

ANNUAL TECHNICAL INSPECTION REPORT
on
URBAN LOCAL BODY AND RURAL LOCAL BODIES
for the year ended March 2013

GOVERNMENT OF MIZORAM

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

OFFICE OF THE PRINCIPAL ACCOUNTANT GENERAL, MIZORAM,
AIZAWL

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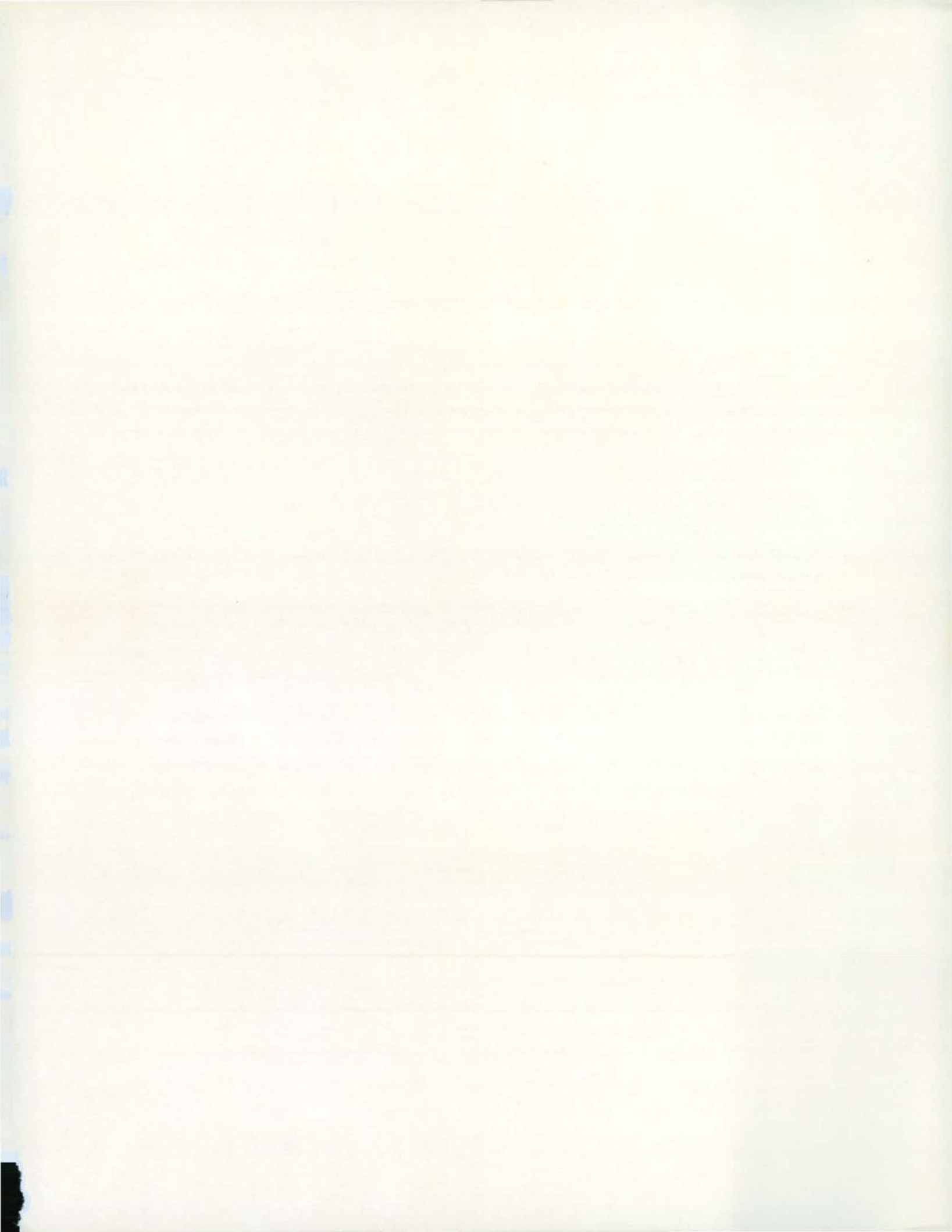
PREFACE

This report has been prepared for submission to the Government of Mizoram in terms of the Technical Guidance and Support (TGS) over the audit of accounts of Urban Local Body (ULB) and Rural Local Bodies (RLBs). The Government of Mizoram has entrusted audit of accounts of Local Bodies to the Comptroller & Auditor General (C&AG) of India under Section 20(1) of the C&AG's DPC Act, 1971.

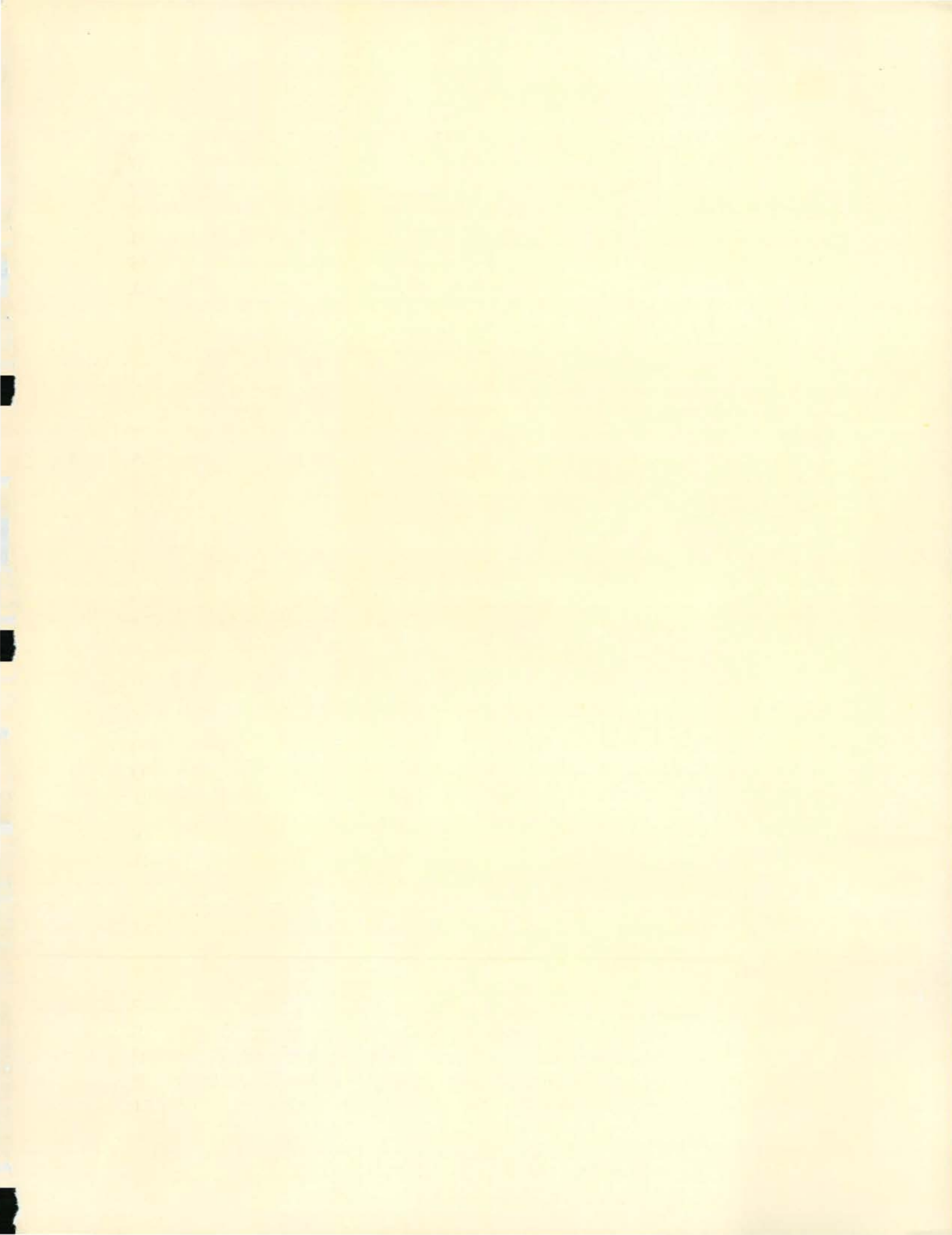
The ATIR for the year 2012-13 is a consolidation of audit findings arising out of audit of accounts of one ULB (Aizawl Municipal Council) and RLBs conducted during 2012-13 (November to December 2013).

The Report contains four Chapters of which Chapter-I & II contains an overview of the organisation, finances, devolution and accountability framework of the ULB as well as the RLBs and Chapter-II & III contains Compliance Audit Paragraphs of ULB & RLBs for the year ended 31 March 2013. Matters relating to the period preceding 2011-12 as well as those subsequent to the year 2012-13 have also been included wherever necessary.

