Press Brief on Audit Report (Local Bodies) 2017-20-GoR

This Report relates to Audit of receipts and expenditure of the Panchayati Raj Institutions and Urban Local Bodies in Rajasthan conducted under provisions of the Comptroller and Auditor General (Duties, Power and Conditions of Service) Act, 1971 and read with proviso of sub-section (4) of section 75 of the Rajasthan Panchayati Raj Act, 1994, as amended on 27 March 2011 and section 99-A of the Rajasthan Municipalities Act, 2009, as amended on 31 March 2011, which empowers the Comptroller and Auditor General of India to conduct Audit of the accounts of Panchayati Raj Institutions and Urban Local Bodies and submit such Audit Report to the State Government for its placement in the State Legislature. Accordingly, Report of the Comptroller and Auditor General of India for the year ended 31 March 2020 (Local Bodies)-Government of Rajasthan, has been laid on the table of the State Legislature on 22.09.2022. As per procedure, the Report of the CAG stand referred to the Committee on Local Bodies and Panchayati Raj Institution of the State Legislature.

This Report includes two parts:

Part-A contains observation on Panchayati Raj Institutions (PRIs). This part includes two chapters. Chapter-I includes 'Overview of the Functioning, Accountability Mechanism and Financial Reporting Issues of Panchayati Raj Institutions' and Chapter-II comprises of a Thematic Audit on *'Implementation of Mewat Area Development Scheme',* two Long Draft Para on *'Mahatma Gandhi Janbhagidari VikasYojana'*, '*Release and Utilisation of Grants as recommended by Fifth State Finance Commission'* and six draft paragraphs of Compliance Audit.

Part-B includes Urban Local Bodies. This part includes two chapters. Chapter-III includes 'Overview of the Functioning, Accountability Mechanism and Financial Reporting Issues of Urban Local Bodies' and Chapter-IV comprises of four Compliance Audit paragraphs.

A synopsis of important findings contained in this report is presented below:-

PART-A Panchayati Raj Institutions

1. Overview of Functioning, Accountability Mechanism and Financial Reporting Issues of Panchayati Raj Institutions

The Rajasthan Panchayat Samiti and Zila Parishad Act, 1959 conforms to the new pattern of Panchayati Raj which provides for a three tier structure of local self-governing bodies at district, block and village levels and enhanced decentralisation of powers. The Rajasthan Panchayati Raj Act (RPRA), 1994 came into effect from April 1994, consequent to the 73rd Constitutional Amendment giving constitutional status to Panchayati Raj Institutions (PRIs).

As mandated by RPRA, 1994, five standing committees were to be constituted by each PRI, however, the actual status of their constitution has not been made available to Audit, despite repeatedly commenting in the previous Audit Reports. Further, meetings of DPC to discuss and prepare a draft development plan for the district, were also not conducted by most of the districts in prescribed numbers and manner, as envisaged.

Certain sources of revenue like fair tax, building tax, fees, rent from land and buildings, water reservoir etc. and capital receipts from sale of land had been provided to the PRIs. However, the PRIs have remained dependent upon the grants in aid released by State and central Government. PRIs have failed to recognize the importance of generation of own revenue. Even figures of '*own revenue*' were not available with the Department for the past many years.

Accounting formats have been formulated since 2009. However, the PRIs were still maintaining their accounts in conventional formats. Scheme wise separate cash books, quarterly accounts of Income and Expenditure and annual accounts in prescribed formats were also not maintained by many of the PRIs. Thus, record maintenance of PRIs continued to be poor and incomplete to that extent. *PRIASoft*, an online centralised accounting package that facilitates maintenance of accounts under Model Accounting System, was not being fully utilized as many PRIs were not making entries in it.

DLFAD is the primary auditor of PRIs. Huge arrears in audit as well as certification of accounts of PRIs on part of the DLFAD, is an area of concern. DLFAD also did not ensure compliance to the observations made by this office under parameter 4 and 5 of TG&S. Social audit coverage of PRIs has been decreasing over the years.

