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*CHAPTER II*

*AUDIT OF TRANSACTIONS*

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## CHAPTER II AUDIT OF TRANSACTIONS

### RURAL DEVELOPMENT AND WATER CONSERVATION DEPARTMENT

#### 2.1 Implementation of minor irrigation works by Zilla Parishads

##### 2.1.1 Introduction

Minor Irrigation (MI) works are those which can be completed in a short time and start giving irrigation benefits much more quickly to a small patch of land. The MI works include construction of storage tanks and bandharas and their repair and maintenance, land drainage schemes, tube-wells, small lift irrigation schemes, construction of new wells, installation of pumping sets, boring and blasting of wells *etc.* MI works individually irrigating 101 hectare (ha) or less are executed by Zilla Parishads (ZPs) while those irrigating individually more than 101 ha are in charge of the Water Conservation Department (WCD) of the State Government (Local Sector).

##### 2.1.2 Scope of audit

Audit selected nine<sup>1</sup> out of 33 ZPs where 3,623 MI works (irrigating 101 ha or less) valuing ₹ 360.85 crore have been completed and Irrigation Potential (IP) of 34,122 ha has been created while, 1,069 MI works valuing ₹ 104.38 crore with projected IP of 12,260.19 ha were in progress as of March 2014. Of the 4,692 MI works (completed and ongoing) in nine ZPs, audit selected 449 MI works for detailed scrutiny. For this purpose, records in the Mantralaya, office of the Chief Engineer, Small Scale Irrigation (Water Conservation), Pune (CE), six<sup>2</sup> Superintending Engineers, Minor Irrigation Local Sector (SE) and offices of Executive Engineers (EEs), Minor Irrigation Divisions (MIDs) in nine ZPs were checked for the period 2009-14.

##### Audit findings

##### 2.1.3 Planning for MI works

The Maharashtra Minor Irrigation Manual, 1983 stipulated preparation of a district-wise master plan for MI works, including an exhaustive list of works to be undertaken for the next 15 years. The master plan *inter alia* was to bring out special features of the district, crops normally grown, irrigation practices *etc.*

Audit observed that master plan for MI works was not prepared by any of the nine selected ZPs in the absence of which, the selection of MI works was done by the ZP Committees merely on the basis of the demands received from public representatives/Gram Panchayats (GPs). The list of selected works was then forwarded to the Government of Maharashtra (GoM) through District Planning and Development Committee (DPDC) for seeking funds.

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<sup>1</sup> Ahmednagar, Akola, Amravati, Aurangabad, Beed, Chandrapur, Nashik, Sangli and Thane

<sup>2</sup> Amravati, Aurangabad, Nashik, Nagpur, Pune and Thane

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The Secretary, WCD accepted (December 2014) that the district-wise master plan was not prepared.

Further, in three out of nine selected ZPs, construction of 1,832 cement bandharas were undertaken during 2009-14 without computing cost benefit ratio and an expenditure of ₹ 153.48 crore was incurred up to 31 March 2014, in contravention of paragraph 3.11 of Maharashtra Minor Irrigation Manual, 1983 read with Government Resolution (August 2008). As a result, audit could not seek an assurance whether 1,832 works, on which an expenditure of ₹ 153.48 crore was incurred, were economically viable.

The Secretary, WCD accepted (December 2014) the fact and assured that henceforth, the MIDs would be directed to work out the cost benefit ratio for all MI works.

## **2.1.4 Financial management of MI works**

### **2.1.4.1 Failure to place demand for funds**

Based on the demands raised by the public representatives and GPs, ZP, Thane was expected to submit a proposal to the SE for repair and maintenance of 110 completed MI works at an estimated cost of ₹ 9.70 crore during 2012-13 and ₹ 11.97 crore for repair and maintenance of 129 completed MI works during 2013-14. Audit observed that the ZP failed to submit the proposals to the concerned SE for onward submission to GoM for release of funds. Consequently, WCD released only ₹ 0.12 crore and ₹ 0.08 crore during 2012-13 and 2013-14 respectively due to which, repair and maintenance of 239 MI works remained largely unexecuted.

The Secretary, WCD stated (December 2014) that repair works could not be taken up due to paucity of funds.

### **2.1.4.2 Unfruitful expenditure**

As per Government Resolution of July 2010, funds were to be provided by GoM for those works which remained incomplete under the State Employment Guarantee Scheme (EGS) and could not be transferred to Maharashtra Rural Employment Guarantee Scheme (MREGS) as on 01 April 2008. In this regard, a list of such works was called for by GoM from all the ZPs.

Audit observed that ZP, Beed though furnished a list of 350 incomplete works, failed to include 23 other incomplete works in the list submitted to GoM on which an expenditure of ₹ 52.73 lakh had already been incurred as of 31 March 2008. Consequently, no funds were provided by GoM to the ZP during 2008-14 and expenditure of ₹ 52.73 lakh incurred on these 23 incomplete works proved to be unfruitful.

The Secretary, WCD assured (December 2014) that a proposal for budgetary support from DPDC would be initiated to complete these 23 works.

The reply is not convincing because all these works are earthworks and after a time lapse of six years, these works would be difficult to complete/rehabilitate due to deterioration with passage of time.

### **2.1.4.3 Diversion of funds and excess expenditure over budget**

As per Government Resolution (February 2008), the District Collector is the Controlling Officer for disbursement of funds to the ZPs for implementation of MI works. He is authorized to re-appropriate the funds within the Scheme/programme only after obtaining approval of the DPDC.

During 2013-14, MID (East), ZP, Nashik received ₹ 312.12 lakh for completion of 61 MI works. Against which, ₹ 93.49 lakh was spent on completion of 11 MI works up to March 2014. Audit observed that of the unspent balance of ₹ 218.63 lakh, ₹ 120.62 lakh was diverted by the ZP for completion of 65 other MI works, without prior approval of DPDC and District Collector. The balance ₹ 98.01 lakh was carried forward for utilization during 2014-15.

The Secretary, WCD accepted (December 2014) the fact and stated that re-appropriation proposal would be submitted to DPDC and concerned District Collector for *post facto* approval.

