

CHAPTER – III

**TRANSACTION AUDIT PARAGRAPHS
(Urban Administration and Development Department)**

3.1 Audit findings on Release and Utilisation of Thirteenth Finance Commission grants to Urban Local Bodies

The TFC had made the recommendations on the measures needed to augment the consolidated fund of the State to supplement the resources of Panchayats and Municipalities. In this regard the TFC recommended Grant-In-Aid (GIA) to ULBs for both General Areas and Special Areas for its award period (2010-15). In addition to these grants, performance grant would be available from 2011-12 to the States which met the conditions imposed for its release. As per GOI guidelines, (September 2010) all local body grants were to be released in two tranches, in July and January every fiscal year, subject to meeting of the conditions imposed for release of grants.

The grants received by Madhya Pradesh Government from GOI on the recommendations of the TFC for the year 2010-11 are depicted in **Appendix-VIII**.

In this regard, information on transfer and utilisation of TFC grants was collected from Finance Department (FD) Government of Madhya Pradesh, Commissioner Urban Administration and Development Department (UADD), Commissioner Nagar Palika Nigam Bhopal and Municipal Officer, Nagar Palika Parishad Kolar Bhopal for the year 2010-11. The audit findings on transfer and utilisation of grants are as below:-

3.1.1 Delayed transfer of grant

According to para 3 of GOI's release orders (July 2010) the amount of first installment of Local Bodies grant was to be transferred to ULBs within 15 days of its receipt from the GOI. According to GOI's release orders (March 2011) the second installment of the grant was to be transferred to ULBs within five days and 10 days according to the banking infrastructural accessibility. For delay in transfer of grant beyond the specified period the State would be liable for payment of interest at the RBI bank rate to ULBs along with the installment.

Audit observed that contrary to the guidelines the General Basic Grant (GBG) and Special Areas Basic Grant (SABG) was not released within the specified period during 2010-11 as depicted in the following table:-

Name of Grant/ No. of Instalments	Amount Received from GOI		Amount Drawn from treasury (₹in crore)	Amount Transferred to Local Bodies (LBs)		Delay in transfer of Grant to LBs beyond the stipulated period/ Amount of interest to be paid to LBs	
	Date	Amount (₹in crore)		Date	Amount (₹in crore)	Days	Interest (in ₹)
1	2	3	4	6	7	8	9
ULBs							
1. General Basic Grant/I st	15.7.10	69.55	69.550	26.8.10	69.55	27 ¹⁷	30,86,877
2. Spl. Area Basic Grant/I st	15.7.10	1.97	1.971	26.8.10	1.971	27	87,480
3. General Basic Grant/II nd	29.3.11	67.87	67.870	30.3.11	67.87	--	--
				Note:- Actual date reported to GOI was 30.3.2011 whereas an amount of ₹67.87 crore was drawn on 31.3.2011 from the treasury. Hence interest could not be worked out.			
4. Spl. Area Basic Grant/ II nd	30.3.11	1.97	1.570	20.4.11	1.57	16 ¹⁸	41,293
	Grand Total	141.36	140.961				32,15,650 Or say ₹32.16 lakh

(Source: Information furnished by Finance Department and UADD)

Scrutiny of records (August 2011) of test checked offices and information collected from them revealed that the Commissioner UADD transferred the first instalment of GBG and SABG to ULBs with a delay of 27 days. The second instalment of SABG was also transferred to ULBs with a delay of 16 days. As per guidelines the FD had to pay interest to ULBs at RBI rates which works out to ₹32.16 lakh as shown in the above table.

3.1.2 Non submission of Utilisation Certificate to the GOI

According to para 6.2 of the guidelines of the TFC, release of any instalment of the TFC grant will be subject to furnishing of UC for the previous instalment drawn.

Scrutiny of records (August 2011) of the test checked units revealed that in compliance to above guidelines the actual utilisation of grants ₹ 140.96 crore transferred to ULBs for the year 2010-11 (**Appendix -VIII**) was not reported to the GOI by the Commissioner UADD MP Bhopal through the FD. It was also observed that none of the test checked units reported utilisation of the TFC grants received by them for the financial year 2010-11.

