan for the District as a whole, having regard to:

- Matters of common interest of panchayats in the District, including sectoral planning, sharing of water and other physical and natural resources; integrated development of infrastructure; and environmental conservation; and
- The extent and type of available resources, whether financial or otherwise. For doing so, it may consult such institutions and organisations as the Governor may, by order, specify.

The guidelines for preparation of a draft District Development Plan for PRIs (framed in June 2010) provided scope for a review of the implementation and monitoring of the plan by the DPC. However, it did not prescribe a mechanism for reporting of progress of implementation of the District Plan to the State Government. It was observed that most of the DPCs failed to perform their primary objective *i.e.* preparation of the District Plan as envisaged in the AP Act, 1994 as they did not call for submission of annual plans from the PRIs and other stakeholders, for preparing the Annual District Plans as a whole.

1.5 Audit arrangement

1.5.1 Primary Auditor

The Director of Audit, Local Fund (DALF), Assam, established under the Assam Local Funds (Accounts & Audit) Act, 1930 is the Primary Auditor of all tiers of PRIs in the State. The Directorate is responsible for (i) carrying out the Audit of Local Funds, with the help of 20 circle offices, each of which was headed by an Assistant Director to perform audit functions at the District level; and (ii) facilitating submission of Audit Reports of the Administrative Departments. The DALF operates with 122 audit parties, comprising of one Audit Officer and one or more Assistant Audit Officers. The audit is required to be conducted in conformity with the Assam Audit Manual, as also the relevant Government Rules and Amendments, issued by the Government from time to time.

1.5.1.1 Audit coverage by the DALF

There were arrears in the audit of PRIs, by the DALF, during the period 2011-16, ranging between 21 and 50 *per cent*. The year-wise positions of units to be audited, and those actually audited, are detailed in **Table 1.4**.

Table 1.4: Shortfall in covering the units planned for audit by DALF

Year	No. of units planned for audit	No. of units audited	Shortfall	Percentage of shortfall
2011-12	877	492	385	44
2012-13	1423	788	635	45
2013-14	1130	888	242	21
2014-15	1131	842	289	26
2015-16	1511	753	758	50

Source: Information furnished by DALF, Assam.

Apart from this, there was also an arrear in issue of 1153 audit reports (as of March 2016). The shortfall in audit coverage and arrear in issue of audit reports were attributed to non-filling of the post of Assistant Director, as well as engagement of Audit Officials in work relating to elections and updation of the National Register of Citizens² (NRC).

² The National Register of Citizens (NRC) is the register containing details of all Indian citizens. The NRC was prepared in 1951, after conduct of the Census of 1951, by recording particulars of all the persons enumerated during that census.

1.5.1.2 Presentation of the Annual Audit Report

As per para 101 (i) of the Assam Audit Manual, the DALF is required to send an Annual Audit Report to the Finance Department, by 30 September each year, incorporating major outstanding audit objections relating to PRIs, which are pending settlement, for further action by the Finance Department. The DALF has so far submitted three Audit Reports covering the period from 2010-11 to 2014-15. The status of consolidated Audit Reports, submitted by the DALF, is shown in **Table 1.5**:

Table 1.5: Audit Report submitted by DALF to the Government.

Sl. No.	Consolidated Audit Report for the year	Submitted to Government	Laid before Legislature
1	2010-11 and 2011-12	21 March 2013	10 February 2014
2	2012-13 and 2013-14	7 December 2014	19 December 2014
3	2014-15	13 November 2015	Yet to be laid (October 2016)
4	2015-16	Yet to be prepared (October 2016)	

However, follow-up action and Action Taken Reports by Finance Department on the Annual Consolidated Audit Reports of the DALF is wanting, thereby weakening the accountability mechanism for the PRIs.

1.5.2 Audit by Comptroller and Auditor General of India

Comptroller and Auditor General (CAG) of India conducts audit of substantially financed PRIs under Section 14 (1) of CAG's (DPC) Act, 1971 and audit of specific grants to PRIs under Section 15 of the Act *ibid*. The audit of PRIs is also conducted by CAG under Section 20 (1) of the Act, as per the Technical Guidance and Support (TGS) arrangements, as entrusted by the State Government in May 2002, followed by acceptance of the standard terms and conditions of TGS (May 2011), pursuant to the 13th FC recommendations. During April 2015 to March 2016, accounts of 80 PRIs (four ZPs, 39APs and 37 GPs) were audited.

1.6 Response to Audit Observations

Inspection Reports (IRs) were issued by the Accountant General (Audit), Assam to the audited PRI authorities with a copy of each to the State Government. PRI authorities are required to comply with the observations contained in the IRs, rectify the defects and omissions brought out in the IRs and report their compliance promptly, from the issue of IRs. Important audit findings are also reported to the Government, through the Audit Reports on Local Bodies. The details of outstanding paragraphs, in respect of PRIs (as of March 2016), are shown in **Table 1.6**.

Table 1.6: Details of outstanding IRs and paragraphs

Year of Issue	No. of Inspection Reports	No. of Outstanding Paras	Money Value (₹ in crore)	First reply furnished
Upto 2011-12	530	3598	553.67	200
2012-13	42	281	157.92	7
2013-14	51	366	176.50	4
2014-15	109	820	475.25	12
2015-16	34	317	172.04	1
Total	766	5382	1535.38	224

Source: Progress Register.

Thus, 5382 paragraphs, with a monetary value of ₹ 1535.38 crore, were pending (March 2016) for settlement, for want of replies from the concerned PRIs. Even the first reply had not been received in respect of 5158 paragraphs. The increasing trend of outstanding paragraphs was

indicative of the fact that compliance to the audit observations was not taken seriously. The Administrative Heads of the departments concerned also did not ensure that the concerned officers of the PRIs took prompt and timely action in furnishing replies to IRs, thereby contributing to weakening of the accountability mechanism for PRIs.

1.7 Discussion of Audit Reports by Legislature

The Committee on Local Fund Accounts (CoLFA) has been constituted by the State Legislature to discuss the Audit Report on LBs, which contains audit findings relating to the PRIs. The position of discussion of the Annual Technical Inspection Reports (ATIRs)/Audit Reports, by the Committee, is shown in **Table 1.7** below:

Table 1.7: Position of Audit Reports discussed by the LFAC

Name of the Report	Laid before the Legislature	Whether discussed by Legislature	Action Taken Report, if any
ATIR 2009-10	19 December 2011	Discussed in full	Nil
ATIR 2010-11	04 April 2013	Not yet discussed	Nil
ATIR 2011-12	19 July 2013	Not yet discussed	Nil
ATIR 2012-13	04 August 2014	Not yet discussed	Nil
CAG's Audit Report on LBs (2013-14)	10 August 2015	Five paras discussed in September 2016	Nil
CAG's Audit Report on LBs (2014-15)	18 July 2016	Not yet discussed	Nil

As such, discussion of a number of ATIRs/Audit Reports is pending. Moreover, action taken reports on all the discussed reports are awaited (November 2016).

Accountability Mechanism of PRIs

1.8 Ombudsman

As per the guidelines issued by the Ministry of Finance on implementation of the recommendations of the 13th Finance Commission, the State Government is required to appoint an 'Ombudsman', to act as an independent quasi-judicial authority for Local Self Government Institutions at the State level, for conducting investigations and enquiries in respect of any complaints of corruption and maladministration against the functionaries of Local Bodies (both elected members and officials), and to recommend suitable action, in accordance with the provisions of the Act. There was, however, no provision in the AP Act regarding setting up of an Ombudsman for the PRIs.

In October 2014, the State Government initiated action for appointment of Ombudsmen for each of the 27 districts in the State, for a tenure of two years each, under section 27 (1) of the MGNREG Act, 2005. However, till October 2016, only 15 Ombudsmen under MGNREGA had been appointed, for sixteen³ districts. Selections for the remaining 11 districts were yet to be completed (October 2016).

1.9 Social Audit

The primary objective of Social Audit (SA) is to bring the activities of PRIs under close surveillance of people, to enable them to access the records and documents of PRIs. Such

³ Kamrup, Kamrup (M), Darrang, Nalbari, Cachar, Morigaon, Sivasagar, Karimganj, Hailakandi, Lakhimpur, Dhubri, Sonitpur, Nagaon, Goalpara, Barpeta and Dima Hasao. (One ombudsman was looking after both the Karimganj and Hailakandi districts).

immediate access to information would facilitate transparency and accountability in the day-to-day functioning of PRIs. Except for a provision made under the Assam Rural Employment Guarantee (AREG) Scheme under the MGNREGA, the State Government had not amended the relevant Panchayat Act, by including a statutory provision for conducting of social audits.

In July 2014, the Government designated the State Institute of Rural Development (SIRD) as the Nodal Agency for conducting Social Audit of all the Panchayati Raj Schemes and Rural Development Schemes of the GoI/GoA under PRDD. Accordingly, the SIRD conducted Social Audit of 2201 Gaon Panchayats during November 2014. Section 7(4) of the Audit of Schemes Rules, 2011 provides that the State Government shall be responsible to take follow up action on the findings of the social audit. Further, as per section 7(5) of the Rules *ibid*, the State Employment Guarantee Council (SEGC) shall monitor the action taken by the State Government and incorporate in the Annual Report to be laid before the State Legislature by the State Government. Though SEGC was constituted in Assam, it did not monitor the action taken by the State Government on Social Audit Report (SARs). The SAR is yet to be approved by the Government (October 2016). Further, the summary of findings of the Social Audit was also not submitted by the Government to the CAG. The report of the CAG of India containing the result of audit on MGNREG, Audit of Scheme Rules, 2011 (Social Audit Rules) was prepared for submission to the President of India under Article 151 of the Constitution of India and was placed in the Parliament on 29 April 2016.

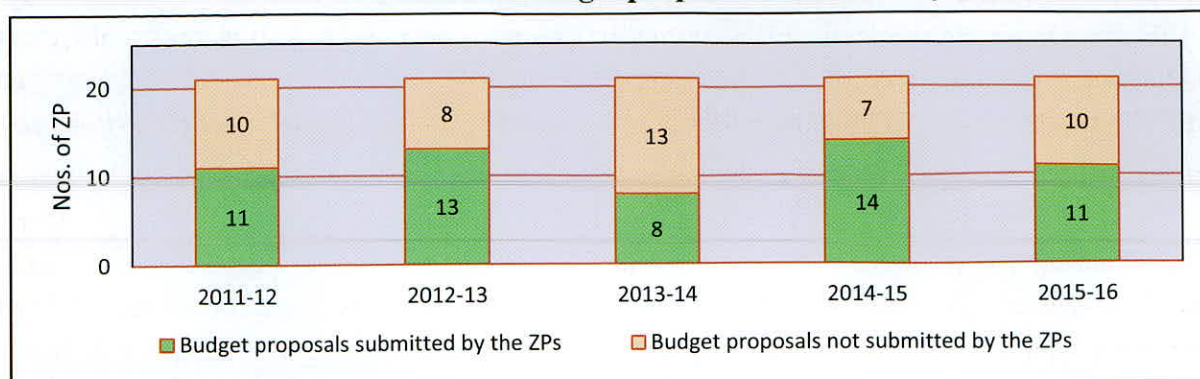
1.10 Lokayukta

The Assam Lokayukta and Upa-Lokayukta Act, 1985 (Assam Act XX of 1985) was introduced to improve the standard of Public Administration, through investigation of complaints against ministers, legislators and public functionaries, including those of PRIs. The institution of the Lokayukta was headed by the Upa-Lokayukta since March 2001, as the post of Lokayukta had been lying vacant for the last 21 years (since March 1995). Though the State Government had taken a number of initiatives for creating awareness among the people regarding the Lokayukta and Upa-Lokayukta Act, the Upa-Lokayukta received only seven complaints during the year 2015-16, out of which none was related to PRIs. Thus, there was a need to increase awareness among the people about the existence and functioning of the anti-corruption mechanism, in regard to its coverage of the PRIs, to make it more effective and useful to the public.

1.11 Submission of Budget

As per the AP Act, Budget proposals, containing detailed estimates of Income & Expenditure expected during the ensuing year, were to be prepared by the respective Standing Committees of PRIs, after considering the estimates & proposals submitted by the executive authorities of the PRIs every year. Rules 32, 33 & 34 of AP (F) Rules, 2002 further state that every GP, AP and ZP shall prepare their Budgets before the beginning of the Panchayat financial year, in the respective formats, by indicating minor heads. After considering the proposals, their Finance, Audit and Planning Committees are to prepare the budgets, showing the income and expenditure of the respective PRIs for the ensuing years and place them before the concerned governing bodies for approval. The approved budgets of the PRIs are to be consolidated by the ZPs, for submission to the State Government, for final approval.

The position of submission of budgets by the ZPs, during the last five years, to PRD, Assam, is shown in **Chart 1.2** below.

Chart 1.2: Position of Budget proposals submitted by ZPs

Source: Commissioner, P&RD, Assam,

The above table shows that, out of 21 ZPs, significant number of ZPs had not submitted budget proposals, during 2011-12 to 2015-16. Funds were released by the Government, irrespective of the position of submission of budget proposals by the ZPs. Thus, release of funds by the Government, without receiving the budget proposals from the ZPs, indicating lacunae in the process of planning, as well as in the monitoring of utilisation of released funds.

1.12 Submission of Utilisation Certificates (UCs)

The scheme guidelines of Centrally Sponsored Scheme (CSS) stipulate that UCs should be obtained by departmental officers from the grantees, and that they should be forwarded to the GoI after verification. Test-check of 80⁴ PRIs during 2015-16, however, revealed that, five⁵ PRIs had not submitted UCs amounting to ₹52.38 crore.

Pendency in submission of the UCs indicated monitoring of the utilisation of scheme funds by the DDOs and the Heads of Department (HoDs) needs further strengthening.

1.13 Internal Audit and Internal control system in PRIs

1.13.1 Internal Audit

Internal Audit is an important instrument for examining and evaluating the level of compliance with rules and procedures, as envisaged in the relevant Acts, as well as in the Financial/ Accounting Rules, so as to provide independent assurance to management on the adequacy of the risk management and internal control framework in the PRIs.

Rule 18 of the AP (A) Rules, 2002 provides for utilisation of internal auditors of the P&RD for proper and correct maintenance of accounts of PRIs. An internal audit wing, with internal auditors, was in place in the Commissionerate of P&RD, Assam. However, no internal audit of PRIs had been conducted (March 2016). The Department had no Audit Manual of its own and its main function was limited to assisting the Commissioner, P&RD, Assam, in settling the outstanding audit paras and inspection reports relating to the departmental units.

The above mentioned deficiencies adversely impacted the accountability of PRIs, insofar as obtaining independent assurance regarding compliance with Rules and Procedures, as envisaged in the relevant Acts/Rules, was concerned.

⁴ Four ZPs, 39 APs and 37 GPs

⁵ Karimganj ZP=₹2.33 crore; Cachar ZP=₹44.80 crore; Golaghat ZP=₹1.60 crore; Gaurisagar AP=₹3.20 crore; Bhawanipur AP=₹0.45 crore

1.13.2 Internal control mechanism in PRIs

The internal control mechanism is an integral component of an organisation, which helps it to govern its activities effectively and achieve its organisational objectives. Internal control measures assist in minimising the risk of errors and irregularities; ensuring compliance with applicable rules and regulations; and ensuring that the implementation of programmes is carried out in an orderly, economical, efficient and effective manner.

The internal control system, at each level of the PRIs, had been specified by the GoA, through the AP Act, 1994 and the AP (F) Rules, 2002, in addition to the State Government's own rules and policies relating to finance, budget and personnel matters. Significant provisions relating to the internal control mechanism in PRIs, as contained therein, are elaborated in **Appendix - II**.

The following deficiencies, indicating inadequacy of the internal control mechanism in the PRIs, were observed in Audit:

- The Department lacked control over its own revenue resources, as data regarding revenue mobilisation of the PRIs was not available. The department did not provide details of revenue collected for the year 2015-16, even after repeated persuasions.
- The Department failed to furnish information on the present status of preparation of accounts of the PRIs.
- Funds were released by the Government, even though ZPs had not submitted budget proposals, thereby defeating the purpose of annual budgeting and planning, as detailed in **Paragraph 1.11**.

Although these shortcomings were regularly pointed out to the PRIs, as well as to the State Government, through Inspection Reports and Audit Reports, there was a marked lack of remedial action in this regard.

1.13.3 IT and VAT not deducted

According to the Income Tax (IT) and State Value Added Tax (VAT) Acts, IT & VAT are to be deducted from the payment of contractors/suppliers. Test-check of records revealed that, in 13 PRIs⁶ (Three ZPs and 10 APs), VAT/IT, amounting to ₹58.96 lakh, were not deducted, resulting in loss of revenue to that extent.

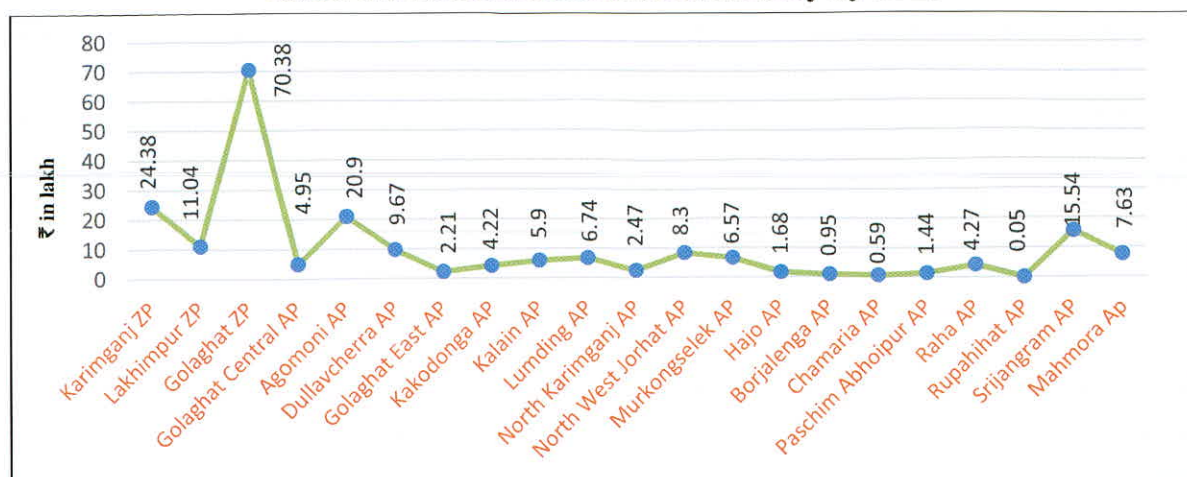
1.13.4 Short collection of *Kist* Money

Sub-Rules 14 and 15 of Rule 47 of the Assam Panchayat (Financial) Rules 2002, stipulates that panchayats are required to recover the *kist*⁷ money from the lessees in due time. During test-check of records, it was noticed that there was short collection of *kist* money of ₹2.10 crore, in 21 PRIs, as shown in **Chart 1.3** below.

⁶ Karimganj ZP, Lakhimpur ZP, Cachar ZP, Tengaghat AP, Agomoni AP, Barbaruah AP, Kakodonga AP, Moirabari AP, North West Jorhat AP, Hajo AP, Chamaria AP, Hailakandi AP, Khowang AP

⁷ *Kist*: Installment.

Chart 1.3: Short collection of Kist money by PRIs



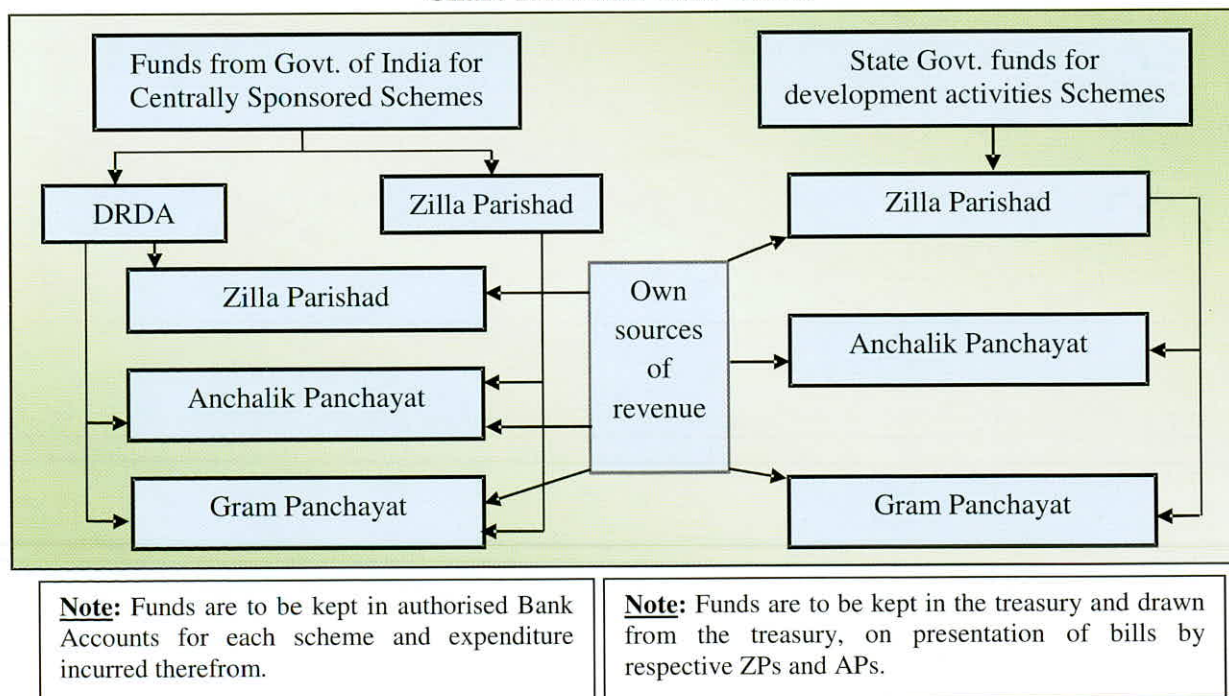
Thus, due to short collection of *kist* money, revenue receipts of the PRIs were adversely affected to that extent.

Financial Reporting issues of PRIs

1.14 Sources of funds

The main sources of income for PRIs in the State are the funds released by the GoI under various Centrally Sponsored Schemes, CFC grants, SFC grants and State Government grants under various schemes. In addition, PRIs also mobilise revenue from their own sources, such as taxes, rents, license fees *etc.* The funds flow of PRIs is depicted in **Chart 1.4:**

Chart 1.4: Fund Flow Chart



The receipts of PRIs, from all sources, during the five years ending 2015-16, are shown in the following **Table 1.8.**

Table 1.8: Time-series data on resources of PRIs

Source	2011-12	2012-13	2013-14	2014-15	2015-16
Own Revenues	87.85	176.16	193.80	213.18	NA
SFC transfers	227.96	104.42	158.23	298.84	147.36
CFC transfers	196.01	362.05	201.93	270.54	292.40
State Sponsored Schemes (SSS)	520.73	89.09	197.29	147.04	486.00
Centrally Sponsored Schemes (CSS)	1323.36	1211.38	2000.58	1879.94	2070.00
Total	2355.91	1943.10	2751.83	2809.54	2995.76

Source: Information furnished by Commissioner P&RD, Assam, and Finance (Economic Affairs) Department, GoA.

As can be seen from the above, there was an increasing trend of collection of own revenues by the PRIs during the years 2011-12 to 2014-15. The Commissioner, P&RD, did not furnish the total revenue collected by the PRIs during 2015-16. Though the receipt under CFC transfer and CSS had increased during the last five years, funds released through SFC and SSS had shown a fluctuating trend, with significant decrease in SFC during 2015-16 in comparison to the previous year, which affected many developmental activities in rural areas.

1.14.1 Public investment in the Social Sector and Rural Development

Details of public investment by the GoI, in the Social Sector and Rural Development, through major CSS, during 2011-12 to 2015-16, are shown in the following **Table 1.9**

Table 1.9: Statement showing investment through major CSS

Sl. No.	Scheme	Year	Allocation of funds	Funds Released to PRIs	Short release of funds (4)-(5)
(1)	(2)	(3)	(4)	(5)	(6)
1	Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)	2011-12	1276.65	481.72	794.93
		2012-13	1017.51	588.46	429.05
		2013-14	1034.61	647.31	387.30
		2014-15	1101.02	554.6	546.42
		2015-16	1520.51	745.93	774.58
2	Indira Awas Yojana (IAY)	2011-12	867.28	867.28	0.00
		2012-13	894.37	71.27*	823.10
		2013-14	1040.21	985.9	54.31
		2014-15	1373.78	937.45	436.33
		2015-16	1428.73	1104.13	324.60
3	Backward Region Grant Fund (BRGF)	2011-12	168.19	140.54	27.65
		2012-13	177.75	92.92	84.83
		2013-14	228.79	199.88	28.91
		2014-15	213.65	139.41	74.24
		2015-16	discontinued		
4	National Social Assistance Programme (NSAP)	2011-12	188.76	168.76	20.00
		2012-13	167.14	156.13	11.01
		2013-14	230.82	230.82	0.00
		2014-15	248.46	248.46	0.00
		2015-16	197.81	197.81	NIL
5	National Rural Livelihood Mission (NRLM)	2012-13	217.14	162.91	54.23
		2013-14	291.45	105.92	185.53
		2014-15	172.70	16.46	156.24
		2015-16	129.77	21.72	108.05

Source: Information furnished by the Department; * State share only.

It may be seen from the above that there were constant short releases of funds to PRIs by GoA, in respect of the MGNREGS, BRGF and NRLM schemes. As these schemes were

mainly intended for the welfare and development of the rural poor, short releases of funds under these schemes hampered the holistic development of the rural population.

1.14.2 Devolution recommended by ASFC

Details of the quantum of devolution recommended by the Assam State Finance Commission (ASFC), and funds released by the GoA to PRIs, are indicated in the following **Table 1.10**.

Table 1.10: Devolution of Funds to PRIs

₹ in crore)

Year	Net collection of the State Government	Amount to be devolved	Amount actually released to PRIs	Amount short released (3)-(4)
(1)	(2)	(3)	(4)	(5)
2011-12	7638.23	222.94	191.62	31.32
2012-13	8250.21	243.22	104.42	138.80
2013-14	6545.09	719.93	158.23	561.70
2014-15	7265.05	798.94	298.83	500.11
2015-16	42893.83	0	147.36	-

Source: The FASFC Report and information furnished by Director, Finance (Economic Affairs) Department, Assam.

As may be seen from above, no funds were allocated for devolution to the PRIs for the year 2015-16 as GoA had asked the 5th ASFC to revisit its report, in view of the recommendations of the 14th FC. However, the Commission had not yet submitted (July 2016) its final report in this regard. An amount of ₹ 147.36 lakh only was released by the Government as the salary component, with the non-salary component not being released (July 2016). As such, works related to various welfare activities for the year 2015-16 were yet to be started (July 2016) by the Government.

1.14.3 Fourteenth Finance Commission Grant

The weightage adopted by the 14th Finance Commission (14th FC) for inter-distribution of funds among the States were 90 *per cent* on population (as per 2011 population data) and 10 *per cent* on area. The grants to each State are divided into two parts - a grant to duly constituted gram panchayats and a grant to duly constituted municipalities, on the basis of the urban and rural population of the States, using the data of Census 2011. An amount of ₹ 5416.58 crore was recommended for the PRIs in Assam. This amount has two components *viz.*, General Basic Grants (90 *per cent* of the recommended amount) and Performance Grants (10 *per cent* of the recommended amount).

The grants so recommended are to go directly to the PRIs, which are directly responsible for the delivery of basic services, without any share for other levels. The State Government is to take care of the needs of the other levels.