### **2.1.5 Execution of MI works**

#### **2.1.5.1 Time and cost overrun in selected MI works**

The 449 MI works in nine ZPs were sanctioned at a total cost of ₹ 85.80 crore and scheduled for completion between January 1995 and March 2016. Audit observed that of the 449 MI works, 389 works (total sanctioned cost ₹ 65.07 crore) were completed at a total cost of ₹ 61 crore between March 1998 and March 2014. Of the 389 completed works, 164 works registered a delay up to 108 months and a cost overrun of ₹ 0.72 crore.

The remaining 60 works (total sanctioned cost ₹ 20.73 crore) were incomplete as of March 2014. Of the 60 incomplete works, there was a time overrun up to 234 months and cost overrun of ₹ 0.70 crore in 47 works.

#### **2.1.5.2 Award of works to Labour Cooperative Societies**

The Public Works Department, GoM prescribed (November 2006) awarding of a single work valuing up to ₹ 15 lakh to Labour Cooperative Societies (LCS) without inviting tender, subject further to the condition that the financial threshold of the total number of works awarded to one LCS (either through direct allotment or tendering) should not exceed ₹ 50 lakh in a year.

In ZP, Beed, audit observed that 41 works valuing ₹ 4.16 crore were awarded to five LCS (either through direct allotment or tendering) beyond the prescribed limit of ₹ 50 lakh per year, as detailed in **Table 1**.

**Table 1: Works awarded to LCS beyond the prescribed limit**

(₹ in crore)				
Sl. No.	Name of LCS	Year	No. of works awarded to LCS	Amount involved
1	Annapurna, Wasanwadi	2010-11	15	1.17
2	Annapurna, Wasanwadi	2011-12	9	1.15
3	Sonajirao Kshirsagar	2011-12	5	0.70
4	Jaidatta, Kada, Ashti	2010-11	6	0.58
5	Omkar, Parner, Patoda	2010-11	6	0.56
<b>Total</b>			<b>41</b>	<b>4.16</b>
Source: Data compiled from the records of ZP, Beed				

Audit further observed that ZPs, Ahmednagar and Aurangabad split up the works in order to bring them below the threshold of ₹ 15 lakh and to facilitate their awarding to LCS without resorting to open tendering, as indicated in **Table 2**.

**Table 2: Works split up and awarded to LCS**

Sl. No.	Name of the LCS	Date of work order	Value of work order (₹ in lakh)	Name of the work
1	Sumit, Aurangabad	12/03/2012	12.43	KT Bandhara, Purbawda, Part II (new work)
		12/03/2012	9.40	KT Bandhara, Purbawda, Part I (new work)
2	Tuljabhawani, Aurangabad	27/02/2009	10.74	KT Bandhara, Dinapur Part I (repairs)
		27/02/2009	13.41	KT Bandhara, Dinapur Part II (repairs)
3	Ajinkyatara, Ahmednagar	03/11/2009	13.17	Percolation tank at Kasulwadi (Pathardi)-Dam work in chainage 25 m to 70 m
	Ajinkyatara, Ahmednagar	03/11/2009	14.39	Percolation tank at Kasulwadi (Pathardi)-Dam work in chainage 105 m to 205m
	Jaikishan, Ahmednagar	03/11/2009	12.98	Percolation tank at Kasulwadi (Pathardi)-Dam work in chainage 70 m to 105m
	Somnath, Ahmednagar	09/01/2009	14.99	Percolation tank at Kasulwadi (Pathardi)-Waste weir, flank wall and guide wall
Source: Data compiled from respective ZPs				

The Secretary, WCD while accepting the fact stated (December 2014) that the cases pointed out by audit would be scrutinized and a detailed reply would be furnished.

### 2.1.5.3 Non-compliance to contract conditions

Clause 3(C) of the General Conditions of Contract of B1 agreement provides for recovery of any extra cost that would arise on retendering along with expenditure on publishing notice inviting tender, from the defaulting contractor by forfeiture of his security deposit or recovery from pending bills in other Departments or raising a revenue recovery certificate against his property through Revenue Department.

Audit observed that ZPs, Amravati and Ahmednagar terminated four agreements under Clause 3(C) of the contracts at the risk and cost of the

defaulting contractors and the EEs retendered the balance works to other agencies and incurred an extra expenditure of ₹ 58.66 lakh as detailed in **Appendix-I**. However, the EEs failed to recover ₹ 58.66 lakh from the defaulting contractors.

The Secretary, WCD accepted (December 2014) the facts.

#### **2.1.5.4 Idle investment on incomplete works**

In four ZPs (Amravati, Chandrapur, Nashik and Thane), five works awarded between April 1999 and February 2011 at a total cost ₹ 52.08 lakh remained incomplete for a period ranging from 43 months to 144 months as of March 2015. The EEs failed to take any action to complete these works, resulting in an idle investment of ₹ 29.86 lakh. As a result, the projected IP of 48.22 ha envisaged to be created from these works also could not be created. The details are given in **Appendix-II**.

The Secretary, WCD stated (December 2014) that the cases pointed out by audit would be scrutinized and a detailed reply would be furnished.

#### **2.1.5.5 Delay in termination of works due to land disputes**

Audit scrutiny revealed that four works valuing ₹ 43.70 lakh taken up by MID (West), ZP, Nashik during 2006-12 and proposed to be completed between March 2008 and March 2012 were under termination (March 2015) under clause 15<sup>3</sup> of contract, due to land disputes with farmers/locals. Incidentally, the proposals for termination of three out of four works were submitted by the concerned Sub-Divisions/GPs to the EEs, after time lapse of 26 months to 56 months from the stipulated date of completion of these works.

The Secretary, WCD assured (December 2014) that these works would be terminated at the earliest.