The Commissioner UADD, MP Bhopal replied (August 2011) that instructions have been issued to the ULBs for furnishing activity wise break-up of grant spent by them. The position remained the same till August 2012.

¹⁷ Delay in days leaving 15 days.
¹⁸ Delay in days leaving 05 days.

3.1.3 Lack of Monitoring & Evaluation Mechanism

In compliance of the TFC guidelines, a High Level Committee (HLC) headed by the Chief Secretary to the State Government was constituted (July 2010) by the Finance Department to ensure adherence to the specific conditions in respect of each category of grant, wherever applicable. HLC was required to meet once in a quarter.

It was found that only two HLC meetings (July 2010 and December 2010) were held till January 2011 which clearly shows that there was a lack of a monitoring and evaluation mechanism for proper utilization of grants.

3.1.4 Conclusion

Local Body grants received by the State Government from the GOI on the recommendations of the TFC were not transferred to the ULBs within the specified period, which created a liability of ₹32.16 lakh on the Government in the shape of interest payable to ULBs. Utilisation of grants transferred to the ULBs was not ensured. Actual utilisation of grants was not submitted to the GOI (August 2011). This could affect the release of performance grant to the State Government from the GOI for the next year (2011-12).

3.2 Loss of revenue due to non allotment of Commercial Shops amounting to ₹ 2.68 crore

Due to non-observance of codal provisions, 102 shops could not be allotted which resulted in loss of revenue of ₹ 2.68 crore to Municipal Corporation Ratlam.

In exercise of the powers conferred by Section 80 of the MP Municipal Corporation Act, 1956 the State Government made the M.P. Municipal Corporation (Transfer of Immovable Properties) Rules, 1994. According to Rule 3 of the said Rules, any revenue earning immovable property shall be sold or transferred to the highest bidder through public auction or by inviting sealed cover proposal; if otherwise intended, prior permission of the Government was essential.

Test check (July 2008) of the records of Municipal Corporation, Ratlam (MC Ratlam) revealed that 104 shops, including two shops reserved for electricity purposes, were constructed in "Subhash Chandra Bose Shopping Complex" at Bus stand Ratlam (1999) at a cost of ₹ 1.17 crore from the Corporation's own funds. Instead of observing the above rules for sale of shops, the MC decided (July 1995) to allot shops on first-cum-first serve basis to those who deposited lump sum amount. In response 34 applicants deposited lump sum amount of ₹21.60 lakh @ ₹60,000/70,000 each while 78 applicants deposited ₹7.80 lakh @ ₹ 10,000/- each as registration fee. The MC decided (December 2001) to get the Corporation policy confirmed from the Government. It was also seen that rent @ ₹300 per month (PM) for 46 upper ground floor shops and @ ₹200 PM for 56 lower ground floor shops was fixed

for letting out the shops on hire in July 1995. Further a committee constituted by MC recommended in April 2006 an offset price @ ₹2.25 lakh for each of these 102¹⁹ shops along with different slabs of rent on the basis of their location in the shopping complex. The final decision on allotment of shops was still pending with State Government owing to which the MC Ratlam has to incur a loss of ₹ 2.68 crore (₹ 2.30 crore on account of offset price and ₹ 59.87 lakh²⁰ on account of rent of the shops and deducting ₹21.60 lakh of lump sum deposited amount by 34 applicants) from the date of their construction.

On being pointed out in audit Commissioner, MC Ratlam accepted (July 2008 and March 2011) that the possession of shops could not be given as the allotment was not in accordance with Rule 3 of MP Municipal Corporation (Transfer of immovable properties) Rules, 1994. The case has been sent to the State Government for guidance and final action would be taken after receipt of guidance from the Government. The Government's decision is still awaited.

Thus due to non-observance of the provision for allotment of shops and lackadaisical approach in obtaining Government guidance in the matter, the shops could not be allotted even after lapse of 11 years from the date of construction which resulted in the loss of revenue of ₹ 2.90 crore.

The matter was referred to the Government in June 2011 and November 2012 but no reply had been received.