According to the 14th FC, for the period 2015-20, States will be eligible to draw their Basic Grants, which will remain fixed for each State, while Performance Grants can be drawn only after submission of audited annual accounts that relate to a year not earlier than two years preceding the year in which the concerned gram panchayats seek to claim the performance grant. Moreover, the gram panchayats are also required to show an increase in the own revenues over the preceding year, as reflected in their audited accounts.

1.14.4 Penal interest for late release of funds by the State Government

The position of grants released during 2011-16 by GoI and GoA, and penal interest for late release of funds to PRIs, is shown in the following Table 1.11.

Table 1.11: Release of 13th FC and 14th FC Grants to PRIs

(₹ in crore)

Programme year	Scheme components	Received from GoI	Released to PRIs	Penal interest for late release of funds
2011-12	General Performance Grant	52.20	52.20	0.72
	General Basic Grant	161.38	161.38	
2012-13	General Performance Grant	124.40	124.40	1.91
	General Basic Grant	181.61	181.61	
2013-14	General Performance Grant	139.88	NIL	2.21
	General Basic Grant	204.80	201.93	
2014-15	General Performance Grant	190.08	NIL	7.19
	General Basic Grant	279.26	263.74	
2015-16	General Performance Grant	NIL	NIL	Nil
	General Basic Grant	584.80	292.40	
TOTAL				12.03

Source: Director, Finance (Economic Affairs) Department, Assam.

It was observed that during the period covered by the 13th Finance Commission award, the State Government had paid penal interest of ₹ 12.03 crore for late release of funds. Further, during 2015-16, the GoA released only 50 per cent of funds received from GoI. As the time factor plays an important role in Assam, in view of season-specific limitations in execution of works, delays in releases of funds have the effect of hampering timely implementation of projects, which increases the possibility of cost-overruns, potentially leading to a number of incomplete projects.

1.14.5 Maintenance of Records

1.14.5.1 Assets Registers

All properties vested in the ZPs, APs and GPs are to be entered in the Register of Properties and Assets, in Form 6 of Rule 19 of the AP (F) Rules, 2002. The entries are to be attested by the officer concerned. Audit observed that the Asset Registers were not maintained by 16⁸ test-checked PRIs and also that the State Government did not call for any return on the nature of the assets, years of creation and monetary values of the assets.

1.14.5.2 Registers of Receipt Book and Stock Registers not maintained

As per Sub-Rule 1 of Rule 16, of the AP (F) Rules, 2002, a register of receipt book shall be maintained in Form 5 of the schedule, and kept under the personal custody of the CEO in case of ZP; the EO in respect of AP; and the Secretary, in respect of GP; or under the custody of any other officer, who is authorised in their behalf, under lock and key. However, Registers of Receipt Books could not be produced to audit by 15 PRIs⁹. As a result, the number of receipt books in operation could not be ascertained in audit. Not maintaining these Registers carries the risk of unauthorised operation of receipt books, as also the risks of fraud and embezzlement of funds.

⁸ Karimganj ZP, Cachar ZP, Golaghat ZP, Dullavcherra AP, North Karimganj AP, Pub-Nalbari AP, Gaurisagar AP, Hatidhura AP, Joymoti GP, Lengribor GP, Nazira GP, Simalugiri GP, Chamaria GP, Lagharghat GP, Borbheti GP and North Karimganj GP.

⁹ Cachar ZP, Golaghat ZP, Dullavcherra AP, North Karimganj AP, Pakabetbari AP, Pub-Nalbari AP, Binnakandi (Cachar) AP, Gaurisagar AP, Hatidhura AP, Joymoti GP, Lengribor GP, Nazira GP, Simalugiri GP, Lagharghat GP and Borbheti GP

Similarly, the above 15 PRIs did not maintain the stock registers, as envisaged under Rules 30 (1 & 2) of AP (F) Rules 2002. As stock registers were not maintained, the actual receipt and utilisation of material could not be monitored by the PRIs. This could also facilitate misutilisation of material intended for implementation of the schemes.

1.14.5.3 Cash Books not reconciled

Rule 8, sub rules 4 (a), (b) and (c) of the AP (F) Rules 2002, stipulate that, all money received and payments made, should be entered in the Cash Book, which should be closed every day. Monthly closing of the Cash Book, with physical verification of cash and reconciliation of Cash book balances with bank balances, under proper authentication, are also to be carried out. Sub-rule 4(e) further stipulates that, at the close of each month, the bank balance, as reflected in the Cash Book, shall be reconciled with the balances as per the bank accounts.

During audit, it was, however, observed that Cash Book balances were not reconciled with bank balances in seven PRIs. Instances of un-reconciled balances, with differences ranging from ₹200 to ₹12.82 crore, were found in seven PRIs, as shown in **Appendix-III**. Failure to maintain the Cash Books, in terms of the provisions of the financial rules, could be indicative of irregularities in cash management. In addition, it could also facilitate fraud and embezzlement of Government money.

1.14.6 Maintenance of Accounts by PRIs

PRIs, with their increasing role, funds and enhanced accountability, are required to spend and record public money with utmost care. Such diligence can be achieved only if the financial recording and reporting systems are well established and functional. Accordingly, the Model Accounting System (MAS) for Panchayats was introduced (October 2009). Though the Government had accepted the MAS, the Commissioner, P&RD, could not furnish data on the present status of preparation and finalisation of accounts.

Instances of Annual Accounts not maintained by PRIs have been brought to the notice of State Government on several occasions, through Inspection Reports and Annual Technical Inspection Reports/Audit Reports. It was informed (October 2016) by the Commissionerate of P&RD, that the State Government had adopted PRIASoft since 2012-13, for maintenance of the accounts of PRIs, in the format prescribed by the MoPR, under the Model Accounting System (MAS).

During test check of PRIs, however, it was found that annual accounts were not being prepared by PRIs, in the manner prescribed under the AP (F) Rules, 2002, as detailed below:

1. Sub-Rule (4) (a) of the AP (F), Rules 2002 envisages that cash books shall be closed and balanced each day and checked by the concerned officer. However, cash books were not closed by six¹⁰ of the test-checked PRIs. Moreover, Bank Reconciliation Statements had not been prepared and appended in the cash books. Further, physical verification of cash had not been carried out and verification reports were not found recorded in the cash books.
2. Rule 16 of the AP (F), Rules 2002 envisages that a Register for Receipt Books shall be maintained in Form No. 5 of the Schedule. As per the said rule, at the end of each financial year, the stock of the receipt books should be checked by the officer concerned

¹⁰ Barpeta ZP, Dhubri ZP, Bhabanipur AP, Juria AP, Pub-Nalbari and Binnakandi AP (Cachar)

and a certificate indicating the result of the verification should be recorded in the Register of receipt books. Due to non-maintenance of registers of receipt books by three¹¹ of the test-checked PRIs, they were unable to check/monitor the number of receipt books issued, as also whether these receipt books were used or unused. Non-accountal of the receipt books may lead to unauthorised operation of receipt books, which is fraught with the risk of fraud and embezzlement of money.

3. Rule 19 of the AP (F), Rules 2002 envisages that, all properties vested in the ZPs, APs and GPs, shall be entered in the Register of Properties and Assets, in Forms No. 6 and 11 of the Schedule. No such Registers were maintained by three¹² of the test-checked PRIs. Due to non-maintenance of these Registers, movable and immovable properties, under the possession of the concerned PRIs, could not be ascertained.

1.14.7 Maintenance of database and the formats therein on the finances of PRIs.

Based on the recommendations of the 11th FC, CAG had prescribed database formats for capturing the finances of PRIs. The database formats were prescribed with a view to having a consolidated position of sector-wise resources and application of funds by PRIs, details of works executed by PRIs and their physical progress *etc.*

The 11th FC, in its award covering the period 2000-05, had earmarked funds for creation of a database for PRIs. The 12th FC had also recommended that States may assess the requirement of each PRI in this regard and earmark funds accordingly, out of the total allocation of the 12th FC grants. Despite the dedicated fund allocation, little improvement was made in development of the database, even though ₹56.21 crore (₹55.61 crore under the 12th FC and ₹0.60 crore under the 13th FC, upto 2014-15) were incurred on creation of the database, during the years 2008-2015. Though funds were released by the Government, the Commissionerate, P&RD, stated (October 2016) that they did not have the details of the utilisation of the fund and that information would be furnished after collecting the records from the ZPs.

The 14th FC, in its report, had also expressed similar dissatisfaction, mentioning that a reliable base data on the finances of the PRIs, was yet to be developed. Computerisation of PRIs in Assam also suffered, as GP offices had not been electrified.

The implementation of the programme of database on finances, therefore, needs to be reviewed and effective steps are required to be taken to develop the database at the earliest.

¹¹ Lahkarghat GP, Paka-betbari AP and Pub-Nalbari AP

¹² Lahkarghat GP, Nazira GP and Pub-Nalbari AP

CHAPTER II

**Compliance Audit of “Implementation of
National Rural Livelihoods Mission in
Assam”**

Chapter-II

Compliance Audit on implementation of the National Rural Livelihoods Mission in Assam

2.1 Introduction:

Swarnajayanti Gram Swarojgar Yojana (SGSY) launched (April 1999) as an integrated programme for self-employment for the rural poor was restructured in June 2011 as the National Rural Livelihoods Mission (NRLM) with the following features:

- Adoption of demand-driven strategy for capacity building of women Self Help Groups (SHGs) and federations;
- First preference being given to the poorest of the poor;
- Promoting the formation of women SHGs on the basis of affinity;
- Adoption of a saturation approach to ensure that all the poor in a village are covered and at least one woman from each poor family is motivated to join the SHG;
- Promotion of the two critical support structures for the SHGs viz. Village federations and Cluster federations, and their members, in their journey out of poverty;
- Providing continuous hand-holding support to SHGs; and
- Ensuring that SHGs are enabled to access repeat finance from banks till they attain sustainable livelihoods.

In Assam, the NRLM was implemented by the Assam State Rural Livelihoods Mission Society (ASRLMS). Implementation of NRLM in all 27 districts of Assam was targeted to be done in a phased manner¹³ during five to seven years from the commencement within the Twelfth Five year Plan.

During the years 2011-12 to 2015-16, total expenditure of ₹ 284.16 crore was incurred on implementation of NRLM in Assam. Audit of implementation of NRLM was carried out with the objective of assessing whether:

- The planning was adequate to cover the envisaged objectives of NRLM;
- The allocation, release and utilisation of funds were made as per the proposed plans and goals set for the implementation of the various components of NRLM;
- NRLM was successful in providing strong self-managed grass root institutions and supported investments by the groups of the poor as per the targets set; and
- Sufficient monitoring and evaluation mechanisms have been devised and implemented for achieving the intended objectives of NRLM.

The following criteria have been used to benchmark the audit findings:

- Framework for implementation of NRLM and instructions issued by MoRD, Government of India (GoI);
- Instructions issued by the Government of Assam (GoA) and Nodal agencies at State and District level;
- Finance Manual published by SMD, NRLM, Assam;

¹³ Year-wise coverage:(2012-13 to 2015-16)

1 st Phase (w.e.f 2012-13):	7 Districts and 42 Blocks
2 nd Phase (2013-14):	7 District and 30 Blocks
3 rd Phase (2014-15):	7 District and 30 Blocks
4 th Phase (2015-16)	6 District and 30 Blocks

2.2 Audit Scope and Methodology

This audit, covering the period from 2011-12 to 2015-16, was conducted during April-July 2016. The audit involved collection of data from the State Mission Management Unit (SMMU) and test-check of records of seven districts¹⁴ and 21 blocks¹⁵ within those districts.

The findings of this audit are discussed in the succeeding paragraphs

2.3 Deficiencies in Planning

For successful implementation of NRLM, the following elements of planning was necessary:

- preparation of State Perspective and Implementation Plan (SPIP) consolidating all District Action plan and duly approved by Governing Body and the Ministry of Rural Development, Government of India;
- preparation of Initial Annual Action Plan (IAAP) within the prescribed time and approval by the Governing body;
- separate action plan for intensive and non-intensive block to be worked out to arrive at the consolidated plan for the state;
- State to prescribe detailed procedural guidelines for the implementation of NRLM for intensive¹⁶ and non-intensive¹⁷ block;
- involvement of Community Based Organisations (CBO)/Non-Government Organisation (NGO)/ Self-Helped Group (SHG) in implementation of the scheme;
- building up federation at different level *viz.* village, GP, cluster, block *etc.* for sustaining collective action;
- Setting up Rural Self Employment Training Institutes (RSETIs) to train up unemployed youth into confident self-employed entrepreneurs;
- mechanism to share information and views, resource pooling and planning and regular monitoring for interface with PRI and SHG to work together;
- setting up capacity building cell for imparting training to the field implementation units and nurturing the community resource persons;
- target for setting up community structures to cover the entire poor population within a specified period of time;
- identification of State Resource Centres to coordinate capacity building and training activities for employees and stakeholders; and
- Mechanism to adopt phase implementation of the programme

However, it was found that the GoA and ASRLMS failed at the planning stage of implementation of NRLM in Assam which adversely affected the process of achieving the desired objectives of the scheme even after four years of launch of the scheme. The State did not prescribe any detailed procedural guidelines for the implementation of NRLM for intensive and non-intensive block. There was no mechanism to share information and views, resource pooling and planning and regular monitoring for interface with PRI and SHG to work together. Capacity building cell for imparting training to the field implementation units and nurturing the community resource persons was also not set up by ASRLMS and no target

¹⁴ Sonitpur, Nagaon, Jorhat, Tinsukia, Bongaigaon, Dhubri and Hailakandi (selected additionally on request of ASRLMS)

¹⁵ Dhekiajuli, Borsola, Behali, Binnakandi, Barhampur, Udali, Lala, Algapur, Hailakandi, Titabor, Ujani Majuli, East Jorhat, Kakopathar, Guijan, Saikhowa, Dangtol, Srijangram, Tapatari, Chapar Salkocha, South Salmara, and Nayaralga

¹⁶ In Intensive blocks all the components of NRLM were implemented with State Rural Livelihoods Mission (SRLM) staff and internal Community Resource Persons (CRPs) and the CRPs generated in resource blocks;

¹⁷ The remaining blocks in the State which are not taken up for implementation in the initial phase.

was fixed for setting up community structures to cover the entire poor population within a specified period of time.

The deficiencies noticed in planning are elaborated in the succeeding paragraphs.

2.3.1 Preparation and adoption of beneficiary list for NRLM through 'Participatory Identification of Poor' process

As per the scheme guidelines, the beneficiaries under the NRLM were to be identified through the 'Participatory Identification of Poor' (PIP) process. PIP is a process by which the community itself would identify the poorest of the poor and vulnerable. The beneficiary list was to be prepared with the names of the poorest of the poor at the top, from the excluded sections of the society, for ensuring social inclusion. The list so prepared was to be placed in the *Gaon Sabhas (GS)* for approval.

However, the Department/ASRLMS/State deviated from predetermined criterion and methodology as PIP was not done in any of the test-checked blocks, and beneficiary list for all blocks and districts was not prepared for implementation of NRLM in the State. The ASRLMS stated that the selection of beneficiaries was done on the basis of BPL list 2002, and visibly poor method. The beneficiaries were selected by a pick and choose method from the BPL list 2002 of the PRDD, GoA and which was also not approved by *GS*. Thus, the formation of SHGs, as well as Village Organisations (VOs) with genuine beneficiaries, could not be guaranteed. As a result, the ASRLMS implemented NRLM in the State, without preparing any list of targeted beneficiaries which was indicative of lack of effective planning in coverage of targeted beneficiaries under NRLM.

2.3.2 State Perspective Implementation Plan

The State Perspective Implementation Plan (SPIP) was a long-term (5-7 year) plan for reducing poverty comprehensively in the State. As part of long term planning, ASRLMS was to prepare SPIP, consolidating all District Action Plans, along with SMMU action plan. SMMU was to submit SPIP, duly approved by its Governing Body (GB), to NRLM/ Ministry of Rural Development (MoRD) for appraisal and approval within 6-12 months from the formal launch of the NRLM.

However, ASRLMS did not prepare the SPIP, as instructed by GB, till the date of audit (July 2016). Non-preparation of SPIP led to the absence of long term plan for reducing poverty and affected the achievement of the targeted goal of providing sustainable livelihood opportunities. In reply, ASRLMS stated that the process of preparation of SPIP was initiated during 2013-14 but due to shortage of manpower at all levels in the beginning of NRLM, SPIP could not be prepared.

2.3.3 Annual Action Plan

As per NRLM guidelines, based on the broad indication of resource availability to the State in a particular year, ASRLMS was to undertake a prioritisation exercise and prepare Annual Action Plan (AAP) dovetailing from SPIP. The AAP was to be submitted to Executive Committee (EC) after compiling AAPs of all the Blocks and Districts along with AAP of SMMU by the SMD, ASRLMS which is also to be approved by Governing Body before sending to Empowered Committee, MoRD. The State AAP and the rolling plan approved by Executive Committee (EC) and General Body (GB) should reach NRLM/NMMU on or before 15 December every year.

It was observed that ASRLMS submitted AAP for the year 2013-14 to 2015-16 to the Empowered Committee, MoRD, without obtaining approval of EC and GB even though the GB had cautioned the ASRLM not to send the AAP to MoRD without its approval. The demands/requirements¹⁸ of all units were not represented in the AAP, due to non-preparation of AAP through the process of consolidating all the district plans.

The ASRLM stated (November 2016) that AAPs were submitted to the EC, MoRD before obtaining approval of the Executive Committee and GB due to shortage of time. The reply of ASRLMS is not tenable as the AAPs were prepared without consolidating all the blocks and district plans. Further, approval of the Executive Committee and GB was also not obtained. Thus, not obtaining of approval of AAP from the GB not only resulted in lack of guidance in planning, but also led to irregularities in the implementation of NRLM in the State which are elaborated in the succeeding paragraphs.

2.3.4 Preparation of Budget

As per Paras 2.3.2 to 2.3.4 of the Finance Manual of ASRLMS, BMMU was to prepare the budget for the block after compiling the Gram Panchayat-wise information, as to their needs and future plans, both in physical and financial terms.

However, the budgets for the years 2012-13 to 2015-16, were not prepared by ASRLMS on the basis of requirements at Block and district levels, as they were finalised without consolidating the budgets of all the District Rural Development Agencies (DRDAs)/District Mission Management Units (DMMUs). Further, timelines for submission of the budget at each level were also not adhered to. Thus, the demands/requirements of all units were not represented in the budget. To that extent, budgeting was based on subjective and not realistic assessment leading to a fundamental lacuna in financial planning and discipline.

2.3.5 Formation of Resource Blocks

ASRLMS took up eight intensive blocks, to be developed as Resource Blocks, in 2012-13 and 2013-14, considering the higher percentage of SC/ST, rural BPL households, low level of rural female literacy, presence and potential of SHGs in these blocks/villages, geographical and regional variance; and existing support structure of women SHGs *etc.* Six intensive blocks, under four districts, were taken up as Resource Blocks during 2012-13. However, they could not be developed due to non-deployment of project resource persons and external community resource persons by SERP¹⁹, Hyderabad. Further, in respect of four blocks, taken up as Resource Blocks in the subsequent year, an agreement²⁰ was made with the Bihar Rural Livelihood Promotion Society (BRLPS) with the following key activities:

- Immersion, induction and training of ASRLMS project staff in the BRLPS project areas
- Comprehensive institution building and training action plan developed and executed with the help of teams;
- Exposure visit for bankers, line department officials;
- Deployment of experienced external Community Resource Person (CRP) teams;
- Deployment of experienced PRPs, Block anchors and state anchors; and
- Assistance in designing customised training modules for ASRLMS staff.

¹⁸ Provided as key elements under Initial Annual Action Plan (IAAP) as per Framework for Implementation of NRLM.

¹⁹ Society for Elimination of Rural Poverty, established by Government of Andhra Pradesh, as a sensitive support structure to facilitate poverty reduction through social mobilisation and improvement of livelihoods of rural poor in Andhra Pradesh.

²⁰ For training of staff in institutional building, social mobilisation, financial inclusion and other core competencies, mobilisation of poor households, basic training to SHGs, form VOs, development of internal CRP and immersion and exposure of community cadres.

However, they also could not be successfully developed, as targets for six activities under BRLPS could not be achieved, as per the plan and agreement. Thus, the aim and objectives of the creation of Resource Blocks remained unachieved, and no training could be imparted to SHGs and the VOs, as also the active women, for utilising them as internal CRPs.

2.3.6 Rural Self Employment Training Institutes (RSETIs)

Identification of State Resource Centres to coordinate capacity building and training activities for employees and stakeholders was an important element of planning for successful implementation of NRLM. The RSETI guidelines envisaged transforming unemployed youth into confident self-employed entrepreneurs, through a short duration experiential learning programme, followed by systematic long-duration hand-holding support. The State Government was to assign districts, preferably, to the respective Lead Banks in the States to set up RSETIs. As per the resolution of the GB meeting of the ASRLMS, held in September 2014, RSETIs were to be made operational by 31 March 2015, in each district.

However, due to lack of planning in setting up RSETIs there was no coordination between the GoA, ASRLMS and the lead banks which led to non-achievement of goals set for setting up of RSETIs as shown below:

- Four²¹ out of 27 districts had not set up RSETIs for imparting training to their BPL unemployed youths till March 2016. Thus, the BPL youths of the four districts were deprived from getting skill-development training, as well as self and wage employment opportunities.
- In Six²² out of 27 districts, RSETIs could not be established, due to non-provision of required land by the Government, even though the bankers had come up for construction of RSETIs in the respective districts.
- As per the RSETI guidelines, regular follow up/handholding support should be provided to the trainees, for a minimum period of two years, to ensure that the candidates take up their vocation at the earliest and are able to sustain it. It was seen during audit that RSETIs, in five²³ out of the seven selected districts, out of trained 7312 BPL youths during 2012-13 to 2015-16, only 4564 BPL youths were provided employment after availing of the short duration training. The respective RSETIs could neither provide wage employment, nor bank loans to the remaining 2748 trained BPL beneficiaries (till May 2016).

ASRLMS stated that it could only reimburse the training expenses to the concerned banks and it was the responsibility of corresponding bank to give bank loan and hand-holding support to RSETIs trainees. The reply is not tenable as ASRLMS was responsible to monitor the providing of wage employment as well as self-employment through bank loan after successful completion of the training by the concerned banks.

Audit observed the planning process and analyse that due to deficiencies at the planning stage, the ASRLMS was lagging behind in achievement of its target which was evident from the fact that NRLM could be implemented in only eight districts and 63 blocks against the target of 27 districts and 132 blocks till March 2016.

²¹ Dibrugarh, Sivasagar, Karimganj & Hailakandi

²² Cachar, Golaghat, Kamrup, Kamrup(M), Morigaon, Nagaon

²³ Tezpur, Jorhat, Tinsukia, Bongaigaon and Dhubri RSETI

2.4 Allocation, release and utilisation of funds

2.4.1 Release of funds by GoI and GoA to ASRLMS

The ASRLMS received ₹307.02 crore (Central share: ₹272.54 crore and State share: ₹34.48 crore) during 2012-16 against the allocation of ₹810.25 crore. However, the ASRLMS could utilise only ₹284.16 crore out of the available fund of ₹345.09 crore (including accrued interest of ₹38.07 crore) and consequently lost the opportunity of receiving ₹503.23 crore from GoI as well as the GoA. ASRLMS stated that due to acute shortage of staff in SMMU, DMMUs and BMMUs because of high attrition rate of staff, the funds could not be utilised. The reply is not tenable as available funds could also not be utilised in a gainful manner as there was no control over planning, action plan and budgeting which led to financial indiscipline at different levels of ASRLMS, as elaborated in the succeeding paragraphs.

2.4.2 Financial mismanagement by DRDAs

(i) Diversion of scheme funds

Scrutiny of the Chartered Accountants' Audit Reports of DRDAs revealed that the following unauthorised diversion of funds was done by the DRDAs:

- a) 12 DRDAs²⁴ irregularly diverted ₹5.58 crore SGSY fund to other schemes viz. MGNREGS, DRDA Administration *etc.*, for the year ended March 2013. Further, the Department did not take effective steps to recoup the diverted funds (as of 31 March 2016).
- b) DRDAs of three²⁵ out of the seven test checked districts diverted SGSY/NRLM funds amounting to ₹2.05 crore to other schemes/programmes, during 2012-13 to 2015-16.
- c) In spite of the order issued by the GoA, DRDA, Jorhat, diverted ₹1.56 crore to DRDA Administration fund, out of ₹1.87 crore from the funds available under SGSY during 2014-15 (₹39.50 lakh), 2015-16 (₹1.10 crore) and 2016-17 (₹6.00 lakh on 1.6.2016) for payment of salary of staff, which was not only an unauthorised diversion, but also constituted a violation of related Government orders.
- d) All the seven test-checked DRDAs paid advances, amounting to ₹2.46 crore, to officials, as well as contractors/suppliers, up to March 2013, under the SGSY funds. Out of this, ₹1.39 crore remained unadjusted for more than three years.

Thus, it can be seen from above that there was no fund control resulting in diversion of SGSY fund. The ASRLMS stated that action would be initiated for recoupment of diverted funds.

(ii) Unutilised balance of SGSY Fund not refunded

Test check of records of DRDA, Jorhat revealed that DRDA had been operating 10 bank accounts under the SGSY in different bank branches and there was an unutilised balance of ₹85.38 lakh (as on 31.3.2016). The PD, DRDA, Jorhat neither refunded the unspent balance (May 2016) nor was any action taken in this regard by the GoA or ASRLMS. Thus, the PD, DRDA, Jorhat not only violated the GoA order of June, 2013, but also blocked the SGSY fund to that extent.

(iii) Blockage of NRLM fund by DRDAs

The activities in the non-intensive blocks were taken up through the DRDAs. ASRLMS released ₹26.63 crore to 10 DRDAs for implementation of different activities, in non-

²⁴ Hailakandi, Karimganj, Cachar, Dhubri, Kamrup (R), Kamrup (M), Jorhat, Sonitpur, Lakhimpur, Dhemaji, Bongaigaon and Kokrajhar.
²⁵ Jorhat: ₹187.06 lakh, Sonitpur: ₹14.00 lakh and Bongaigaon: ₹3.80 lakh

intensive blocks, under NRLM, as per the physical and financial targets provided to them, during the year 2012-13. Out of the released amount, 10 DRDAs could utilise ₹16.93 crore and refunded ₹1.77 crore to ASRLMS leaving an unutilised balance ₹7.93 crore. Further, ASRLMS reallocated (2015-16) ₹2.00 crore out of the unutilised balance to seven DRDAs for implementation of the scheme, leaving a balance of ₹5.93 crore (as of March 2016) as shown in the following **Table-2.1**:

Table-2.1: Statement showing the Blockage of funds by DRDAs under NRLM for the period 2012-13 to 2015-16

(₹ in crore)							
Sl. no.	Name of the DRDA	Govt. fund released during 2012-13	Expenditure incurred	Amount refunded to ASRLMS	Unspent balance (3)-(4)-(5)	Fund re-allocated from the unspent balance	Blockage of Govt. funds (6-7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Sonitpur	3.64	1.91	0	1.73	-	1.73
2	Hailakandi	1.14	0.56	0	0.58	-	0.58
3	Jorhat	1.93	1.8	0.10	0.03	-	0.03
4	Barpeta	3.62	1.5	1.67	0.45	0.30	0.15
5	Cachar	4.10	2.35	0	1.75	0.48	1.27
6	Dhemaji	1.59	1.45	0	0.14	0.12	0.02
7	Goalpara	2.45	1.85	0	0.60	0.23	0.37
8	Golaghat	2.25	1.53	0	0.72	0.23	0.49
9	Kamrup (R)	3.18	1.9	0	1.28	0.45	0.83
10	Karimganj	2.73	2.08	0	0.65	0.19	0.46
Total		26.63	16.93	1.77	7.93	2.00	5.93

Further, ₹0.51 crore, accrued as interest in three²⁶ DRDAs, was also kept unutilised by the DRDAs. The above DRDAs could neither utilise ₹6.44 crore (₹5.93 crore + ₹0.51 crore) for the purposes for which they were given, nor was these amounts refunded to ASRLMS till date (July 2016). Thus, non-utilisation of ₹6.44 crore, for more than three years, not only led to blockage of scheme funds but also deprived the beneficiaries from the intended benefits of the scheme to that extent. Though the ASRLMS stated that an amount of ₹4.58 crore was refunded by DRDAs during April 2016 to September 2016, the DRDA wise details of refund was not furnished to audit.