#### **2.1.5.6 Violation of established quality control procedures**

Appendix C to Chapter 33 of Maharashtra Public Works Department Handbook stipulates testing of material<sup>4</sup> brought by the contractors to site and used during execution of works through Government laboratories, in order to ensure quality of construction for consistency, compressive strength, crushing strength, fineness *etc.*

ZPs, Nashik and Thane awarded 11 MI works to 10 contractors between January 2011 and March 2014 at a total cost of ₹ 119.31 lakh. Audit scrutiny revealed that in eight out of 11 works, the EEs made payments to the contractors (₹ 87.18 lakh) without obtaining any test reports during execution of these works. In the remaining three works, payment of ₹ 24.90 lakh was made to the contractors though the test reports were submitted by the contractors either prior to issue of work orders or the tests were got conducted by the contractors before the dates on which material were shown as brought to sites in MID records (**Appendix-III**).

The Secretary, WCD stated (December 2014) that the cases pointed out by audit would be scrutinized and a detailed reply would be furnished.

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<sup>3</sup> Under clause 15, the Department may rescind whole or any part of the work specified in the tender without assigning any reasons, other than default on the part of the contractor

<sup>4</sup> Cement, coarse aggregate, sand and cement concrete *etc.*

### 2.1.5.7 Poor implementation of Jawahar Wells Scheme

On the lines of Centrally Sponsored Jeevandhara Wells Scheme, the GoM implemented (December 1991) Jawahar Wells Scheme to assist the marginal and small farmers by providing 100 *per cent* financial assistance for construction of wells under State EGS, in order enable them to increase the agriculture production through irrigation. The District Collectors provide the necessary funds from the EGS for Jawahar wells. The EEs (MIDs), ZPs were to monitor the implementation of the Scheme.

Under the Scheme, each well was to be constructed within a period of 14 months from the date of issue of work order by the Chief Executive Officer (CEO), ZP to the beneficiary. Financial assistance in the form of subsidy of ₹ one lakh per beneficiary per well was to be granted. Ten *per cent* of the subsidy (₹ 10,000) was to be paid to the beneficiaries as advance to start the construction. Subsequent payments were to be released to the beneficiaries as per the progress of work. In the event of failure to construct the wells within the stipulated time period, the subsidy was to be recovered from the beneficiaries as revenue recovery. The Scheme was to conclude in July 2014.

Audit verified the status of implementation of the Scheme in nine selected ZPs during 2009-14 and the summarized position is indicated in **Table 3**.

**Table 3: Implementation of Jawahar Wells Scheme in nine selected ZPs during 2009-14**

(₹ in lakh)

Name of the ZP	Sanctioned wells	10 <i>per cent</i> advance given but construction not started by the beneficiaries		Completed wells		Incomplete wells		Cancelled/ proposed for cancellation	
		No.	Expenditure incurred	No.	Expenditure incurred	No.	Expenditure incurred	No.	Expenditure incurred
Ahmednagar	2232	0	0	2070	2016.19	51	38.99	111	0
Akola	7473	1530	153.00	3269	3269.00	2674	1169.00	0	0
Amravati	11480	1416	141.60	5237	5237.00	4827	1731.01	0	0
Aurangabad	1331	0	0	1159	1158.21	105	69.36	67	0
Beed	1286	64	6.40	908	908.00	170	88.53	144	0
Chandrapur	4832	0	0	2810	2810.00	632	338.12	1390	0
Nashik	2247	0	0	1869	1170.00	157	90.00	221	0
Sangli	1391	9	0.90	1286	625.59	7	2.25	89	6.10
Thane	1642	0	0	1061	1061.00	0	0	581	29.75
<b>Total</b>	<b>33914</b>	<b>3019</b>	<b>301.90</b>	<b>19669</b>	<b>18254.99</b>	<b>8623</b>	<b>3527.26</b>	<b>2603</b>	<b>35.85</b>

Source: Data provided by the selected ZPs

Audit scrutiny revealed the following:

- Of the 33,914 targeted wells to be constructed, only 19,669 (58 *per cent*) could be constructed by July 2014 *i.e.* the date on which the Scheme concluded. The expenditure of ₹ 3,527.26 lakh incurred on 8,623 incomplete wells was unfruitful, as no further extension to the Scheme timeline of July 2014 was envisaged to be granted by GoM.

- The advance payment of ₹ 301.90 lakh given to 3,019 beneficiaries in four ZPs (Akola, Amravati, Beed and Sangli) during 2009-14 was required to be recovered, as no construction of wells was started by the beneficiaries till July 2014. However, no recoveries were effected from the defaulting beneficiaries as of March 2015.
- An expenditure of ₹ 35.85 lakh incurred on construction of 670 wells, which were subsequently cancelled, in Sangli and Thane districts was wasteful.

The Secretary, WCD stated (December 2014) that the Government was contemplating to extend the Scheme further in order to complete the remaining works.

#### 2.1.5.8 Shortfall in creation of IP

Audit observed that in nine selected ZPs, there was a shortfall ranging between 76 and 82 per cent in creation of IP against the IP envisaged to be created. The summarised status is shown in **Table 4**.

**Table 4: Shortfall in creation of IP in nine selected ZPs during 2009-14**

Year	IP envisaged to be created (in ha)	IP actually created (in ha)	Shortfall in per cent
2009-10	32049	7304	77
2010-11	32557	5876	82
2011-12	31536	6200	80
2012-13	31914	7674	76
2013-14	31701	7068	78

Source: Data provided by ZPs

The Secretary, WCD accepted (December 2014) the fact and stated that shortfall in creation of IP was due to paucity of funds with ZPs to take up MI works, shortage of technical staff, problems in negotiating with land holders for requisite land *etc.*

#### 2.1.5.9 Under-utilization of IP created

Audit scrutiny revealed that in four ZPs (Akola, Amravati, Chandrapur and Sangli), the IP utilized against the IP created was drastically low and ranged between six and 19 per cent during 2009-14. The summarised status is shown in **Table 5**.

**Table 5: Under-utilization of IP created in four selected ZPs during 2009-14**

Year	IP created up to date (in ha)	IP utilized (in ha)	IP utilisation (in percentage)
2009-10	84304	5959	7
2010-11	85597	7707	9
2011-12	87537	7112	8
2012-13	89458	17233	19
2013-14	91566	5305	6

Source: Data provided by four ZPs



In the remaining five<sup>5</sup> ZPs, the position of IP utilized was not furnished to audit by the MIDs.