The purpose of this report is to give overview of the functioning of the Aizawl Municipal Council and the RLBs, to draw the attention of the Executive functionaries for remedial action and improvement, wherever necessary.



EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

This Annual Technical Inspection Report presents the findings arising out of the audit of accounts of Urban Local Body (Aizawl Municipal Council) and Rural Local Bodies in four chapters. **Chapter-I & II** contains an overview of the organisation, finances, devolution and accountability framework of Urban Local Body and Rural Local Bodies. **Chapter-II & III** contains Compliance Audit Paragraphs of Urban Local Body and Rural Local Bodies.

CHAPTER-I

AN OVERVIEW OF THE ORGANISATION, FINANCES, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF URBAN LOCAL BODY (ULB)

There is one Urban Local Body in the State *i.e.* Aizawl Municipal Council (AMC). Under the AMC there are 19 Wards comprising of 82 Local Councils.

The Secretary, Urban Development and Poverty Alleviation Department, is the Nodal Department for the ULB. The Chairperson is the executive head of the AMC, who is elected by the majority of Councillors and is responsible for the governance of the body.

Full devolution of powers and functions to the ULB as envisaged in the Mizoram Municipality Act is yet to be effected by the State Government.

As per Government notification (March 2011), the AMC is required to prepare its budget and maintain accounts in the formats prescribed in the National Municipal Accounts Manual (NMAM) with appropriate codifications and classifications. It was, however, noticed that the preparation of Annual Budget and maintenance of accounts of the AMC were not in accordance with the prescribed formats in NMAM.

The Report of the Mizoram Finance Commission for the coming period of five years starting from 1 April 2013 to 31 March 2018 has not been submitted by the Commission as of March 2014, as a result no effective steps could be taken by the Government towards improvement of the financial position of the Local Bodies.

CHAPTER-II

AN OVERVIEW OF THE ORGANISATION, FINANCES, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF RURAL LOCAL BODIES (RLBs)

The Finance Department of the State Government headed by the Commissioner-cum-Secretary is responsible for overall monitoring of the funds under Rural Local Bodies (RLBs). In respect of General Basic Grants, General Performance Grants, Special Areas Basic Grants and Special Areas Performance Grants under Thirteenth Finance Commission (ThFC), three other Administrative Departments *viz.* Local Administration Department (LAD), District Council Affairs Department (DCAD) and General Administration Department (GAD) headed by the Secretaries function as the Nodal Departments of the RLBs. The structures of RLBs

of Mizoram are not similar to Panchayati Raj Institutions. The RLBs are basically Village Councils (VCs) falling under the 6th Schedule or 243M of Part IX of the Constitution of India. Para 6.5.1 (ii) of the ThFC's guidelines stipulates that if these agencies (local bodies) are not similar to Panchayats, they must maintain accounts consistent with the instructions in force. Further, these accounts should be up-to-date, duly audited by the C&AG, and the audit reports tabled, wherever so mandated. The State Government, has formulated and issued instructions/guidelines (14 July 2006) to the Village Councils on maintenance of cash books, cash memos/vouchers *etc.* for keeping accounts out of ThFC grants received.

Audit Scrutiny revealed that under Special Area Basic Grants the State Government retained an amount of ₹ 0.52 crore without allocating to the concerned three ADCs as of March 2013.

CHAPTER-III

COMPLIANCE AUDIT PARAGRAPHS - URBAN LOCAL BODY

AMC could not execute the works for creation of capital assets as per approved Action Plan due to delay in release of ThFC grants by UD&PA Department in contravention of the guidelines. Out of available fund of ₹ 5.93 crore AMC could not be utilised ₹ 3.22 crore for the year 2012-13.

The penal interest of ₹ 17.41 lakh payable for delay in release of ThFC grants for the year 2012-13 was not released by the State Government as of March 2014.

The EE of the AMC framed 316 estimates for minor works in 19 Wards valued at ₹ 237.25 lakh as per SoR 2007 without deducting the element of 10 *per cent* contractor's profit from the estimated cost.

CHAPTER-IV

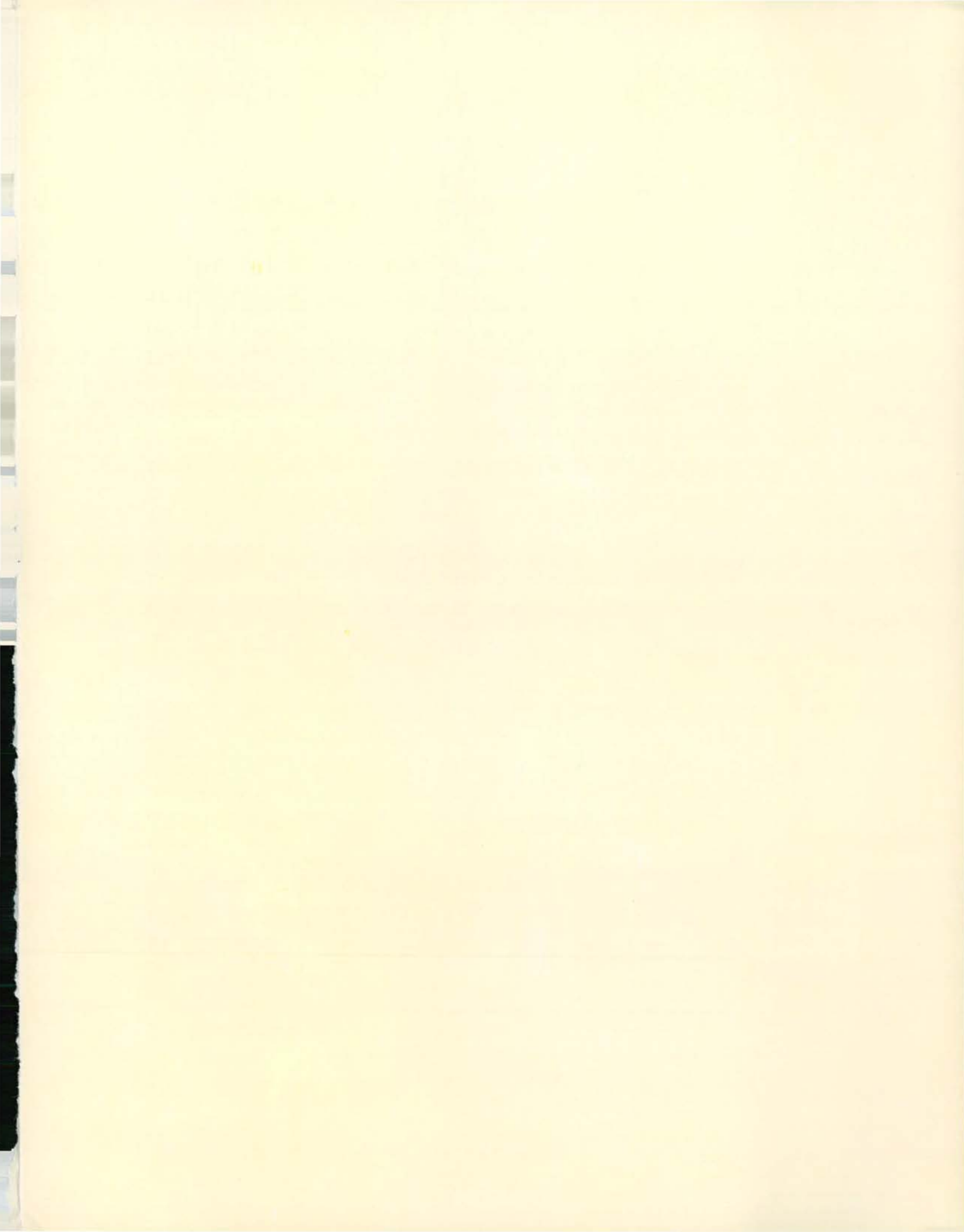
COMPLIANCE AUDIT PARAGRAPHS - RURAL LOCAL BODIES

Due to delay in release of grants ranging from 2 to 146 days, the State Government released a penal interest of ₹ 7.15 lakh as stipulated in the guidelines issued by the Ministry of Finance.

In absence of the basic records *viz.* date of commencement/completion of works besides measurement of works done, audit could not ascertain whether the works were executed according to the estimates of the works and within the time frame.

CHAPTER-I

AN OVERVIEW OF THE ORGANISATION, FINANCES, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF URBAN LOCAL BODY



CHAPTER-I

AN OVERVIEW OF THE ORGANISATION, FINANCES, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF URBAN LOCAL BODY

1.1 Introduction

The Seventy Fourth Constitutional Amendment Act, 1992 paved the way for decentralisation of power and to establish a system of uniform structure, holding of regular elections and regular flow of funds through Finance Commission to Urban Local Bodies (ULBs). As a follow up, the States were required to entrust these bodies with such powers, functions and responsibility in respect of 18 functions listed in the 12th Schedule of the Constitution of India so as to enable them to function as institutions of self-Government. The Constitutional amendments intended to pave the way for fiscal decentralisation to the grass root level. The Mizoram Municipalities (MM) Act, 2007 (as amended in December 2009) which came into force in 2008 was enacted to incorporate the provisions of the Constitutional Amendment Act, 1992.