¹⁹ Offset price @ ₹225400 each X02 shops =2990800

²⁰ Rent-

1.1.2000 to 31.4.2006	76 months	46 shops	@ ₹ 300 PM	₹10,48,800
1.1.2000 to 31.4.2006	76 months	56 shops	@ ₹ 200 PM	₹ 8,51,200
1.5.2006 to 31.5.2011	61 months	28 shops	@ ₹ 800 PM	₹ 13,66,400
1.5.2006 to 31.5.2011	61 months	18 shops	@ ₹ 700 PM	₹ 7,68,600
1.5.2006 to 31.5.2011	61 months	40 shops	@ ₹ 600 PM	₹ 14,64,000
1.5.2006 to 31.5.2011	61 months	16 shops	@ ₹ 500 PM	₹ 4,88,000
			Total	₹ 59,87,000

PART – II PANCHAYATI RAJ INSTITUTIONS

CHAPTER – I

OVERVIEW ON FINANCES INCLUDING THE ACCOUNTING PROCEDURES OF THE PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

To promote greater autonomy at the grass root level and to involve people in identification and implementation of development programmes involving Gram Sabhas, the 73rd Constitutional Amendment Act, 1992 was promulgated. According to the provisions of Article 243 G of the Constitution, the Legislature of a State may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government and such law may contain provision for the devolution of powers and responsibility upon Panchayats at the appropriate level, subject to such conditions as may be specified therein with respect to:-

- (a) The preparation of plans for economic development and social justice;
- (b) The implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule²¹;

Similarly, according to the provisions of Article 243 H of the Constitution, the legislature of state may:-

- (a) Authorise a panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits,
- (b) Assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits,
- (c) Provide for making such Grants in Aid to the Panchayats from the Consolidated Fund of the State and
- (d) Provide for the constitution of such funds for crediting all moneys received, respectively, by or on behalf of the Panchayats and also for the withdrawal of such money there from as may be specified in the Law.

Consequently, a three-tier system of Panchayati Raj Institutions (PRIs) had been established in the State by Madhya Pradesh through Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993.

- Zila Panchayat (ZP) for a district,
- Janpad Panchayat (JP) for a block and
- Gram Panchayat (GP) for a village.

At present there are 50 ZPs, 313 JPs and 23010 GPs in the State.

²¹ Article 243 G and H of the Constitution (Seventy - third Amendment) Act. 1992.

The basic information about the State of Madhya Pradesh is given below:

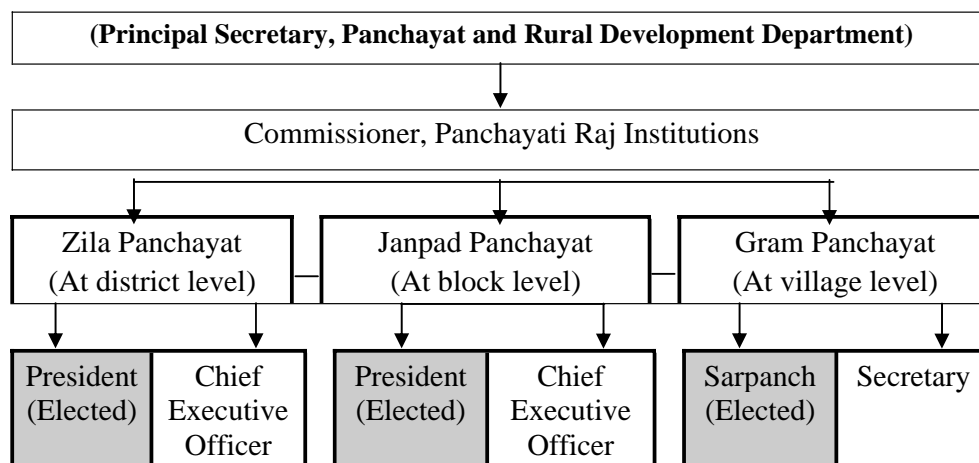
	Unit	State figure	All India figures
Population	Crore	7.26	121.02
Share in Country's population	<i>per cent</i>	6.00	--
Rural population	Crore	5.25	83.31
Share of Rural Population	<i>per cent</i>	72.00	68.84
Population Density of State	per sq. Km.	236.00	382.00
Literacy rate of State	<i>per cent</i>	71.00	74.00
Sex ratio of State	Ratio	930/1000	940/1000