The Secretary, WCD stated (December 2014) that majority of MI works in the ZPs were providing indirect irrigation, which was difficult to quantify. However, the IP utilized cannot be segregated into direct/indirect irrigation benefits.

The reply is not convincing as the IP created by the MI projects in four ZPs (as indicated in Table 5 above) was intended to provide direct benefits to the beneficiaries and does not include indirect benefits, which are only incidental.

## **2.1.6 Monitoring of MI works**

### **2.1.6.1 Inadequate monitoring of deposit works**

As per paragraph 300 of Maharashtra Public Works Manual, 1984, the ZPs have powers to entrust MI works to Local Sector Divisions of the State as deposit works. ZPs, Akola and Aurangabad awarded execution of 213 MI works valuing ₹ 18.80 crore to MI (Local Sector) Divisions during 2009-12 as deposit works.

Audit scrutiny revealed that the EEs, Akola and Aurangabad were not aware of the number of deposit works taken up (out of 213) by the MI (Local Sector) Divisions, status of their completion or their handing over to MIDs, expenditure incurred on these deposit works *etc.* This clearly indicated that the ZPs were not monitoring the deposit works even though substantial funds have been transferred to the MI (Local Sector) Divisions.

The Secretary, WCD stated (December 2014) that the status of these works would be ascertained from the concerned Local Sector Divisions.

### **2.1.6.2 Technical inspections of MI works**

The Rural Development and Water Conservation Department (RD & WCD), GoM acknowledged (January 2002) the fact that the quality control mechanism in the ZPs to monitor the implementation of MI works was non-existent. The RD & WCD therefore, directed that the SEs should cause to inspect 10 *per cent* of ongoing MI works in the ZPs within their jurisdiction, through the EEs of State Local Sector. The MIDs were to take corrective measures on the observations raised in the inspection reports and submit a quarterly report to GoM in this regard.

Audit observed that in eight out of nine selected ZPs (except ZP, Ahmednagar), the EEs of State Local Sector did not conduct any inspections of the ongoing MI works during 2009-14.

The Secretary, WCD accepted (December 2014) the fact and expressed practical difficulties in conducting inspection of MI works due to heavy workload and vast jurisdiction of the State Local Sector.

### **2.1.6.3 Internal audit**

As per Rule 19 of Appendix IV contained in Maharashtra Zilla Parishads and Panchayat Samitis Account Code, 1968, the Chief Accounts and Finance

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<sup>5</sup> Ahmadnagar, Aurangabad, Beed, Nashik, and Thane

Officers of the ZPs have been entrusted the task of internal audit of various Departments of ZPs through an internal audit wing to be constituted by him. Internal audit includes checking of subsidiary/initial accounts and vouchers of all the Departments of ZPs, including the Panchayat Samitis.

Scrutiny of records revealed that internal audit wing was not constituted in four ZPs (Aurangabad, Chandrapur, Nashik and Thane). Further, in the remaining five<sup>6</sup> ZPs, though internal audit wing existed, audit was pending since 2010-11 in ZP, Ahmednagar and from 2012-13 in ZP, Sangli.

### **2.1.7 Conclusion and recommendations**

The Minor Irrigation Divisions of ZPs took up MI works without preparing any long term district-wise master plans in an ad-hoc manner, on the basis of demands received from public representatives/Gram Panchayats. There were significant time and cost overrun in execution of MI works by the nine selected ZPs. A number of MI works were taken up without computing benefit cost ratio and works awarded as early as April 1999 to February 2011 remained incomplete as of March 2015 despite incurring substantial expenditure.

*The ZPs should prepare long term comprehensive plans of MI works underlining clearly the targets of irrigation potential envisaged to be created, the benefits expected to accrue to the beneficiaries in terms of better water availability and increased crop yield.*

Works were irregularly spilt up and awarded to Labour Cooperative Societies in order to bring them within the financial threshold stipulated for award of works to the Societies.

*The ZPs may ensure that the norms laid down by Public Works Department regarding awarding of works to Labour Cooperative Societies are strictly adhered to.*

The quality control procedures were not adhered to by the contractors during the execution of works yet, payments were released to them. There were significant shortfalls in creation and utilisation of irrigation potential against the potential envisaged to be created and actually created. The monitoring and inspection of MI works by the ZPs was deficient.

*In order to bridge the gap between the irrigation potential created and utilized, the ZPs should prioritize the projects which are long pending for completion and re-establish the irrigation potential of the old MI works through a dedicated repair and maintenance management system.*

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<sup>6</sup> Ahmednagar, Akola, Amravati, Beed and Sangli

## 2.2 Receipt of Panchayati Raj Institutions

### 2.2.1 Introduction

A three tier system of Panchayati Raj Institutions (PRIs) comprising Zilla Parishads (ZPs) at the district level, Panchayat Samitis (PSs) at the block level and Gram Panchayats (GPs) at the village level was established in the State by amending the extant Acts viz., The Maharashtra Zilla Parishads and Panchayat Samitis Act, 1961 (ZP and PS Act) and the Maharashtra Village Panchayat Act, 1958 (VP Act).

The receipts of PRIs consist of grants from Government of India (GoI), Government of Maharashtra (GoM) and its own resources. The resources of PRIs comprise of its own revenue and revenue share given by GoM. Own revenue of PRIs include taxes collected on account of property, water, electricity, general sanitary cess, rent *etc.* Revenue share given by GoM includes land revenue cess, stamp duty grant, forest revenue grant, vehicle tax grant, professional tax grant, agency charges *etc.* The receipts are used by the PRIs for developmental works and to improve the delivery of basic civic services.

The records of eight<sup>7</sup> out of 33 ZPs including 25 PSs and 75 GPs were test-checked for the period 2009-14 to ascertain whether the grants received by the PRIs from GoM were timely and adequate and the system of levy and collection of taxes was efficient.

### Audit findings

#### 2.2.2 Poor receipts of PRIs from own resources

The sources of receipts of PRIs in the State during 2009-14 were as shown in **Table 6**.