At present the lone Urban Local Body *viz.* Aizawl Municipal Council (AMC) covers a total area of 129 sq. kms. with a population of 2,91,822 as *per* 2011 Census. Under the AMC, there are 19 Wards comprising of 82 Local Councils. The first general election to the AMC was held in November 2010.

1.2 Organisational Setup in State Government and Urban Local Body

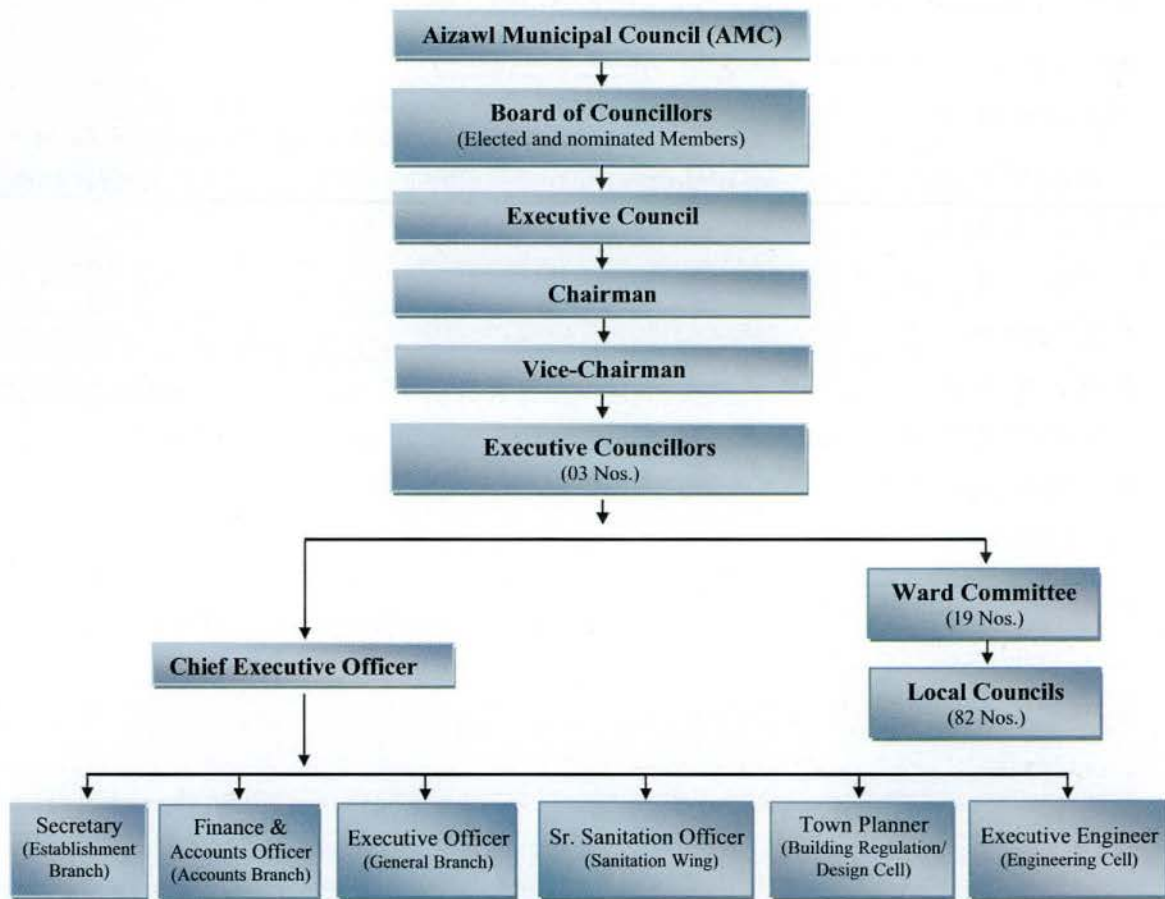
Urban Development & Poverty Alleviation (UD&PA) Department is the Nodal Department for ULBs in the State of Mizoram. The Secretary, UD&PA Department is the Nodal Officer and is assisted by the Director, UD&PA in allocation of funds through Grants-in-Aid.

The AMC (ULB) consists of 19 elected and 12 nominated Councillors. The executive head of the AMC is the Chairperson, who is elected by the majority of Councillors. The Chairperson presides over the meetings of the Municipal Council and is responsible for the governance of the body.

The State Government appointed a Chief Executive Officer for administrative control of the AMC. Other officers *viz.* Secretary, Executive Officer, Finance and Accounts Officer, Executive Engineer, Senior Sanitation Officer, Town Planner were also appointed by the State Government to discharge specific functions of the body.

The organogram of the AMC is shown below in Chart-1.1:

Chart-1.1



1.3 Devolution of Powers and Functions

The Seventy-fourth Constitutional amendment provides scope for devolution of funds, functions and functionaries to Urban Local Bodies by the State Government with respect to preparation of plans and programmes for economic development and social justice relating to 18 subjects listed in the 12th Schedule of the Constitution of India. The Government of Mizoram has enacted the “Mizoram Municipalities Act, 2007” (amended in December 2009) to establish municipalities in towns, transitional areas and urban areas in Mizoram to enable the municipalities in the State to function as local Self-Government institutions.

As per Section 59 (2) of the Act, the State Government may transfer to the Municipality such functions and duties as are performed by the Department of the State Government on any of the following matter:

1. Town and country planning;
2. Urban development;

3. Water supply and sanitation;
4. Transport system including regulation of traffic terminus;
5. Employment schemes and programmes;
6. Health and family welfare;
7. Relief and social welfare including social security schemes and programmes;
8. Public works including road construction and housing;
9. Cottage and small scale industries, business and services including programme for skill development;
10. Education including primary education, adult education, vocational education, social education, non-formal education, audio-visual education and library services;
11. Food and supplies including rationing and distribution;
12. Civil defence;
13. Fire protection and fire fighting;
14. Sports and youth services;
15. Welfare of the Scheduled Caste and Scheduled Tribes;
16. Environmental safety and improvement; and
17. Social forestry and plantation programme.

It was, however, noticed that out of 17 functions to be transferred to the Municipality Council, the State Government has partially transferred the following functions as of March 2013 to the AMC as follows:

- i. Management of transportation terminals *w.e.f.* May 2009;
- ii. Regulation on land use and construction of buildings *w.e.f.* September 2011;
- iii. Solid waste Management *w.e.f.* September 2011;
- iv. Management of parking lots *w.e.f.* May 2012;
- v. Providing of civic services & street vending *w.e.f.* September 2012;
- vi. Management of market sheds *w.e.f.* October 2012; and
- vii. Collecting of property tax in October 2012 with retrospective effect from August 2011.

Thus, the function of the AMC as a vibrant institution of local Self-Government with enhanced peoples' participation in management of their own affairs remain unachieved, due to non-devolution of powers and functions to the AMC by the State Government even after a lapse of five years since the enactment of the Municipalities Act. However, the position of transfer of functionaries and funds related to the transferred functions to AMC is not available.

1.4 Accounting Manual

The need for municipal reforms has assumed urgency as proper financial reporting by ULBs would be an important instrument to achieve the objective of accountability. Considering the importance of maintenance of accounts, the Eleventh Finance Commission in its recommendation has entrusted the responsibility for exercising control and supervision over the proper maintenance of accounts and the audit of ULB to the Comptroller and Auditor General of India (C&AG). Accordingly, the Ministry of Urban Development, GoI in consultation with the C&AG developed the National Municipal Accounts Manual (NMAM) (December 2004) which is based on accrual based double entry accounting system for greater transparency and control over finances. The ULBs were required to prepare their budget and maintain their accounts in the formats as prescribed in NMAM with appropriate codifications and classifications.

Further, in terms of Paragraph 10.116 of the Thirteenth Finance Commission's (ThFC) guidelines, the State should implement an accounting framework consistent with the accounting format and codification pattern suggested in the NMAM. Accordingly, State Government had Notified (March 2011) that the AMC is required to prepare its budget and maintain accounts in the formats prescribed by the NMAM with appropriate codifications and classifications.

It was, however, noticed that the preparation of Annual Budget and maintenance of accounts of the AMC were not in accordance with the prescribed formats in NMAM. The AMC is maintaining the accounts in cash based single entry system.

Thus, the objective of accountability through proper financial reporting was not achieved by the AMC.

