

OVERVIEW

This Report contains five chapters. The first and third Chapters provide an overview of the functioning, accountability mechanism and financial reporting issues of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) respectively. The fourth Chapter contains one Performance Audit report on ULBs. The second and fifth Chapters contain Compliance Audit Paragraphs and six Audit Paragraphs on PRIs and ULBs respectively. A summary of the important findings is presented in this overview.

Chapter I: An Overview of the Functioning, Accountability Mechanism and Financial Reporting Issues of the Panchayati Raj Institutions

- The Third State Finance Commission recommended (accepted by State Government in February 2010) that four *per cent* of divisible fund of the State Government should be devolved to PRIs. However, there was short devolution of ₹ 247.78 crore to PRIs during 2015-16.

(Paragraph 1.7)

- The funds allocated to PRIs by State Government through State budget increased from ₹ 7,911.12 crore during 2011-12 to ₹ 21,155.33 crore during the year 2015-16. However, PRIs could not spend the entire allocated grants and savings ranged from six *per cent* to 30 *per cent* during the period 2011-16 mainly due to considerable unspent balances in the Revenue Head.

(Paragraph 1.8)

- State Government received ₹ 1,463.61 crore of Fourteenth Finance Commission (14th FC) basic grant as per entitlement from Government of India in two instalments of ₹ 731.81 crore (July 2015) and ₹ 731.80 crore (February 2016). However, State Government delayed the release of first instalment of grants to Gram Panchayats (GPs). As a result of delays, State Government sanctioned ₹ 5.17 crore as interest, which was not released to GPs along with instalments as recommended by 14th FC.

(Paragraph 1.12)

Chapter II: Compliance Audit

2.1 Asset Management in Panchayati Raj Institutions

The assets of PRIs include movable and immovable assets historically owned by them and those acquired from time to time. A compliance audit on 'Asset Management in PRIs' in two districts, Anuppur and Dewas revealed the following:

- The annual plan and annual budget for economic development of panchayat areas and maintenance of assets was not prepared. GPs did not prioritise the maintenance of existing assets, which led to deterioration of assets.

(Paragraphs 2.1.2 and 2.1.3)

- GPs did not earmark fund for maintenance of assets under *Panch Permashwar* scheme, which resulted in short utilisation of ₹ 4.55 crore on maintenance of assets. None of the GPs maintained separate bank account

for executing maintenance works, though required as per instructions of State Government. PRIs incurred inadmissible expenditure of ₹ 46.69 lakh, out of 13th Finance Commission Performance Grants released for construction of infrastructure development work. Audit noticed cases of suspected misappropriation and diversion of fund.

(Paragraphs 2.1.3, 2.1.3.1, 2.1.3.2 and 2.1.3.3)

- Due to lackadaisical approach of test checked PRIs, 1,764 works remained incomplete despite lapse of two to ten years which resulted in unfruitful expenditure of ₹ 55.72 crore on these works. Further, ₹ 6.00 crore received for construction of stadiums in rural areas was lying unutilised in ZPs Anuppur and Dewas despite the lapse of 15 to 36 months. The executing agency, Madhya Pradesh Laghu Udyog Nigam, did not construct/hand over e-panchayat rooms despite release of ₹ 6.24 crore in advance by Zila Panchayats in December 2012 and January 2014. Community assets in test checked GPs were not utilised for intended purposes.

(Paragraphs 2.1.4.1, 2.1.4.2, 2.1.4.3 and 2.1.4.4)

- Code wise database regarding immovable assets of GPs was not prepared and Geographical Information System (GIS) mapping of the infrastructure of the GPs was also not done despite recommendations of Third State Finance Commission. Internal control mechanism in the PRIs was not effective and essential records were not maintained.

(Paragraph 2.1.5)

2.2 Compliance Audit Paragraphs

- Zila Panchayat, Tikamgarh failed to deposit the Employer's and Employees' contributions under Employee's Provident Fund Scheme within prescribed time, which resulted in avoidable liability of ₹ 26.21 lakh as interest and penalty.

(Paragraph 2.2.1)

- Interest amounting to ₹ 35.29 lakh received on account of Madhya Pradesh Assembly Constituency Area Development Scheme was not deposited in the Government Account, out of which ₹ 24.06 lakh was deposited on being pointed out by Audit.

(Paragraph 2.2.2)

- Government money amounting to ₹ 0.10 lakh was embezzled in Janpad Panchayat, Manawar by fraudulently inserting ten thousands digit in the invoice presented for payment.

(Paragraph 2.2.3)

Chapter III: An overview of the Functioning, Accountability Mechanism and Financial Reporting Issues of Urban Local Bodies

- The Third State Finance Commission recommended (accepted by State Government in February 2010) that one *per cent* of divisible fund of the State Government should be devolved to ULBs. However, there was short devolution of ₹ 18.14 crore to ULBs during 2015-16.