Source: provisional census 2011

1.2 Administrative arrangements

As per Chapter 3 of the Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993, all the PRIs are distinct legal authorities to discharge the functions devolved under the provisions of Acts and Rules subject to monitoring powers vested in state authorities provided therein. The organisational structure of governance at State, District, Block and Village level is given below:

Organisational Chart



1.3 Roles and responsibilities of three tiers of PRI

Sl. No.	PRIs	Responsibilities
1.	Zila Panchayat	To co-ordinate, evaluate and monitor activities and guide the Janpad Panchayat and Gram Panchayat
2.	Janpad Panchayat	To implement, execute, supervise, monitor and manage works, scheme programmes and project through Gram Panchayat or through executing agencies, transferred by the State Government to Panchayats.
3.	Gram Panchayat	To ensure the execution of schemes, works projects entrusted to it by any law and those assigned to it by the Central or State Government or Zilla Panchayat or Janpad Panchayat.

Standing committees of Zila Panchayat	Standing committees of Janpad Panchayat	Standing committees of Gram Panchayat
<ul style="list-style-type: none"> a. General Administration b. Agriculture Committee c. Education Committee d. Communication and Works Committee e. Cooperation and Industries Committee 	<ul style="list-style-type: none"> a. General Administration b. Agriculture Committee c. Education Committee d. Communication and Works Committee e. Cooperation and Industries Committee 	<ul style="list-style-type: none"> a. General Administration b. Construction and Development Committee c. Education, health and social welfare committee

1.4 Audit coverage

Out of 23,373 PRIs (50 ZPs, 313 JPs and 23010 GPs) in the State, records of 454 PRIs (12 ZPs, 97 JPs and 345 GPs) were scrutinised during the year 2010-11.

1.5 Maintenance of Accounts in formats prescribed by the C&AG

The EFC recommended that C&AG should prescribe the formats for the preparation of budgets and for keeping of accounts for the local bodies. Similarly, the TFC recommended that all State should adopt an accounting framework and codification pattern consistent with the Model Panchayat Accounting System (MAS) which was developed by the C&AG and Ministry of Panchayati Raj and was to be adopted from 1 April 2010.

During test check of records of 12 ZP, 97 JP and 345 GPs, it was observed that none of the PRIs at different levels kept the accounts in the prescribed format during 2010-11.

On being pointed out, the Commissioner, PRI replied (August 2012) that the maintenance of accounts in prescribed format is under process in 2011-12.

1.6 Audit arrangements

As per recommendations of the Eleventh Finance Commission, audit by DLFA has been brought (November 2001) under the TG&S of the C&AG. Accordingly, the audit of 12 ZPs, 97 JPs and 345 GPs as shown **Appendix -IX** was conducted during 2010-11 and Inspection Reports were sent to DLFA for providing Technical Guidance.

Para 10.121 of the recommendations of TFC envisages that State Government must put in place an audit system for all local bodies (all tiers of PRIs). The C&AG must be given TG&S for all the local bodies in the state at every tier and his Annual Technical Inspection Report as well as the Annual Report of Director/Commissioner of Local Fund Audit (DLFA) must be placed before the State Legislature. Accordingly, the MP Panchayat Raj Avam Gram Swaraj Adhiniyam 1993 was amended in July 2011. The first Annual Report of DLFA is under preparation (November 2012).

1.7 Source of revenue

As per section 63 & 64 there are mainly two sources of revenue for local bodies (i) Government grants and (ii) own revenues. Own revenue resources of PRIs comprise of tax and non-tax revenues realised by them. Government grants comprise of funds released by the State Government and the GOI on the recommendation of SFC, Central Finance Commission and State and the GOI share for implementation of various schemes.