The PRIs have not provided even the first compliance of 23 IRs containing 291 paragraphs (issued during 2017-2020). The prescribed number of Audit Committee Meetings to settle the outstanding audit paras were not conducted in any of the years during the period 2017-20.

(Paragraphs 1.1 to 1.11)

2. Audit Findings on Panchayati Raj Institutions

Implementation of Mewat Area Development Scheme

Alwar and Bharatpur Districts' area in Rajasthan, which is thickly populated by the Meo community, is known as the Mewat Area. This area is considered socially and economically backward. Mewat Area Development Scheme (MADS) was started (February 1987) for socio-economic development of the Mewat area and is being implemented in 14 Panchayat Samities (PSs) of the Mewat Area. Small-scale industries and necessary resources were to be developed for employment and livelihood of local citizens alongwith maintenance of assets constructed under MADS and other developmental schemes.

Results of the Audit conducted revealed that planning for implementation of the scheme was not effective as prospective plan, drainage plan, detailed project report/consolidated project report were not prepared. There were delays in submission and approval of annual plans. Only 19.68 to 40.28 per cent of the funds available under the scheme were utilized during 2015-20. Further, funds were diverted to other scheme and advances given to implementing agencies were not adjusted. Joint Physical Verification revealed that inadmissible works were sanctioned under the scheme and unfruitful expenditure was incurred on works without electricity connection. Also, the assets created under the scheme were found damaged despite availability of dedicated funds for maintenance of assets upto 15 per cent of total available fund, which remained unutilised. Third party inspection/impact study and evaluation of the scheme as envisaged in the guidelines was not also conducted resulting in poor monitoring and supervision of the scheme.

The scheme implementation did not focus on establishment/ development of small-scale industries and necessary resources for employment and livelihood of local citizens and more than two third of the available funds were deployed mainly for construction of CC Road/other small construction activities.

(Paragraph 2.1)

Mahatma Gandhi Janbhagidari VikasYojana

The *Mahatma Gandhi Janbhagidari Vikas Yojana* (MGJVY) formerly known as *Guru Golwalkar Janbhagidari Vikas Yojana* was launched in September 2014 in all the 33 districts of Rajasthan. The objective of the scheme is to ensure public participation in rural areas for development, employment generation and construction and maintenance of community assets and improve living standard of families of the rural areas.

The scheme is funded by the State Government. Under the scheme, for construction of boundary-walls of '*Shamshaans/Kabristan*' along with plantation, tin sheds and platforms, 90 *per cent* funds and for other community assets, 70 *per cent* funds would be provided by the State Government and remaining matching amount would be contributed by the community which includes individual, NGOs, trust, social organization, local public, etc. However, for construction of other assets in the Schedule castes (SC)/ Schedule tribes (ST) dominated areas 80 *per cent* funds would be provided by the State Government.

The Rural Development and Panchayati Raj Department (RD&PRD) is responsible for overall supervision, monitoring and co-ordination of various activities of the scheme. At the District level, ZP (Rural Development Cell) is the nodal agency for implementation of the scheme.

The main objective of MGJVY is to encourage local public participation in socio-economic development of villages through creation of community assets in rural areas. Government contributed ` 376.91 crore, while community contributed ` 60 crore approximately under the scheme, during 2014-20. Though, 85 per cent of the funds were utilized, the year wise expenditure ranged from 24.14 *per cent* to 43.57 *per cent* of the available funds. Government contributed only nominal funds of ` 1.91 crore during last two years. As of March 2020, 330 works worth ` 28.73 crore were still incomplete after incurring an expenditure of ` 19.26 crore.