As described in the preceeding paragraphs, audit analysed the finances of NRLM and observed that the control/monitoring over the management of finances of NRLM and SGSY were lacking in ASRLMS. Diversion of fund by DRDA was taking place. This affected achievements of goals set for implementation of various components of NRLM, as was evident from the fact that ASRLMS could utilise only ₹284.16 crore against total receipt of ₹307.02 crore and lost the opportunity of getting additional fund of ₹503.23 crore from GoI as well as GoA. Further, the available funds were also not utilised optimally.

²⁶ Sonitpur=₹0.31 crore, Hailakandi=₹0.11 crore and Jorhat=₹0.09 crore

2.5 Implementation

2.5.1 Phased Implementation

As per the target set, ASRLMS has taken up implementation of NRLM in the State, in a phased manner, comprising three stages, over a period of five to seven years *viz*:

- National Rural Livelihoods Project (NRLP): 25 Intensive blocks including eight Resource Blocks²⁷ in Intensive districts;
- NRLM Intensive Blocks: 38 in Intensive & non- Intensive districts;
- NRLM: 156 Non- intensive Blocks in 24 districts.

It was observed that against the targeted 27 districts and 132 blocks, ASRLMS could implement NRLM only in eight districts (30 *per cent*) as intensive districts and 63 blocks (27 intensive blocks in eight intensive districts and 36 intensive blocks in 19 non-intensive districts).

The ASRLMS stated that the target of phased manner implementation could not be achieved due to non-receipt of grant under administrative costs from MoRD, GoI for rolling out NRLM, in the years 2013-14, 2014-15 and 2015-16. The reply is not tenable, as the total allocated amount in each of the above years was not fully released due to non-utilisation of 60 *per cent* of the first instalment of the Central and State shares and non-submission of utilisation certificate in time. Further, as mentioned in the preceding paragraphs the deficiency in the planning process, assessment of SHGs; VOs and CLFs; identification of beneficiaries, lack of control over budget and management of resources affected the progress and implementation of the scheme as elaborated in the succeeding paragraphs.

2.5.2 Shortfall in formation of Village Organisation (VOs) and Cluster Level Federations (CLFs)

As per framework for implementation of NRLM, strong institutions of the poor, such as SHGs and their village level and higher level federations, are necessary to provide space, voice and resources for the poor and for reducing their dependence on external agencies. The role of the VOs was to present a monthly report of the SHGs and an action plan for the coming month, in the VO meeting, share problems and issues facing individual SHGs in the VO meeting and report back to the SHGs on the proceedings of the VO. The primary role of the CLF²⁸ included collective problem solving, management of certain community services, lobbying for access to programme funds and creating a platform for sharing of experiences by holding monthly or quarterly meeting of group representatives at cluster level *etc*.

It was observed that during the years 2012-13 to 2015-16 there was shortfall in formation of 4520 VOs²⁹ (55.57 *per cent*) and 362 CLFs³⁰ (97.31 *per cent*). In the seven test-checked districts covering 14 intensive blocks, only one³¹ CLF was formed till date (May 2016).

The ASRLMS stated that the shortfall was due to delay in implementation of resource block strategy and shortage of man power across all districts and blocks. Thus, due to non-achievement of target of formation of VOs, capacity building of the community institutions

²⁷ These blocks would be model blocks where all the key strategies would of NRLM would be piloted and besides other activities internal Community Resource Persons were developed.

²⁸ A CLF is a network of several SHGs and a structure or body evolved by SHGs themselves consisting of representatives from all member SHGs with a motive of supporting member SHGs attain the goals of economic and social empowerment of women members and their capacity building.

²⁹ Against the target of 8102 VOs, only 3582 VOs were formed

³⁰ Against the target of 372 CLFs, only 10 CLFs were formed

³¹ BMMU Kakopathar under Tinsukia district

was adversely affected. Further, non-formation of the CLFs, after a lapse of four years from the year of commencement, indicated not only the slow implementation of the programme, but also the fact that the programme was being implemented without adequate planning.

2.5.3 Revolving Fund

The Revolving Fund was to be provided to the SHGs as an incentive to inculcate the habit of thrift and accumulate their own funds, for meeting their credit needs in the long-run and immediate consumption needs in the short-run.

During audit it was observed that:

2.5.3.1 Shortfall in disbursement of RF to SHGs

In 10 BMMUs under five districts, ASRLMS had given a target for disbursement of RF @ ₹15000 per SHG to 350 SHGs, during 2014-15, to each BMMU.

It was observed that there was shortfall in achievement of target in respect of 2084 SHGs during 2014-15, as against the target of 3500 SHGs, 10 BMMUs could disburse RF to 1416 SHGs only amounting to ₹2.12 crore. The non-achievement of targets, in the disbursement of RF to the SHGs, deprived the beneficiaries from availing the intended benefits of the schemes.

2.5.3.2 Excess expenditure under RF beyond budget provision

The DRDAs of 7 test checked districts incurred expenditure of ₹2.48 crore for payment of RF to SHGs of non-intensive blocks, against the budget provision of ₹1.67 crore, during 2012-13 to 2015-16. Similarly, six DRDAs³² incurred expenditure of ₹2.39 crore, for payment of RF to SHGs in non-intensive blocks, against the budget provision of ₹2.03 crore under NRLM, during 2012-13 to 2014-15. The excess expenditure of ₹1.17 crore, incurred by the DRDAs, for payment of RF to the SHGs, during 2012-16, beyond the budget provision and without obtaining approval from the competent authority, was irregular and unauthorised.

In reply, ASRLMS stated that clarification from DRDAs has been sought for and appropriate action would be taken on receipt of clarification.

2.5.3.3 Unauthorised disbursement of RF to the beneficiaries of Intensive Blocks

Scrutiny of records revealed that three³³ DRDAs violating the SMD's sanction of RF of ₹1.18 crore, intended for SHGs of Non-intensive blocks, disbursed RF of ₹16.10 lakh to 143 SHGs of Intensive blocks during 2012-13. Thus, payment of RF, to SHGs of intensive blocks, against the sanction for non-intensive blocks, was irregular and unauthorised. Besides, beneficiaries of the Non-intensive blocks were deprived of availing RF to that extent.

In reply, ASRLMS stated that clarification from DRDAs has been sought for and appropriate action would be taken on receipt of clarification.

2.5.4 Capital Subsidy (CS)

CS fund is mainly intended to inject financial resources into the institutions of the poor and catalyse investments into the livelihoods of the poor. The CS fund is linked to the bank loan, and is to be released to SHGs satisfying the following eligibility conditions:

- Must have completed at least 12 months of active existence;
- A minimum period of 6 months should have elapsed after the receipt of revolving fund;

³² Kamrup, Darang, karimganj, Dibrugarh, Lakhimpur and Golaghat

³³ Nagaon, Jorhat and Dhubri

- Must have received satisfactory rating from the financing bank;
- Must have availed and repaid promptly at least one dose of bank linkage;
- Must have attained the 2nd grading³⁴;
- Must have not received CS earlier; and
- Must have prepared a well-articulated proposal for the activity to be taken up.

The following irregularities in payment of CS were noticed during audit:

2.5.4.1 Payment of CS to SHGs by DRDAs

CS was to be provided to SHGs, based on the quality of the groups, their track record in managing their savings and internal lending, and on the basis of their micro-investment plan. Scrutiny of records of DRDAs revealed that DRDAs of three,³⁵ out of seven test checked districts, had released ₹444.48 lakh as CS to the banks, for payment to 441 SHGs and 67 Individual Beneficiaries (IBs), in 31 non-intensive blocks under NRLM, during 2012-13. However, no records/documents in support of eligibility³⁶ of these SHGs, could be made available to audit. Further, there was no monitoring mechanism to ascertain whether both the loan and subsidy disbursed by the banks to the SHGs had been utilised by them as per their Micro Credit Plan (MCP). Thus, the release of CS to the bank for payment to SHGs, without verifying their basic records, was irregular.

In reply, ASRLMS stated that clarification from DRDAs had been sought for and appropriate action would be taken on receipt of clarification.

2.5.4.2 Unfruitful expenditure on payment of CS to SHGs

The CS was released to the SHGs without satisfying all the eligibility conditions and the respective BDOs neither ensured that the proportionate share of bank loan was received by the SHGs nor they monitored the activities of the SHGs after release of the CS. It was found that DRDAs of four³⁷, out of seven test-checked districts, released CS of ₹229.15 lakh to the banks, for payment to 242 SHGs, in 15 Non-intensive blocks, for taking up of their projects/activities under NRLM, during 2013-14 but the funds given to the SHGs were not utilised for the activities/purposes for which they were sanctioned to them, and the SHGs were found to have often closed the activities mid-way after receipt of the subsidy without citing any reason.

In reply, ASRLMS stated that clarification from DRDAs had been sought for and appropriate action would be taken on receipt of clarification.

2.5.4.3 CS provided to male beneficiaries

The PD, DRDA, Nagaon, paid CS, amounting to ₹30.87 lakh, to 25 SHGs, formed with male members, against payment of loans amounting to ₹33.19 lakh by banks, which was not only irregular but also constituted a violation of the guidelines. In reply, ASRLMS stated that clarification from DRDAs had been sought for and appropriate action would be taken on receipt of clarification.

³⁴ Second grading means qualification benchmark as CS was given only after timely payment of RF and following the norms of Panchasutra, i.e., regular meetings; regular savings; regular inter-lending; timely repayment; and up-to-date books of accounts.

³⁵ Sonitpur, Nagaon and Dhubri

³⁶ Verification of the basic records/documents of SHGs that they have completed at least 12 months of active existence; a minimum period of 6 months has elapsed after the receipt of Revolving Fund (RF); have received satisfactory rating from the financing bank; availed and repaid promptly at least one dose of bank linkage; have attained the 2nd grading and have not received CS earlier etc.

³⁷ Hailakandi, Jorhat, Tinsukia and Bongaigaon

2.5.4.4 Payment of CS without bank loan

In two³⁸, out of the seven test-checked districts, the respective PD, DRDAs released ₹29.95 lakh to the lead banks for payment of CS to 25 SHGs, during 2012-13. However, the banks released the CS, without releasing the bank loans of ₹30.35 lakh to the SHGs. The respective PDs also took no initiative to communicate with the concerned banks for payment of loan to the SHGs. Thus, releasing of CS prior to disbursement of bank loans was irregular, besides, objective of providing CS was also not achieved.

In reply, ASRLMS stated that clarification from DRDAs had been sought for and appropriate action would be taken on receipt of clarification.

2.5.4.5 Excess release of CS to SHGs

As per the Framework for Implementation of NRLM, the banks would maintain a minimum subsidy-loan ratio of 1:2. Test check of records of six³⁹ selected districts revealed that against the actual scheme amount of ₹9.71 crore, ₹3.24 crore was to be paid as subsidy and ₹6.47 crore was to be paid as loan in the ratio 1:2. However, it was found that against the loan amount of ₹6.47 crore only ₹5.11 crore was released and against subsidy of ₹3.24 crore, ₹4.60 crore was paid resulting in excess payment of ₹1.36 crore as subsidy to 461 SHGs. Had the DRDAs released the CS in the prescribed proportion, CS of ₹1.36 crore could have been released to other needy SHGs.

2.5.4.6 Unauthorised disbursement of CS to beneficiaries of Intensive Blocks

Scrutiny of records revealed that two⁴⁰ DRDAs violating the SMD's sanction of CS of ₹2.57 crore for non-intensive blocks, disbursed CS of ₹40.87 lakh to 58 SHGs and 16 individual beneficiaries of Intensive blocks, during 2012-13. Thus, payment of CS, to SHGs and individual beneficiaries of intensive blocks, against the sanction for non-intensive blocks, was irregular and unauthorised. Besides, intended beneficiaries of the Non-intensive blocks were deprived of availing CS to that extent.

In reply, ASRLMS stated that clarification from DRDAs had been sought for and appropriate action would be taken on receipt of clarification.

2.5.5 Delay in disbursement of Community Investment Fund (CIF)

Community Investment Fund (CIF) is provided as grant to the federations which will be extended to SHGs in the form of loans to be repaid back to the federations with an interest rate as deemed fit by the federations. ASRLMS fixed the deadline for disbursement of CIF to the SHGs/VOs in 23 days from the receipt of these funds by BMMUs.

Scrutiny revealed that six BMMUs, in four out of the seven test-checked districts, received ₹2.01 crore from ASRLMS, for payment of CIF to SHGs/VOs, against funds released/allocations made for the 1st and 2nd Quarters, for the year 2015-16. The BMMUs/DMMUs paid CIF of ₹1.96 crore to 392 SHGs @ ₹50,000 each, during 2015-16. However, BMMUs delayed payment of CIF to SHGs/VOs beyond the prescribed limit of 23 days, for periods ranging from 60 to 225 days from the date of receipt of funds. The delay in disbursement of CIFs to 392 SHGs was attributed to lack of monitoring on the part of the Mission authority and this indicated slow implementation of the scheme.

³⁸ Hailakandi and Tinsukia

³⁹ Sonitpur, Nagaon, Hailakandi, Jorhat, Tinsukia and Bongaigaon

⁴⁰ Sonitpur and Dhubri

ASRLMS stated that the timeline mentioned in the guideline on CIF to SHGs/VOs are from the date of preparation of MCPs by the SHGs till the date of release of CIF to VOs/SHGs by the BMMU. The reply is not tenable as the total time fixed for disbursement of CIF to VOs/SHGs was within 23 days from the date of release of fund to DMMUs/BMMUs.

2.5.6 Disbursement of Interest Subsidy/Interest Subvention to SHGs bank account

With a view to providing access to credit at affordable rates of interest to the rural poor and make their investments more viable, NRLM was to provide interest subsidy, comprising the difference between the interest charged by the bank and seven *per cent* per annum, on all loans from main stream financial institutions, to SHGs, which were regular in loan repayment.

It was observed that despite having a balance of ₹ 10.01 crore under the component “Interest Subvention” (as of 31.3.16), ASRLMS transferred Interest Subsidy of ₹ 15.05 lakh to the bank accounts of 1774 SHGs, against ₹ 39.36 lakh due to be transferred to the bank accounts of 5729 SHGs (as of March 2016). Thus, there was an outstanding of ₹ 24.31 lakh, to be paid to the bank accounts of 3955 SHGs (as of March 2016). This indicated lack of monitoring and persuasion by ASRLMS with the lead banks. Non-payment of interest subsidy to eligible SHGs not only deprived the beneficiaries from the intended benefit, but also led to under-utilisation of allocated funds under NRLM.

ASRLMS stated that necessary steps are being initiated to expedite the process of release of Interest Subvention to the eligible SHGs.

2.5.7 Idle outlay on dairy project at Sadiya Development Block under NRLM

The ASRLMS allocated ₹ 13.85 lakh to the DRDA, Tinsukia, under Scaling up Innovative project/best practice for non-intensive Block, in Tinsukia district, during the financial year 2012-13.

Construction of the project started (February 2013) departmentally and the PD, DRDA, Tinsukia, incurred expenditure of ₹ 15.83 lakh (₹ 1.98 lakh utilised from interest fund) towards execution of civil works, purchase of machinery and milk collection van, during the period from February-October 2013. However, the project could not be made operational till June, 2016, due to non-availability of power supply to the project. The expenditure of ₹ 15.83 lakh, incurred for construction of the project, remained idle since January 2014.

ASRLMS stated that clarification from DRDAs had been sought for and appropriate action would be taken after receipt of clarification.

2.5.8 Non-operation of ‘upscaling Dairy project’ at Bajiagaon

The PD, DRDA, Nagaon, released (March 2013) ₹ 27.99 lakh to the BMMU, Bajiagaon, for implementation of the upscaling project of dairy activity, under NRLM, during 2012-13. The Block Project Manager (BPM), BMMU, Bajiagaon, incurred expenditure of ₹ 24.85 lakh, towards execution of civil works, purchase of machinery and capacity building, during April 2013 to March 2014. Thereafter, the BPM, BMMU, Bajiagaon submitted a revised Detailed Project Report for ₹ 21.75 lakh for additional components, which was approved in the meeting of the Technical and Evaluation Committee (TEC) held on 18th Feb, 2015, with a direction to hand over the infrastructure created under the project to the VO or Producers Group formed in the project. However, neither did the ASRLMS release additional funds for completion of the projects, nor was the infrastructure created under the project handed over to

the VO or Producers Group till May 2016. As a result, the project could not be made operational.

In reply, ASRLMS stated that clarification from DRDAs has been sought for and appropriate action would be taken after receipt of clarification. Thus, delay in completion of the project deprived the beneficiaries from the intended benefits of the scheme.

2.5.9 Unauthorised expenditure on organising *Saras Fair*

GoI, MoRD, sanctioned (March 2016) ₹35.00 lakh, for organising the Regional *Saras Fair*,⁴¹ during January-February 2016. MoRD released ₹26.25 lakh as first instalment to ASRLMS, stating that the balance amount would be released on submission of UC and audited statement of accounts.

GoI's sanction letter stipulated that any excess expenditure, over and above the sanctioned amount on organising the fair, would be met by the State Government, from its own resources. However, as per GoI letter dated 30 January 2015, State Government could incur expenditure upto 12.5 *per cent* of fund allocated under the head "Infrastructure creation and Marketing support" for holding of *Saras Fair*. Hence, it was permissible to incur upto ₹one crore for holding of the *Saras Fair*, as GoA had a provision of ₹eight crore, under the head 'Infrastructure creation and marketing support,' for the year 2015-16, in addition to the amount of ₹35 lakh sanctioned for the purpose by GoI. However, ASRLMS incurred ₹1.60 crore for holding of the *Saras Fair* during 30.01.16 to 08.02.16, which was extended upto February 2016. The excess expenditure of ₹0.25 crore (₹1.60 crore - ₹1.35 crore) was irregularly met from NRLM fund, instead of it being met from the State Government's own resources. Thus, incurring of excess expenditure beyond the allocation not only hampered implementation of the scheme but also deprived the beneficiaries from intended benefits to that extent.

The ASRLMS stated that they were eligible to spend ₹1.90 crore as the Technical and Evaluation Committee for Infrastructure and marketing had decided to launch the first producer collective Brand *Tejaswini*⁴² in the Regional *Saras Fair* at an estimated cost of ₹75.00 lakh in addition to amount admissible under the head "Infrastructure creation and Marketing support" *i.e.* ₹80.00 lakh and amount sanctioned by the MoRD, GoI *i.e.* ₹35.00 lakh. The reply is not tenable as the expenditure for ₹one crore under the "Infrastructure creation and marketing support" had already been allowed in the total admissible amount of ₹1.35 crore for organising the *Saras Fair*.

2.5.10 Irregular payment of honorarium to Community Resource Persons

Scrutiny of records revealed that DRDA, Dhubri, disbursed ₹59.65 lakh to 14 Block Development Officers (BDOs), for payment of Active woman/CRP honorarium/SHG training. Out of this, ₹48.93 lakh was paid by the BDOs as honorarium to Active woman /CRPs during 2013-14 to 2015-16 without verifying their field movement registers activity reports as none of the Active woman/CRPs submitted the same to the Block. Thus, the payment of honorarium was irregular, as it was to be paid at the rate⁴³ based on their performance only.

⁴¹ The *Saras Fair* is organised with a view to giving exposure to rural artisans/entrepreneurs/officials for developing markets for products of the beneficiaries of the programme.

⁴² *Tejaswani* was a brand launched for the purpose of marketing of handloom product.

⁴³ The ceiling of daily remuneration was ₹200 limited to maximum 15 days in a month.

2.5.11 Avoidable excess expenditure on hiring and installation of hoarding

ASRLMS issued Notice Inviting Tender (NIT) for hiring and installation of 255 hoardings. After verification of tenders, the Technical and Financial Committee (T&FC) found six firms/agencies eligible for the financial bid. The lowest bidder (M/s Assam Commercial Agency) was accordingly selected for the lowest rate of ₹37,275 by the T&FC. The SMD however, ordered for retendering, on the basis of complaints received from three bidders, who were absent at the time of opening of tender, without consulting the T&FC. After retendering, the lowest bidder (M/s Pradip Advertising), who offered a rate of ₹52,500, was selected.

Audit observed the following irregularities in the whole process:

- The offer of the lowest bidder (₹37,275) was cancelled by the SMD, on the basis of complaints from the said three bidders. The complaints were against the opening of bid in the presence of only seven out of 11 bidders and the lowest bidder was not technically fit for the work. One of the bidders of the three complaining bidders also complained about the non-selection of his offer which he stated to be lower than the lowest bidder. However, the complaint did not stand on merit as audit found that the offer was not the lowest and more than 50 per cent of the bidders were present while bids were opened. Moreover, both the technical and financial bid of lowest bidder were also approved by the Technical evaluation committee where the SMD himself was the Chairman.
- The rate (₹52,500) offered by the lowest bidder (M/s Pradip Advertising) on retendering was significantly higher than the rate offered by him in the previous tender (₹44,205) and was accepted by the T&FC. The period of maintenance of the hoardings was also reduced from three years to one year in the second tender.

Thus, there was no valid reason for cancellation of the earlier tender and the whole process of rejecting the earlier tender and accepting the higher rate was irregular and resulted in extra expenditure of ₹38.82⁴⁴ lakh.

The ASRLMS stated that the contract was awarded to the lowest bidder after re-inviting open competitive tender and all procedural requirements were followed. The reply is not tenable, as the cancellation of the first tender itself were done without any specific reasons.

As described in the preceeding paragraphs, audit analysed the implementation of NRLM and observed that lacunae in implementation of various components of NRLM, due to improper planning process, non-assessment of performance of SHGs; VOs and CLFs; improper identification of beneficiaries, lack of control over budget and management of resources, affected the process of providing strong self-managed grass root institutions.

2.6 Monitoring and evaluation

As NRLM is process intensive scheme, there is a need to constantly review, assess and learn from the progress achieved at various levels, both in terms of qualitative and quantitative targets. A robust IT-based Monitoring Evaluation and Learning system was to be in place to facilitate learning and continuous improvement and support decision making at all levels. However, lacunae in planning process and irregularities in the implementation of the scheme during the period 2011-12 to 2015-16 as discussed in the preceeding paragraphs was

⁴⁴ (₹52,500 - ₹37,275) × 255nos. = ₹38,82,375)

indicative of lack of control over monitoring, evaluation and reporting at the different levels of implementation.

Only three review meetings with the districts and block officers and staff was held by ASRLMS, for review of implementation of NRLM, during 2012-13 and 2013-14. Though ASRLMS had stated that it would convene 22 review meetings during 2014-15 and 2015-16, it could provide minutes of only seven review meetings. Neither ASRLMS assessed the achievement through community score cards nor did any external social audits were conducted. District Advisory/Monitoring Group was not set up in six⁴⁵ out of seven selected districts. Further, ASRLMS did not monitored the ratio of disbursement of CS with loans in the Non-intensive districts. CS was provided to the banks, by DRDAs without any verification of the ratio of disbursement of CS with loans. Moreover, prescribed rate of interest was neither considered during inter-lending of CIF loan at different levels nor it was monitored by ASRLMS.

2.6.1 Role of GB and EC

(i) **GB:** The role of the GB, in providing policy guidance, was limited as only three meetings of the GB were held during the period 2011-12 to 2015-16 that too beyond the prescribed period of three months from the end of a financial year. Further, involvement of representatives from training institutes and academic institutions, experts (Rural Development)/Non-Government Organisations (NGOs), SHGs/federations, required as part of GBs was also lacking as academic institutions, expert groups, SHGs/federations had not been represented in two out of three meetings held so far. The inputs of the GB was also not obtained in the SPIP and AAP as it were submitted directly to the MoRD without obtaining GB's approval.

(ii) **EC:** The EC comprising of maximum eight members includes Chief Secretary, GoA as the chairperson and State Mission Director (SMD) as the Member Convener. The EC shall meet at least once in a quarter, or more frequently, if necessary, with the permission of the chairperson, for the management of the affairs of the ASRLMS. However, against the required 16 meetings, only five were held during 2011-16, thereby adversely impacting the planning, implementation and monitoring of schemes. ASRLMS stated that steps would be taken to hold the EC meetings regularly.

2.7 Conclusion

Though ₹284.16 crore was involved in implementation of the NRLM in the State, the benefits of the scheme could not be reaped due to the absence of effective planning in terms of an SPIP, inadequate capacity building of the CRPs for programme implementation; short, as well as delayed, release of funds (both Central and State share); and failure of the ASRLMS to utilise funds optimally. Programmes were implemented without any targeted beneficiary list and time-bound goals due to non-finalisation of the list of 'poorest of the poor' households. There was significant shortfall in coverage of districts and blocks against the coverage targets fixed under the NRLM. RSETIs were not established in four districts, depriving BPL youth from skill development trainings. Monitoring and evaluation to assess the impact of the scheme were inadequate, due to the absence of monitoring by a State Project Manager/Project Manager Monitoring.

⁴⁵ Tinsukia, Nagaon, Jorhat, Hailakandi, Bongaigaon and Dhubri district

2.8 Recommendations

For better implementation of NRLM in timely manner, ASRLMS may:

- prepare a beneficiary list, of the 'poorest of the poor' households of the State, covering all the *Gaon Panchayats*, Blocks and districts, by adopting PIP ;
- utilise funds effectively and promptly and ensures timely submission of UCs against all installment, so that the central share does not lapse; and
- improve the monitoring mechanism by holding regular review meetings at all levels and ensure preparation of an action taken report on the drawbacks and lapses found in the review meetings.

CHAPTER III

Compliance Audit of Panchayati Raj Institutions

Chapter-III

COMPLIANCE AUDIT OF PRIs

3.1 Misappropriation at Golaghat Zilla Parishad

An amount of ₹16.63 lakh received from different lessess was not deposited in the Government Account by the Accountant of Golaghat ZP.

Rule 14 of the Assam Panchayat (Financial) Rules, 2002 envisages that all receipts due to the Zilla Parishad shall be collected by an officer or any person authorised by the Zilla Parishad and the amount collected shall be handed over to the Cashier or any other official authorised for the purpose through the Accountant. All such receipts shall be entered in the Cash Book on that very date and shall be authenticated by the Drawing and Disbursing Officer (DDO) concerned, with his dated initial. Further, Rule 95 of the Assam Financial Rules provides that the DDO is personally responsible for accounting of all money received and disbursed and for the safe custody of cash.

Scrutiny (November-December 2015) of records of the Golaghat ZP revealed that though there was provision in the receipts for signature and countersignature by the Cashier and Accountant respectively, both these columns were unsigned in the receipts. In the space provided for signature of the CEO, the Accountant had signed on his behalf. Moreover, references to the cash book entries had also not been recorded on the body of the receipts.