1.5 Creation of data base on Finances & Maintenance of Accounts

Based on the recommendations of the Eleventh Finance Commission, the C&AG had prescribed database formats for capturing the data related to finances of all ULBs. The database formats were prescribed with a view to have a consolidated position of resource and application of funds by ULBs, details of works executed by ULBs and their physical progress *etc.*

It was, however, noticed that the creation of database was not started as of March 2014.

The CEO, AMC stated (March 2014) that capturing of finances of ULBs in prescribed database format is under process.

1.6 Recommendations of State Finance Commission

In pursuance of the Sub-Section (1) of Section 3 of the Mizoram Finance Commission Act, 2010 (Act No. 17 of 2010), the State Government, constituted (30 September 2011)

Mizoram Finance Commission under the Chairmanship of the Chief Secretary of the State.

The Commission was constituted to make recommendations as to the following matters:

- (i) The principles which *inter alia* should govern –
 - a) The distribution between the State and the Village Councils, Aizawl Municipal Council and the Autonomous District Councils of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them to enable these bodies to perform the functions assigned, and which may be assigned to it under any laws in force or orders, and the allocation between the Village Councils, Aizawl Municipal Council and the Autonomous District Councils at all levels of their respective shares of such proceeds;
 - b) The determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by, the Village Councils, Aizawl Municipal Council and the Autonomous District Councils; and
 - c) The Grants-in-Aid to the Aizawl Municipal Council from the Consolidated Fund of Mizoram.
- (ii) The measures needed to improve the financial position of the Village Councils, Aizawl Municipal Council and the Autonomous District Councils.

The Report of the Mizoram Finance Commission for the coming period of five years starting from 1 April 2013 to 31 March 2018 was scheduled to be available by 30 November 2012. However, it was noticed in audit that the same has not been submitted by the Commission as of March 2014, as a result no effective steps were taken by the Government towards improvement of the financial position of the Local Bodies.

1.7 Formation of Ward Committees

Section 23 of the Mizoram Municipalities Act, 2007 (as amended in December 2009) provides that every Municipality shall, at its first meeting after the election of Councillors thereto or as soon as may be thereafter form a Ward Committee for every ward. Further, the municipality shall form a Local Council in every locality within the ward for matters of local internal nature according to the Mizo traditions, customs and practices and such other matters necessary for effective functioning of the Local Councils.

It was noticed that the first election to form 82 Local Councils was held in February 2012 and subsequently 19 Ward Committees were formed on 24 May 2012 to oversee the matters of local internal nature according to the Mizo traditions, customs and practices and such other matters necessary for effective functioning of the Local Councils.

1.8 Financial Profile of the ULB

The resource base of AMC comprises of Own Source of Revenue (OSR), Central Finance Commission grants and State Government grants for maintenance and development purposes.

Under Section 210 of the Mizoram Municipalities Act, 2007 (as amended in December 2009), the AMC may levy taxes such as property tax, market fees and rents, profession tax, tax on carriages and animals, tax on carts and advertisement tax other than advertisements published in newspapers. However, the AMC was authorised to collect parking fees from May 2012 and property tax in October 2012 with retrospective effect from 7 August 2011. Property tax, market fees and rents, building regulation, Ch. Chunga Bus Terminal fees, Ch. Saprawnga Truck Terminal fees, parking fees constituted the main sources of revenue of the AMC.

The Thirteenth Finance Commission (ThFC) grants released by the GoI, fund from State Government and the amount released to the AMC besides their OSR during 2012-13 are shown in Table-1.1:

Table-1.1

(₹ in crore)

Source of fund		Amount released to UD&PA Department	Amount released to AMC by UD&PA Department/OSR
		2012-13	2012-13
(A) Grants from GoI & State Government:			
GoI	Grants under ThFC	12.20	12.20
State Government	Salary, OE & OC	3.09	3.09
Sub-Total (A)		15.29	15.29
(B) Own Source of Revenue (OSR):			
Own Source of Revenue (OSR)	Property tax & building regulation		2.44
	Fees		0.63
	Others (including interest <i>etc.</i>)		0.20
Sub-Total (B)			3.27
Grand Total (A) + (B)			18.56

Source: Departmental records

It can be seen from the Table-1.1 that the bulk of fund (₹ 15.29 crore) constituting 82 per cent of the total fund (₹ 18.56 crore) was received by the AMC from the Central (₹ 12.20 crore) as well as from the State (₹ 3.09 crore) Governments for execution of developmental works, allowances to Councillors *etc.* and to meet the administrative expenses respectively, while the Own Source of Revenue (₹ 3.27 crore) constituted only 18 per cent of the total available fund during the year 2012-13.

1.9 Audit Mandate

As per provision under Section 90 (1) of the Mizoram Municipalities Act, 2007 (as amended in December 2009), the municipal accounts as contained in the Annual Financial Statement shall be examined and audited by an auditor appointed by the State Government.

Further, Para 6.4.4 of ThFC's guidelines stipulated that the State Government must put in place an audit system for ULB and the Annual Report of the DLFA must be placed before the State Legislature.

Accordingly, the State Government appointed (June 2011), Examiner of Local Funds Accounts (ELFA), renamed (August 2012) as Director of Local Fund Audit (DLFA) Mizoram as auditor of the AMC with the responsibility of certification of accounts and statutory audit of the local bodies under the administrative control of the Finance Department.

It was noticed in audit that the audit report of the DLFA for the period 2011-12 was not laid in the State Legislative Assembly as of March 2014.

Besides, in pursuance of the recommendations of the ThFC, State Government entrusted (June 2011) the Technical Guidance & Support (TGS) over the accounts and audit of local bodies to the Comptroller & Auditor General (C&AG) of India under Section 20(1) of the C&AG's DPC Act, 1971. Accordingly, the audit on the accounts of the AMC is conducted under TGS arrangement. The audit findings are being featured in Annual Technical Inspection Report (ATIR) and submitted to the State Government for necessary action. The ATIR on ULB (AMC) for the year 2011-12 has been placed in the State Legislative Assembly on 24 July 2013. The audit of AMC was conducted during November – December 2013.

As per Para 3.8.6 (b) of the Recommendations of the Second Administrative Reforms Commission the State Government is required to form a separate Standing Committee of the State Legislature for the Local Bodies in the manner of Public Accounts Committee. The Secretary of Mizoram Legislative Assembly intimated (November 2013) that the formation of a Separate Standing Committee of the State Legislature would be taken up. However, further development on formation of the committee is awaited (April 2014).

1.10 Conclusion

- As against 17 statutory functions, the State Government had partially transferred seven functions to the AMC as of March 2013. Thus, even after a lapse of five years since the enactment of the Act, in the absence of full devolution of powers and functions, the AMC is not able to function as a vibrant institution of local Self-Government with greater peoples' participation in management of their own affairs.
- The AMC had not maintained its accounts in the formats prescribed in NMAM even after two years of the State Government's notification.
- Annual Audit Report of the Director of Local Fund Audit on the accounts of the AMC for the year 2011-12 was not placed before the State Legislature.

1.11 Recommendations

- The process of full devolution of powers and functions to AMC listed under Section 59 (2) of the AMC Act should be expedited by the State Government.
- The accounts of the AMC should be maintained as prescribed in NMAM for greater transparency and control over finances.
- The Annual Audit Report on the accounts of the AMC should be placed in the State Assembly without delay.

CHAPTER-II

AN OVERVIEW OF THE ORGANISATION, FINANCES, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF RURAL LOCAL BODIES

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CHAPTER-II

AN OVERVIEW OF THE ORGANISATION, FINANCES, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF RURAL LOCAL BODIES

2.1 Introduction

The Seventy Third Constitutional Amendment Act, 1992 paved the way for decentralisation of power and transfer of 29 functions as listed in the 11th Schedule of the Constitution along with the corresponding funds and functionaries to the Rural Local Bodies (RLBs) and to establish a system of uniform structure, holding of regular elections and regular flow of funds through Finance Commission.

The State of Mizoram comprises of eight Administrative Districts. Out of the eight districts, two districts (Lawngtlai and Saiha) are covered under the 6th Schedule of the Constitution of India and the remaining six Districts fall under 243M of Part IX of the Constitution of India, and thereby the whole state is exempted from the purview of the Seventy Third Constitutional Amendment Act.

The Gram Panchayat is the pivotal body at the village level. However, in the case of Mizoram, the Seventy Third Constitutional Amendment is not applicable in the State, the existing traditional Village Councils (VCs) have been mandated and invested with the corresponding responsibility to function as PRIs.

As per the Finance Department's Notification (June 2010), in the context of Mizoram, the local body means all the Village Councils (VCs), Aizawl Municipal Council (AMC), Sinlung Hills Development Council (SHDC) and three Autonomous District Councils (Lai, Mara, and Chakma Autonomous District Councils). The Finance Department also notified (June 2010) that the SHDC and the three Autonomous District Councils are to operate the Special Areas Grant of the Thirteenth Finance Commission (ThFC).