Instances of splitting of sanctions for works to avoid sanction of the competent authorities, sanction of works without deposit of required contribution and non-execution of works even after deposit of the public contribution were noticed. Cases of fraudulent payment, assets being used for personal purposes, non-maintenance of damaged assets and execution of inadmissible works etc. were also noticed. Payments were made for unexecuted and/or partially executed items. Monitoring under the scheme was weak and social audit was also not carried out.

Thus, the prime objective of the scheme i.e. creation of community assets through public participation could be achieved only to a limited extent.

(Paragraph 2.2)

Release and Utilisation of Grants as recommended by Fifth State Finance Commission

Article 243-I of the Constitution of India provides that the Governor of a State is required to constitute a Finance Commission every five years in order to (i) review the financial position of the Panchayats; (ii) recommend the principles which should govern the distribution of the net proceeds of the taxes, duties, tolls and fees between the State and the Panchayats and the allocation between the Panchayats at all levels of their respective shares of such proceeds; and (iii) the grants in aid to the Panchayats from the Consolidated Fund.

Accordingly, the Fifth State Finance Commission was constituted (May 2015) for the period 2015-20 in Rajasthan. The Commission submitted two interim reports for 2015-16 (in September 2015) and for 2016-17 (in September 2016) and final report for whole of the award period in November 2018, which were presented to the Legislative Assembly on 22 September 2015; on 2 September 2016 and on 23 July 2019 respectively. The State Government while accepting most of the recommendations, issued guidelines from time to time for utilisation of the grants to be released under recommendation of Fifth SFC.

The main recommendations of Fifth SFC *inter alia*, included the following.

- Devolution of funds to the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs), at the rate of 7.182 *per cent* of the net own tax receipts of the State in ratio of 75.1 *per cent* and 24.9 *per cent* respectively.

- In the year 2015-16, devolved funds were to be distributed between 'basic and development functions' and 'national/state priority schemes' in the ratio of 85 *per cent* and 10 *per cent* respectively, rest 5 *per cent* was to be released as incentive grant.

- During 2016-20, the earmarked funds were categorized into three components *viz.* 55 *per cent* amount for the 'basic and development functions', 40 *per cent* for 'national/state priority schemes' and rest 5 *per cent* for incentivizing keeping of accounts, record, assets register and efforts for raising own revenues.

- For the year 2015-16, the devolved funds were to be allocated tier-wise among the PRIs *viz.* Zila Parishad (ZP), Panchayat Samiti (PS) and Gram Panchayat (GP) in the ratio of 5:15:80. This ratio was revised to 5:20:75 for the period 2016-20.

During 2015-20, the State Government devolved grants of ` 10,345.71 crore under recommendation of Fifth SFC to the PRIs, of which an amount of ` 10,226.76 crore (98.85 *per cent*) was utilized.

Audit observed that the State Government did not release 11.94 *per cent* of the grant as recommended by fifth SFC. The PRD also did not release incentive grant of ` 193.30 crore during 2015-16 and 2019-20. Component-wise sanction and expenditure details were not maintained by the PRIs. Physical verification of assets created through Fifth SFC grants revealed that the CC roads were constructed without drains, works were executed without preparation of estimates and executed works were of lower specification. Registers of works and assets constructed were not maintained in PRIs. Third party inspection and impact assessment study was not conducted.

(Paragraph 2.3)

Non-observance of Rajasthan Panchayati Raj Rules, 1996 while leasing out the assets of two Panchayat Samities resulted in deprival of legitimate income to the tune of ` 3.30 crore.

(Paragraph 2.4)

Non-observance of the provisions of RTPP Rules, 2013 by Panchayat Samitis resulted in unauthorised expenditure of ` 3.11 crore.

(Paragraph 2.5)

Lackadaisical approach of *Zila Parishads* in transferring mining royalty share to eligible Gram Panchayats in contravention to State Finance Commission's recommendations as well as Government of Rajasthan's directions.