Detailed scrutiny of receipts further revealed that, in 42 instances, during the period from September 2012 to February 2015, revenues received from different lessees, had either not been entered in the cash book or amounts lesser than the actual receipts had been entered. The details are shown in the following **Table 3.1**:

Table 3.1: Details of amount received and amount entered in Cash Book

(₹ in lakh)

Sl. No	Particulars	Period of collection	Received by	Amount received	Amount entered in the Cash Book and deposited in the Bank	Difference between amount received and amount entered in Cash Book
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Kist money partially deposited in bank	June 2012 to September 2015	S. Borah, Accountant	28.71	25.76	2.95
2	Kist money and Room rent not deposited in the bank	September 2012 to March 2015	-do-	13.68	Nil	13.68
Total				42.39	25.76	16.63

Thus, out of ₹42.39 lakh collected from lessees, only ₹25.76 lakh was deposited in the bank. The remaining ₹16.63 lakh, though received from the lessees, was neither deposited in the bank, nor recorded in the Cash Book, by the Accountant, Golaghat ZP, as detailed in **Appendix IV**.

The present CEO, Golaghat ZP, has stated that the reply would be furnished after verification, indicating that the whereabouts of the un-deposited money were also not known to him, pointing towards possible misappropriation of the amount of ₹16.63 lakh. The CEO, Golaghat ZP, stated (April 2016) that the fund received from different lessees of

Beel⁴⁶/Ghat⁴⁷/Bazar⁴⁸ was deposited into the bank in bulk, according to convenience, which is in violation of Rule 14 (3) of the Assam Panchayat (Financial) Rules, 2002.

Short deposit was pointed out by audit in December 2015; no action against the accountant was initiated till the date of superannuation (31.01.2016) of the Accountant.

Thus, failure on the part of the CEO, Golaghat ZP, to monitor the deposits of cash, resulted in probable misappropriation of ₹16.63 lakh, by the Accountant, Golaghat ZP. Further, except issuing (April 2016) a notice to the retired Accountant, no efforts were made by the CEO, Golaghat ZP, to recover the misappropriated amount till date (September 2016).

The matter was reported to the Government in May 2016; their reply had not been received (December 2016).

3.2 Misappropriation at Sivasagar Anchalik Panchayat (AP)

An amount of ₹13.85 lakh received from different lessees was not deposited in the Government Account by the Accountant of Sivasagar AP.

Rule 14 of the Assam Panchayat (Financial) Rules, 2002 envisages that all receipts due to the AP shall be collected by an officer or any person authorised by the AP and the amount collected shall be handed over to the Cashier or any other official authorised for the purpose, through the Accountant. All such receipts shall be entered in the Cash Book on that very date and shall be authenticated by the Drawing and Disbursing Officer (DDO) concerned with his dated initial. Further, Rule 95 of the Assam Financial Rules provides that DDO is personally responsible for accounting of all money received and disbursed and for the safe custody of cash.

Scrutiny (November-December 2015) of records of the Sivasagar AP, pertaining to the period from February 2012 to June 2015, revealed that, though amounts were received by the Accountant of the Sivasagar AP, the same were not entered in the Cash Book on the same dates. Instead, the amounts were entered in the Cash Book in lump sum and were deposited in the Bank account at later dates. The extent of delays ranged up to 338 days. Moreover, reference to the cash book entry was not recorded on the body of the receipts. It was also observed that the Executive Officer (EO), who was the DDO of the AP, failed to (a) ensure daily deposit of the receipts and (b) detect the Cash Book discrepancies through the prescribed monthly checks on the closing balance of cash.

Detailed scrutiny of receipts further revealed that, during the period from February 2012 to June 2015, ₹26.35 lakh was received from different lessees by the Accountant, but only ₹12.50 lakh were deposited in the bank account. The Accountant neither deposited the remaining ₹13.85 lakh in the bank, nor recorded the receipts of the amount in the Cash Book. The present EO, Sivasagar AP, stated that reply would be furnished after verification, indicating that the whereabouts of the money not deposited were also not known to him, which tantamounted to misappropriation of ₹13.85 lakh. In reply to an audit query, the EO, Sivasagar AP, stated (May 2016) that steps had been initiated against the Accountant and the matter had been reported to the higher authority for taking necessary action accordingly. However, no action was taken against the Accountant till October 2016, except for handing

⁴⁶ A fresh water lake

⁴⁷ A place on the river bank from where boats and ferries carry goods and passengers.

⁴⁸ A permanently enclosed marketplace or street where goods and services are exchanged or sold.

over of the records in respects of own funds viz., Cash Book, Pass Book and other related documents, from him, to another official of the Sivasagar Development Block.

Thus, failure of the EO to exercise necessary oversight over cash management in the AP not only allowed the Accountant to violate Rule 14 (3) of the Assam Panchayat (Financial) Rules, 2002, by not depositing the revenue in the bank immediately on receipt from different lessees of *Beel/Ghat/Bazar*, but also resulted in probable misappropriation of ₹ 13.85 lakh.

The matter was reported to the Government in May 2016; their reply had not been received (December 2016).

3.3 Wasteful expenditure in Cachar Zilla Parishad

An amount of ₹15 lakh was wasted on construction of Market shed due to unauthorised change of sites to private lands by Junior Engineers (JEs) and failure on the part of the CEO, Cachar Zilla Parishad to monitor the works after releasing the funds to the JEs.

Government of Assam (GoA), accorded sanction and released (March 2013) ₹ 8.00 crore under 13th Finance Commission (FC) grants for 2012-13 for construction of New Market Sheds to eight⁴⁹ districts of Assam (@ ₹ 1.00 crore each) for promoting rural business hubs. The fund was released specifying the detailed location, address *etc.* of each market shed proposed by the Zilla Parishads (ZPs). As per the release order, it was to be ensured by the Chief Executive Officers (CEOs) that the lands for construction of the market sheds were free from all encumbrances and that the project was completed within three months from the date of sanction. Besides other instructions, it was also specifically mentioned in the release order that the CEOs of the concerned ZP must be held responsible for any misuse or misappropriation of the funds.

Accordingly, the CEO, Cachar ZP accorded (September 2013) administrative approval of ₹ 12.50 lakh each, for construction of new market sheds, at eight different locations in Cachar District, against an estimated cost of ₹ 25 lakh for each market. Out of ₹ 12.50 lakh, ₹ 7.5 lakh each was released (September 2013) as 1st installment to the Junior Engineers (JEs), for execution of the works in respect of eight market sheds, with an instruction to utilise the amount as per plan and estimate within one month and to submit Progress Report of the work from time to time.

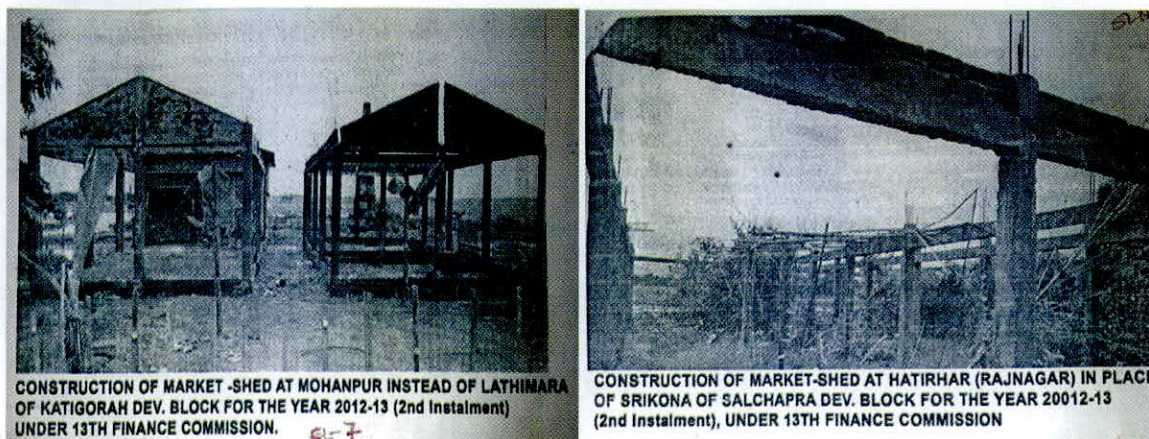
Test check (November 2015) of records of the CEO, Cachar ZP, revealed that, in two instances⁵⁰, the JEs changed the approved site for market sheds to other locations, without any approval from the competent authority. Reasons for change in location of the market sheds were neither found on records, nor could be explained by the present CEO. Moreover, the lands selected for market sheds were private lands and no registered deed was executed for transferring the ownership of the lands to Cachar ZP. The land on which the market shed was constructed at Mohanpur was re-occupied by the owner after the ZP had incurred an expenditure of ₹ 7.50 lakh and now stands abandoned. Further, the construction work of the market shed at the unapproved site at Rajnagar was also incomplete till March 2016, as the work was abandoned by the JE without citing any reason. The present CEO stated that the

⁴⁹ Barpeta, Cachar, Dhubri, Golaghat, Jorhat, Morigaon, Nagaon and Sonitpur

⁵⁰ 1. Construction of Market shed at Lathimara Bazar at Katigora GP under Katigora AP shifted to an unapproved location at Mohanpur.
2. Construction of Market shed at Srikona Daily Bazar at Salchakra GP under Salchakra AP shifted to an unapproved location at Rajnagar.

concerned JE might have misappropriated the money, as he did not submit any details of expenditure on the market sheds. The then CEO also did not take any action against the erring JEs.

The following photographs depict the incomplete state of the two market sheds at the unapproved sites:



The present CEO, Cachar ZP, stated (May 2016) that the Government had been moved (February 2015) for departmental action against the erring JEs. However, no report of any action taken by the Government was available. Moreover, one of the concerned JEs had also died, as stated by the CEO.

Audit observed that unauthorised change of approved site to a private land, starting the work without registering the deed agreement with the land owner and non-monitoring of the work by the then CEO, Cachar ZP, after releasing the fund to the JEs, led to wasteful expenditure of ₹ 15 lakh, as the work had been abandoned at both the sites.

The matter was reported to Government in May 2016; their reply had not been received (December 2016).

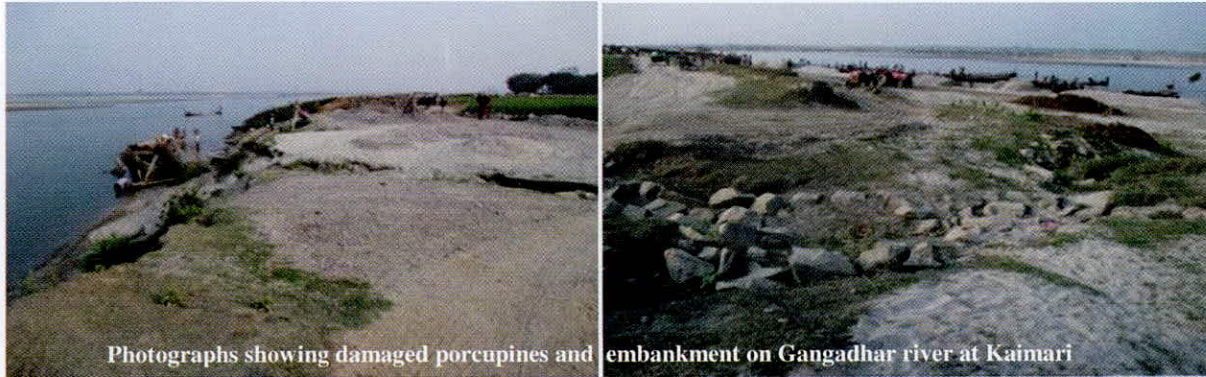
3.4 Unfruitful expenditure in Agomani Anchalik Panchayat

Failure to complete the project “Construction of Road cum bund from Md. Goyal SK house to Simlabari Parghat with boulder pitching at Kaimari PT-I, II & V”, under Agomani AP, resulted in unfruitful expenditure of ₹ 2.23 crore.

The project “Construction of Road cum bund from Md. Goyal SK house to Simlabari Parghat with boulder pitching at Kaimari PT-I, II & V” was taken up for execution under MGNREGA, for the year 2008-09, with the objective of protecting vast areas of homestead, cultivable land and residences, under the Kaimari GP, from flood water and erosion caused by the Gangadhar river, as several families were forced to shift their establishment from that area due to unabated erosion. The project was expected to generate about 4,63,811 mandays, to boost the socio-economic status of the people of that area, by creating gainful employment.

Administrative Approval for the project was accorded (January 2009) by the Deputy Commissioner (DC), as the Chairman of District Planning Committee. The project was to be executed by the Water Resources (WR) Department, Government of Assam. Accordingly, the Executive Engineer, Dhubri WR Division, Dhubri, prepared an estimate of ₹ 6.31 crore for the project, which was declared as technically viable by the Superintending Engineer, North Assam WR Circle, Guwahati and recommended for implementation.

Test check (February 2016) of the records of the EO, Agomani AP revealed that PD, DRDA, Dhubri released (during May 2009 to September 2012) only ₹2.23 crore for the project, to the WR Division, Dhubri. As per the Management Information System (MIS) Report, an amount of ₹90.65 lakh was incurred on wage payments and ₹1.32 crore on purchase of materials. The WR Division, Dhubri, claimed (February 2012) to have completed almost 50 per cent of the work⁵¹ with the released amount and requested the Additional Deputy Commissioner, Dhubri, to release the balance funds, so that the project could be completed before the flood of 2012. However, as per the Progress Report submitted (November 2014) by Secretary, Kaimari GP to the EO, Agomani AP, only 35 per cent physical progress was achieved. Since September 2012, no fund was released by the PD, DRDA, Dhubri and the constructed portion of the protection work gradually got washed away. The EO, Agomani AP stated (May 2016) that since December 2012, no work was executed by the WR division due to not releasing of the balance funds. Joint physical verification of the site (February 2016) revealed that the major portion of the work executed was washed away and there existed only five boulder deflectors along with some damaged porcupines, bamboo cribs/clamps and raised platform. Thus, the embankment was fully damaged, as can be seen from the following photographs:



The people of that area had also filed (January 2014) a public petition with the Deputy Commissioner (DC), Dhubri district, alleging that the released amount was not properly utilised and requested the DC to investigate the matter and release the balance funds, so that the area could be protected from floods. An investigation was got conducted by the DC, Dhubri, through the BDO, Agomoni AP, who submitted (November 2014) a Report to the PD, DRDA, Dhubri, stating that the work was progressing satisfactorily. Till date (May 2016), the work remained incomplete and the balance funds were not released by PD, DRDA, Dhubri. Neither the Secretary, Kaimari GP, nor the EO, Agomani AP, took any initiative for release of balance funds from the fund sanctioning authority. However, PD, DRDA, Dhubri, stated (May 2016) that the balance funds could not be released due to non-receipt of sufficient funds from the Government under MGNREGA. The reply was not tenable, as the Administrative Approval (AA) for ₹6.31 crore against the scheme was accorded by the PD, DRDA, Dhubri, as per the Annual Action Plan (AAP) for 2009-10 and PD, DRDA Dhubri

51

Sl. No	Item of work	Estimate	Actually completed
1	Construction of embankment by job card	6220m	3000m
2	Construction of launching of R.C.C. porcupine	1080 nos	1080 nos
3	Construction of bamboo cribs	220 nos	220 nos
4	Construction of boulder deflectors	19 nos	7 nos

had closing balances of ₹15.57 crore and ₹14.58 crore during 2009-10 and 2010-11 respectively. Moreover, the PD, DRDA, Dhubri could not produce any evidence of steps taken by him to ensure release of balance funds from the Government. As the scheme had already closed and since it was not included in the subsequent year's AAP, there was no scope for release of balance funds.

Thus, despite availability of funds, fund beyond ₹2.23 crore was not released, which affected the completion of the project. The objective of the scheme remained unfulfilled, as only 91,857 mandays could be generated from the project out of the expected 4,63,811 mandays, depriving the people of that area from getting gainful employment. Further, due to not completing of the project, neither could the area be protected from flood/erosion, nor could shelter be provided to the flood affected people of that area, resulting in unfruitful expenditure of ₹2.23 crore.

The matter was reported to the Government in October 2016; their reply had not been received (December 2016).

3.5 Idle expenditure in Lakhimpur Zilla Parishad

Construction of Bharat Nirman Rajiv Gandhi Sewa Kendras remained incomplete in seven APs due to inaction on part of the CEO, North Lakhimpur ZP and the respective APs in monitoring the schemes and submission of UCs in time, resulting in idle expenditure of ₹1.32 crore

Ministry of Rural Development, Government of India (GoI), included construction of Bharat Nirman Rajiv Gandhi Sewa Kendras (BNRGSKs), in the scope of permissible works under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), to provide space to facilitate the functioning of the MGNREGA offices at the GP/Block level and to function as Knowledge Resource Centres, to enable citizens to have access to information on MGNREGA and other Rural Development Programmes.

As per the Manual for BNRGSK, for the Backward Region Grant Fund (BRGF) Districts, the material component for the work can be met from BRGF scheme and the labour component from the MGNREG scheme. In the Annual Action Plan (AAP) meeting of the Lakhimpur ZP, it was decided to include construction of BNRGSK in the BRGF Action Plan of 2010-11.

Test check of records of the CEO, Lakhimpur ZP, revealed that the CEO accorded Administrative Approval (AA) (September 2011 to February 2012), for nine Sewa Kendras, in nine Anchalik Panchayats (APs), each amounting to ₹25 lakh. While releasing (September 2011 to February 2012) the fund, the CEO, Lakhimpur ZP, instructed the EOs/BDOs of the respective APs to implement the scheme as per the plan/estimate and to submit Utilisation Certificates (UCs), supported by photographs, as well as physical and financial progress reports, for release of the balance funds. Further, the EOs/BDOs were instructed to complete the project within six months from the date of receipt of AA. However, only two out of nine APs could complete the project and submit the UCs for the released amounts within the prescribed time of three months and received the balance funds for completing the work. The remaining seven APs utilised the released amounts by executing some work but did not submit the UCs to the ZP within three months for release of the balance amounts. The position of funds, released from 2011-12 to 2014-15, out of the sanctioned amount; fund utilised and status of the scheme is shown in **Table 3.2**.

Table 3.2: Position of funds, released, utilised and status of the scheme (₹ in lakh)

Sl. No.	Name of the AP	Amount Allocated and Sanctioned	Fund Released	Fund Utilised	Status of the scheme
1	Boginadi AP	25.00	24.50	24.50	Completed
2	Dhakuakhana AP	25.00	24.50	24.50	Completed
3	Telhi AP	25.00	17.50	17.50	Incomplete
4	Karunabari AP	25.00	17.50	17.50	Incomplete
5	Ghilamara AP	25.00	17.50	17.50	Incomplete
6	Nowboicha AP	25.00	17.50	17.50	Incomplete
7	Bihpuria AP	25.00	17.93	17.93	Incomplete
8	Lakhimpur AP	25.00	17.50	17.50	Incomplete
9	Narayanpur AP	25.00	17.50	17.50	Incomplete
	Total	225.00	171.93	171.93	

The Sewa Kendras remained incomplete for more than four years (funds released during September 2011 to February 2012, photographs taken in November 2015), as shown in the following photographs:

BNRGSK at Narayanpur AP



BNRGSK at Bihpuria AP



BNRGSK at Karunabari AP



BNRGSK at Lakhimpur AP



Even though the initial construction was not completed by the APs, it was seen from records that three⁵² APs received (April 2015) additional ₹3.15 lakh each for extension of the BNRGSKs which was beyond the original scope. However, the BNRGSKs remained incomplete till November 2015.

In reply to an audit query, the present CEO, Lakhimpur ZP, stated that the respective EOs of the APs were responsible for completing the works and they failed to do so. Also, the then CEO took no initiative to supervise and complete the project in due time⁵³. The possibility of completion of the projects is remote, as the remaining funds for seven Sewa Kendras lapsed due to closure of the BRGF scheme in March 2015.

Thus, due to inaction on part of the EOs of the respective APs in completing the works and submitting the UCs in time and failure on part of the CEO, North Lakhimpur ZP, to supervise/monitor the progress of work by the APs and submit UCs to the Government, the

⁵² Ghilamara, Bihpuria and Narayanpur AP

⁵³ As per sanction orders, the Sewa Kendras were to be completed within six months from the date of sanction order.

remaining amount of the allocated funds lapsed, leading to not completing of the Sewa Kendras. Further, the expenditure of ₹1.32 crore (₹1.23 crore as initial release + ₹0.09 crore for extension to three APs), incurred so far on schemes, remained idle for more than four years, besides depriving the people of the district of the benefits of the scheme.

The matter was reported to Government in October 2016; their reply had not been received (December 2016).

3.6 Unfruitful expenditure in Kakodunga Anchalik Panchayat

The Executive Officer (EO), Kakodunga AP incurred an expenditure of ₹29.35 lakh on plantation schemes under Mahatma Gandhi National Rural Employment Guarantee Act, (MGNREGA), which remained unfruitful due to non-completion of the schemes.

The Deputy Commissioner & District Programme Coordinator, MGNREGA, Golaghat, sanctioned (September 2010) an amount of ₹59.98 lakh for 12 Cashew-nut plantation schemes, under MGNREGA, in Nahordonga, with the objectives of generating employment and making the horticulture projects permanent assets of the Anchalik Panchayats (APs). The Scheme was to generate 17700 mandays.

The Project Director (PD), District Rural Development Agency (DRDA), Golaghat, released (October 2010) ₹29.99 lakh as first instalment, to Kakodunga AP, for the 12 Cashew-nut plantation schemes, which were to be completed by March 2011. Before taking up the schemes, a feasibility study/land suitability report for plantation of Cashew-nut was obtained by the EO, Kakodunga AP, from the Department of Horticulture, Assam Agriculture University (AAU), Jorhat. The report recommended proper scientific intervention before execution of the proposed plantation scheme and stated that the scheme should be taken up as a professional plantation project. The AAU also expressed readiness for providing consultancy service for the project.

Test-check (December 2015) of records of the EO, Kakodunga AP, revealed that ₹29.35 lakh was incurred on material (₹22.48 lakh) and payment on wages (₹6.87 lakh) for developing the land and planting of saplings at 12 plots, but all the schemes remained incomplete till the date of audit (December 2015), as the plantations could not survive. Although EO, Kakodunga AP, stated physical progress of 50 per cent, during joint physical verification (December 2015), only 13 Cashew-nut plants were found surviving in five plots, against the estimated plantation of 5250 cashew-nut plants. For the remaining seven plots, as per records, no procurement of cashew-nut saplings was done, although ₹9.35 lakh was spent on materials and wages, as given in the following **Table 3.3**:

Table 3.3: Amount utilised for plantation in seven plots (Plots 6 to 12) where cashew-nut saplings were not procured

Sl. No	Particulars	Total in ₹
1	Fitting and Fixing of MS plate and Sign Board	35000
2	MS Angle post	242788
3	G.P Fencing and Fencing Hook	434000
4	Hand Pump and Galvanized Steel tube	65982
5	Cost of Tractorisation @ ₹ 5/Mtsq	105000
	Materials etc.	882770
	Wages	52650
	Total	935420

Scrutiny further revealed that items⁵⁴ required to be procured as per the estimate of the plantation schemes, which were essential for growth and survival of the saplings, were not procured by the AP authority for any of the 12 plots. Further, neither any boundary wall nor any sign board was seen in the plantation sites, though ₹15.13 lakh⁵⁵ was spent on procurement of construction materials and development of the site. Photographs of the sites taken during joint verification shows that there was no sign of cashew-nut plantation and that the whole area was covered with wild shrubs and tall grasses:



In reply to an audit query, the EO, Kakodunga, AP, stated (April 2016) that the scheme remained incomplete due to lack of funds and the plantation could not survive as there was no provision of manpower for maintenance of the plantations and all the signboards and fencing were stolen. However, the reply contradicts the reply of the PD, DRDA Golaghat, who stated (December 2015) that the balance 50 per cent funds were not released due to non-survival of the plantation. Thus, failure of EO, Kakodunga AP to implement the project professionally, in consultation with the AAU and utilise the available funds (50 per cent of the sanctioned amount) in a phased manner to complete the plantation in at least six plots (out of 12 plots), instead of proportionately utilising the funds in all the plots, led to failure of the plantation to survive, as many items, which were essential for growth and survival of the saplings, could not be procured.

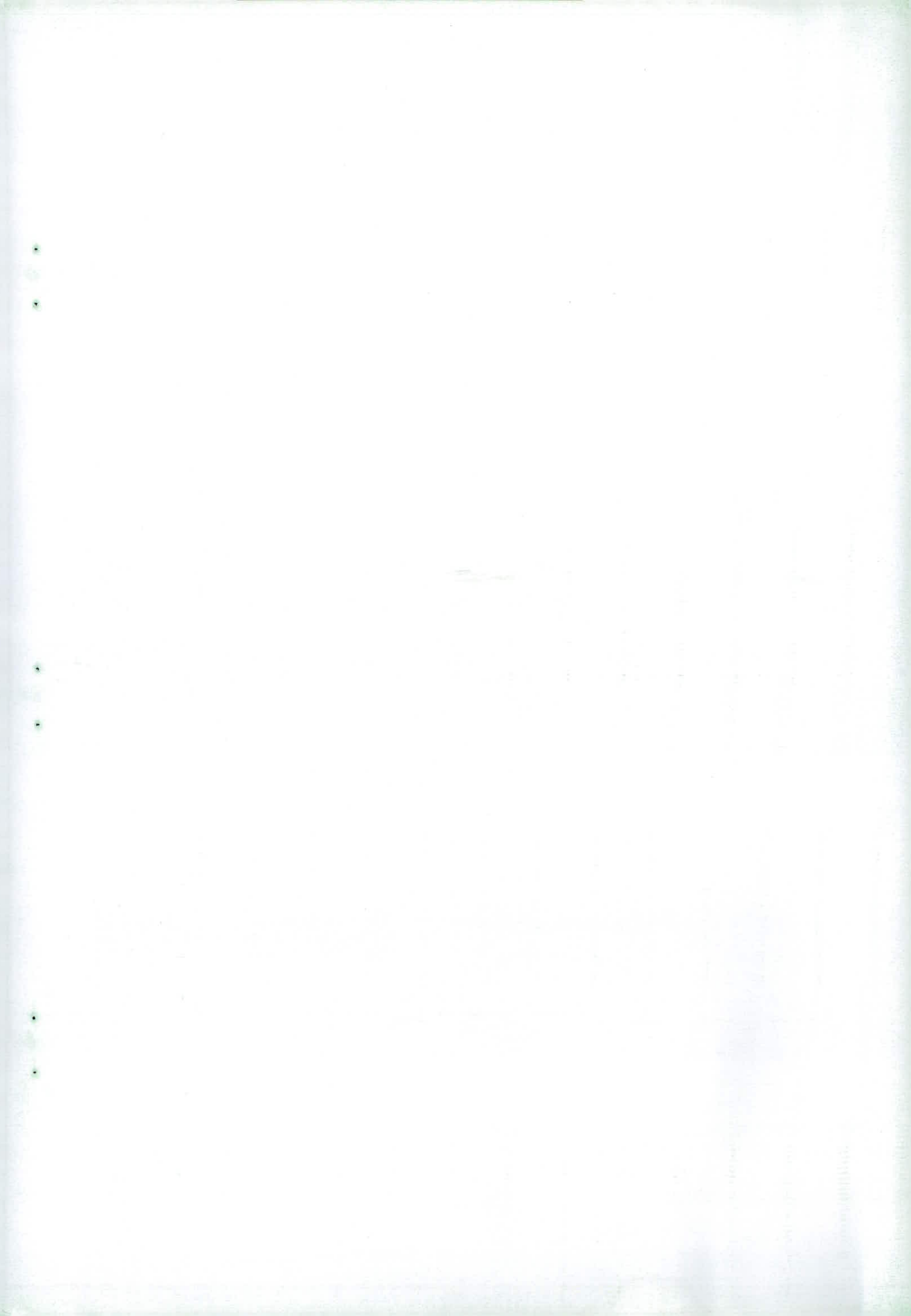
Audit observed that, while implementing the cashew-nut plantation scheme, scientific intervention, as recommended by the Horticulture Department, was not sought for by the AP. Thus, failure of the EO, Kakodonga AP, to implement the plantation in a scientific and planned manner, resulted in unfruitful expenditure of ₹29.35 lakh, besides frustrating the objective of the schemes, as only 5461 mandays were generated against the expected 17700 mandays. Moreover, permanent assets for the AP, as expected from the plantation scheme, could also not be created.