2.2 Organisational Setup in State Government and Rural Local Bodies (RLBs)

The Finance Department of the State Government headed by the Commissioner-cum-Secretary is responsible for overall monitoring of the funds under Rural Local Bodies (RLBs).

The Secretaries of the Administrative Departments *viz.* Local Administration Department (LAD), District Council Affairs Department (DCAD) and General Administration Department (GAD) functions as the Nodal Departments of the RLBs in respect of General Basic Grants, General Performance Grants, Special Areas Basic Grants and Special Areas Performance Grants under ThFC.

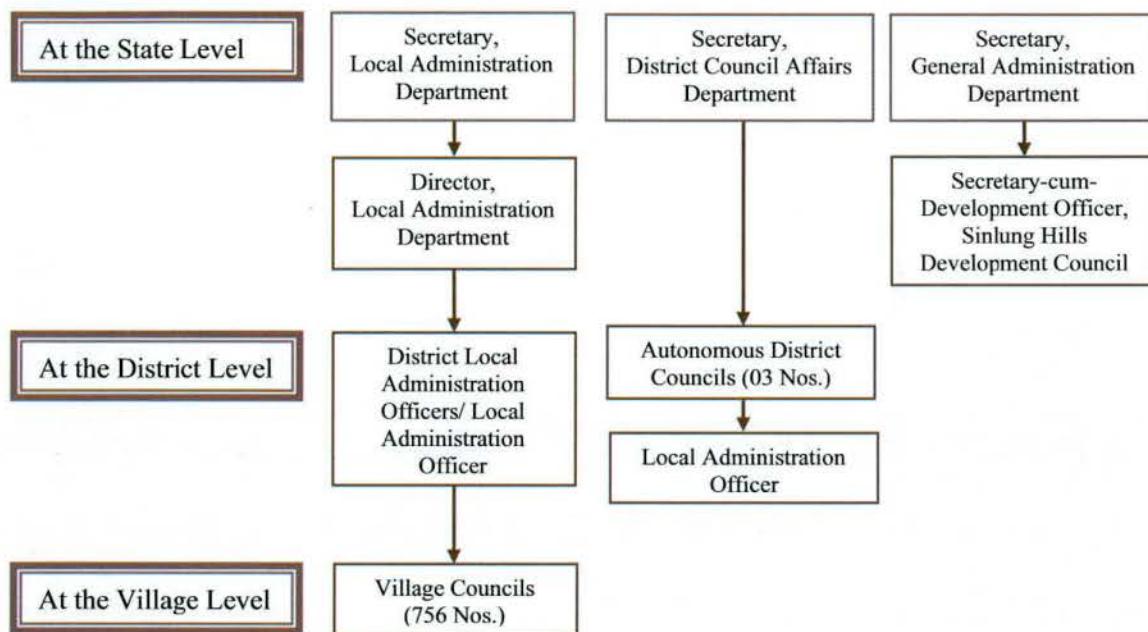
Besides, the Director, LAD, who acts as the Nodal Officer, is responsible for allocation of funds and overall supervision of the schemes to be executed by the VCs under ThFC. He is assisted by the six District Local Administration Officers (DLAOs) in supervising and monitoring the activities of the 756 Village Councils (VCs) in the State, including 30 newly established VCs.

The Secretary, DCAD functions as the Nodal Officer of RLBs in respect of Special Areas Basic Grants and Special Areas Performance Grants for three Autonomous District Councils (ADCs) viz. Lai, Mara and Chakma ADCs. He is assisted by the three Local Administration Officers (LAOs) of the ADCs.

The General Administration Department (GAD) functions as the Nodal Department in respect of Special Areas Basic Grants and Special Areas Performance Grants of the Sinlung Hills Development Council.

The organogram of the RLBs is given in the Chart-2.1:

Chart-2.1



2.3 Accounting Manual and Maintenance of Accounts

By virtue of 6th Schedule and Article 243M of the Constitution of India, RLBs in Mizoram, being non-Panchayats, the preparation of budget and maintenance of accounts and database on finances on the line of formats prescribed for Panchayati Raj Institutions is not applicable in the State.

However, Para 6.5.1 (ii) of the ThFC's guidelines stipulated that if these agencies (local bodies) are non-Panchayats, they must maintain accounts consistent with the instructions in force. Further, these accounts should be up-to-date, duly audited by the C&AG, and the audit reports tabled, wherever so mandated.

Since Village Councils (VCs) are non-Panchayats in the entire State, be it General or Special Area (the RLBs are VCs) falling under 6th Schedule or 243M of Part IX of the Constitution of India, the stipulation contained in Para 6.5.1 (ii) of the ThFC's guidelines shall apply.

However, the State Government has formulated and issued instructions/guidelines (14 July 2006) to the VCs on maintenance of cash books, cash memos/vouchers *etc.* for keeping accounts out of ThFC grants received.

It was noticed in Audit that all the 97 test checked VCs in three Districts (Lunglei, Serchhip and Mamit) including VCs under ADC Saiha were maintaining the cash books, cash memos/vouchers *etc.* for keeping accounts of the ThFC grants as per instructions/guidelines issued by the State Government.

2.4 Financial Profile of the RLBs

The Thirteenth Finance Commission (ThFC) fund was released to the State Government to supplement the resources of the RLBs. On receipt of Grants-in-Aid under ThFC, from the Government of India (GoI), the Finance Department of the State Government used to release the same to the three Administrative/Nodal Departments {Local Administration Department (LAD), District Council Affairs Department (DCAD) and General Administration Department (GAD)} for its onwards release/allocation to the concerned RLBs under them.

As per ThFC recommendations, the GoI released a total Grants-in-Aid of ₹ 47.08 crore (General Basic Grant : ₹ 42.31 crore plus General Performance Grant : ₹ 1.17 crore plus Special Areas Basic Grant : ₹ 3.60 crore) during the period 2010-13.

The details of year-wise receipt of grants from the GoI and its allocation to the concerned three Administrative/Nodal Departments by the State Government during the year 2010-13 are shown in the following Table-2.1:

Table-2.1

(₹ in crore)

Particulars	Year of ThFC grants	Grants released by GoI		Release of grants by the State Government to:				
		Year	Amount	Year	LAD	GAD	DCAD	Total
(A) General Basic Grant (GBG)	2010-11	2010-11	18.55	2010-11	18.55	Nil	Nil	18.55
	2011-12	2011-12	11.88	2011-12	11.88	Nil	Nil	11.88
		2012-13	11.88	2012-13	11.88	Nil	Nil	11.88
Sub-Total (A)			42.31	--	42.31	Nil	Nil	42.31
(B) General Performance Grant (GPG)	2011-12	2011-12	1.17	2012-13	1.17	Nil	Nil	1.17
Sub-Total (B)			1.17	--	1.17	Nil	Nil	1.17
(C) Special Areas Basic Grant (SABG)	2010-11	2010-11	1.80	2010-11	Nil	0.20	0.80	1.00
				2011-12		Nil	0.80	0.80
	2011-12	2011-12	0.90	2011-12	Nil	0.10	1.08	1.18
		2012-13	0.90	2012-13	Nil	0.10	Nil	0.10
Sub-Total (C)			3.60	--	Nil	0.40	2.68	3.08
Grand Total (A + B + C)			47.08	--	43.48	0.40	2.68	46.56

Source: Department records

It can be seen from the Table-2.1 that against the GoI release of ₹ 47.08 crore during the period 2010-13, the State Government transferred/allocated ₹ 46.56 crore to the three Administrative/Nodal Departments (LAD, GAD and DCAD), retaining a balance amount of ₹ 0.52 crore as of 31 March 2013 in respect of Special Areas Basic Grant.

During the year 2011-12, the State Government released ₹ 0.28 crore (State release : ₹ 1.18 crore *minus* GoI release : ₹ 0.90 crore) in advance to the GAD and DCAD in respect of Special Areas Basic Grant, which was subsequently adjusted while releasing the fund during the year 2012-13. Further, GoI released ₹ 1.17 crore in respect of General Performance Grant during 2010-11, which was released by the State Government to the LAD during the year 2012-13.

2.5 Audit Mandate

As *per* provision under Section 4 (3) of the Mizoram Grants-in-Aid to Village Councils Rules, 2007, all accounts relating to the specific grants made by the Government shall be subject to audit by approved auditors or anyone appointed for the post by the Government of Mizoram or Accountant General concerned. Further, Section 8 (1) of the Rule provides that the accounts shall be audited by auditor appointed by the State Government or Accountant General.