**Table 6: Sources of receipts of PRIs during 2009-14**

(₹ in crore)								
Sl. No	Source of receipts	2009-10	2010-11	2011-12	2012-13	2013-14	Total receipts	Percentage to total receipts
1.	Grants from State Government under all GoM schemes	11726.62	13260.93	14294.73	16444.42	18184.73	73911.43	85.69
2.	Grants from GoI for all Centrally Sponsored Schemes	1890.31	2284.70	1771.01	998.30	1220.03	8164.35	9.47
3.	Own resources	376.96	656.81	706.27	849.65	1580.27	4169.96	4.84
	<b>Total</b>	<b>13993.89</b>	<b>16202.44</b>	<b>16772.01</b>	<b>18292.37</b>	<b>20985.03</b>	<b>86245.74</b>	

Source : For Sl. No.1: CAG's Audit Reports (State Finance), GoM;  
For Sl. No. 2 and 3: Information furnished by Rural Development and Water Conservation Department, GoM

As can be seen from the **Table 6** above, the receipts of PRIs from own resources was a mere 4.84 *per cent* of the total receipts during 2009-14 while the receipts from GoM accounted for 85.69 *per cent* of the total receipts.

<sup>7</sup> Raigad, Pune, Thane, Nashik, Ratnagiri, Yavatmal, Parbhani and Hingoli

### 2.2.3 Receipt and disbursement of grants

As per the provisions contained in ZP and PS Act, GoM provides various grants<sup>8</sup> to the ZPs which are then disbursed to the PSs and GPs. Further, ZPs also receive primary education contribution from the non-authorised municipalities<sup>9</sup> and profession tax and motor vehicle tax grants from GoM.

Scrutiny of records in the eight test-checked ZPs revealed short/non-release of grants by GoM to ZPs, delay in release of grants by ZPs to PSs, non-levy of taxes by GPs, non-revision of tax grants paid by GoM to ZPs, as discussed below:

#### 2.2.3.1 Non-revision of profession tax grant

Prior to enactment of Maharashtra State Tax on Professions, Trades, Callings and Employment Act, 1975 (PT Act), local authorities in 15 ZPs<sup>10</sup> in the State were levying profession tax. With the enactment of PT Act, the powers of local authorities to levy profession tax were withdrawn. The PT Act provided for paying annual grant by GoM to the local authorities an amount worked out on the basis of the highest collection made by the local authorities in any year during three years immediately preceding the commencement of PT Act. The total amount of annual grant so determined by GoM was ₹ 27.42 lakh which was being distributed annually to the local authorities of 15 ZPs since 1975.

Audit observed that collection of profession tax had increased manifold due to increase in population/employment. The total collection of profession tax in the State during 2009-14 was ₹ 7,612.78 crore. However, the PT grant paid to these 15 ZPs were not indexed to the increase in profession tax collection thereby depriving the ZPs of increased revenue.

The Rural Development and Water Conservation Department stated (August 2014) that the amount of ₹ 27.42 lakh was determined and paid as per the provisions of the PT Act and it was making efforts to increase the share of ZPs.

#### 2.2.3.2 Non-revision of motor vehicle tax grant

As per clause 11 (2) (b) of the Bombay Motor Vehicles Tax Act, 1958 (MVT Act), the State Government shall pay annually to each Local Board<sup>11</sup>, which was levying tolls on vehicles before the commencement of MVT Act, a sum as representing the net average annual income of such local Boards from such tolls after deducting the cost of collection during the three years ending on 31 March 1958 plus 10 per centum of such sum.

<sup>8</sup> Interest on provident fund of ZPs employees, stamp duty grant, land revenue cess, additional cess, incentive grant, forest revenue grant, agency charges *etc.*

<sup>9</sup> Non-authorised municipalities are those in whose jurisdiction schools are run by ZPs and therefore, these municipalities (municipal corporations, municipal councils and nagar panchayats) are required to pay primary education contribution to the ZPs

<sup>10</sup> Bhandara, Chandrapur, Dhule, Gadchiroli, Gondia, Hingoli, Jalgaon, Nanded, Nandurbar, Nashik, Parbhani, Pune, Satara, Solapur and Thane

<sup>11</sup> Local Board means the local authority

Prior to commencement of MVT Act, only 14 ZPs<sup>12</sup> were levying and collecting motor vehicle tax and their total annual collection was ₹ 5.44 lakh which was being distributed by GoM to these 14 ZPs since 1958. With economic development in the State, there has been a steep rise in the number of vehicles since 1958 which resulted in substantial increase in collection of motor vehicle tax (total collection by GoM during 2013-14 was ₹ 3,214.03 crore in 14 districts). However, the motor vehicle tax grant paid to these 14 ZPs was not indexed to the increase in motor vehicle tax collection thereby depriving the ZPs of increased revenue.

The Rural Development and Water Conservation Department stated (August 2014) that the amount of ₹ 5.44 lakh was determined and paid as per the provisions of the MVT Act and it was making efforts to increase the share of ZPs.

### **2.2.3.3 Short-allocation of provident fund interest grants**

The State Government has a liability to pay interest on Provident Fund (PF) of the employees of ZPs. In eight test-checked ZPs, audit observed that during 2010-14 interest grant of ₹ 744.70 crore was demanded by the ZPs from GoM on account of PF of employees. However, GoM restricted the amount to only ₹ 483.45 crore resulting in short-allocation of ₹ 261.25 crore. The corresponding short-allocation of PF interest grant to 33 ZPs in the State was to the extent of ₹ 853.28 crore.

### **2.2.3.4 Shortfall/delay in disbursement of stamp duty grants**

Section 158 of ZP and PS Act provides for assignment of stamp duty grants to ZPs by GoM. For this purpose, one *per cent* additional stamp duty is collected by Revenue Department over and above the prescribed rate on transactions of immovable properties as stamp duty grant for disbursement to the ZPs. Of the total stamp duty grant so received from GoM, 50 *per cent* of the grant is retained by ZPs and remaining 50 *per cent* is released to PSs for disbursement to the concerned GPs. The disbursement of grants by the PSs to the GPs is done on the basis of a list forwarded by the concerned Sub-Registrars of Stamp Duty which indicates the actual stamp duty collected in the jurisdiction of each GP in the preceding year.