The matter was reported to the Government in October 2016; their reply had not been received (December 2016).

⁵⁴ Single Superphosphate (SSP) (7.5 Qtl), Urea (7.5 Qtl), Vermi Compost (10 Qtl), Staking of Plant (100MD), Planting Chain (1 No.), Hook (LS), Aluminium wire (LS), Painting (LS) and Mat (50MD)

⁵⁵ Details of amount utilised for materials and development of site

Sl. No	Particulars	Total (₹)
1	Fitting and Fixing of MS plate and Sign Board	60000
2	MS Angle post	416208
3	G.P Fencing and Fencing Hook	744000
4	Hand Pump and Galvanized Steel tube	113112
5	Cost of Tractorisation @ ₹5/Mt sq	180000
	Total	1513320



Part - B

Urban Local Bodies

CHAPTER IV

**An overview of the Functioning,
Accountability Mechanism and Financial
Reporting issues of Urban Local Bodies**

Chapter-IV

An Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Urban Local Bodies (ULBs)

An Overview of the Functioning of the ULBs in the State

4.1 Introduction

The 74th Constitutional Amendment, which was enacted as the Constitution (Seventy fourth Amendment Act), 1992, envisioned creation of Local Self Government (LSG) for the urban population, wherein Municipal Institutions were conferred with Constitutional status for carrying out governance functions. The Amendment empowered Urban Local Bodies (ULBs) to function efficiently and effectively as autonomous entities, to deliver services for economic development and social justice, with regard to 18 subjects listed in the XIIth Schedule of the Constitution.

The administration of ULBs is governed by the provisions of:

- Gauhati Municipal Corporation (GMC) Act, 1971,
- Assam Municipal (AM) Act, 1956 (amended upto 2012) and
- Assam Municipal Accounts (AMA) Rules, 1961.

There were 94 ULBs in the State, as on 31 March 2016, viz. one Municipal Corporation (MC), 34 Municipal Boards (MBs) and 59 Town Committees (TCs). ULBs falling under the General Areas are governed according to the provisions of the AM Act, 1956, while areas falling within the Sixth Schedule Areas are governed by the rules framed by the respective Autonomous District Councils (ADCs).

Statistics relating to the urban population of the State, as per Census 2011 and the number of ULBs are given in **Table 4.1 below:**

Table 4.1: Statistics relating to the urban population of the State and number of ULBs

Sl. No.	Indicator	Unit	Value
1	Population	Core	3.12
2	Population density	Persons / Sq.km.	398
3	Urban population	Per cent	14
4	Urban Sex Ratio	Per thousand	948
5	Urban Literacy Rate	Per cent	88.47
6	Municipal Corporation (MC)	Numbers	1
7	Municipal Boards (MB)	Numbers	34
8	Town Committees (TC)	Numbers	59

Source: Economic Survey, Assam 2015-16.

The position of ULBs in Assam, in terms of number, area and average population, is given in **Table 4.2 below:**

Table 4.2: Position of ULBs

Level of LB	No.	Area per ULB (Sq. Km)	Average population
Municipal Corporation (MC)	1	216.79	9,63,429
Municipal Boards (MB)	34	20.35	90,652
Town Committees (TC)	59	1.53	4,960

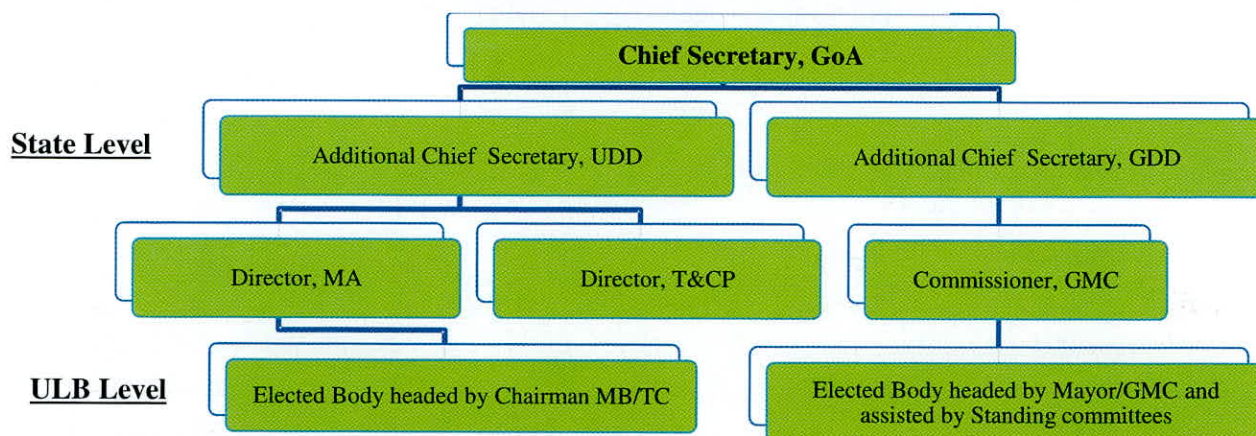
Source: Assam State Finance Commission's report submitted for 14th CFC.

4.2 Organisational set up in State Government and ULBs

The Additional Chief Secretary, is the administrative head of the Urban Development Department (UDD), which looks after matters relating to the administration of the ULBs (MBs and TCs). He is assisted by the Director, Municipal Administration (DMA) and Director, Town & Country Planning (T&CP). The Commissioner and Secretary, UDD, is responsible for allocation of funds as well as implementation of schemes at the State level. The Additional Chief Secretary, Guwahati Development Department (GDD), is the administrative head of the Department, to whom the Commissioner, Gauhati Municipal Corporation (GMC) reports.

Organisational set up of ULBs is depicted in **Chart 4.1** below:

Chart 4.1: Organisational set up of ULBs



4.3 Functioning of ULBs

As per Section 53 of Assam Municipal Act, 1956, it is mandatory to appoint Executive Officers (EOs) in each and every Municipal Board and Town Committee. Further, sub-section 2 under section 53 of the said Act mentions that all financial matters, particularly those relating to the implementation of schemes by the Municipalities funded by the Government of India or the State Government, shall invariably be routed through the concerned EOs. The EOs are required to execute due scrutiny in this regard and are also responsible for any acts of omission or commission.

In March 2015, the GoA had directed that Indian Administrative Service (IAS)/Assam Civil Service (ACS) officers be entrusted with the additional charge of Executive Officers in the ULBs. As such, till date (October 2016), the ULBs are functioning without dedicated Executive Officers.

4.3.1 Staffing pattern of ULBs

The ULBs do not have any approved staffing pattern. As a result, the staff strength of ULBs varies from unit to unit, depending on their size and paying capacity. However, UDD and GDD submitted study reports on the staffing pattern of the ULBs and GMC to Fourth Assam State Finance Commission (4th ASFC), in December 2011 and in February 2012, respectively. Accordingly, the staffing pattern of ULBs had been drafted by the Departments but approval from the Finance Department was awaited (October 2016). Appropriate manning of ULBs carries significant implications for their ability to handle the funds received by them from various sources, as well as their accounting in a proper manner. It is

also important, keeping in view the enhanced workload entrusted to ULBs under different programmes, schemes and projects.

4.3.2 Status of devolution of Funds, Functions and Functionaries (3Fs)

Consequent to the 74th Constitutional Amendment, most States have amended their municipal laws. However, since last one and half decades, fund, function and functionaries are still not completely transferred officially to the ULBs. The Central Finance Commissions and the State Finance Commissions have emphasised the need for complete transfer of the 3Fs to the ULBs. Out of the 18 subjects listed in the XIIth Schedule of the Constitution of India, the following eight subjects are being implemented by the ULBs, as their traditional functions:

- Water supply for domestic, industries and commercial purposes;
- Conservancy and Solid Waste Management;
- Slum improvement and upgradation;
- Provision of urban amenities and facilities such as park, garden and play grounds;
- Burials and burial grounds, cremations, cremation grounds and electric crematoriums;
- Cattle ponds;
- Public amenities including street lighting, parks, gardens, play grounds; and
- Regulation of slaughter houses.

Subjects relating to urban planning, including town planning, land use and construction of buildings, slum improvement and upgradation, roads and bridges, urban forestry, ecology and environment, vital statistics including registration of births and deaths, planning for economic and social development, urban poverty alleviation *etc.*, were not transferred to the ULBs. The approach adopted in this regard so far remains limited to constituting a committee for the purpose of transferring the functions to ULBs. Thus, the devolution of 3Fs, as listed in the XIIth Schedule, remained more or less unimplemented, till March 2016. In respect of GMC, out of the 18 functions listed in the XIIth Schedule, activities under four functions only were transferred to GMC (as of March 2016). The remaining functions were lying with the line departments and other agencies working in parallel with GMC within the Municipal area. Thus, devolution of 3Fs to GMC, in respect of the transferred subjects, was far below the desired level.

Nevertheless, the GoA had created a Municipal window in the State Budget for devolution of funds and, every year, a substantial portion of budgetary outlays, under plan and non-plan in the revenue account, was earmarked for Municipalities against the transferred subjects. However, the earmarked amount was being spent through the functionaries of the line departments. Thus, the objective of creating the Municipal window in the State Budget was frustrated, due to lack of effective action on the part of the Government to implement its own decisions regarding the devolution of 3Fs to the ULBs.

4.4 Formation of various Committees

4.4.1 Standing Committees

In case of ULBs, the AM Act, 1956 does not provide for the constitution of any standing committee for the purpose of ensuring active involvement of majority of Ward Committees in Municipal administration and to further decentralise the development process. Although Section 20 of GMC Act, 1971 provides for constitution of a standing committee (for the Guwahati Municipal Corporation), no provision was made in the Act regarding timeline for formation of the standing committee and its constituent members.

4.4.2 Ward Committees

Section 48 A of the AM Act 1956, provides for constitution of Ward Committee, consisting of one or more (but not more than four) wards within the territorial area of a Municipality having a population of three lakh or more. The tenure of Ward Committee is co-terminus with the tenure of the Municipal Board and, on dissolution of the Municipal Board, the Ward Committee shall automatically stand dissolved.

4.4.3 Metropolitan Planning Committees

Article 243ZE of the Constitution of India says “There shall be constituted in every Metropolitan area, a Metropolitan Planning Committee to prepare a draft development plan for the Metropolitan Region as a whole.” The Constitution makes it mandatory for the States to set up Metropolitan Planning Committees (MPCs) in the metropolitan areas of the country. However, MPCs are yet to come up in the State.

4.5 Audit arrangements

4.5.1 Primary Auditor of ULBs

Director of Audit, Local Fund (DALF), Assam, established under the Assam Local Funds (Accounts & Audit) Act, 1930, is the Primary Auditor of all tiers of ULBs in the State. The Directorate is responsible for (i) carrying out the Audits of Local Funds with the help of 20 circle offices, each of which was headed by an Assistant Director, to perform audit functions at the District level; and (ii) facilitating submission of Audit Reports of the Administrative Departments. There are 122 audit parties, comprising of one Audit Officer and one or more Assistant Audit Officers. The audit is conducted in conformity with the Assam Audit Manual and other prescribed Government Rules and Amendments, declared by Government from time to time.

4.5.1.1 Audit coverage by Director of Audit, Local Fund (DALF)

As per information furnished by the DALF (August 2016), the arrears in audit of ULBs, during the period 2011-12 to 2015-16, ranged between 28 and 56 *per cent*. The year-wise position of units planned to be audited, and those actually audited is detailed in the following

Table 4.3:

Table 4.3: Shortfall in covering the units planned for audit by DALF

Year	No. of units planned for audit	No. of units audited	Shortfall	Percentage of shortfall
2011-12	54	34	20	37
2012-13	58	26	32	55
2013-14	57	41	16	28
2014-15	48	21	27	56
2015-16	67	41	26	39

Source: Information furnished by DALF, Assam.

Apart from shortfall in the number of units audited against the number of units planned for audit, there was also arrear in issue of 44 audit reports, during 2011-12 to 2015-16, by the DALF. The reasons for shortfall in audit coverage and arrear in issue of audit reports were attributed to inconsistency of manpower. Besides, the Audit officials were also stated to have been engaged for long periods in the Elections and works related to National Register of Citizens (NRC).

4.5.1.2 Presentation of Annual Audit Report

As per para 101(i) of Assam Audit Manual, DALF is required to submit an Annual Audit Report to the Finance Department, by 30 September each year, incorporating major outstanding audit objections relating to PRIs which were pending settlement for further action by the Finance Department. The status of consolidated Audit Reports submitted by DALF is shown in the following **Table 4.4**:

Table 4.4: Status of consolidated Audit Reports submitted by DALF

Sl. No.	Consolidated Audit Report for the year	Submitted to Government	Laid before Legislature
1	2010-11 and 2011-12	21 March 2013	10 February 2014
2	2012-13 and 2013-14	7 December 2014	19 December 2014
3	2014-15	13 November 2015	Yet to be laid
4	2015-16	Under preparation	

However, follow up action and Action Taken Report by Finance Department on the Annual Consolidated Audit Reports of DALF is wanting, thereby weakening the accountability mechanism of ULBs.

4.5.2 Audit by Comptroller and Auditor General of India

The audit of ULBs is conducted by the CAG under Section 20(1) of the CAG's Duties, Powers and Conditions of Service Act 1971 as per the Technical Guidance and Support (TGS) arrangements as entrusted by the State Government in May 2002 followed by acceptance of the standard terms and conditions of TGS (May 2011) pursuant to the 13th FC recommendations.

The CAG being the secondary auditor for the Local Bodies in Assam only selective audit of ULBs are done. As such, during April 2015 to March 2016, accounts of 11 ULBs (one Municipal Corporation, six MBs and four TCs) only were audited.

The status of discussion of the Audit Report by the Local Funds Accounts Committee is presented in **Table 1.7** of chapter I.

4.6 Response to Audit observations

Inspection Reports (IRs) were issued by Accountant General (Audit), Assam, to audited ULBs, with a copy of each to the State Government. ULBs were required to comply with the observations contained in the IRs, rectify the defects and omissions and report their compliance promptly after the issue of IRs. Important audit findings were processed for inclusion in the CAG's Audit Report on Local Bodies. The details of outstanding paragraphs, as of March 2016, are shown in the following **Table 4.5**:

Table 4.5: The details of outstanding IRs and paragraphs

Year of issue	No. of Inspection Reports	No. of outstanding Paras	Money value (₹ in crore)
Upto 2011-12	74	924	231.29
2012-13	06	59	12.38
2013-14	42	484	148.78
2014-15	05	66	8.71
2015-16	16	222	156.31
Total	143	1755	557.47

Source: Progress Register.

Thus, settlement of 1,755 paragraphs, with monetary value of ₹557.47 crore, was pending (March 2016) for want of replies from concerned ULBs. The increasing trend of outstanding paragraphs was indicative of audit observations not being complied with and also of a low level of accountability. The Administrative Heads of the Departments concerned also did not ensure that the concerned officers of the ULBs took prompt and timely action in furnishing replies to IRs, thereby contributing to the weakening the accountability mechanism of ULBs in Government.

Accountability Mechanism of ULBs

4.7 Ombudsman

As per the guidelines issued by the Ministry of Finance on implementation of the recommendations of the 13th Finance Commission, the State Government is required to appoint an 'Ombudsman', to act as an independent quasi-judicial authority for Local Self Government Institutions at the State level, for conducting investigations and enquiries in respect of any complaints of corruption and maladministration against the functionaries of Local Bodies (both elected members and officials) and recommend suitable action, in accordance with the provisions of the Act. There was no provision in the AM Act and GMC Act regarding setting up of an Ombudsman for ULBs. As a result, there was no scope for the Ombudsman to conduct investigation and enquire into aforesaid areas.

4.8 Social Audit

The primary objective of social audit is to bring the activities of ULBs under close surveillance, to enable public access to the records and documents of ULBs. Such immediate access to information would facilitate transparency and accountability in the day-to-day functioning of ULBs.

The State Finance Department issued guidelines (May 2009) for social audit which, *inter alia*, included the following:

- Use of Ward Committees as important vehicles for spread of awareness about social audit;
- Appointment of nodal officer at the level of Ward Committee who would register complaints and fix the date for social auditing;
- Wide publication of the date of social audit through local newspapers, hand bills, leaflets and notice boards *etc.*; and
- Presentation by the representatives of ULBs of the relevant data on revenue and expenditure of their organisations including bills, vouchers, muster rolls, measurement books, copies of sanction orders and other books of accounts and papers necessary for the purpose of social auditing.

However, the State Government had not amended (October 2016) the relevant Municipal Act to include a statutory provision for social audit.

4.9 Lokayukta

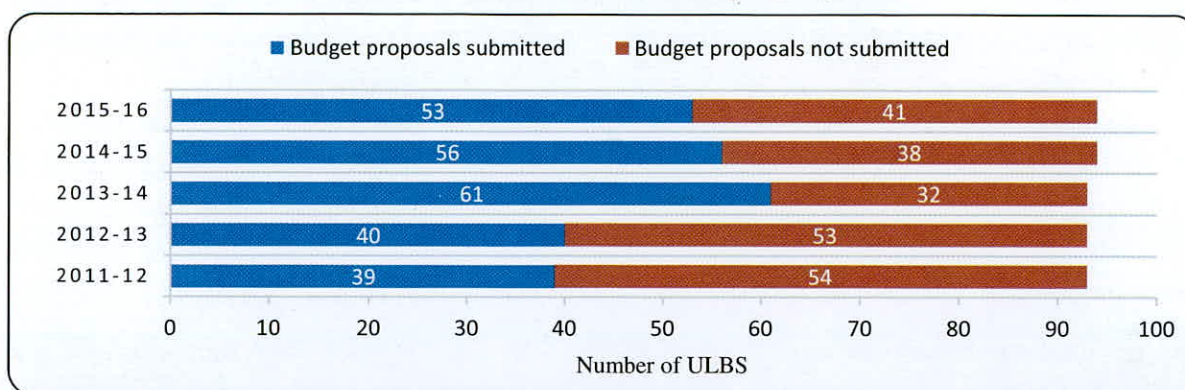
The Assam Lokayukta and Upa-Lokayukta Act, 1985 (Assam Act XX of 1985) was introduced to improve the standards of Public Administration through investigation of complaints against ministers, legislators and public functionaries, including those of ULBs. The institution was, however, headed by the Upa-Lokayukta (since March 2001), as the post of Lokayukta had been lying vacant for the last 21 years (from March 1995 till March 2016).

Although the State Government had taken initiatives for creating awareness regarding the Lokayukta and Upa-Lokayukta Act, the Upa-Lokayukta received only seven complaints during the year 2015-16, out of which none was related to ULBs. Thus, there was a need to increase awareness among the people in the Municipal areas about the existence and functioning of the anti-corruption mechanism, related to ULBs, to make it more effective and useful to the public.

4.10 Budget formulation

The position of submission of budget proposals, by the MBs/TCs to the Director, Municipal Administration (DMA), Assam, during the period 2011-12 to 2015-16, is shown in the following **Chart 4.2 below**:

Chart 4.2: Submission of Budget proposals



Source: Director, Municipal Administration, Assam.

As seen from the preceding chart, out of the total ULBs in Assam, 54, 53, 32, 38 and 41 ULBs had not submitted budget proposals, during 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16 respectively. Funds were nevertheless released by the Government, without taking into account the requirements of the ULBs, thereby defeating the purpose behind planning.

4.11 Internal Audit and Internal Control system in ULBs

4.11.1 Internal Audit

Internal Audit is an important instrument for examining and evaluating the level of compliance with rules and procedures, as envisaged in the relevant Acts, as well as in the Financial/ Accounting Rules, so as to provide independent assurance to management on the adequacy of the risk management and internal control framework in the ULBs.

The system of Internal Audit had not been introduced in the Municipalities in Assam, as there was no provision for Internal Audit in the relevant Municipal Acts and Rules. As such, a system of Internal Audit did not exist in ULBs. The above mentioned deficiencies adversely impacted the accountability of ULBs, insofar as ensuring compliance with Rules and Procedures, as envisaged in the relevant Acts/Rules, was concerned.

4.11.2 Internal control mechanism in ULBs

The internal control mechanism is an integral function of an organisation, which helps it to govern its activities effectively and to achieve its objectives. It is intended to provide reasonable assurance of proper enforcement of Acts, Rules and Bye-laws. A sound internal control mechanism assists in minimising the risk of errors and irregularities.

The following deficiencies were, however, observed in the functioning of the ULBs, indicating the lack of an effective internal control mechanism therein:

- Periodical reports/returns, in respect of implementation of various schemes and other activities in the district, were not submitted to higher authorities. Thus, an effective monitoring system, which was essential for ensuring compliance in terms of the physical and financial implementation of schemes/programmes, was not in existence. These facts have been detailed in paragraphs 5.11, 6.1, 6.2 and 6.3.
- There was no readily available data on “Own Revenue Resources” of the ULBs and expenditure incurred there against. In spite of repeated requests, the DMA could not provide information on overall collection of own revenues by the ULBs. Thus, the Government failed to keep track of the revenue resources of the ULBs and expenditure incurred therefrom. Further, mis-utilisation of own revenues also would not be ruled out. The DMA stated (October 2016) that there was no centralised system of maintenance of database.
- There was no mechanism for monitoring of budget proposals, which was evident from the fact that, out of 94 ULBs 54, 53, 32, 38 and 40 ULBs had not submitted budget proposals during 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16 respectively. However, the funds were released by the Government nevertheless, without taking into account their requirements.

Though these shortcomings were pointed out to ULBs and the State Government in previous ATIRs/Audit Reports, no corrective action in this regard was available on records.

4.11.3 Advance paid to Departmental officers/Contractors not adjusted

State Financial Rules stipulate that advances paid should be adjusted without any delay and that the Drawing and Disbursing Officers (DDOs) concerned should watch their adjustment. Though the Chairpersons of ULBs are custodians of all Municipal accounts, it was noticed that, in two⁵⁶ ULBs, an amount of ₹44.43 lakh was given (between June 2010 and April 2015) as advances to Departmental officers/Contractors for implementation of schemes, but the same was not adjusted till March 2016. By not adjusting the advances paid to Departmental officers/Contractors, the concerned DDOs not only violated financial rules, but also contributed to the possibility of overpayment to JEs/Contractors, as against the actual cost of work.

4.11.4 VAT not deducted

According to the State Value Added Tax (VAT) Act, VAT is to be deducted from the payment of contractors/suppliers. Tests check of records revealed that in five⁵⁷ out of 11 ULBs, VAT, amounting to ₹65.88 lakh, was not deducted. As the VAT was not deducted, Government suffered a loss of revenue to that extent.

4.11.5 Holding Tax, Licence Fee and Room Rent not realised

During test check of records, it was noticed that Holding Tax, Licence Fee and Room Rent amounting to ₹11.32 crore were not realised from eight out of 11 test-checked ULBs, as shown in the following **Table 4.6:**

⁵⁶ Guwahati Municipal Corporation: ₹37.96 lakh; Chabua TC: ₹6.47 lakh

⁵⁷ GMC: ₹44.37 lakh, Goalpara MB: ₹17.19 lakh, Naharkatia TC: ₹1.70 lakh, Badarpur TC: ₹1.64 and Chabua TC: ₹0.98 lakh

Table 4.6: Holding Tax, Licence Fee and Room Rent not realised

		(₹ in crore)
Sl. No	Name of ULBs	Amount not realised
1.	Chabua TC	0.42
2.	North Lakhimpur MB	0.94
3.	Kokrajhar MB	0.80
4.	Naharkatia TC	0.02
5.	Badarpur TC	0.17
6.	Rangia MB	0.61
7.	Goalpara MB	2.45
8.	GMC	5.91
Total		11.32

As the Holding Tax, Licence Fee and Room Rent was not deducted, there was loss of Government revenue to the tune of ₹11.32 crore. Moreover, the fund could not be used for the applications, envisaged under Section 60 of the AM Act, 1956, resulting in non-implementation of various social welfare activities which were to be carried out by the ULBs.

4.11.6 Short collection of Kist money

During test-check of records, it was noticed that there was short collection of *kist* money of ₹36.02 lakh, in seven ULBs, as shown in the following **Table 4.7:**

		(₹ in lakh)
Sl. No	Name of ULBs	Amount not realised
1.	Chabua TC	0.40
2.	North Lakhimpur MB	0.30
3.	Amguri MB	9.44
4.	Badarpur TC	5.96
5.	Rangia MB	9.63
6.	Goalpara MB	0.42
7.	Nalbari MB	9.87
Total		36.02

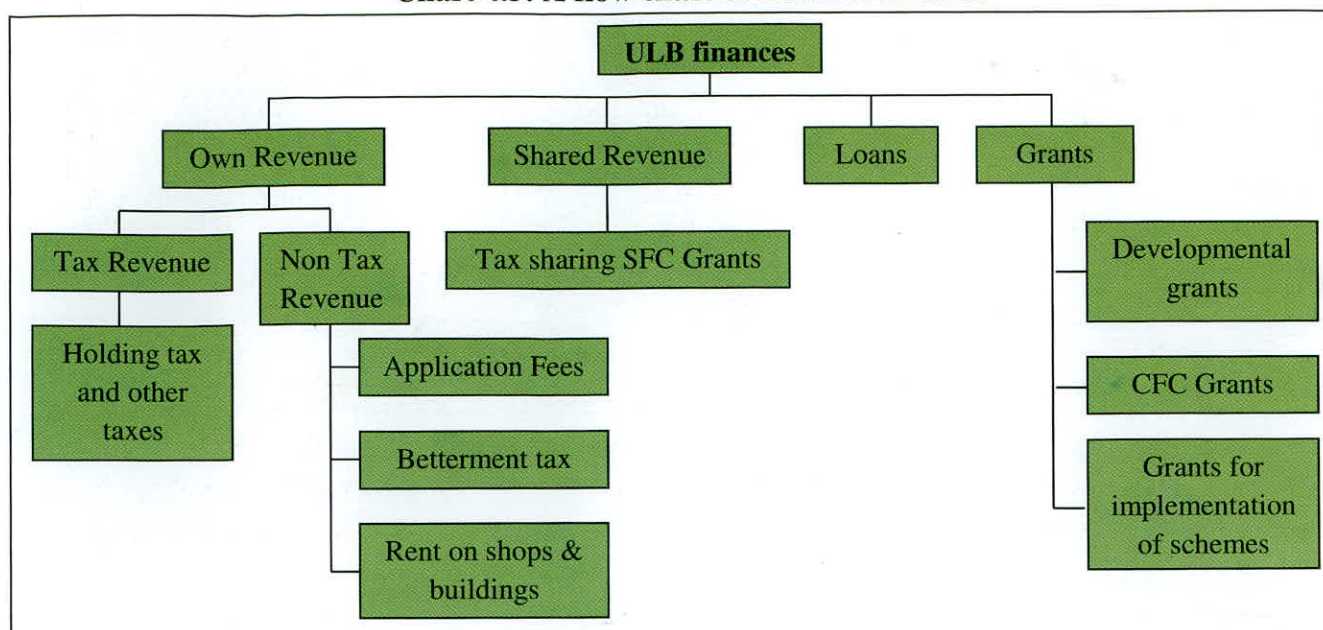
Thus, due to short collection of *kist* money, revenue could not be augmented to that extent.

