CHAPTER X : MINISTRY OF RURAL DEVELOPMENT

10.1 Non deduction of tax at source

Failure of the Ministry of Rural Development to deduct tax at source at the rate of 10 *per cent* for professional and technical services rendered by a consortium of PSU resulted in non deduction of tax amounting to ₹ 7.21 crore.

As per provision 194 J of Income Tax Act, 1961, tax at source in respect of fees for professional or technical services is to be deducted at the rate of 10 *per cent* of such fees. Further, Section 201 of the Act *ibid* provides that if any person, who is liable to deduct tax at source, does not deduct it or after so deducting fails to pay, the whole or any part of the tax to the credit of the Government, then, such person, shall be liable to pay simple interest at the rate of one *per cent* for every month or part of a month on the amount of such tax from the date on which such tax was deductible to the date on which such tax was deducted.

Ministry of Rural Development (Ministry) entered (February 2012) into an agreement with the Consortium of PSU (Consortium) consisting of M/s Bharat Electronics Limited (BEL), M/s Electronics Corporation of India Limited (ECIL) and M/s ITI Limited (ITIL). This Consortium was collectively awarded the work of collection, consolidation and updation of data for Socio-Economic and Caste Census on specific items of information at Tehsil level covering all States and UTs. The work also involved generation and printing of a draft list, incorporating corrections and thereafter, generation of a final list. For this purpose, the Consortium was to develop, deploy and maintain application software for execution of the Census in all States and Union Territories.

In terms of clause 11.8.1 of the agreement, all payments by the authorities to the Consortium were subject to deduction of tax at source under Income Tax Act.

The service provided by the Consortium was professional and technical in nature and was, therefore, subject to deduction of tax at source @ 10 *per cent*. Audit observed that tax at source was not deducted from the payments aggregating to ₹ 72.16 crore made in March 2018 to these firms, as detailed **Annexe-10.1**.

Thus, failure of the Ministry to ensure compliance with the laid down provisions and the terms of agreement resulted in non deduction of tax amounting to ₹ 7.21 crore. This is a statutory non compliance which makes the Ministry liable for payment of interest as mentioned in the first sub-para. This also calls for strengthening internal control at the payment stage, within the Ministry.

On being pointed out, the Ministry stated (October 2020) that no TDS has been deducted against payments made to the CPSUs, except in some payments made during 2018-19.

State Institute of Rural Development

10.2 Blockade of funds

Ministry of Rural Development released ₹ 2.90 crore to State Institute of Rural Development, Ahmedabad, Gujarat for construction of its new building in December 2012 but failed to monitor its utilisation. The construction is yet to commence and the funds have remained blocked for more than seven years.

Rule 212 of General Financial Rules (GFRs), 2005[1] prescribe monitoring utilisation of grants through the mechanism of Utilisation Certificates (UCs). This not only ensures that funds are utilised for the purpose for which it was sanctioned but also that unutilised funds are surrendered to Government.

Sardar Patel Institute of Public Administration (SPIPA) proposed (January 2012) construction of a new building[2] for the State Institute of Rural Development (SIRD) at its Campus in Ahmedabad to the Ministry of Rural Development (MoRD). This was approved by MoRD (January 2012) for a total cost of ₹ 5.46 crore, subject to receipt of the site visit report of a technical team of National Institute of Rural Development, Hyderabad (NIRD).

The NIRD technical team visited the site (March 2012) and asked SIRD to provide a detailed item-wise estimate and rate analysis. SIRD, accordingly, worked out a revised cost estimate for the building of ₹ 5.81 crore which was recommended by NIRD. MoRD, thereafter, accorded (December 2012) administrative approval for an amount of ₹ 5.81 crore, to be given as Central Grant for construction of the building complex. It also released (December 2012) an advance of ₹ 2.90 crore, as first instalment, to SIRD. This amount was to be utilised within 18 months and unutilised fund surrendered unless otherwise authorised.

[1] Rule 238 of General Financial Rules (GFRs), 2017 contains similar provisions for providing grant-in-aid.

[2] Consisting of an administrative block and hostel.

Subsequently, SIRD (September 2013) informed NIRD that a test[3] at the proposed site had found the soil to be of poor quality thereby requiring "Pile Foundation", which would entail a revision in the estimated cost to ₹ 8.28 crore. In reply, NIRD enquired (September 2013) from SIRD about the status of utilisation of first instalment of the grant of ₹ 2.90 crore and interest earned thereon. Audit noted that neither did SIRD reply to the enquiry nor did NIRD/MoRD make further enquiries from them in this matter. It was in November 2018, i.e. almost six years after the release of funds for the work, that during a visit of the Additional Secretary (Rural Development) it came to light that construction work had not been taken up due to non availability of land.

Thereafter, (December 2018) the matter was taken up with the State Government of Gujarat (SGoG) and SIRD was asked to refund the amount lying with them along with interest. In response, SGoG informed (January 2019) that a new plot had been identified and further procedures[4] were in progress with respect to the work. MoRD then directed (March 2019) SGoG to furnish information on the available funds including accrued interest within a month and submit detailed plans and estimates for the building.

Audit found that the SGoG responded eight months later about changes in SIRD's structure and in its governing body. It also intimated availability of funds amounting to ₹ 4.22 crore, including interest on the grant, and that the Road and Building Department of the Government of Gujarat, had been requested to prepare plans and estimates for the new building. MoRD requested (November 2019) SIRD to furnish a revised proposal for scrutiny of the Technical Team of NIRD. However, no further communication in this regard was received from SIRD or from the SGoG.

The matter was brought to the notice of MoRD in January 2020; MoRD stated (November 2020) that it has issued several communications, latest at the level of Secretary to SGoG for refund of unutilised amount with accrued interest in June 2020.

Thus, in violation of GFRs, MoRD failed to monitor utilisation of the grant released to SIRD. This led to funds amounting to ₹ 2.90 crore being blocked with SIRD for over seven years. In addition, the Institute also held back interest on this amount which would have otherwise accrued to the Government of India. Further, the intended purpose of the work which was to provide the institute with necessary infrastructure, remained unfulfilled.

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[3] Soil was tested by the Structural Engineers of Centre for Environment and Planning of Ahmedabad University

[4] Like preparation of layout plan, building approval from Annual Maintains Contract, floating tenders etc.