In four<sup>13</sup> of eight test-checked ZPs, audit observed that against the stamp duty of ₹ 938.82 crore due from GoM for the period 2009-14, only ₹ 789.06 crore was disbursed to these four ZPs resulting in shortfall in disbursement of stamp duty grants amounting to ₹ 149.76 crore<sup>13</sup>.

Audit further observed that in two ZPs (Thane and Parbhani), of ₹ 108.72 crore stamp duty grant received from GoM for the period 2009-14, 50 *per cent* (₹ 54.36 crore) was to be disbursed by the ZPs to PSs for onward disbursement to concerned GPs. However, the ZPs disbursed only ₹ 50.11 crore resulting in shortfall in disbursement of stamp duty grants to the extent of ₹ 4.25 crore to PSs.

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<sup>12</sup> Ahmednagar, Dhule, Jalgaon, Kolhapur, Nandurbar, Nashik, Pune, Raigad, Ratnagiri, Sangli, Satara, Sindhudurg, Solapur and Thane

<sup>13</sup> Yavatmal (₹ 5.52 crore), Raigad (₹ 42.33 crore), Hingoli (₹ 1.27 crore) and Pune (₹ 100.64 crore)

ZP Parbhani stated (July 2014) that GP-wise list was not received from the concerned Sub-Registrar of Stamp Duty and hence, the amount could not be disbursed to PSs. The reply is not convincing as no action was taken by the ZP to obtain the list from the Stamp Duty Department despite receipt of grants from GoM.

During the period 1996-2014, in four<sup>14</sup> of eight test-checked ZPs there was delay of one to 18 years in disbursement of stamp duty grants amounting to ₹ 54.45 crore<sup>14</sup> by the ZPs to PSs.

### 2.2.3.5 Short-receipt of forest revenue grants

As per Section 181A of ZP and PS Act, the State Government shall, after due appropriation made by law in this behalf, make every year a grant to every ZP of a sum equal to seven *per cent* of the average of the amounts of gross revenue realized from forests during three financial years immediately preceding each quinquennium<sup>15</sup> commencing on the first day of April 1972, within the limits of the district.

Scrutiny of records in test-checked ZPs and information furnished by the Forest Department revealed that GoM had incorrectly assessed the quantum of forest revenue grants to be disbursed to the ZPs during 2009-14. In five of eight test-checked ZPs, GoM disbursed excess forest revenue grants amounting to ₹ 0.41 crore<sup>16</sup> while there was short-disbursement of ₹ 6.73 crore<sup>17</sup> in three ZPs.

### 2.2.3.6 Non-release of other grants

According to the provisions of ZP and PS Act, grants such as, land revenue cess, land revenue additional cess, incentive grants *etc.* are to be paid by GoM to the ZPs. Audit observed that in six<sup>18</sup> of eight test-checked ZPs, grants amounting to ₹ 211.15 crore<sup>18</sup> for the period 1994-2014 though due to the ZPs, were not released by GoM.

### 2.2.3.7 Short-receipt of agency charges

As per Section 123 of ZP and PS Act read with Government Resolution (GR) of 1999, the State Government was to pay agency charges to ZPs at five *per cent* of the project cost for execution or maintenance of works/development schemes on behalf of the State Government.

<sup>14</sup> Yavatmal (₹ 1.15 crore), Hingoli (₹ 1.12 crore), Nashik (₹ 24.03 crore) and Raigad (₹ 28.15 crore)

<sup>15</sup> Quinquennium is a period of five years commencing from April 1972 to March 1977 and average of three years preceding April 1972 *i.e.* from April 1969 to March 1972 was to be reckoned for the quinquennium of 1972-1977

<sup>16</sup> Pune (₹ 0.02 crore), Thane (₹ 0.21 crore), Raigad (₹ 0.02 crore), Nashik (₹ 0.14 crore) and Hingoli (₹ 0.02 crore)

<sup>17</sup> Yavatmal (₹ 6.70 crore), Ratnagiri (₹ 0.01 crore) and Parbhani (₹ 0.02 crore)

<sup>18</sup> Raigad (₹ 63.34 crore), Thane (₹ 53.19 crore), Yavatmal (₹ 21.81 crore), Ratnagiri (₹ 32.62 crore), Nashik (₹ 13.15 crore) and Pune (₹ 27.04 crore)

In the eight test-checked ZPs, audit observed that GoM disbursed only ₹ 9.90 crore as agency charges to the ZPs instead of ₹ 21.29 crore due to them during 1992-2014, resulting in short-receipt of ₹ 11.39 crore<sup>19</sup>.

### **2.2.3.8 Non-receipt of grants on account of electricity charges**

As per GR issued (August 2009) by Water Supply and Sanitation Department, GoM, a grant equal to 50 *per cent* of the expenditure incurred by GPs on electricity charges for Rural Water Supply Schemes (RWSS) was to be reimbursed by the State Government to the GPs through ZPs/PSs.

Scrutiny of annual accounts of 75 test-checked GPs revealed that an expenditure of ₹ 5.11 crore was incurred by 29 GPs during 2009-2013 on account of electricity charges on various RWSS. However, against grants equal to 50 *per cent* of the total expenditure incurred by GPs (₹ 2.56 crore), only ₹ 0.11 crore was reimbursed by GoM to four<sup>20</sup> GPs till March 2014. The remaining 25 GPs did not raise any demand for ₹ 2.45 crore to the GoM through respective PSs/ZPs.

### **2.2.3.9 Non-receipt of primary education contribution from non-authorized municipalities**

As per provisions contained in Bombay Primary Education Act, 1947, every non-authorized municipality<sup>9</sup> is required to pay annually an amount equal to five *per cent* of rateable value<sup>21</sup> of properties in that municipal area to the ZP as primary education contribution.

Audit observed that in all the eight test-checked ZPs, no primary education contribution was being recovered from the municipalities. In four<sup>22</sup> ZPs, ₹ 9.52 crore due from the municipalities for the period ranging between 1973-74 and 2013-14 was not recovered. In the remaining four ZPs, three ZPs (Hingoli, Parbhani and Yavatmal) had never raised any demand on the concerned municipalities during the period 2009-10 to 2013-14. ZP, Raigad though took up the matter in December 2005 with concerned municipality (Karjat Municipal Council), the amount of contribution could not be assessed (August 2014) by the ZP as the municipality did not furnish the details of properties under its jurisdiction.