Financial Reporting Issues of ULBs

4.12 Sources of Funds

The principal sources of revenue of ULBs are (i) Collection from tax and non-tax sources allocated to them under the relevant Act, (ii) resource transfers from the State in the form of devolution of shared taxes and duties; (iii) grants-in-aid from the Government of Assam (GoA) and (iv) grants-in-aid from Government of India (GoI) under various Centrally Sponsored Schemes (CSS) and under award of successive CFCs. Besides, ULBs also obtain loans from financial institutions for implementation of various schemes relating to Urban Development, Water Supply and Roads *etc.*, as shown in the following **Chart 4.3:**

Chart 4.3: A flow chart of finances of ULBs



Under the provision of the Acts in force, all collections such as taxes on holdings, water tax, latrine tax *etc.*, are sources of tax revenue while building plan sanction fees, rents from shops and buildings, tolls and other fees and charges constituted the main sources of non-tax revenue. The State Government also released grants-in-aid and loans to the ULBs to compensate their establishment expenses. ULBs also receive grants and assistance from the State and Central Governments for implementation of various schemes and projects.

4.12.1 Resource trends of ULBs and their composition

The trend of resources of ULBs, for the period 2011-12 to 2015-16, is shown in the following **Table 4.8:**

Table 4.8: Time series data on ULBs resources

Source	2011-12	2012-13	2013-14	2014-15	2015-16
Own Revenue	151.57	190.04	NA	NA	NA
SFC transfers	189.68	149.59	133.11	169.07	Nil
CFC transfers	31.97	44.28	Nil	39.74	46.57
Interest for delayed payment of CFC grants	0.11	0.20	0.12	0.18	Nil
State Sponsored Scheme (SSS)	16.13	4.14	8.22	12.29	0.91
GoI grants for CSS	24.09	33.41	25.57	11.03	15.17

Source: The FASFC Report and information furnished by DMA and Director, T&CP GoA.

The preceding table shows that the UDD lacked monitoring of own revenue resources of ULBs, as it could not provide consolidated figures of actual receipts in respect of own revenues of all the ULBs in Assam. Under SFC transfers, no funds were released to the ULBs during 2015-16 as the Government of Assam had entrusted 5th ASFC to revisit its Report in view of recommendation of 14th FC. However, the Commission is yet to submit (July 2016) the final report, resulting in non-release of funds during 2015-16. Similarly, minimal funds were released during 2015-16 under the SSS, in comparison to the previous year.

4.12.2 Resource trends of GMC and their composition

The receipts of GMC, from all sources, during the five years ending 2015-16, are shown in the following **Table 4.9:**

Table 4.9: Time series data on GMC resources

(₹ in crore)

Source	2011-12	2012-13	2013-14	2014-15	2015-16
Own Revenue	48.09	58.03	50.61	56.05	80.34
SFC transfers	56.12	92.50	34.72	48.27	Nil
CFC transfers	8.07	12.77	Nil	10.20	20.50
Interest for delayed payment of CFC grants	0.01	Nil	Nil	Nil	Nil
SSS	4.95	2.64	16.86	7.94	13.68
GoI grants for CSS	0.38	6.97	8.08	1.63	0.02

Source: Information furnished by GMC, Assam.

The collection of own revenue by GMC during 2015-16 showed improvement, in comparison to the previous year's collection. However, as per the Annual Administrative Report of GMC for 2015-16, the budget under the head 'General Administrative Expenditure' for the year 2015-16 was ₹ 148.71 crore, which could not have been met from its own revenue collection. Due to non-release of funds under SFC, there were instances⁵⁸, of diversion of funds from other schemes, depriving the beneficiaries of the intended benefits of the Schemes.

4.12.3 Allocation and release of funds

During 2013-14 to 2015-16, public investment in urban development, through major CSS, and the corresponding State share, is shown in the following **Table 4.10**:

Table 4.10: Statement showing investment through major CSS and SSS

(₹ in crore)

Sl. No.	Name of schemes	Nature of grants (Share)	2013-14			2014-15			2015-16		
			Budget provision	Allocation made	Fund released	Budget provision	Allocation made	Fund released	Budget provision	Allocation made	Fund released
1	SJSRY	Central	34.13	34.30	Nil	Nil	Nil	Nil	Nil	Nil	Nil
		State	6.00	3.79	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2	IDSMT ⁵⁹	Central	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
		State	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
3	IHSDP ⁶⁰	Central	62.81	2.00	Nil	1.71	1.01	1.01	8.77	0.70	0.70
		State	6.98	0.00	0.00	Nil	Nil	Nil	Nil	Nil	Nil
4	UIDSSMT ⁶¹	Central	82.67	82.67	11.81	30.33	30.33	1.06	23.27	23.27	Nil
		State	9.18	9.18	0.15	1.40	1.40	Nil	1.19	1.19	Nil
5	10 per cent Pool Fund	Central	27.00	13.76	13.76	12.79	6.63	6.63	17.24	11.74	11.74
		State	4.00	3.10	3.10	2.00	0.21	0.21	2.37	1.05	1.05
6	Night Shelter for Urban Slum	Central	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
		State	0.46	0.46	0.22	2.00	1.00	0.60	1.00	1.00	Nil
7	C.M's Special package	Central	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
		State	1.50	1.50	1.50	1.50	1.50	1.50	9.45	9.45	0.31
8	Basti-sudhar	Central	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
		State	0.30	0.30	0.30	1.00	1.00	1.00	Nil	Nil	Nil

Source: Director, MA, Director, T&CP and Secretary, GDD, Assam.

Although information on scheme-wise budget provisions, allocations and releases of funds was provided by the Department, there was no readily available data on how much amount was actually spent in a particular year on the above mentioned schemes. Thus, there is a need to establish a mechanism for proper accounting of these schemes for better accountability and achieving maximum outcomes which will have a direct impact on social welfare.

⁵⁸ ₹ two crore from the central fund was diverted by the GMC for payment of salaries, as reported in the Inspection Report.

⁵⁹ Integrated Development of Small and Medium Towns.

⁶⁰ Integrated Housing and Slum Development Programme.

⁶¹ Urban Infrastructure Development Scheme for Small and Medium Towns.

4.12.4 Devolution recommended by ASFC

With regard to sharing of the net proceeds of State Taxes with Municipalities, the approach of sharing the net proceeds of all State Taxes, excluding Non-Tax revenues and share of Central Taxes, is adopted. Details of the quantum of devolution recommended by ASFC and funds released by the GoA to ULBs, during the years 2011-12 to 2015-16, are indicated in the following **Table 4.11**:

Table 4.11: Devolution of Fund to ULBs

Year	Net collection of the State Government	ULBs including GMC		Short released
		Amount to be devolved	Actual released by GoA	
(1)	(2)	(3)	(4)	(5)
2011-12	7638.23	83.65	83.65	0
2012-13	8250.21	91.27	91.26	0.01
2013-14	6545.09	322.77	133.11	189.66
2014-15	7265.05	351.75	169.07	182.68
2015-16	42893.83	0.00	0.00	0.00
Total	72592.41	849.44	477.09	372.35

(₹ in crore)

Source: Information furnished by Director, Finance (Economic Affairs) Department, Assam.

The Government has entrusted Fifth ASFC to revisit its Report, in view of the recommendations of the 14th Finance Commission. Data on amount to be devolved was not available till July 2016, as no report was submitted by the Committee, resulting in non-release of funds during 2015-16.

Thus, due to short release of ₹372.35 crore the ULBs were unable to implement various welfare activities for the overall economic development.

4.12.5 Fourteenth Finance Commission Grant

The distribution of funds among the States, by the 14th Finance Commission (14th FC), was done on the basis of 90 *per cent* on population (as per 2011 population data) and 10 *per cent* on area. The grant to each States was to be divided into two parts - a grant to duly constituted gram panchayats and a grant to duly constituted municipalities, on the basis of the urban and rural population of each State, using the data of Census 2011. An amount of ₹970.54 crore was recommended for the ULBs in Assam. The amount so recommended has two components *viz.* General Basic Grants (80 *per cent* of the recommended amount) and Performance Grants (20 *per cent* of the recommended amount).

According to the 14th FC, for the period 2015-20, States will be eligible to draw their Basic Grants, which will remain fixed for each State, and Performance Grant can be drawn only after submission of audited annual accounts that relate to a year not earlier than two years preceding a year in which the ULBs seek to claim the performance grant. Moreover, the ULBs will also have to show an increase in the own revenues of the local bodies over the preceding year, as reflected in the audited accounts.

4.12.6 Penal interest for late release of fund by the State Government

The position of grants released to ULBs during 2011-12 to 2015-16 by the GoI, and further released by the State Government, as per the recommendations of the 13th FC, is shown in the following **Table 4.12**:

Table 4.12: Statement showing penal interest for late release of CFC funds to ULBs
(₹ in crore)

Programme year	Scheme components	Funds received/released		Penal interest for late release of funds
		Received from GoI	Released to ULBs	
2011-12	General Performance Grant	10.18	10.18	0.09
	General Basic Grant	27.25	27.25	
2012-13	General Performance Grant	20.03	3.65	0.33
	General Basic Grant	30.67	30.67	
2013-14	General Performance Grant	23.62	NIL	0.12
	General Basic Grant	34.59	NIL	
2014-15	General Performance Grant	30.52	NIL	0.18
	General Basic Grant	44.84	39.24	
2015-16	General Performance Grant	NIL	NIL	0
	General Basic Grant	93.14	46.57	
TOTAL		314.84	157.56	0.72

Source: Director, Finance (Economic Affairs) Department, GoA.

It was observed that State Government released 13th FC grants to ULBs, with an interest liability of ₹0.72 crore, during 2011-12 to 2015-16 due to late transfer of funds. The delay in release of funds hampered the timely implementation of the projects in the field because the time factor plays an important role in Assam, in view of the season-specific limitations in the execution of works.

4.12.7 Maintenance of records

Maintenance of records and registers is one of the important tools of Internal Control Mechanism. However, during audit of 11⁶² test-checked ULBs, it was noticed that the basic records were not being maintained by ULBs as shown in the following **Table 4.13**:

Table 4.13: Details of basic records not being maintained in the test checked ULBs and implications thereof

Register not maintained	Name of ULBs	Implication
Stock Register	North Lakhimpur MB and Rangia MB	As the Stock Registers were not maintained, actual receipt and utilisation of material could not be monitored by the ULBs. This could also lead to mis-utilisation of material intended for implementation of the schemes.
Asset Register	North Lakhimpur MB, Kokrajhar MB, Rangia MB, Naharkatia TC and Chabua TC,	As the Asset Registers were not maintained, the assets of the ULBs could not be monitored, which could lead to mis-utilisation/ mis-management of assets. Moreover, as some of the assets were revenue generating, the ULBs would not be able to keep track of the revenue generated by such assets, which could also lead to misappropriation of revenue generated by such assets.
Works Register	Naharkatia TC	As the Works Register was not maintained, names of the schemes taken up, estimated cost, name of the executing agency, date of commencement and completion of works could not be ascertained.
Advance Register	GMC, Rangia MB and Chabua TC	The purpose, duration and amount of advance, to be recovered/adjusted, as on 31 st March every year, could not be monitored, which could result in the advance remaining unrecovered even after completion of the work.

⁶² Guwahati Municipal Corporation, Goalpara MB, Rangia MB, Kokrajhar MB, North Lakhimpur MB, Nalbari MB, Amguri MB, Kharupetia TC, Sabua TC, Naharkatia TC and Badarpur TC.

4.12.8 Maintenance of Accounts

The Government of Assam had accepted (March 2011) the National Municipal Accounting Manual (NMAM), which recommends introduction of the accrual-based double entry system and improved financial management in all ULBs in India. As per the NMAM, the ULBs are required to maintain their accounts on accrual basis and to prepare financial statements such as Balance Sheets, Income and Expenditure Statements, Statements of Cash flows and Receipt and Payment Accounts, at the end of each quarter.

Although the DMA stated that the Accrual Based Double Entry Accounting System has been implemented by most of the ULBs, the details were not provided to audit. Further, no information on the present status of preparation of accounts *i.e.* upto which years the accounts were finalised, was available with the DMA.

Test-check revealed that six⁶³ ULBs did not maintain their Annual Accounts. As the Annual Accounts were not maintained, head-wise receipts and expenditure and the financial performance of ULBs could not be ascertained.

⁶³ Guwahati Municipal Corporation, North Lakhimpur MB, Rangia MB, Nalbari MB, Chabua TC and Naharkatia TC

CHAPTER V

**Performance Audit of Management of Own
Funds by Municipal Boards including
collection of revenue**

Chapter-V

Performance Audit of “Management of Own Funds by Municipal Boards including Collection of Revenue”

Executive Summary

Urban Local Bodies are required to perform certain obligatory functions, such as garbage collection and disposal, water supply, construction and maintenance of roads, street lighting etc., besides carrying out some developmental functions. They raise revenues in the form of taxes, fees and fines from citizens and also receive government grants. ULBs do not earn enough revenues by themselves and are obliged to remain dependent on government grants. Due to inadequate resources, they are unable to provide adequate civic amenities. This Performance Audit (PA) of the “Management of Own Funds by MBs including collection of revenue” revealed that, out of the total funds of ₹900.90 crore received by the MBs during 2011-12 to 2015-16, ₹116.34 crore (12.91 per cent) only accounted for their own revenues, as against a requirement of ₹377.04 crore, indicating an over-reliance on Government grants. The shortfall was attributable to inefficiencies in the collection of taxes, absence of planning in assessment and collection, as well as lack of proper infrastructure and capacity. Instances of short deposits of revenue, losses of revenue and unauthorised and irregular application of funds also came to notice during conduct of the PA. The significant audit findings are highlighted below:

Highlights

Some MBs were not imposing major taxes like drainage tax, tax on private markets and fee on registration of dogs and cattles.

(Paragraph 5.7.1)

Failure to maintain comprehensive lists of holdings was indicative of non-assessment of taxes from all holdings in the municipal areas.

(Paragraph 5.7.2)

Most MBs did not adopt the Unit Area Method for revision in the methodology of assessment of Property tax, resulting into failure in enhancing the collections of holding tax.

(Paragraph 5.7.3)

There was shortfall in collection of revenues totalling ₹170.24 crore (68.81 per cent of the total demand), in respect of 10 test-checked MBs.

[Paragraph 5.7.4 (a)]

Not imposing penalties on arrear collections, in 10 test-checked MBs, led to loss of revenue amounting to ₹129.61 lakh.

(Paragraph 5.7.5)

₹49.37 lakh incurred by Dibrugarh MB, on extra labour for cleaning of drains, without proper justification and records, points towards doubtful expenditure.

[Paragraph 5.8.3 (3)]

None of the test-checked MBs maintained lists of Municipal Properties. Hence, they failed to identify all potential sources of revenue.

(Paragraph 5.9.1)

The recommendations of the Fourth Assam State Finance Commission, on MBs, accepted by Government of Assam (GoA), were not implemented completely, as a result of which MBs were unable to exploit additional financial resources.

(Paragraph 5.10)

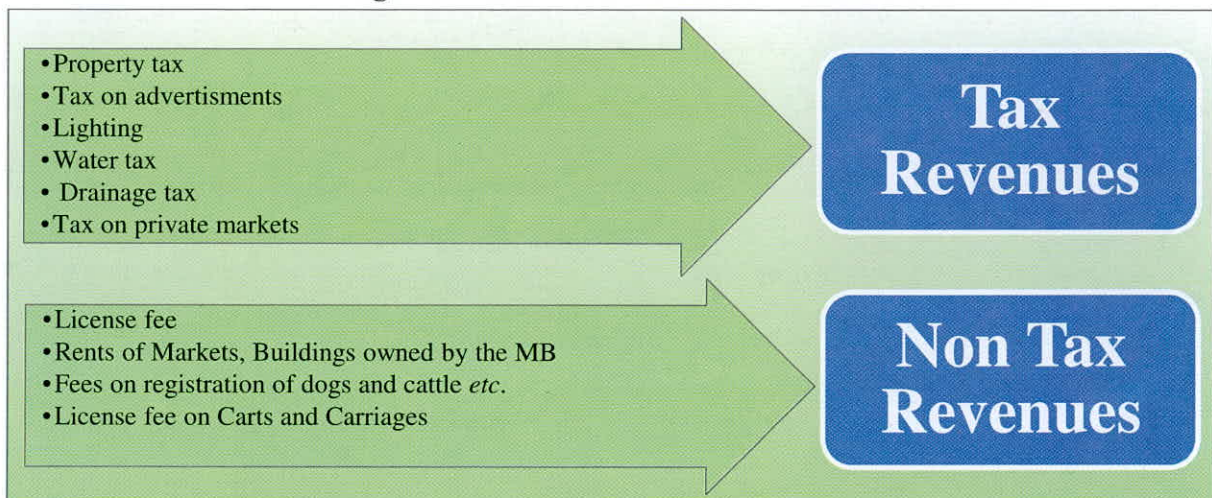
5.1 Introduction

Out of one Municipal Corporation, 34 Municipal Boards (MBs) and 59 Town Committees (TCs) in Assam, this performance audit scrutinised revenue collection and management of own funds in respect of Municipal Boards only. In line with Article 243Q (b) of the Constitution of India, Assam has 34 Municipal Boards (MBs) for smaller Urban areas. The MBs provide basic civic facilities like water supply, drainage, garbage disposal, public health, primary education, construction and maintenance of roads and sanitation. They also undertake many developmental activities like women and child development, slum improvement *etc.*, if funds permit. The chairperson and Board members of the MBs are elected by citizens residing in that area. The MBs raise revenues from such citizens in the form of certain taxes, fees and fines, as prescribed under the Assam Municipal (A.M.) Act, 1956. As revenue collection by ULBs remains inadequate to cover the expenditure required for their activities, they remain dependent on augmentation of their resources by means of government grants.

5.2 Sources of Revenue for MBs

In Assam, Section 58 of the Assam Municipality (AM) Act 1956, describes the sources of revenue for MBs, as shown in the **figure 5.1** below:

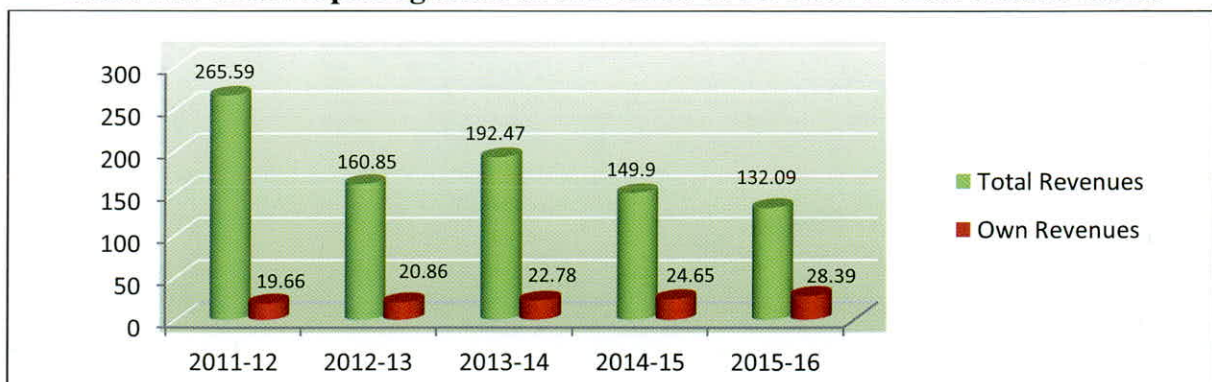
Figure 5.1: Sources of revenues of MBs



Revenue of a Municipal Board (MB) means receipts from its own resources, which comprise of Tax and Non-Tax Revenues, as also fines for breaches of municipal rules and regulations.

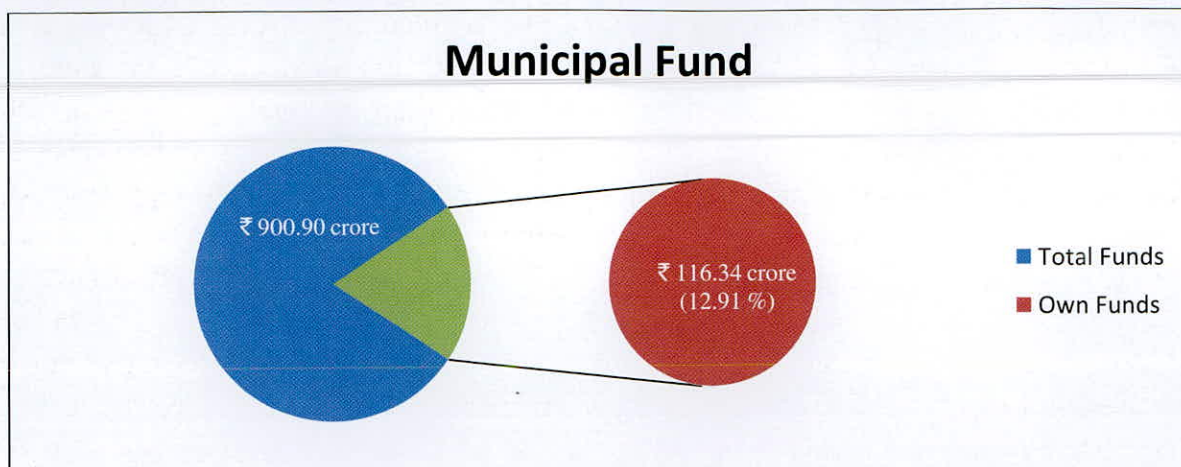
The share of own funds of the MBs to their total revenues, over the years spanning the period 2011-16, is depicted in the **Chart 5.1**:

Chart 5.1: Chart depicting share of own funds of the MBs to their total revenues



The consolidated position of the share of the own revenues of the MBs, for the period 2011-16, is depicted in the **Figure 5.2** below:

Figure 5.2: Consolidated position of share of own revenues of the MBs, for the period 2011-16

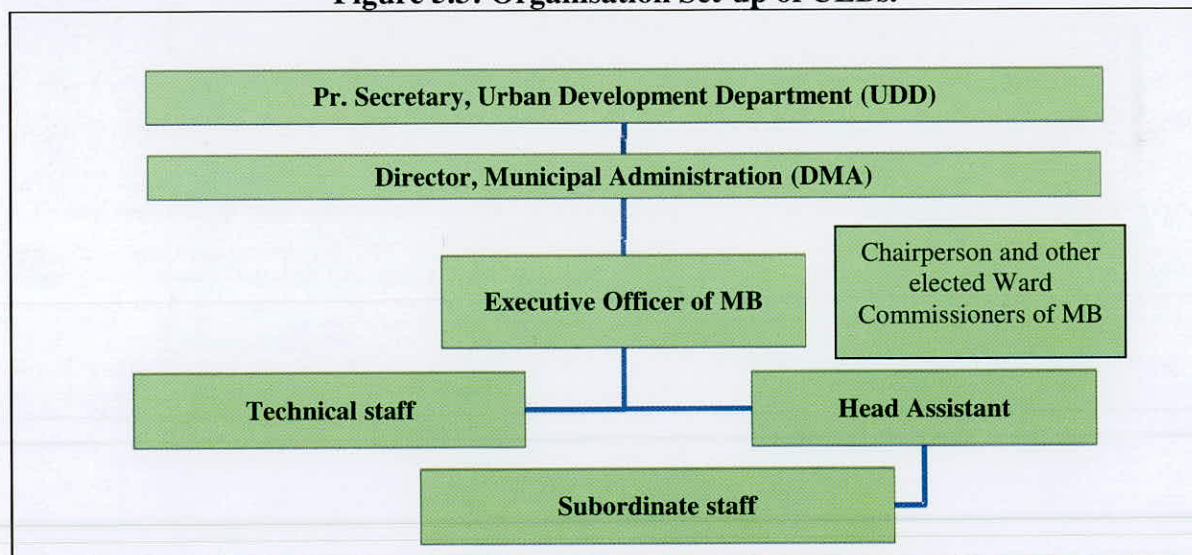


As may be seen from the above diagram, the share of own revenues of the MBs, compared to their total revenues, during the period 2011-12 to 2015-16, was only 12.91 *per cent*. Less generation of own revenue by the MBs implied that they were constrained to remain dependent on Government grants. Reasons for low revenue generation by the MBs and its impact are analysed in the subsequent paragraphs.

5.3 Organisational Set-up

The organisational set-up of MBs in Assam is shown in **Figure 5.3** below:

Figure 5.3: Organisation Set-up of ULBs.



Members of a Municipal Board are elected for a term of five years. Towns are divided into Wards (sub-divisions of a municipality/town), according to their population. Representatives are elected from each ward. A Chairperson is elected from among the members to preside over and conduct meetings of the Municipality.

5.4 Audit Objectives

The objectives of this Performance Audit were to assess whether:

1. Taxes, fees, rents *etc.* were assessed, imposed and collected for strengthening the revenue regime of the Board.
2. A Municipal Fund was formed and accounts thereof maintained properly; and whether the Municipal Fund was appropriated properly, for the purposes as laid down under the Act.
3. The infrastructure for collection and application of revenues by the MBs was adequate.
4. The role of the Government in mobilisation of the revenue resources of the MBs was adequate.
5. Any monitoring mechanism existed for improving the revenue raising capabilities and its application?

5.5 Audit Scope, Sampling and Methodology

This PA, covering the period from 2011-12 to 2015-16, was conducted during April-June 2016. Out of 34 MBs in Assam, 10 MBs⁶⁴ were selected for detailed study, by using the Probability Proportional to Size Without Replacement (PPSWOR) sampling method. The PA commenced with an Entry Conference on 5 April 2016, wherein the audit objectives, criteria, methodology *etc.* were discussed with representatives from the State Government. The field audit, which was carried out subsequently, involved collection of data from the State Government and detailed scrutiny in the test-checked MBs.

After the conclusion of field audit, the Draft Performance Audit Report was forwarded to Government on 16 September 2016. The audit findings were also discussed in the Exit Conference held on 03 November 2016 with the Secretary, UDD, GoA; Director Municipal Administration and delegates from the Finance Department, GoA.

Though the DMA forwarded piecemeal replies received from the MBs, the replies from the Government were still awaited (December 2016). The DMA had been requested (November 2016) to furnish a consolidated reply duly vetted by the Government so that it could be incorporated in this Report which was awaited till the time of finalisation of this Report.

5.6 Audit Criteria

The following criteria have been used to benchmark the audit findings:

- Assam Municipality Act, 1956;
- Instructions and circulars issued by the State Government/Government of India;
- Recommendations of the Central Finance Commissions (CFCs), State Finance Commissions (SFCs), in respect of revenue resources of ULBs; and
- Prescribed Reports and Returns.

Audit Finding

5.7 Municipal Taxation

5.7.1 Imposition of taxes and fees

As per the provisions of Section 68 of the AM Act, 1956, MBs may impose, within their municipal area, taxes and fees, as shown in **Appendix-V**.

⁶⁴ Schar, Hojai, Nagaon, Jorhat, Tezpur, Sivasagar, Tinsukia, Barpeta Road, Dibrugarh and Bongaigaon.