(Paragraph 3.6)

- The funds allocated to ULBs by State Government through State budget increased from ₹ 4,356.30 crore during 2011-12 to ₹ 9,262.96 crore during the year 2015-16. However, ULBs could not spend the entire allocated grants and savings ranged from eight *per cent* to 22 *per cent* during the period 2011-16 mainly due to considerable unspent balances in the Revenue Head.

(Paragraph 3.7)

- State Government published Madhya Pradesh Municipal Accounting Manual (MPMAM) for adoption of accrual basis accounting system by ULBs from 1 April 2008. However, out of 379 ULBs in the State, only 154 ULBs (41 *per cent*) could implement MPMAM as on August 2016.

(Paragraph 3.8.1)

Chapter IV: Performance Audit

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

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

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

(Paragraph 4.1.6)

- Property Tax Board was constituted (March 2011) to assist MCs in determination and collection of Property Tax. However, the Board did not perform its mandated duties, as there was no manpower in the Board. The collection of Property Tax, Composite Tax and user charges for water supply was significantly less than the respective demands during 2011-16. The outstanding collection in test checked MCs was ₹ 145.38 crore in respect of Property Tax, ₹ 142.69 crore in respect of Composite Tax and ₹ 243.65 crore in respect of user charges for water supply as on March 2016.

(Paragraphs 4.1.7 and 4.1.8)

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

(Paragraph 4.1.10)

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

(Paragraphs 4.1.12.1 and 4.1.12.3)

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

(Paragraph 4.1.12.4)

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

(Paragraphs 4.1.12.6 and 4.1.12.9)

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

(Paragraph 4.1.13)

Chapter V : Compliance Audit

5.1 Setting up and management of Fire Services by ULBs

The Fire Services have been included as a Municipal function under Article 243 (W) in the XII Schedule of the Constitution of India. Under Madhya Pradesh Municipal Corporations Act 1956 and Madhya Pradesh Municipalities Act 1961, ULBs are responsible for establishment and maintenance of fire brigade and arrangement for the prevention and extinction of fire. The setting up and management of fire services by ULBs in the State covering period from 2011-12 to 2015-16 was examined in audit, which revealed the following:

- State Government did not prepare comprehensive plan for strengthening and management of fire services. Fire Act was not enacted in the State, despite NDMA guidelines 2012 required it be enacted within a year. Test checked ULBs did not frame regulations/bylaws to regulate fire services as envisaged under the respective Municipal Acts. Compliance of norms of National Building Code in respect of installation of fire fighting system in the buildings was not ensured by ULBs and State Fire Authority.

(Paragraphs 5.1.2 and 5.1.4.7)

- Test checked ULBs did not utilise even the realised fire tax for strengthening of fire services. The requirements of manpower and equipment for the entire State was not worked out for requesting fund in the State Plan. As a result, fire services could not be strengthened in the State and there

remained large gaps in basic requirements, viz. fire stations, essential equipment and manpower.

(Paragraph 5.1.3)

- No fire station was established in test checked ULBs, except in Bhopal Municipal Corporation (BMC) and Jabalpur Municipal Corporation (JMC) which also lacked sufficient number of fire stations. Due to lack of fund, BMC and JMC did not implement fire mitigation plan published by State Government in compliance of 13th Finance Commission recommendations. There was inadequacy of essential equipment and personal protective equipment.

(Paragraphs 5.1.4.1, 5.1.4.2, 5.1.4.3 and 5.1.4.4)

- ULBs lacked firefighting manpower significantly. No recruitment against the sanctioned posts of fireman was done during 2011-16. Out of 285 personnel engaged in fire service, only 94 personnel (33 *per cent*) were employed on regular basis and remaining 191 personnel were either on daily wages or contract basis. No initiatives were taken for capacity building as neither any fire training centre was established by State Government nor any training programs/ courses for fire personnel was organised by ULBs.

(Paragraphs 5.1.5.1 and 5.1.5.2)

- Response time to attend fire calls was not recorded by any of the test checked ULBs. Public awareness program for fire prevention was not organised. No monitoring mechanism was in place at State level as well as at test checked ULBs level in respect of periodic inspection of fire stations/equipment and its reporting. Fire call register was not maintained properly due to which efficiency of fire services could not be assessed in audit.

(Paragraphs 5.1.4.6 and 5.1.6)

5.2 Compliance Audit Paragraphs

- Supervision fee amounting to ₹ 78.82 lakh was short realised from six colonizers by Municipal Council, Badnawar, district Dhar

(Paragraph 5.2.1)

- MC, Ujjain failed to deposit statutory dues in respect of Employees Provident Funds and Miscellaneous Provisions Act 1952, which resulted in avoidable payment of penalty and interest of ₹ 65.55 lakh.

(Paragraph 5.2.2)

- Shelter fees amounting to ₹ 36.37 lakh was not realised/short realised from colonizers in Municipal Corporation, Rewa.

(Paragraph 5.2.3)