## **2.2.4 Assessment, levy and collection of revenue**

### **2.2.4.1 Arrears of taxes**

In accordance with the provisions of the VP Act, various taxes such as, water charges, property tax, general sanitary cess, lighting tax *etc.* were being levied and collected by the GPs.

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<sup>19</sup> Yavatmal (₹ 0.49 crore), Parbhani (₹ 0.30 crore), Raigad (₹ 0.67 crore), Nashik (₹ 2.74 crore), Ratnagiri (₹ 1.42 crore), Hingoli (₹ 0.34 crore), Pune (₹ 2.95 crore) and Thane (₹ 2.48 crore)

<sup>20</sup> KasbeWani, Palkhed, Shrirampur and Chalbardi

<sup>21</sup> As per Section 154 of Mumbai Municipal Corporation Act, 1888, the rateable value of any building or land assessable to a property tax shall be determined by deducting from the amount of annual rent for which such land or building might reasonably be expected to let from year to year, a sum equal to ten per centum of the said annual rent

<sup>22</sup> Pune, Ratnagiri, Thane and Nashik

Audit observed that the GPs were not maintaining any data on recoveries made from the current demand as well as the arrears in respect of various taxes. Consequently, it was difficult to ascertain the age-wise position of arrears and the recoveries effected. In eight<sup>23</sup> test checked ZPs, the arrears of water charges as of March 2014 was ₹ 51.03 crore<sup>23</sup> and constituted 38 per cent of the total demand. Similarly, the arrears in collection of other taxes viz. property tax, general sanitary cess, lighting tax etc. was pegged at ₹ 32.51 crore as of March 2014 and constituted 10 per cent of the total demand.

#### 2.2.4.2 Non-levy of taxes on mobile towers

As per GR (October 2006) issued by Rural Development and Water Conservation Department, GPs were required to levy taxes on all commercial mobile towers established in its limits at the prescribed rates.

Audit observed that 78 mobile towers in 44 GPs under three<sup>24</sup> PSs were not assessed for levy of tax during 2005-14, resulting in non-recovery of taxes amounting to ₹ 22.87 lakh.

#### 2.2.5 Monitoring and internal controls

An effective monitoring and internal control mechanism is necessary to ensure proper accounting of receipts, preparation of accounts, maintenance of records etc. The monitoring and internal controls in PRIs were weak as indicated below:

- In all the 75 GPs test-checked, the Gram Sevaks were handling cash as well as the accounts in contravention of the provisions contained in Maharashtra Treasury Rules, 1968. Such an arrangement increased the possibility of misappropriation/embezzlement of funds in the GPs.
- As of March 2014, in eight ZPs 4,387 cases of misappropriation involving ₹ 49.87 crore were pending disposal since 1958 against 1,057 Gram Sevaks/250 Sarpanchs. Since the ZPs were not maintaining year-wise data on misappropriation cases, it was difficult to determine in audit the quantum of misappropriation during 2009-14, except ZP, Pune where 62 cases of misappropriation involving ₹ 2.33 crore were reported during 2009-14. Further, in six<sup>25</sup> of eight test-checked ZPs, 44 cases of embezzlement involving ₹ 6.52 crore<sup>25</sup> were reported during 2005-12. The First Information Reports were however, lodged after time lapse of 40 to 84 months from the date of detection of embezzlement.
- In PS Jawhar (ZP, Thane) and PS Aundha (ZP, Hingoli), 1,834 houses were constructed under Indira Awas Yojana during 2009-14. However, the PSs did not update their assessment registers and thus, these properties escaped assessment for property and water charges. In GP

<sup>23</sup> Ratnagiri (₹ 3.76 crore), Yavatmal (₹ 5.71 crore), Pune (₹ 2.79 crore), Thane (₹ 6.85 crore), Raigad (₹ 20.16 crore), Nashik (₹ 11.31 crore), Parbhani (₹ 0.30 crore) and Hingoli (₹ 0.15 crore)

<sup>24</sup> Jintur (ZP Parbhani), Jawhar (ZP Thane) and Pandharkawda (ZP Yavatmal)

<sup>25</sup> Yavatmal (₹ 0.30 crore), Nashik (₹ 2.56 crore), Thane (₹ 2.60 crore), Pune (₹ 0.29 crore), Parbhani (₹ 0.58 crore) and Raigad (₹ 0.19 crore)



Ambarwadi under PS Jintur (ZP Parbhani), though assessment register was maintained, no assessment of properties was done since 2001-02.

### 2.2.6 Conclusion and recommendations

During 2009-14, the receipts of PRIs from own sources were merely 4.84 per cent of the total receipts from all sources and the PRIs were largely dependent on Government grants for developmental works. Even the Government did not release various grants due to the ZPs or there had been shortfalls in disbursement of grants to the ZPs, which significantly affected the receipts of ZPs and its further distribution to GPs. There were also heavy arrears in collection of various taxes by the ZPs. The monitoring and internal controls in PRIs were weak. There was large number of misappropriation/embezzlement cases involving ₹ 56.39 crore which were pending settlement.

*The PRIs need to review its tax base and also improve the system of collection of taxes, in order to increase its receipts from own sources. The Government should also ensure timely disbursement of grants due to the PRIs. The monitoring and internal controls in PRIs need to be strengthened to avoid instances of misappropriation/embezzlement.*

The matter was referred to the Government in September 2014; their reply was awaited as of March 2015.

## 2.3 Blockage of Government funds

**Despite deteriorating financial position of District Central Co-operative Banks in six Zilla Parishads, the Government of Maharashtra did not take early preventive action to transfer the deposits from these banks to other Nationalised Banks, leading to blockage of ₹ 520.75 crore**

In terms of Section 49 of Maharashtra Zilla Parishad and Panchayat Samitis Account Code, 1968, the moneys relating to a district fund and all sums received therein, shall be kept in the District Central Co-operative Bank (DCCB) approved by the State Government under clause (b) of sub-section (3) of Section 130 of the Maharashtra Zilla Parishad and Panchayat Samities Act, 1961 or in the Government treasury.