Accordingly, the State Government appointed (June 2011), Examiner of Local Funds Accounts (ELFA), renamed (August 2012) as Director of Local Fund Audit (DLFA) Mizoram as statutory auditor of local bodies with the responsibility of certification of accounts under the administrative control of the Finance Department.

It was noticed that audit reports on the accounts of the RLBs prepared by the DLFA for the period ending 31 March 2011 and 31 March 2012 were laid (27 March 2012 and 20 March 2013 respectively) in the State Legislative Assembly.

Besides, in pursuance of the recommendations of the ThFC, the State Government entrusted (June 2011) the Technical Guidance & Support (TGS) over the accounts and audit of local bodies to the Comptroller & Auditor General of India under Section 20 (1) of the C&AG's DPC Act, 1971.

2.6 Conclusion

- The Rural Local Bodies maintained accounts as *per* the instructions issued by the State Government.
- The State Government had not released ThFC grant of ₹ 0.52 crore as of 31 March 2013.

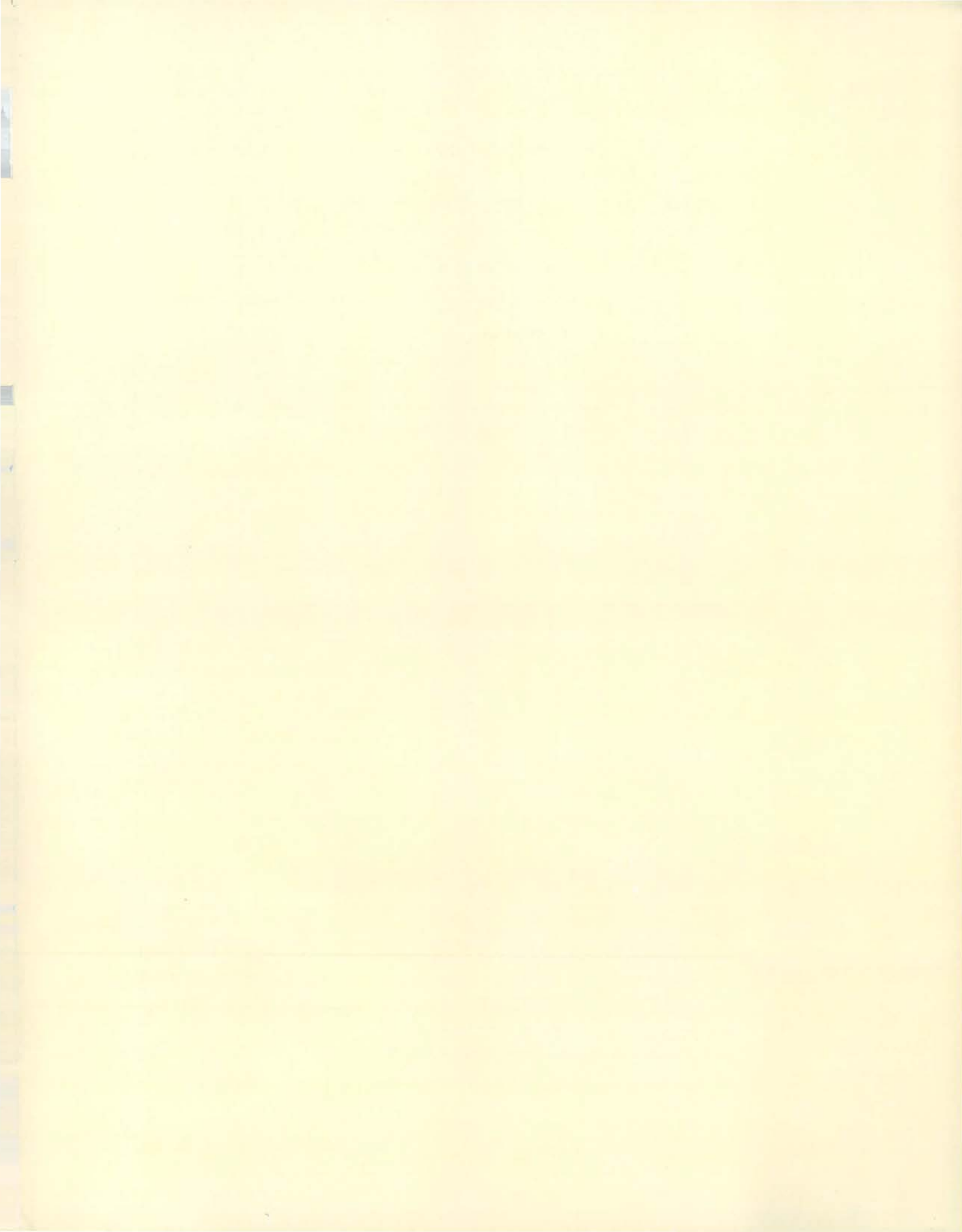
2.7 Recommendations

- The State Government should ensure timely release of the ThFC grants to the Administrative/Nodal Departments.



CHAPTER-III

COMPLIANCE AUDIT PARAGRAPHS URBAN LOCAL BODY



CHAPTER-III

COMPLIANCE AUDIT PARAGRAPHS

URBAN LOCAL BODY

3.1 Fund Management

The year-wise position of budget estimates, availability of fund with the AMC and expenditure there against during the period 2012-13 are depicted in the following Table-3.1:

Table-3.1

(₹ in crore)

Year	Budget Estimate			Position of Fund availability with the AMC									Expenditure				Closing Balance
	Cap	Rev	Total	Opening Balance		GoI		State Government		OSR	Int	Total	Cap	Rev	OSR	Total	
				Cap	Rev	Cap	Rev	Cap	Rev								
2012-13	7.45	8.37	15.82	2.91	1.34	6.26	5.94	0.00	3.09	3.14	0.13	22.81	4.99	7.38	1.67	14.04	8.77

Source: Departmental records

AMC=Aizawl Municipal Council, Cap=Capital, Rev=Revenue, GoI=Government of India, Int=Interest, OSR=Own Source of Revenue

It can be seen from the Table-3.1 that out of available GoI grants of ₹ 9.17 crore (Opening Balance: ₹ 2.91 crore plus ₹ 6.26 crore) under capital section for civic amenities through developmental works during 2012-13, the AMC could spend only an amount of ₹ 4.99 crore constituting 54 per cent of the available fund, which resulted in savings of ₹ 4.18 crore to the extent of 46 per cent. The savings occurred due to the fact that the GoI released the fund at the fag end of the financial year. As a result, no minor works against the Annual Action Plan of 2012-13 could be taken up during the concerned financial year.

3.1.1 Shortage of cash

Scrutiny of the cash books revealed that a closing balance of ₹ 876.91 lakh was retained by the AMC as on 31 March 2013. An analysis of the cash balances with reference to the cash in hand and cash at bank as of 31 March 2013 as per statement furnished by the CEO, AMC revealed that there was a shortage of physical cash amounting to ₹ 0.85 lakh, as per details given below:

1.	Closing Balance as per Cash Book as on 31 March 2013	₹ 876.91 lakh
2.	Physical Cash balance as on 31 March 2013 as per Statement furnished by the CEO:	
	(i) in six Banks	₹ 866.61 lakh
	(ii) cash in hand	₹ 9.45 lakh
	Total	₹ 876.06 lakh
3.	Cash shortage (1-2)	₹ 0.85 lakh

While accepting the facts, the CEO stated (April 2014) that the accounts for the year 2012-13 will be re-checked and balances will be verified.

3.2 Civic Amenities

As per Thirteenth Finance Commission's recommendations the State Government needs to provide core services like drinking water, sewerage, solid waste management and street lights to local bodies.

In order to implement the programmes for civic amenities to the community in Aizawl Municipal Area, AMC prepared Annual Action Plans for 2011-12 (Outlay: ₹ 9.99 crore) and 2012-13 (Outlay: ₹ 10.07 crore) under grants for ULB as per ThFC recommendations. The important points noticed in course of audit are spelt out in the succeeding paragraphs.

3.2.1 Delay in release of Thirteenth Finance Commission grants

As per Para 4.2 of the guidelines issued by the Ministry of Finance for release and utilisation of grant recommended by the Thirteenth Finance Commission, the State Government is required to transfer the funds to ULB within five days of receipt from the Central Government in case of States with easily accessible banking infrastructure and ten days in case of States with inaccessible banking infrastructure. Any delay will require the State Government to release the instalment with interest, at the Bank rate of RBI. The dates of release of ThFC grants *vis-à-vis* transfer of funds by the Urban Development and Poverty Alleviation (UD&PA) Department to the AMC (ULB) are shown in the following Table-3.2:

Table-3.2

(₹ in lakh)

Release of Grants-in-Aid by GoI			Release to the AMC			Delay (in days)
Recommendations	Date of release	Amount released	Due date of release	Date of release	Amount released	
ThFC (1 st instalment – 2012-13)	01.11.12	592.56	05.11.12	18.02.13	35.00	105
				05.03.13	321.75	120
				12.03.13	235.81	127
Total		592.56	--	--	592.56	--

Source: Departmental records

Thus, due to delay in release of the grants, the State Government had to release penal interest along with the release of grants.