Position of taxes and fees levied/not levied by the selected MBs during 2011-16 is shown in the following **Table 5.1**:

Table 5.1: Position of Taxes and Fees levied/not levied by the selected MBs during 2011-16

Sl. No.	Taxes and Fees to be levied	Name of MBs									
		Silchar	Nagaon	Tezpur	Sivasagar	Dibrugarh	Bongaigaon	Hojai	Jorhat	Tinsukia	Barpeta Road
1	Property and Holding tax	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
2	Tax on advertisement	Y	Y	N	Y	N	Y	N	N	Y	N
3	Lighting Tax	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
4	Water Tax	N	Y	Y	Y	N	N	Y	Y	N	N
5	Drainage Tax	N	N	N	N	N	N	N	N	N	N
6	Tax on private markets	N	N	N	N	N	N	N	N	N	N
7	License fee on Trades	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
8	License fee on carts and carriages	Y	Y	Y	N	N	N	N	N	Y	N
9	Rents of Markets, Buildings owned by the MB	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
10	Fees on registration of dogs and cattle etc.	N	N	N	N	N	N	N	N	N	N

As can be seen from the table above, none of the selected MBs levied Drainage Tax, Tax on private markets and fees on registration of dogs and cattle. Besides, the selected MBs did not furnish reasons for non-imposition of the taxes and fees shown in the **Table 5.1**.

Had the MBs imposed the relevant taxes and fees in terms of the provisions of AM Act, 1956, the revenue collections of the MBs could have increased.

5.7.2 Assessment of Taxes

As per Section 76 of the A.M. Act, 1956, the MBs were required to prepare a comprehensive list of all holdings within their municipal areas and update the same continuously. In nine out of the 10 selected MBs, the lists of holdings were not being comprehensively maintained⁶⁵ and they were maintaining only a list of the holdings from which the tax was being collected. As such, details of the actual number of holdings in their respective municipal areas were not available with them. Only Silchar MB had a list of 22241 holdings, out of which assessment was being done in case of 16617 holdings. The remaining nine MBs were not aware of the total number of holdings in their municipal areas and hence, were not in a position to impose tax on the uncovered holdings, as shown in the following **Table 5.2**:

Table 5.2: Test-checked MB-wise position of assessment of holdings

Sl. No.	Name of the MB	Total holdings	No. of assessments done as on 31.03.2016
1	Silchar	22241	16617
2	Nagaon	These MBs did not maintain details of the total holdings under their municipal areas	14864
3	Tezpur		8752
4	Sivasagar		11595
5	Dibrugarh		18728
6	Bongaigaon		8610
7	Hojai		6334
8	Jorhat		12641
9	Tinsukia		11020
10	Barpeta Road		4564

⁶⁵ MBs may not be able to estimate the total tax revenue from property holding due to non-maintenance of list of properties.

While Dibrugarh MB stated that all the holdings under its municipal area could not be listed due to non-availability of land documents (*Jamabandi*, sale deeds, encroached Government land *etc.*), the remaining eight MBs did not furnish any reason for non-preparation of the lists. Absence of a comprehensive list of holdings was indicative of failure to assess taxes of all the holdings in the municipal area. As a result, a significant part of the potential revenue sources of the MBs remained untapped.

While accepting the audit observation, Sivasagar and Barpeta Road MBs stated (November 2016) that preparation of comprehensive lists of holding was under process.

5.7.3 Assessment of Property tax through UAM

The Fourth Assam State Finance Commission (FASFC) recommended that, in regard to assessment of property tax, the existing Annual Rental Value (ARV) method may be replaced by the Unit Area Method (UAM). This recommendation was accepted by the GoA (September 2012). Accordingly, GoA issued guidelines for assessment of property tax through the UAM.

Verification of holdings in Silchar MB revealed that the assessment of property tax through the UAM, yielded 96 to 156 *per cent* increase in the annual tax collections, as shown in the following **Table 5.3**:

Table 5.3: Increase in annual tax collection due to adoption of UAM by Silchar MB

Sl. No.	Ward No	Holding No	Annual Tax (in ₹)		Increase in Annual Tax (<i>per cent</i>)
			Before Self-assessment	After self-assessment	
1	06	243	481	1218	153
2	25	01	520	1021	96
3	28	102	390	998	156

The DMA provided information pertaining to only 23 out of 34 MBs, wherein it was observed that only eight out of the 23 MBs had adopted the UAM for assessment of Property tax.

Further, seven MBs, out of the 10 selected MBs, did not adopt UAM. As a result, they potentially failed to enhance their collections of holding tax. Only Silchar, Dibrugarh and Bongaigaon MBs, out of the 10 selected MBs, had adopted UAM, from April 2013 onwards, for assessment of holding tax. Although the adoption of UAM led to substantial increase in the demands of holding tax, during 2013-14 to 2015-16, in respect of the Silchar and Bongaigaon MBs, the collections, however, increased by only 13.77 and 32.48 *per cent* respectively, in comparison to the increased demands, as shown in **Table 5.4**.

Table 5.4: Comparison of increase in demand vis-a-vis increase in collection

Sl. No	Name of the MB	Demand		Increase in Demand (4)-(3)	Collection		Increase in collection (7)-(6)	Percentage of increase in collection over increased demand (8)÷(5)×100
		2013-14	2015-16		2013-14	2015-16		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Silchar	1278.28	2379.56	1101.28	200.63	352.26	151.63	13.77
2	Bongaigaon	163.62	277.73	114.11	58.97	96.03	37.06	32.48

Assessment of taxes through UAM in Dibrugarh MB was, however, in the nascent stage, as only 200 out of 18,500 holdings had been assessed through the UAM (as on June 2016), as the property holders did not submit the duly filled in self-assessment forms, for further processing by the MB. The MB also, on its part, failed to motivate property holders to submit the duly filled in self-assessment forms.

Thus, assessment of property tax through the UAM, failed to significantly enhance revenues of the MBs, due to its ineffective implementation.

5.7.4 Collection of revenue

MBs failed to achieve targets of collection of tax and non-tax revenue set by them:

a) Taxes and fees

It was noticed that, during 2011-16, against the total target of ₹377.04 crore, the MBs collected only ₹116.34 crore in taxes and fees. Thus, there was a shortfall of ₹260.70 crore in the collection of taxes and fees, which was 69 per cent of the total demand (as on March 2016).

Similarly, the 10 test-checked MBs raised demands of ₹247.41 crore for taxes and fees during 2011-16, against which only ₹77.17 crore was collected by them during that period. Thus, there was a shortfall of ₹170.24 crore (68.81 per cent of the total demand), as on March 2016, as shown in the following **Table 5.5**:

Table 5.5: Demand, collection and shortfall in revenue collection of the selected MBs during 2011-16

(₹ in crore)

Sl. No.	Name of MB	Demand/Target	Collection	Shortfall	Percentage of Shortfall
1	Silchar	78.69	16.03	62.66	79.63
2	Dibrugarh	32.34	8.29	24.05	74.37
3	Tezpur	13.43	4.55	8.88	66.12
4	Jorhat	27.86	9.61	18.25	65.51
5	Bongaigaon	12.35	4.29	8.06	65.26
6	Tinsukia	36.39	13.62	22.77	62.57
7	Barpeta Road	7.82	3.03	4.79	61.25
8	Nagaon	14.86	5.90	8.96	60.30
9	Sivasagar	16.08	7.72	8.36	52.05
10	Hojai	7.59	4.13	3.46	45.59
TOTAL		247.41	77.17	170.24	68.81

It may be seen from the table above that the shortfall in collection of revenue *vis-a-vis* demand, in respect of the test-checked MBs, ranged between 45.59 and 79.63 per cent, during 2011-16.

Such huge arrears/shortfalls in collection of revenues were attributable to the following reasons:

- i) No action plan was prepared for achieving the target of collection of taxes and fees.
- ii) Collector-wise individual targets were not set.
- iii) There was lack of awareness, reluctance among the tax payers, who, *inter alia*, cited inadequacy of civic facilities in their municipal areas.

b) Lease/ Kist money

The MBs lease out markets in their municipal areas for settled amounts of Lease/Kist money. The 10 test-checked MBs leased out their markets, at a total cost of ₹25.67 crore, during the period 2011-16. Against this amount, ₹23.11 crore was collected, leaving a shortfall of

₹ 2.56 crore (9.97 per cent of the lease amount), as on 31.03.16, as shown in the following Table 5.6:

Table 5.6: Lease/Kist Money outstanding for collection in respect of test-checked MBs
(₹ in lakh)

Sl. No.	Name of MB	Lease Amount	Collection	Shortfall	Shortfall I (in per cent)
1.	Hojai	115.91	83.79	32.12	27.71
2.	Tezpur	383.33	294.24	89.09	23.24
3.	Barpeta Road	508.46	440.99	67.47	13.27
4.	Sivasagar	238.36	212.74	25.62	10.75
5.	Silchar	69.10	61.96	7.14	10.33
6.	Nagaon	163.77	151.55	12.22	7.46
7.	Tinsukia	280.82	270.92	9.90	3.53
8.	Jorhat	358.94	351.15	7.79	2.17
9.	Bongaigaon	227.88	223.31	4.57	2.01
10.	Dibrugarh	220.82	220.82	0.00	0.00
Total		2,567.39	2,311.47	255.92	9.97

Thus, only Dibrugarh MB ensured collection of the complete lease amount for the markets. The remaining MBs lacked an effective action plan to realise the outstanding amount of Kist money, which continued to accumulate over the years.

The short collections of revenue, potentially contributed to the failure of the MBs in performing developmental activities or carrying out extension of existing civic amenities.

5.7.5 Loss of Revenue due to not imposing penalties on arrears

As per section 106 (1) of the AM Act 1956, within three months after any sum has become due on account of any tax, toll or fee, the Board shall present, to the person liable to the payment thereof, a bill and a notice of demand for the said sum. Further, as per section 107(2) of the said Act, penalty at the rate of 3.125 per cent shall be charged on the arrears with effect from the sixteenth day following the date of the service of notice under Section 106(1).

Though, after expiry of every quarter, the MBs served notices to tax payers, showing the arrears and current demands in respect of different taxes and fees, no fine/penalty was imposed on the arrears collected. Test-checked MB-wise position of losses, for not imposing penalty on arrears collected, as well as on outstanding arrears, is shown in the following Table 5.7:

Table 5.7: Loss due to penalties not being imposed, by selected MBs, on arrears collected and on outstanding revenues

(₹ in lakh)					
Sl. No.	Name of the MB	Outstanding revenue as on 31.03.2016	Arrear collected	Loss on account of non-imposition of penalty on outstanding revenue (Col. 3 × 3.125 per cent)	Loss on account of non-imposition of penalty on arrear collected (Col. 4 × 3.125 per cent)
(1)	(2)	(3)	(4)	(5)	(6)
1.	Silchar	2207.82	923.55	68.99	28.86
2.	Dibrugarh	587.11	386.24	18.35	12.07
3.	Tinsukia	493.37	778.01	15.42	24.31
4.	Jorhat	457.33	686.46	14.29	21.45
5.	Sivasagar	278.65	381.69	8.71	11.93
6.	Bongaigaon	255.35	192.57	7.98	6.02
7.	Nagaon	192.39	276.15	6.01	8.63
8.	Tezpur	174.74	281.61	5.46	8.80
9.	Barpeta Road	149.25	124.65	4.66	3.90
10.	Hojai	87.44	116.37	2.73	3.64
Total		4883.45	4147.3	152.60	129.61

As a result, during 2011-16, the selected MBs sustained losses of revenue, amounting to ₹1.30 crore, for not imposing penalties on arrear collections of ₹41.47 crore. The selected MBs also did not impose penalties (₹1.53 crore) while serving notices for outstanding revenues of ₹48.83 crore (as on 31 March 2016), which indicated systemic weaknesses of delay and non imposition of penalty in the collection of taxes by the MBs.

5.7.6 Loss of revenues on Municipal markets

The MBs were leasing out their markets/*mahals*⁶⁶/parking areas, through tendering, based on their estimated value, and attempted to settle their lease value, either at their estimated value or above that amount, based upon the outcome of the tendering process. The following deficiencies were observed, in regard to the leasing of markets, in three out of the 10 selected MBs:

- (i) During 2012-15, the lease values of the markets/*mahals*/parking areas were settled, by Bongaigaon MB, at a value of ₹35.46 lakh (56.47 per cent), against the targeted/estimated value of ₹62.79 lakh. Settlement of the lease value at the significantly lower price was attributed to bidding by the tenderers below the estimated value. The MB neither opted for retendering nor made any attempt to settle the lease value at a higher price, through wide publicity in the print or electronic media, even though there had been instances where the MB had settled the lease value of markets *etc.*, at five per cent above the estimated value, during 2014-15. Thus, there was a shortfall of ₹27.32 lakh in collection of revenue due to settlement of lease value of markets *etc.*, at 44 per cent below the targeted/estimated value.
- (ii) Scrutiny of records revealed that Sivasagar MB settled the lease value of a parking place (located at central market area, HCB Road) at ₹6.00 lakh during 2012-13. However, during 2013-14 to 2015-16, the MB settled the lease value of the same parking place far below the lease value settled in 2012-13, as shown in the following **Table 5.8**:

Table 5.8: Settlement of lease value during 2013-16 below the value settled in 2012-13

Year	Settled value	Less collection compared to year 2012-13	Percentage of less collection
2012-13	6.00	-	-
2013-14	0.95	5.05	84.17
2014-15	1.02	4.98	83.00
2015-16	0.97	5.03	83.83

The reasons for reduction of the settled lease value of the parking place, by over 80 per cent during 2013-16, were not available on record. Chairman, Sivasagar MB, stated that the lease (for 2013-16) was settled through negotiation with the lessee. The reply is not tenable, as the MB, instead of increasing the lease value, settled the same at much lower values, resulting in losses amounting to ₹15.06 lakh {(₹6 lakh×3) - ₹2.94 lakh (collection during 2013-16)}, during 2013-16.

- (iii) Silchar MB leased out the Whole Sale Fish Market at Fatak Bazaar, Silchar, for ₹8 lakh, in the year 2011-12. The market was dismantled for reconstruction in March 2012. However, reconstruction of the Market was incomplete till date (May 2016). During 2013-14 to 2015-16, ₹8.12 lakh was collected departmentally from the vendors stationed at the temporary shed as per order of the Vice Chairman, Silchar MB. Had the reconstruction work been completed within the time schedule of six months as mentioned in the deed agreement

⁶⁶ As per Assam Sale of Forest Produce, Coupes and Mahals Rules 1977, Mahal means a well defined area wherefrom certain types of forest produced are sold.

between the MB and existing vendors, the MB could have gained revenues amounting to ₹15.88 lakh⁶⁷.

5.8 Municipal Finance

5.8.1 Financial management in MBs

(i) Section 58 of the AM Act, 1956, envisages that there shall be formed, for each Municipal Board, a fund, to be called the "Municipal Fund", where the MBs need to deposit all sums received on behalf of the MB, as well as all such sums as the State Government may sanction as grants in-aid from time to time. However, the selected MBs did not constitute any "Municipal Fund". Instead, they maintained multiple bank accounts for carrying out transactions relating to receipts and expenditures of the MBs. This was not only irregular but also entailed the risk of financial mismanagement, as cited in **Paragraph 5.8.2.1**.

(ii) Section 67 (A to D) of the AM Act, 1956, provides for the maintenance of annual accounts and financial statements by the MBs. However, nine out of the 10 selected MBs (except Jorhat MB) did not prepare statements of receipt and expenditure, financial statements and balance sheets. In the absence of annual accounts, financial statements and balance sheets, the actual financial position, as well as assets and liabilities, of nine out of the 10 selected MBs, remained undisclosed.

(iii) Section 43 A of the AM Act, 1956 envisages that MBs shall prepare budgets for the next financial year and the same should be approved in the Board meeting. The budget estimates, prepared by the MBs, are approved by the Director of Municipal Administration (DMA). Scrutiny of records revealed that in case of nine out of 10 selected MBs, there were shortfalls (ranging between 45.01 to 65.69 *per cent*) in collection of revenues *vis-a-vis* estimates, during 2011-12 to 2015-16. This indicated that the budget estimates, prepared by the selected MBs, during 2011-16, were unrealistic. Overall resources and trends of receipts in previous years were not taken into consideration at the time of preparation of the budgets, indicating deficiencies in the planning processes of the MBs. In the case of Dibrugarh MB, the details of budget estimates were neither available on record, nor furnished to audit, though called for.

5.8.2 Irregularities in collection of Revenue

5.8.2.1 Temporary misappropriation

As per Rule 54 (below Note 7) of Assam Financial Rules, all receipts, due to the MBs, shall be collected by an officer, or any person authorised by the MB; and the amounts so collected, shall be handed over to the cashier on that very day and entered in the cash book. Scrutiny of records of the test-checked MBs revealed the following:

(i) In Barpeta Road MB, a total amount of ₹0.45 lakh was collected, as taxes and fees, during the period 06.04.15 to 24.09.15, but same was neither deposited in the bank nor accounted for in the Cash Book. The amount was deposited in the bank on 21 June 2016, only at the instance of audit (June 2016). This temporary misappropriation of ₹0.45 lakh was indicative of serious shortcomings in the internal control system of the MB.

(ii) Room rents, totalling ₹5.28 lakh, collected on various dates during 3.10.2012 to 23.02.2016, were retained by the tax collector, instead of depositing them in the bank. The

⁶⁷ ₹24.00 lakh (lease value @ ₹8 lakh for 2013-16) - ₹8.12 lakh (collected departmentally during 2013-14 to 2015-16)

period of retention ranged between two and 253 days. Such retention of receipts was likely to facilitate misappropriation and other financial irregularities.

(iii) There were short deposits of receipts totalling ₹3.38 lakh, by Tezpur MB (₹1.29 lakh) and Dibrugarh MB (₹2.09 lakh) during March 2011 to March 2016, as shown in the following **Table 5.9**:

Table 5.9: Position of short deposits of revenues by two selected MBs (₹ in lakh)

Sl. No.	Name of the MB	Types of receipts	Period of collection	Amount collected as per receipt book	Amount deposited	Short deposit
1.	Tezpur	Permission fees, holding tax	April 2011 to February 2014	9.45	8.16	1.29
2.	Dibrugarh	Licence fees, holding tax	April 2011 to March 2016	2.09	Nil	2.09
Total				11.54	8.16	3.38

Short deposit of receipts of ₹3.38 lakh into the Government account pointed towards misappropriation of Government funds to that extent. The MBs, while accepting the short deposit, stated that the matter would be verified and action initiated accordingly.

Thus, lack of internal controls in the MBs led to instances of misappropriation, as well as retention and short deposits of cash. Had the MBs adhered to the financial rules while dealing with the collection and deposit of cash, cases of misappropriation and retention of cash could have been avoided.

5.8.2.2 Arrears in revenue collection

Out of 10 test-checked MBs, Bongaigaon MB raised claims of ₹22.38 lakh against Deputy Commissioners (DCs), Chirang (₹13.14 lakh) and Bongaigaon (₹9.24 lakh) towards the cost of cleaning of septic tanks (by cesspool vehicles⁶⁸) of different Army/CRPF camps of the Chirang and Bongaigaon districts during 2012-16, as per the request of the DCs concerned. Out of the total claim of ₹22.38 lakh, ₹11.86 lakh (Chirang: ₹5.34 lakh and Bongaigaon: ₹6.52 lakh) remained outstanding (July 2016) since the year 2012-13. Apart from raising the claim, the MBs did not take any action to collect the funds from the DCs. It was, however, stated that the outstanding claims would be paid by the DCs concerned, on receipt of funds from the Government.

5.8.3 Application of own resources

Municipal functions are classified into obligatory and developmental functions. As per the recommendations of the 4th Assam State Finance Commission, top priority was to be given to the obligatory functions *viz.* water supply; construction and maintenance of roads; street lighting; drainage and sewerage; garbage collection and disposal *etc.*

Though four⁶⁹ out of 10 selected MBs incurred maximum (53 to 72 *per cent*) expenditure on obligatory functions, the remaining six MBs expended less than 50 *per cent* of their total expenditure on discharging obligatory functions.

During test-check of MBs, irregularities in incurring expenditure amounting to ₹2.55 crore were noticed in the application of own resources, by them, are described in the following **Table 5.10**:

⁶⁸ The vehicle is used by Municipalities to clean liquid wastes and sewage from septic tanks.

⁶⁹ Tinsukia: 53 *per cent*, Bongaigaon: 65 *per cent*, Hojai: 71 *per cent* and Jorhat: 72 *per cent*

Table 5.10: Irregularities in the application of own resources by the test-checked MBs

Sl. no	Topic	Amount involved	Particulars
1	Expenditure kept outside the Municipal account	₹ 4.83 lakh	Scrutiny of the cash book and bank accounts revealed that Dibrugarh MB had operated one Savings Bank account with the Axis Bank ⁷⁰ , in addition to the Dibrugarh Municipality account maintained in the SBI Dibrugarh Branch, where ₹ 9.25 lakh was deposited from the revenues collected during 2011-16. Out of ₹ 9.25 lakh, though ₹ 4.83 lakh was withdrawn from the bank on different dates (amount paid to different parties: ₹ 1.17 lakh and amount withdrawn from the bank through self cheques: ₹ 3.66 lakh), it was not accounted for in the cash book of the MB. Further, details of utilisation of the amount of ₹ 3.66 lakh, withdrawn from the bank through self-cheques and records/documents in its support were not furnished to audit.
2	Doubtful utilisation	₹3.61 lakh	Dibrugarh MB incurred expenditure of ₹ 1.36 crore towards procurement of Petroleum Oil and Lubricants (POL) and spare parts. Further, during May 2015 to March 2016, 7,215 litre of POL was shown as utilised for tractors which were actually non-functional and off-road during that period. This was indicative of doubtful utilisation of POL worth ₹ 3.61 lakh ⁷¹ .
3	Doubtful expenditure	₹ 49.37 lakh	Dibrugarh MB incurred expenditure of ₹ 49.37 lakh during 2011-15, on extra labour engaged in cleaning of drains without the Board's approval or any recorded justification inspite of having 53 drain cleaning personnel (permanent and temporary) on its rolls and also the MB had not executed any construction/extension work in regard to drainage during that period. Besides, there was no documentation in support of the expenditure so incurred. Thus, in the absence of necessary documentation/justification in support of the engagement of extra labour, the expenditure of ₹ 49.37 lakh remained doubtful.
4	Irregular expenditure	₹ 15.48 lakh	Sivasagar MB released payment against the TA bills of the Ward Commissioner and other staff violating the provisions of Section 42 (2) of the A.M. Act, 1956, which envisaged that only the Chairman and Vice-Chairman are entitled to TA. Besides, essential records viz., sanction orders, tour diary etc., in support of actual journeys performed were also not furnished, though called for. Thus, the expenditure of ₹ 15.48 lakh, incurred towards payment of TA bills to non-entitled staff and also without proper documentation was irregular.
5	Injudicious expenditure	₹ 1.73 crore	Recommendations of the SFCs highlighted the need for ULBs to observe economy in expenditure. Scrutiny of records revealed that while incurring expenditure from own fund, Tezpur MB did not maintain head wise classification of expenditure and out of its total expenditure of ₹ 9.93 crore during 2011-16, incurred expenditure of ₹ 1.73 crore on miscellaneous purposes viz. expenditure on cost of tea and sweets for board meetings, purchase of gamochas ⁷² , sign boards, other stationery items; celebration of Independence Day etc. Incurring of such expenditure, constituting 17.42 per cent of the total expenditure incurred by the MB during 2011-16, was injudicious, considering its magnitude, as also the fact that it reduced the quantum of funds available for civic services and development.
6	Unauthorised Expenditure	₹ 8.53 lakh	Barpeta Road MB incurred expenditure of ₹ 8.53 lakh during 2011-16 towards donations for different religious and cultural activities even though there was no provision for incurring such expenditure under the AM Act, 1956. Also, no resolution passed by the Board for incurring such expenditure. Such unauthorised expenditure, therefore, resulted in reduction of funds available for developmental work and public utility services. There were recorded instances of public complaints regarding not carrying out of some developmental/welfare activities like drainage and maintenance of roads for the last 6-7 years by the Board.

⁷⁰ A/c No. 597010100079851.

⁷¹ Calculated on the basis of ₹50.00 per litre × 7215 litre = ₹ 360750: say ₹ 3.61 lakh.

⁷² Traditional towel used for felicitation.

The above irregularities are indicative of weak internal control mechanism in the MBs and possibility of misutilisation of own funds cannot be ruled out.

5.8.4 Records not produced to audit

During 2011-16, MBs of Sivasagar and Tezpur incurred expenditure of ₹ 80.54 lakh towards procurement of Petroleum Oil and Lubricants (POL) *etc.* but essential records in support of receipt and utilisation of the POL so procured *viz.*, supply orders, delivery challans, bills, vouchers, actual payees' receipts (APRs), stock register of receipt and issue of POL, vehicle-wise log books *etc.*, were not maintained. In response to an audit query in this regard, Sivasagar MB stated that the related records were not readily available with the MB. Tezpur MB neither furnished any reply nor furnished the necessary records.

Further, Dibrugarh MB did not furnish the records/documents shown in the following **Table 5.11**, despite specific requisition and repeated reminders.

Table 5.11: Details of records not furnished by Dibrugarh MB

Sl. No.	Details of records not furnished
1	47 money receipt books in respect of miscellaneous receipts, pertaining to the period April 2011 to July 2015, involving 17 collectors were called for to ascertain collection and deposit of revenue.
2	List of parking places, Demand and collection registers, NITs, Bid documents, Allotment Orders <i>etc.</i> , of leased markets to ascertain whether relevant procedures followed in allotting and finalising parking places and markets <i>etc.</i> were transparent and all the sources of revenue were tapped.
3	Budget estimates for the financial year 2011-16 to ascertain whether estimates were prepared on realistic basis.

This indicated lapses on the part of the MBs in maintenance and upkeep of records. In the absence of records, authenticity of expenditure of ₹ 80.54 lakh on POL, incurred by the MBs could not be ascertained.

5.9 Municipal Infrastructure

5.9.1 Municipal Property List

Under section 62 of AM Act, 1956, MBs are required to maintain lists of Municipal Properties, *viz.* Municipal Markets, Parking Places, Ponds, Auditorium Halls, Cremation Ground *etc.* These properties constitute sources of revenue and taxation, with a view to strengthening their finances.

However, none of the test-checked MBs maintained such lists. As a result, the MBs failed to identify all potential sources of revenue.

5.9.2 Human Resource Management

The 4th ASFC recommended a definite staffing pattern, suggesting staff strengths of 78, 137 and 202 for MBs having populations of up to fifty thousand, up to one lakh and more than one lakh respectively.

However, the MBs did not follow any definite pattern in maintaining their staff strengths on the basis of the recommendations of the 4th ASFC. As a result, there was a shortage of staff in five out of the 10 selected MBs as benchmarked against the 4th ASFC recommendations, as shown in the following **Table-5.12**:

Table-5.12: Staff position of the selected MBs

Sl. No.	Name of MB	Population	Staff position			Staff position as recommended by 4 th ASFC and accepted by GoA	Shortage
			Regular	Temporary	Total		
1.	Hojai	36544	27	Nil	27	78	51
2.	Barpeta Road	35489	25	Nil	25	78	53
3.	Silchar	172709	134	Nil	134	202	68
4.	Tinsukia	98798	68	Nil	68	137	69
5.	Nagaon	116355	33	Nil	33	202	169

It may be seen from the table above that the shortage of staff ranged from 51 in Hojai to 169 in Nagaon. Further, there were instances of inspection and verification of the value of property holdings by non-technical persons (*Tax Darogas*) due to non-availability of technical persons. Besides, there were procedural lapses in maintenance of records and inefficiencies in the collection of taxes/fees due to lack of man power, resulting in huge arrears of receipts which adversely affected the generation of revenues, as elaborated in the preceding paragraphs.