The Zilla Parishads (ZPs) at Buldhana, Nagpur, Osmanabad and Wardha were transacting business through their respective DCCBs. Although these DCCBs did not have any banking licence, they were allowed to run by the Reserve Bank of India (RBI) under the provisions of Banking Regulation Act, 1949, subject to compliance to certain provisions of the Act.

In October 2009, the RBI issued guidelines for granting licence to those DCCBs that had Capital to Risk Weighted Assets Ratio (CRAR)<sup>26</sup> of four per cent and above, subject to the condition that there was no default in maintenance of Cash Reserve Ratio/Statutory Liquidity Ratio during the last

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<sup>26</sup> Capital Adequacy Ratio (CAR), also known as Capital to Risk (Weighted) Assets Ratio (CRAR), is the ratio of a bank's capital to its risk. National regulators track a bank's CRAR to ensure that it can absorb a reasonable amount of loss and complies with Statutory capital requirements

one year. Accordingly, the RBI decided that no DCCB would be allowed to carry on banking business beyond 31 March 2012 without licence.

The Statutory inspection of DCCBs is conducted by National Bank for Agriculture and Rural Development (NABARD) and on its recommendations, the RBI issues licences to DCCBs. The NABARD conducted statutory inspections of the four DCCBs between October 2010 and July 2012 for the financial year 2009-10 to 2011-12, as detailed in the **Table 7** below.

**Table 7: Timelines indicating inspections conducted by NABARD, reporting to GoM and action taken by GoM**

Name of the DCCB	Financial Year	Dates on which Statutory inspections were conducted by NABARD	Issue of Demi Official letter by NABARD to the Chief Secretary, GoM communicating the deteriorating financial position of the DCCBs	GoM orders for transferring of deposits from DCCB to other Nationalised banks
Buldhana	2009-10	18.10.2010 to 04.11.2010	11 July 2011	17 July 2012
	2010-11	16.08.2011 to 10.09.2011	20 January 2012	
	2011-12	25.06.2012 to 07.07.2012	Not available	
Nagpur	2009-10	28.03.2011 to 19.4.2011	September 2011	06 February 2014
	2010-11	05.09.2011 to 23.09.2011	10 February 2012	
	2011-12	18.06.2012 to 03.07.2012	Not available	
Osmanabad	2009-10	31.12.2010 to 20.01.2011	29 September 2011	10 July 2012
	2010-11	30.09.2011 to 20.10.2011	04 February 2012	
	2011-12	28.06.2012 to 11.07.2012	Not available	
Wardha	2009-10	14.03.2011 to 31.03.2011	27 September 2011	14 January 2013
	2010-11	25.08.2011 to 15.09.2011	13 January 2012	
	2011-12	28.06.2012 to 11.07.2012	Not available	

Audit observed that in all the Statutory inspection reports submitted by NABARD to the Chief Secretary, Government of Maharashtra (GoM), NABARD had pointed out that the financial position of these four DCCBs were deteriorating (DCCBs had negative networth and negative CRAR) and their operations were unsatisfactory which would jeopardize the interests of the depositors. The NABARD therefore, requested the Chief Secretary, GoM between July 2011 and February 2012 to direct these DCCBs to prepare an action plan for immediate implementation for achieving the desired results and become eligible for grant of licence before 31 March 2012. However, the financial position of these DCCBs did not improve and the RBI issued directives (May 2012) in public interest prohibiting the four DCCBs from conducting banking business including acceptance and repayment of deposits, forthwith.

Between May 2012 (since the issue of moratorium by the RBI) and September 2014, funds to the extent of ₹ 368 crore<sup>27</sup> were blocked in three out of four DCCBs. Though the moratorium imposed on DCCB, Osmanabad was subsequently withdrawn by the RBI and the DCCB was issued with a licence in June 2013, funds to the extent of ₹ 59.13 crore remained blocked as of

<sup>27</sup> Buldana ZP: ₹ 126.78 crore; Nagpur ZP: ₹ 146.08 crore; and Wardha ZP: ₹ 5.14 crore

September 2014. However, the GoM did not exercise caution despite being apprised of the precarious situation by NABARD to the Chief Secretary, GoM as early as July 2011 (refer **Table 7** above). It was only between July 2012 and February 2014 that the GoM issued necessary instructions to the respective Chief Executive Officers of the ZPs to transfer Government funds from the DCCBs to Nationalised banks operating treasury transactions. Even the belated instructions issued by the GoM to transfer the blocked funds in other Nationalised banks did not serve any useful purpose because the banking operations in three of the four DCCBs remained suspended on account of the embargo imposed by RBI in May 2012.

The Principal Secretary, Rural Development and Water Conservation Department, GoM accepted the facts and stated (January 2015) that NABARD inspection reports were not endorsed to them and therefore, they were not aware of the deteriorating financial position of the DCCBs. The Principal Secretary however, added that the Cooperation, Marketing and Textile Department of GoM has been requested to take suitable steps for ensuring transfer of Government funds from these ailing DCCBs to Nationalised banks.

Audit further observed that the RBI directives of May 2012 prohibiting the DCCBs from conducting banking business including acceptance and repayment of deposits were also applicable to the Dhule and Nandurbar DCCB<sup>28</sup>. However, ZPs, Dhule and Nandurbar continued to transact business<sup>29</sup> with the DCCB and at the end of 26 August 2014, deposits amounting to ₹ 93.62 crore were blocked in this DCCB.

Thus, failure of GoM to take cognizance of the deteriorating financial position of five DCCBs and initiate timely preventive action led to blockage of Government funds to the extent of ₹ 520.75 crore.

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<sup>28</sup> The Dhule and Nandurbar DCCB is a single bank that catered to two ZPs (Dhule and Nandurbar)

<sup>29</sup> ZP, Dhule deposited ₹ 25.84 crore between 31 May 2012 and 10 July 2012;  
ZP, Nandurbar deposited ₹ 26.31 crore between 05 July 2012 and 30 August 2012

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