3.2.1.1 Non-execution of works

It can be seen from the Table-3.2 that the UD&PA Department released ThFC grants to the AMC after a delay ranging from 105 days to 127 days beyond the stipulated date of transfer.

It was noticed that AMC could not execute the works for creation of capital assets as per approved Action Plan due to delay in release of ThFC grants by UD&PA Department in contravention of the guidelines. Out of available fund of ₹ 5.93 crore AMC could not be utilised ₹ 3.22 crore for the year 2012-13.

3.2.1.2 Penal Interest

Audit noticed that the State Government had released (March 2013) penal interest of ₹ 10.87 lakh in full for delay in release of ThFC grants for the year 2011-12 to the AMC as per the guidelines.

However, the penal interest of ₹ 17.41 lakh¹ payable for delay in release of ThFC grants for the year 2012-13 was not released by the State Government as of March 2014.

3.2.2 Minor works

In order to cater to the needs of the public in AMC area, minor works viz. construction of stone masonry steps, retaining wall, link drain, culvert, approach road, hand railing, side drain, Reinforced Concrete Construction bridges etc. were to be executed by the AMC out of the ThFC grants.

There is an Engineering Cell under the AMC, which is headed by an Executive Engineer (EE) who is assisted by three Junior Engineers (JEs).

During 2012-13, as recommended by the Local Councils, the AMC executed 538 minor works (total estimated cost ₹ 462.54 lakh) with an expenditure of ₹ 448.66 lakh out of the funds received from the GoI (ThFC grants). Out of 538 minor works, 316 works with an estimated cost ranging from ₹ 0.04 lakh to ₹ 7 lakh (total estimated cost: ₹ 237.25 lakh) were executed departmentally by the Engineering Cell and the remaining 222 works with an estimated cost ranging from ₹ 0.15 lakh to ₹ 6 lakh (total estimated cost: ₹ 225.29 lakh) were executed through contractors.

1

Amount	RBI Bank Interest		Delay in days	Amount of Interest (₹ in lakh)
	Period	Rate of Interest		
₹ 35 lakh	06.11.2012 to 28.01.2013	9.00	84	$3500000 * 9\% / 365 * 84 = 0.48$
	29.01.2013 to 12.03.2013	8.75	21	$3500000 * 8.75\% / 365 * 21 = 0.18$
Sub-Total (A)			105	0.66
₹ 321.75 lakh	06.11.2012 to 28.01.2013	9.00	84	$32175000 * 9\% / 365 * 84 = 6.66$
	29.01.2013 to 05.03.2013	8.75	36	$32175000 * 8.75\% / 365 * 36 = 2.78$
Sub-Total (B)			120	9.44
₹ 235.81 lakh	06.11.2012 to 28.01.2013	9.00	84	$23581000 * 9\% / 365 * 84 = 4.88$
	29.01.2013 to 12.03.2013	8.75	43	$23581000 * 8.75\% / 365 * 43 = 2.43$
Sub-Total (C)			127	7.31
Grand total (A + B + C)				17.41

Test check of records of the 316 works executed departmentally (estimated cost ₹ 237.25 lakh) with an expenditure of ₹ 235.48 lakh revealed the following irregularities:

3.2.2.1 Excess expenditure

Public Works Department (PWD), Government of Mizoram (GoM), while preparing the Schedule of Rates (SoR), 2007, included a contractor's profit @ 10 per cent uniformly on materials, labours and machineries for all items of works. Consequently, the element of 10 per cent contractor's profit is not to be taken into consideration in the estimate of work to be executed departmentally.

The EE of the AMC framed 316 estimates for minor works in 19 Wards valued at ₹ 237.25 lakh² as per SoR 2007 without deducting the element of 10 per cent contractor's profit from the estimated cost. For execution of 316 works departmentally, the AMC was to restrict the estimated cost to the tune of ₹ 215.68 lakh³ (₹ 237.25 lakh minus 10 per cent contractor's profit of ₹ 21.57 lakh).

Scrutiny of records of the AMC, however, revealed that all of these 316 minor works were executed departmentally during April 2012 to March 2013 by engaging Muster Roll labourers and procuring materials locally by the Engineering Cell from time to time with a total expenditure of ₹ 235.48 lakh (Materials cost: ₹ 161.96 lakh plus Labour cost: ₹ 73.52 lakh).

Thus, the AMC incurred an excess expenditure of ₹ 19.80 lakh (₹ 235.48 lakh minus ₹ 215.68 lakh) due to non-restriction of estimated cost at the admissible limit of ₹ 215.68 lakh for execution of 316 minor works departmentally.

While accepting the facts, the CEO stated (December 2013) that 10 per cent contractor's profit will not be included in the estimate of the works to be executed departmentally in future.

3.2.2.2 Satisfaction level

In order to assess the impact of the programme of construction works for civic amenities, joint physical inspection by one officer of the audit team and concerned JEs was conducted (December 2013) in respect of 67 works in four Wards⁴ out of 19 Wards under AMC. It was noticed that in Ward No.VII, XV and XVII, 52 works were completed within the sanctioned

² The amount was calculated on SoR 2007 (which includes 10 per cent Contractor's profit) plus 26.06 per cent cost index applicable for Aizawl District

³ $(100 * ₹ 237.25 \text{ lakh}) / 110 = ₹ 215.68 \text{ lakh}$

	Ward No.	No. of works
i.	VII	22
ii.	XV	20
iii.	XVII	10
iv.	XVIII	15
Total : Four Wards		67 Works

cost and time schedule. Whereas, in Ward No. XVIII out of 15 works physically inspected, one work (estimated cost: ₹ 1.50 lakh) namely Covering of drain & construction of step between Malsawma Tuikhur to Sikulpuikawn at Mission Veng shown as completed (November 2012) was found incomplete as of December 2013 after incurring an expenditure amounting to ₹ 0.90 lakh in December 2012.

In respect of incomplete work, the CEO stated (December 2013) that the contractor was pressurised by the public to discontinue the work. Accordingly, the volume of work done by the contractor was measured and ₹ 0.90 lakh was paid to the contractor. Further, during recent visit to the site it was found that the work was damaged apparently by the public. The CEO assured that the AMC will take necessary action in the matter.

3.3 Conclusion

- The AMC incurred an expenditure (under capital section) to the tune of ₹ 4.99 crore (54 *per cent*) against the available GoI grants of ₹ 9.17 crore during 2012-13, which resulted in savings of ₹ 4.18 crore (46 *per cent*).
- Due to delay in release of Grants-in-Aid by the State Government, the AMC could not execute development works valued at ₹ 3.22 crore, out of the available fund of ₹ 5.93 crore, as *per* the Annual Action Plan.
- The AMC incurred an excess expenditure of ₹ 19.80 lakh for execution of 316 minor works departmentally.

3.4 Recommendations

- State Government should release ThFC grants to AMC in time as *per* guidelines.
- The element of 10 *per cent* contractor's profit should not be included in the estimate of the work in case the work is to be executed departmentally.



CHAPTER-IV

COMPLIANCE AUDIT PARAGRAPHS RURAL LOCAL BODIES

CHAPTER-IV

COMPLIANCE AUDIT PARAGRAPHS

RURAL LOCAL BODIES

4.1 Fund Management

The Thirteenth Finance Commission (ThFC) has recommended General Basic Grants, General Performance Grants, Special Areas Basic Grants and Special Areas Performance Grants for the five year period 2010-15. The year-wise details of the Thirteenth Finance Commission grants received by the Government of Mizoram (GoM) during the period 2010-13 *vis-a-vis* release to the Rural Local Bodies (RLBs) are shown in Table-4.1 below:

Table-4.1

(₹ in crore)

TFC Grants		Grants released by the GoI		Grants released by the GoM				Allocation and release of grants by:				
Year	Amount	Year	Amount	LAD	GAD	DCAD	Total	LAD to VC's	LAD to Director LAD	GAD to SHDC	DCAD to ADCs	Total
2010-11	20.35	2010-11	20.35	18.55	0.20	0.80	19.55	18.30	0.25	0.20	0.80	19.55
2011-12	26.73	2011-12	13.95	11.88	0.10	1.88	13.86	11.29	0.59	0.10	1.88	13.86
		2012-13	12.78	13.05	0.10	Nil	13.15	12.56	0.49	0.10	Nil	13.15
Total	47.08	2010-13	47.08	43.48	0.40	2.68	46.56	42.15	1.33	0.40	2.68	46.56

Source: Departmental records

It can be seen from the Table-4.1 that out of ThFC grants of ₹ 47.08 crore released by GoI, the GoM transferred ₹ 46.56 crore to the RLBs during 2010-13, resulting in short release of ₹ 0.52 crore. Reasons for short release of grants by the State Government were not on records.