1.8 Receipts and expenditure of PRIs

Funds (Share of tax revenue of the state, schemes and grants etc.) allocated to PRIs by the State Government through Budget including GOI's share of the schemes and grants recommended by Central Finance Commission were as follows:-

(₹ in crore)

Sl. No.	Grants in aid				Actual Expenditure			Saving (5-8)
	Year	Revenue	Capital	Total	Revenue	Capital	Total	
1	2	3	4	5	6	7	8	9
1.	2006-07	2719.84	5.76	2725.60	2241.23	0.04	2241.27	484.43
2.	2007-08	3221.86	3.04	3224.90	2996.51	3.03	2999.54	225.46
3.	2008-09	3985.44	2.04	3987.48	3125.25	0.03	3125.28	862.20
4.	2009-10	4942.02	7.02	4949.04	4038.20	5.01	4043.21	905.83
5.	2010-11	6585.74	231.40	6817.14	5678.75	198.65	5877.40	939.74

(Source:- Compiled from Appropriation Accounts)

The details of receipts and expenditure of all PRIs were not being maintained at the Panchayati Raj Directorate (PRD) level.

On being pointed out, the Commissioner, Panchayati Raj replied in October 2011 and November 2012 that the information regarding collection of taxes by ZPs, JPs and GPs was not available at the Directorate.

1.9 Devolution of SFC Grants

Article 243 W of the Constitution made it mandatory for the State Government to constitute a State Finance Commission within a year from the commencement of the Constitutional Amendment Act and thereafter on expiry of every five year to review the financial condition of the ULBs and to make recommendations to the Governor for devolution of funds.

The recommendations of Third SFC were adopted in February 2010 by the State Government. The Third SFC recommended that four *per cent* of the divisible tax revenue²² of previous year of State Government should be devolved to PRIs which would be collected in the divisible fund, through which the share would be devolved to GPs as per classification on the basis of population and their own tax collection criteria.

²² *Divisible Tax revenue means total own tax revenue minus ten per cent of expenditure for collection of taxes and deduction of assigned revenue to PRIs and ULBs.*

The position of funds was to be devolved and funds actually devolved by the State Government during 2010-11 to PRIs is as given below:-

(₹ in crore)				
Year	Own Tax Revenue of State (Divisible Fund)	Funds to be devolved as per Third SFC recommendations	Funds devolved to PRIs by State Government	Short Release
2010-11	13960.22	558.41	490.94	67.47

(Source: Finance Accounts 2009-10 and information provided by PRI)

It can be seen from the above table that State Government did not devolve the funds (₹ 67.47 crore) according to the recommendations of Third SFC to PRIs.

1.10 Bank-reconciliation statement not prepared

Rules 25-26 of Madhya Pradesh, Janpad Panchayat Lekha Niyam 1999, provide that the reconciliation of any difference between the balances of Cash Book and balances of Bank Accounts is required to be conducted every month.

It was noticed that the difference of cash balance of ₹ 25.10 crore between Cash Book and Bank statement at the close of the year (2010-11) was not reconciled by four PRIs²³ as shown in the **Appendix – X** which was contrary to the rules.

1.11 Status of outstanding audit objections

According to TGS arrangement, the DLFA would pursue the compliance of paragraphs in the Inspection Reports of the Accountant General (Audit) as if these are his own reports.

The status of outstanding audit objections of PRIs included in the AG's Inspection Reports is as under:-

S.No	Financial Year	PRIs			
		Opening balance of outstanding audit objection	Addition	No of objections settled	No of objection outstanding
1	2006-07	2824	3029	Nil	5853
2	2007-08	5853	3877	07	9723
3	2008-09	9723	1544	31	11236
4	2009-10	11236	1171	Nil	12407
5	2010-11	12407	1621	465	13563

(Source: Monthly Arrear Report of LB Wing)

Despite regular correspondence with DLFA, no active pursuance was made by DLFA for settlement of outstanding objections.

²³ ZP Chindwara, ZP Ujjain, JP Panagar (Jabalpur) and JP Khaniyadhana.

1.12 Conclusion

Annual Accounts were not prepared by the PRIs in prescribed formats. Details of receipts and expenditure of PRIs were not compiled at the PRD level. The State Government did not devolve the funds according to recommendations of Third SFC. Active pursuance was not made by DLFA for settlement of outstanding objections.