5.10 Role of the Government in mobilisation of revenue resources of the MBs

(i) The Government of Assam constituted 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, as required under the 74th Constitution Amendment Act. The status of implementation of recommendations of the 4th ASFC, accepted by GoA, is shown in the following **Table 5.13**:

Table 5.13: Status of implementation of recommendations of the 4th ASFC accepted by GoA

Sl. No.	Accepted Recommendations of SFCs	Status of Implementation
1	Registration of Births and Deaths may be transferred to ULBs. (Para 11.48)	Not yet transferred. As a result, the MBs could not levy registration fees.
2	In the matter of Property Tax, the existing ARV ⁷³ method may be replaced by Unit Area Method. (Para 8.25)	Although amendments to the relevant Rules of the AM Act, 1956 for implementation of the Unit Area Method, have been carried out, most ⁷⁴ MBs continued to use the old ARV Method for assessing property values.

Thus, GoA did not fully implement the accepted recommendations of the SFCs. This not only adversely affected the financial powers and functions of the MBs but also deprived them from additional sources of revenue.

(ii) As required under para 6.4.9 of the 13th Finance Commission Guidelines, GoA constituted a Property Tax Board (PTB), in March 2011, with the objective of monitoring the enumeration and assessment of all types of properties by the ULBs. The target for enumeration and assessment of properties, in a particular year, was 25 per cent for ULBs,

⁷³ For the purpose of calculation of Annual Rental Value (ARV) of a Holding, measurement of Carpet Area shall be calculated as under:
 (i) The rate of Rental Value per sq. ft. shall be fixed by the Board of the Municipality at a meeting, with prior approval of the Committee mentioned under Section 79-A.
 (ii) The Annual Rental Value shall be commuted at a multiple of the Carpet Area and the Rental Value fixed under sub-section (1), by the Board of the Municipality at a meeting, with prior approval of the Committee mentioned under Section 79-A.
 (iii) The Rental Value per sq. ft. of Carpet Area for different classes of holding shall be published from time to time by the Municipality with the approval of the Committee mentioned under Section 79-A.

⁷⁴ Only three out of the 10 selected MBs adopted self assessment system.

starting from financial year 2011-12. The DMA was required to depute the Chief Valuation Officer and other Valuation officers in the field to monitor the rates of collection and time taken for collection in a particular year. However, no Property Valuation Cell (PVC) was formed by the Government. The DMA stated that the PVC was not in existence due to introduction of the Self Assessment System, after amendment of the AM Act, 1956, in 2012. As a result, not only were the MBs deprived of the guidance of PTB, but also lacked direction in assessment of the value of properties. This was evident from the fact that six out of the 10 selected MBs were imposing and collecting property tax based on the value of assets fixed seven to 41 years before.

(iii) It was found that neither the Government nor the MBs had considered/taken innovative measures such as setting up of an improved information base or an effective Management Information System, introducing bill collection through outsourcing, holding of Tax Adalats *etc.*, to augment their revenue generation and increase their tax base, as had been adopted by some other States.

Thus, GoA failed to play an effective role in mobilising revenue resources of the MBs.

5.11 Monitoring and Evaluation

- As per the recommendations made by the 4th ASFC, a High Level Monitoring Committee, headed by the Chief Secretary and Monitoring and Evaluation Cell was to be set up in the DMA, to monitor the revenue raising capabilities of the MBs. However, neither the High Level Monitoring Committee headed by the Chief Secretary nor any Monitoring and Evaluation Cell was set up in the DMA.
- Although the rates of taxes were to be revised after every five years, the selected MBs did not revise the rates for a long period.
- GoA instructed the MBs to introduce the self-assessment system of property valuation. However, seven out of 10 test-checked MBs had not introduced the system (as on January 2016). GoA also did not initiate any follow-up action with regard to implementation of the instructions issued in this regard. DMA, GoA, was not aware of the status of implementation of these instructions by the MBs, as it had the relevant data pertaining to only 23 out of 34 MBs.
- Targets were not fixed for the tax collectors. No information or data base regarding the delivery of services was evolved by the MBs.
- Government did not monitor generation of revenues from the levy of taxes or revision of rates. GoA or DMA did not prescribe any report/return on generation of revenues by the MBs.
- There was no periodic evaluation of efforts for improving the revenue raising capabilities of MBs at the Government level.

Thus, monitoring and evaluation of the revenue raising capabilities of the MBs, through levy of taxes, was lacking both at the MB level, as well as at the Nodal Department level.

5.12 Conclusion

- The MBs did not utilise full potential of mobilising their own resources as relevant taxes and fees, prescribed under the AM Act, 1956 were not levied.
- Revision of taxes, through the self-assessment (Unit Area Method), was not implemented by most of the MBs.

- There was a short fall of 69 *per cent* in collection of taxes by the MBs during 2011-16 due to lack of planning, infrastructure and capacity building.
- Instances of short deposit and non-deposit of receipts on time by the collectors indicated lack of internal controls in revenue collection.
- MBs were utilising lesser proportions of their own resources on obligatory functions, resulting in non-provision of adequate civic amenities to citizens.
- The role of the MBs and GoA, in mobilising resources of the MBs, was not effective.
- Monitoring and evaluation of the management of own funds and collection of revenues was also lacking.

Thus, generation of revenue was inadequate, as 'own resources' accounted for only 12.91 *per cent* of total funds of MBs during 2011-16. Further, management of own funds by the MBs was also inefficient. As a result, the MBs were constrained to rely on Government grants for carrying out their allocated functions.

5.13 Recommendations

The GoA, as well as the MBs, may augment collection of revenue and manage own resources effectively by:

- Assessment and levy of taxes and fees as per statutory provisions and regular revision of rates of taxes and fees.
- Prompt collection of revenues through adoption of innovative measures such as setting up of an improved information base or an effective Management Information System, prompt bill collection, settlement of outstanding dues through special drives like holding of Tax Adalats *etc.* as had been adopted by some other States.
- Constitution of a Municipal Fund in each Board and preparation of financial statements by the Boards.
- Maintenance of a comprehensive database of properties, tax payers, licensees and tenants so as to facilitate preparation of realistic budgets.
- Periodic monitoring and evaluation of assessment and collection of taxes and dues.

CHAPTER VI

Compliance Audit of Urban Local Bodies

Chapter-VI

COMPLIANCE AUDIT OF ULBs

6.1 Expenditure on works not executed in Dokmoka Town Committee

An amount of ₹87.25 lakh was drawn as advance for Service works which were yet to be executed. Further, there was no evidence of execution of any work by contractors who had been paid advance of ₹34.03 lakh.

The Ministry of Housing and Urban Poverty Alleviation (MoHUPA), Government of India (GoI) sanctioned (November 2006) the project “Construction of Business Centre at Dokmoka Town Committee” under 10 per cent Pool Fund⁷⁵, at an estimated cost of ₹4.61 crore. Technical Sanction for the project was accorded by the Director, Town and Country Planning (T&CP), Assam, in January 2007. Out of the total estimated cost of ₹4.61 crore for the project, ₹3.38⁷⁶ crore was allocated for civil works to be completed by December 2007 and ₹1.23 crore was allotted for Service works⁷⁷ which were to be done departmentally only after completion of the Civil works.

Test check (March 2015) of records revealed that the Civil works of the project were not completed till March 2016. Audit further observed that, instead of detailed plan & estimate for the service works, only an abstract of cost was prepared by the Dokmoka TC. Further, the Service works were to be done departmentally. However, it was seen from records that an amount of ₹34.03 lakh, out of ₹1.23 crore, was paid (October 2010) as advance to two contractors to execute internal electrification and sanitary works. However, Dokmoka TC could not furnish any record in connection with utilisation of ₹34.03 lakh by the contractors.

Out of the remaining amount, ₹87.25 lakh was drawn by the then Chairman as advance to execute different components of the Service works during February 2012 to November 2014. However, no evidence in support of any service works done in lieu of advance was produced to audit (March 2016). Physical verification of the site (March 2016) also revealed that even the civil works of the Business center were not completed and none of the components of service works had been started even after four years of drawing of the amount as can be seen from the following photographs:

⁷⁵ A Central Scheme wherein 10 per cent of Central Plan allocation is to be earmarked for projects/schemes for the benefit of the North Eastern Region and Sikkim.

⁷⁶ ₹3.06 crore for Civil works payment + ₹12.86 lakh for contingency charges + ₹19.43 lakh for VAT

⁷⁷ Service works included (i) Preparation of the site; (ii) Sanitation installation; (iii) Internal water supply; (iv) Internal road, path, fencing etc., (v) Internal electrification; (vi) External electrification; (vii) Concealed wiring; (viii) Campus wiring with sub-station and H.T. line of capacity upto 250 KVA; (ix) Motor Pump-set including energisation; (x) Landscaping; and (xi) Firefighting.



Photographs of Business Center in Dokmoka Town, showing no evidence of any service works being done

The present Chairman, Dokmoka TC, who took charge in December 2014, stated that the advance (₹ 34.03 lakh) was drawn and paid to the contractor, in consultation with the Deputy Director, T&CP, Diphu, in order to complete the work smoothly. The reply was not tenable, as physical verification of the site revealed that none of the components of service works were started and the advance for service works was drawn even before completion of the Civil works and there are no records to show how this fund was utilised. Hence, the possibility of misappropriation of funds cannot be ruled out.

The matter was reported to the Government (May 2016); their reply had not been received (December 2016).

6.2 Loss of revenue to Guwahati Municipal Corporation for making payment without verifying records submitted by Non-Government Organisations (NGOs)

Submission of fake/forged Bank Pay-in-Slip by NGO and irregular payment of commission, without verifying records of actual deposit, resulted in loss of ₹29.20 lakh and unauthorised payment of ₹5.83 lakh.

Rule 16 of the Guwahati Municipal Corporation (GMC) (Collection, removal and disposal of solid wastes and efficient cleaning and scavenging of streets, drains and premises) bye-laws, 2000, states that any door to door collection of solid waste shall be made by the corporation on full cost recovery basis. Accordingly, the Commissioner, GMC, engaged one NGO⁷⁸ for door to door collection of Municipal Solid Waste (MSW) from every household of Ward No.23 of Guwahati city and transportation of the same to secondary collection points, on payment of service charge of ₹20 per household per month, fixed through agreement between the NGO and GMC. As per clause 2.2(dd) of the agreement, it was the duty of the NGO to collect the user charges of ₹30 per month from every household and from commercial establishments at different rates approved by GMC. The NGOs were to deposit the same to GMC's account within 24 hours from the date of collection. Further, as per clause-4.1 (c) (regarding payment of Service Fee) of the agreement, the NGO was to be paid 20 per cent of the total collection of user charges as commission.

⁷⁸ SamannayGosthi

Test-check of records of the Executive Engineer, Division-I of GMC, revealed that the NGO submitted bills (both for service charge and commission on user charges) for 18 months, from September 2014 to February 2016, which were passed by the Division for payment as claimed and paid (between July 2015 and April 2016) by GMC. It was noticed from the bills and documents submitted by the NGO that, in the bills for 12 months (from March 2015 to February 2016), the NGO had shown collection and deposit of user charges amounting to ₹21.36 lakh in the GMC's bank account {State Bank of India (SBI), Panbazar Branch, Guwahati}, against which the NGO was paid commission of ₹4.27 lakh⁷⁹. Cash was shown to have been deposited in SBI, Chenikuthi Branch, by the NGO. Cross verification of records viz., bank pay-in-slips in support of deposit of user charges submitted by the NGO, with the Bank statement, disclosed that no amount, as claimed to have been deposited in the bank by the NGO, had actually been credited to the GMC's Bank Account.

A detailed analysis of the counterfoils submitted by the NGO revealed that:

- The SBI, Chenikuthi Branch, uses a square stamp, with date, for endorsing cash deposits on the pay-in-slips and not a round seal, as seen on the counterfoils submitted by the NGO.
- The Pin code of SBI, Chenikuthi Branch, is 781001, whereas the round stamp on the counterfoils bears the pin code 781003.
- The Square stamp of SBI, Chenikuthi Branch, used for endorsing cash receipts, bears the name of the official, along with his Provident Fund (PF) No., whereas no such detail was found on the round seal used by the NGO.

In order to ascertain the genuineness of the counterfoils submitted by the NGO, photocopies of all the counterfoils were submitted to the Branch Manager, SBI, Chenikuthi Branch. After scrutiny of the records, the Branch Manager, State Bank of India (SBI), Chenikuthi Branch, certified that the seal affixed on the counterfoil submitted by the NGO did not pertain to their branch. He further stated that the signatures of the branch official appearing on the counterfoils were not genuine and declared these to be fraudulent transactions.

Similarly, cross verification of records viz., bank pay-in-slips in support of deposit of user charges, submitted by other NGOs, with Bank statement, disclosed that three more NGOs had deposited lesser amounts in GMC's bank account, but fraudulently manipulated the bank pay-in-slips to claim higher commissions on user charges, as shown in the following

Table 6.1:

⁷⁹ Commission on user charges @ 20 per cent of user charges collected and deposited in GMC's account.

Table 6.1: Amount short deposited by NGOs but excess payment made to them

(₹ in lakh)

Sl. No.	Name of the NGO	Period covered	Amount collected and shown as deposited	Amount actually deposited	Commission paid on collection	Short deposit	Excess payment on commission
1	Nabadeep Social Welfare (Ward No.-8)	October 2014 to January 2016	8.54	1.52	1.71	7.02	1.40
2	MaaKamakhaya (Ward No.-21)	October 2014	0.32	Nil	0.06	0.32	0.06
3	Suprabhat Welfare Society (Ward No.-19)	January 2015	2.50	2.00	0.50	0.50	0.10
Total						7.84	1.56

Thus, the NGOs fraudulently collected ₹29.20 lakh (₹21.36 lakh + ₹7.84 lakh), as user charges from the households, by submitting forged bank pay-in-slips, and also took ₹5.83 lakh (₹4.27 lakh + ₹1.56 lakh) as commission on user charges, which were not actually deposited in GMC's account.

Thus, failure on part of the Engineering Division, as well as the accounts branch of the GMC, to verify actual deposits made by the NGOs, before making payment of service charges and commission, resulted in a loss of revenue to the tune of ₹29.20 lakh and unauthorised payment of ₹5.83 lakh to the NGOs.

The Commissioner, GMC, stated (October 2016) that a First Information Report (FIR) had been lodged (June 2016) against the NGO of Ward No.-23 and its service agreement had been terminated with effect from 30.06.2016. However, no action had been initiated against the remaining three NGOs (October 2016).

The matter has been reported to Government in October 2016; their reply had not been received (December 2016).

6.3 Loss of revenue to Guwahati Municipal Corporation in collection of Municipal Solid Waste

The GMC suffered a loss of revenue of ₹6.86 crore due to not collecting user charges against collection of MSW from the households whereas ₹6.62 crore was paid as service charge and commission to the NGOs for the same. Similar loss of revenue is also found in case of collection of MSW from commercial holdings as well.

Clause-16 of the Bye-Laws, 2000 relating to Collection, removal and disposal of Municipal Solid Waste and efficient cleaning and scavenging of streets, drains and premises under Guwahati Municipal Corporation Act, 1971 states that door to door collection of MSW shall be made by the corporation on full cost recovery basis. The rates fixed by the GMC for door to door collection of MSW ₹30 per month for households and rates ranging from ₹30 to ₹8000 per month for commercial holdings.

Appendix – I
(Ref: Paragraph 1.4.1)

Roles and Responsibilities of Standing Committees of PRIs

Sl. No.	Category of PRI	Political Executive	Name of Standing Committee	Responsibilities
1.	GP	President is the Chairman of each of the three committees	i) Development Committee	Functions relating to agricultural production, animal husbandry and rural industries and poverty alleviation programmes.
			ii) Social Justice Committee	(a) Promotion of educational, economic, social, cultural and other interests of Scheduled castes, Scheduled Tribes and Backward Classes; (b) protection of such castes and classes from social injustice and any form of exploitations; (c) welfare of women and children.
			iii) Social Welfare Committee	Functions in respect of education, public health, public works and other functions of the GP.
2.	AP	President is the Chairman of each committees	i) General Standing Committee	Establishment matters, communication, buildings, rural housing, relief against natural calamities, water supply and all miscellaneous residuary matters.
			ii) Finance, Audit and Planning Committee	Finance of the AP, training, budget scrutinising proposals for increase of revenue, examination of receipts and expenditure statement, consideration of all proposals affecting the finance of the AP and general supervision of the revenue and expenditure of the AP and Planning and consolidating the AP Plans, Co-operation, small saving schemes and any other function relating to the development of AP areas.
			iii) Social Justice Committee	Same as in case of GP
3.	ZP	President is the Chairman of each committees	i) General Standing Committee	Same as in case of AP
			ii) Finance, Audit and Planning Committee	Same as in case of AP
		Chairman is elected amongst the elected members of each committee.	iii) Social Justice Committee	Same as in case of AP
			iv) Planning and Development Committee	Activities relating to (a) education, adult literacy and cultural activities as the ZP may assign to it; (b) Health Service, Hospital, Water Supply, Family, Welfare and other allied matters; (c) agricultural production, animal husbandry co-operation, contour [“bunding”] and reclamation; (d) village and cottage industries; (e) promotion of industrial development of the district.

Appendix-II
(Ref: Paragraph 1.13.2)

Internal Control System at the level of PRIs

Provision	Authority	Gist of the provision
Accounts	Section 28, 60 and 97 of AP Act read Rule 8 of AP (F) Rule, 2002.	The Panchayat shall maintain such Book of Accounts and other books in relation to its Accounts.
Budget	Section 27, 59 and 96 of AP Act.	Budget proposal shall be prepared by the respective standing committees taking into account the estimated receipts and disbursement of the following year submitted to the Government for approval.
Reporting of loss due to fraud, theft or negligence	Rule 37 (iv), AP (F) Rules 2002.	To be reported by an officer authorised to inspect the documents of PRIs.
External Audit	Section 29, 61 & 98 of AP Act and Rule 37 (ii) of AP (F) Rules, 2002.	The State Government may prescribe an authority to conduct audit of accounts of PRIs.
Inspections	Section 112 of AP Act and Rule 37 of AP (F) Rules, 2002.	Government or any officer empowered by the Government may inspect any works which are being carried out by GP or AP or ZP.
Execution of works	Rule 36 and 38 of AP (F) Rules, 2002.	Procedure for execution of public works. Fixing of rates in preparation of estimates, powers of various authorities to give Technical Sanction, Invitation of tenders.
Asset Register	Rule 19 of AP (F) Rules, 2002.	To be maintained in the format prescribed under the rule.
Office Procedure Manual	NA	Not prescribed under AP Act, 1994 and AP (F) Rules, 2002.
Internal Audit	Rule 18 of AP (F) Rules, 2002.	Departmental internal auditors to conduct internal audit of PRIs.
Ombudsmen	NA	Not introduced for PRIs in Assam.
Lokayukta	NA	Applicable to all tiers of PRIs.
Citizen Charter	NA	Not introduced for PRIs in Assam.
Right to Information	As per RTI Act, 2005.	Applicable to all tiers of PRIs.
Conduct Rules	State Government.	Rules/Orders Specific to PRIs not available.
Social Audit	As per AREG Scheme 2006.	For MGNREG scheme and IAY.

Appendix - III
(Ref: Paragraph 1.14.5.3)

Statement showing details of PRIs which had not reconciled Cash Book with Bank Passbook

Sl No.	Name of PRIs	Name of the schemes	As on date	Balance as per Bank Pass Book (in ₹)	Balance as per Cash Book (in ₹)	Difference (in ₹)	
1	Karimganj ZP	IGNOAP	31-3-2015	36958118	28079567	8878551	
2	Cachar ZP	13 th FC	31-3-2015	134454597	133107922	1346675	
3		BRGF	31-3-2015	139791453	131293704	8497749	
4		DDP	31-3-2015	64919299	59856160	5063139	
5		4 th ASFC	31-3-2015	3047697	3032697	15000	
6		Own Fund	31-3-2015	181065	172671	18394	
7		NSAP	31-3-2015	44369635	28263045	16106590	
8		DPMU/RGPSA	31-3-2015	12612713	10822933	1789780	
9	Golaghat ZP	Own Fund	30-6-2015	2858758	2159802	698956	
10		13 th FC		31-3-2015	1822270	2601630	779360
11				31-3-2015	55800618	53880940	1919678
12				31-3-2015	130689696	2472153	128217543
13				31-3-2015	1614065	1610419	3646
14		31-3-2015	386758980	31409306	7266674		
15	Birsing Jarua AP	13 th FC	31-3-2014	27793	26980	813	
16		IGNOAP	31-3-2014	412473	488932	76459	
17		IAY	31-3-2014	30280535	29667356	613179	
18	Pakabetbari AP	Haryali	31-3-2012	213998	1822904	1608996	
19	Mayong AP	Own Fund	30-3-2013	170357	199100	28743	
20		BRGF	30-3-2013	841126	841894	768	
21		13 th FC	30-3-2013	9868513.25	997583	29069.75	
22		11 th FC/TFC	30-3-2013	63073	54905	8168	
23		DDP	30-3-2013	512437	517085	4648	
24	Barua Pukhuri GP	12 th FC	03-06-2009	117333	117533	200	
25		12 th FC	24-02-2009	120523	122523	1000	

Appendix- IV
(Ref: Paragraph 3.1)

Details of kist money collected and deposited in Bank

(in ₹)

Sl No	Receipt No. & Date	Receipt Book No.	Amount Received	Amount reflected in Cash Book	Date of entry in cash book	Amount Deposited in Bank	Date of Deposit in bank account	Short Amt reflected in Cash Book/Bank Statement
(A) Kist money from lessee (June 2012 to September 2015) partially deposited in bank								
1	306 dt:29/06/2012	3	5,00,000	459000	29.06.2012	459000	29.06.2012	41,000
2	314 dt:02/07/2012	3	1,46,625	97,750	17.07.2012	97750	16.07.2012	48,875
3	317 dt:03/07/2012	3	57,500	55500	11.07.2012	55500	11.07.2012	2,000
4	320 / 05/07/2012	3	83,000	70000	05.07.2012	70000	05.07.2015	13,000
5	326 dt:31/07/2012	3	1,50,000	140000	02.08.2012	140000	02.08.2012	10,000
6	336 dt:17/11/2012	3	43,800	30000	04.06.2013	30000	04.06.2013	13,800
7	340 dt:11/03/2013	3	80,314	74000	15.05.2013	74000	12.03.2013	6,314
8	379 dt: 07/10/2013	3	3,02,500	300000	11.10.2013	300000	11.10.2013	2,500
9	380 dt: 13/11/2013	3	3,27,850	320000	14.11.2013	320000	14.11.2013	7,850
10	382 dt:08/01/2014	3	1,00,000	50000	16.01.2014	50000	18.01.2014	50,000
11	383 dt:03/03/2014	3	2,55,962	300000	13.05.2014	300000	13.05.2014	31,462
12	384 dt:10/03/2014	3	75,500					
13	388 dt: 22/05/2014	3	2,82,172	250000	23.05.2014	250000	23.05.2014	32,172
14	47 dt:22/04/2015	1	2,50,000	230000	28.04.2015	230000	28.04.2015	20,000
15	48 dt:05/05/2015	1	2,15,500	200000	5.5.2015	200000	05.05.2015	15,500
TOTAL								294,473
(B) Kist money and Room rent not deposited in bank								
16	331dt: 21/09/2012	3	1,20,000	Amount Not reflected in Cash book and Bank Pass Book.				1,20,000
17	334 dt:15/10/2012	3	31,376	do				31,376
18	347 dt:21/06/2013	3	15,000	do				15,000
19	386 dt:12/03/2014	3	28,700	do				28,700
20	387dt: 11/04/2014	3	3,67,576	do				3,67,576
21	393dt: 13/06/2014	3	4,273	do				4,273
22	394 dt:16/06/2014	3	5,986	do				5,986
23	396 dt:09/06/2014	3	500	do				500
24	29 dt:08/08/2014	1	20,000	do				20,000
25	30 dt:14/10/2014	1	4,82,040	do				4,82,040
26	32 dt:03/12/2014	1	15,350	do				15,350
27	38 dt:12/01/2015	1	45,000	do				45,000
28	45 dt:23/02/2015	1	1,76,500	do				1,76,500
29	337dt: 05/12/2012	3	1,200	do				1,200
30	357 dt:15/07/2013	3	2,400	do				2,400
31	362 dt:20/07/2013	3	2,400	do				2,400
32	363dt:	3	2,400	do				2,400
33	364dt:	3	2,400	do				2,400
34	395dt: 23/06/2014	3	2,400	do				2,400
35	358 dt:15/07/2014	3	2,400	do				2,400
36	37dt:06/01/2015	1	4,800	do				4,800
37	39 dt: 12/01/2015	1	10,000	do				10,000
38	40 dt:22/01/2015	1	6,000	do				6,000
39	41 dt:27/01/2015	1	7,200	do				7,200
40	42 dt:27/01/2015	1	6,000	do				6,000
41	43 dt:28/01/2015	1	5,000	do				5,000
42	46 dt:30/03/2015	1	1,000	do				1,000
TOTAL								13,67901
GRAND TOTAL								16,62,374

Appendix-V
(Ref: Paragraph 5.7.1)

List of Taxes and Fees which MBs may impose as per the provisions of the Assam Municipal Act, 1956.

- (1) Subject to the provisions of this Act and the rule made hereunder the Board may, from time to time, at a meeting convened expressly for the purpose, of which due notice shall have been given, impose within the limits of the municipality the following taxes, fees and tolls, or by any of them:
- (a) A tax on holdings situated within the municipality assessed on their annual value, payable by the owner;
 - (b) A water-tax payable by the owner or occupier, on the annual value of holdings;
 - (c) A lighting-tax, payable by the owner or occupier, on the annual value of holdings;
 - (d) A latrine-tax, payable by the owner or occupier, on the annual value of holdings;
 - (e) A drainage-tax, payable by the owner, where a system of drainage has been introduced;
 - (f) A tax on private markets payable by the owner;
 - (g) License fees on carts, carriages and animals used for riding, or burden;
 - (h) A fee on the registration of dogs and cattle;
 - (i) A fee on boats mooring within the Municipality;
 - (j) Tolls and Bridges.
 - (k) A betterment fee on holdings in any area of which value has increased due to improvement schemes completed at Board's cost:
 - (l) Fees for setting up and maintenance of Fire Brigade;
 - (m) Fees for conducting at the Cost of the Board, any scheme of Social service for the improvement of public health;
 - (n) With the sanction of the State Government any other tax, toll, rate or fee; Provided,—
 - (i) That both the taxes mentioned in clauses (a) and (f) shall not be imposed in respect of the same premises;
 - (ii) That when the Board has taken a loan from or guaranteed by the State Government, the Board shall not, without the previous sanction of the State Government, make any alteration in respect of any tax which may have the effect of reducing the income of the Board; and
 - (iii) The State Government may, by order, exemption from the payment of any rate, tax, toll or fee payable under the provisions of this Act, any diplomatic or consular mission of a foreign State and the diplomatic and consular officer of such mission.
 - (o) Licence fee on boats.
- (2) *Taxes of providing Public Utility Services.* - The Board may, from time to time at a meeting convened as aforesaid, and in accordance with a scale of fees to be approved by the State Government charge a fee in respect of the issue and the renewal of any licence which may be granted by the Board under the Act and in respect of which no fee is leviable under subsection (1).
- (3) Nothing in this Section shall authorise the imposition of any tax or fee which the State Legislature has no power to impose in the State under the Constitution.