4.2 Delay in release of grants

As per Para 4.2 of the guidelines issued by the Ministry of Finance for release and utilisation of grant (General Basic Grant, General Performance Grant and Special Areas Basic Grant) recommended by the ThFC, the State Government has to transfer the funds to Local Bodies within five days of receipt from the Central Government in case of States with easily accessible banking infrastructure and ten days in case of States with inaccessible banking infrastructure. Any delay will require the State Government to release the instalment with interest, at the Bank rate of RBI. The dates of release of TFC grant *vis-à-vis* transfer of funds by the Local Administration Department (LAD), General Administration Department (GAD) and District Council Affairs Department (DCAD) to the RLBs are shown in the following Table-4.2 (i) and (ii):

Table-4.2 (i)

(₹ in crore)

Particulars	Release of Grants-in-Aid by GoI		Due date of release	Release to RLBs		Delay in days
	Date of release	Amount released		Date of release	Amount released	
General Basic Grant	15.07.10	9.39	19.07.10	13.12.10	9.29	146
	16.03.11	9.16	20.03.11	30.03.11	9.01	10
	01.03.12	11.88	05.03.12	30.03.12	11.29	25
	22.03.13	11.88	26.03.13	26.03.13	9.39	---
				29.03.13	2.00	3
General Performance Grant	31.03.12	1.17	04.04.12	09.04.12	1.17	5
Total		43.48			42.15	

Source: Departmental records

Table-4.2 (ii)

(₹ in crore)

Particulars	Release of Grants-in-Aid by GoI		Due date of release	Date of release to ADCs	Amount released	Delay in days	Date of release to SHDC	Amount released	Delay in days
	Date of release	Amount released							
Special Areas Basic Grant	15.07.10	0.90	19.07.10	28.07.10	0.80	9	26.07.10	0.10	7
	16.03.11	0.90	20.03.11	01.04.11	0.80	12	31.03.11	0.10	11
	01.03.12	0.90	05.03.12	07.03.12	0.53	2	14.03.12	0.10	9
				09.03.12	0.55	4	---	---	---
22.03.13	0.90	26.03.13	05.04.13	0.52	10	30.03.13	0.10	4	
Total		3.60			3.20			0.40	

Source: Departmental records

It can be seen from the Tables-4.2 (i) & (ii) that ThFC grants released by the Local Administration Department (₹ 42.15 crore), District Council Affairs Department (₹ 3.20 crore) and General Administration Department (₹ 0.40 crore) to the RLBs were delayed by 2 days to 146 days beyond the stipulated date of transfer.

It was noticed in Audit that the State Government had released an amount of ₹ 7.15 lakh¹ as penal interest due to delay in release of grants to the RLBs, ADCs and SHDC as stipulated in the guidelines.

However, the penal interest for delay release of General Basic Grant and General Performance Grant of ₹ 2 crore and ₹ 1.17 crore respectively, payable for the year 2012-13 was not sanctioned by the State Government as of March 2014. Also, the penal interest for delay

¹ December 2011: ₹ 1.55 lakh, January 2012: ₹ 0.03 lakh, February 2012: ₹ 5.57 lakh = **Total: ₹ 7.15 lakh**

release of Special Area Basic Grant of ₹ 3.60 crore payable for the year 2012-13 was not sanctioned by the State Government as of March 2014.

4.3 Minor works

Based on work proposals received from the Village Councils (VCs) through the concerned District Local Administration Officers (DLAOs)/Local Administration Officer (LAO), the Director, LAD administratively approved (2010-13) altogether 1,402 minor works for construction of approach roads, stone steps, water tanks, and retaining walls *etc.* at an estimated cost of ₹ 18.77 crore in respect of 333 VCs in three Districts (Mamit, Serchhip and Lunglei) and one Autonomous District Council (Saiha). The sanctioned amount of ₹ 18.77 crore was directly transferred to the accounts of the 333 VCs by the Director, LAD for execution of 1,402 minor works during 2010-13.

As per utilisation certificates submitted by the concerned 333 VCs the year-wise number of works approved with estimated cost and expenditure incurred with number of work completed during 2010-13 is shown in the following table:

Table-4.3

(₹ in crore)

Name of District/ADC	No. of VCs	Works approved			Fund released		Details of Utilisation Certificate	
		Year	No.	Estimated cost	Year	Amount	Expenditure	No. of works completed
Lunglei	135	2010-11	135	3.51	2010-11	3.51	3.51	135
		2011-12	135	4.07	2011-12	2.02	2.02	135
		2012-13	-	-	2012-13	2.05	2.05	-
Sub-Total			270	7.58		7.58	7.58	270
Serchhip	42	2010-11	86	1.16	2010-11	1.16	1.16	86
		2011-12	96	1.73	2011-12	-	-	96
		2012-13	-	-	2012-13	1.73	1.73	-
Sub-Total			182	2.89		2.89	2.89	182
Mamit	71	2010-11	314	1.76	2010-11	1.76	1.76	314
		2011-12	296	2.39	2011-12	1.28	1.28	296
		2012-13	-	-	2012-13	1.11	1.11	-
Sub-Total			610	4.15		4.15	4.15	610
MADC	85	2010-11	170	1.85	2010-11	1.85	1.85	170
		2011-12	170	2.30	2011-12	-	-	170
		2012-13	-	-	2012-13	2.30	2.30	-
Sub-Total			340	4.15		4.15	4.15	340
Total	333	--	1402	18.77		18.77	18.77	1402

Source: Departmental records

It can be seen from Table-4.3 that as per the utilisation certificates submitted by the 333 VCs all the 1,402 minor works had been completed at the estimated/sanctioned amount of ₹ 18.77 crore during 2010-13.

However, on test check (November-December 2013) of accounts and records of 97 VCs revealed that none of the VCs maintained details records showing date of commencement/ completion of works supported by technical measurement/inspection *etc.* in respect of works valued at ₹ 4.64 crore.

Thus, the actual commencement/completion of works according to the technical estimates could not be ascertained in audit.

Besides, audit noticed improper maintenance of accounts by the 97 VCs as spelt out below:

4.3.1 Improper Maintenance of Accounts by the Village Councils

Scrutiny of records *viz.* cash books, bank pass books, vouchers, Actual Payee Receipts (APRs) maintained by the 97 Village Councils within three districts (Lunglei, Mamit and Serchhip) and Autonomous District Council, Saiha revealed the shortcomings as detailed in Table-4.4:

Table-4.4

Name of District/ ADC	Details of records checked:		Particulars of shortcomings noticed in audit
	No. of VCs	Amount (₹ in crore)	
Lunglei	35	1.73	(i) Sub-vouchers/APRs totalling ₹ 29.14 lakh were not made available by 18 VCs for audit check. (ii) In respect of six VCs accounts overwriting in entries in the cash books were not initialled by the concerned authorised member of the VC.
Serchhip	11	0.76	(i) Sub-vouchers/APRs totalling ₹ 63.39 lakh were not made available by 11 VCs for audit check. (ii) In respect of two VCs accounts overwriting in entries in the cash books were not initialled by the concerned authorised member of the VC. (iii) Bank pass book was not updated by two VCs. (iv) Bank pass book was not produced by two VCs for audit check.
Mamit	30	1.24	(i) Sub-vouchers/APRs totalling ₹ 76.97 lakh were not made available by 23 VCs for audit check. (ii) In respect of Damparengpui VC's account, closing balance of ₹ 0.18 lakh as of 08 May 2012 was not carried forward, which resulted in understatement of opening balance of ₹ 0.18 lakh.
ADC, Saiha	21	0.91	(i) Sub-vouchers/APRs totalling ₹ 16.98 lakh were not produced by 21 VCs for audit check. (ii) In respect of two VCs accounts overwriting in entries in the cash books was not initialled by the concerned authorised member of the VC. (iii) In respect of four VCs accounts date of transaction was not recorded on four occasions.
Total	97	4.64	--

4.4 Conclusion

- There was delay of 2 to 146 days in the release of ThFC grants to RLBs by the three Administrative Departments.
- In the absence of records the actual commencement/completion of minor works according to the technical estimates could not be ascertained in audit.

4.5 Recommendations

- ThFC grants should be released to the implementing agencies within the stipulated time.
- The Village Councils as well as district level offices should maintain relevant records for execution of minor works by the VCs.



(Hautinal Suantak)

Deputy Accountant General (Audit), Mizoram

Aizawl
The 19 May 2014

Countersigned



(L. Tochwawng)

Principal Accountant General (Audit), Mizoram

Aizawl
The 19 May 2014