(Paragraph 2.6)

Panchayat Samitis disregarded the directions regarding transfer of the unspent funds and irregularly retained ` 2.92 crore, thereby depriving the beneficiaries of the designated benefits under the Mid Day Meal Scheme.

(Paragraph 2.7)

Fraudulent payment of ` 1.06 crore towards procurement of material in violation of the directions of higher authorities in PS Hindoli.

(Paragraph 2.8)

Violation of the executive orders and directions resulted in irregular retention of unspent balances/grants and led to blockage of ` 6.99 crore for development activities in 14 PRIs.

(Paragraph 2.9)

PART-B Urban Local Bodies

3. Overview of the Functioning, Accountability Mechanism and Financial Reporting issues of Urban Local Bodies

The own resources generated by Urban Local Bodies (ULBs) were not adequate to take care of their expenditure and they were largely dependent on grants and loans from Central/State Government. Absence of timely finalization of accounts in the prescribed formats and their certification deprived the stakeholders of timely and correct accounting information. During 2019-20, As against accounts of 196 ULBs required to be certified, accounts of only 159 ULBs (81 *per cent*) had been certified by the Local Fund Audit Department (LFAD). There were also huge delays in attending to Audit observations and in their settlement. Failure to timely respond to Audit observations is fraught with the risk of continuance of irregularities/ deficiencies.

(Paragraphs 3.1 to 3.11)

4. Audit Findings on Urban Local Bodies

Functioning of Municipal Corporation, Udaipur

Udaipur Municipal Council was converted into Municipal Corporation (M Corp) in April 2013. The M Corp, Udaipur has 70 municipal wards. Udaipur is spread across 64 square km area having a population of 4.51 lakh (census 2011).

At the State level, the Local Self Government Department (LSGD) is the administrative department dealing with affairs of the Urban Local Bodies (ULBs) with the Directorate Local Bodies (DLB) as its nodal office. The DLB performs monitoring and coordinating functions for all ULBs. The Mayor is the elected head and Commissioner is the executive head of M Corp, Udaipur.

Functioning of Municipal Corporation Udaipur during the period of 2013-14 to 2017-18 was test checked from April 2018 to October 2018 and updated for the period 2018-20 from 21 December. 2020 to 15 January 2021. The areas covered during audit were planning, delivery of services, contract management, resource mobilisation, financial management and internal control. Against the total receipts of ` 1,112.52 crore, the M Corp incurred an expenditure of ` 1,146.91 crore during 2013-20.

It was noticed that the planning mechanism of M Corp, Udaipur was weak as neither detailed survey was conducted nor statutory plans were prepared for systematic development of Udaipur city. There were inadequacies in the services that were required to be provided by M Corp Udaipur. Segregation and disposal of municipal solid waste was not being managed effectively. Further, 45.27 *per cent* of the sewage was disposed untreated. M Corp did not have any database of buildings for which fire NOC was required and systems for fire prevention, fire safety and checking of fire hazard were weak. The M Corp Udaipur also did not provide timely services to citizens that were guaranteed under the RGDPS Act. Disposal of complaints was also inordinately slow.

The Own revenue of M Corp was low and it did not increase by 10 *per cent* every year as recommended by $13^{th}/14^{th}$ CFC and $4^{th}/5^{th}$ SFC. Instances of accumulation of outstanding UD tax and lease money, non-recovery of lease money for change of land use, sewage charges, registration and permission fee from mobile towers, license fee from hotels, bakery, sweet shops etc., and short recovery of betterment levy were noticed. Further, the Financial Management was inefficient as M Corp did not prepare its annual accounts in a timely manner and on accrual basis. M Corp Udaipur had not executed its core functions i.e. public health, sanitation, solid waste management, firefighting, collection of own revenue etc. in a reasonable and proper manner.

(Paragraph 4.1)

Unfruitful expenditure of ` 37.01 crore on construction of dwelling units in Rajiv Awas Yojana for rehabilitation of Sanjay Nagar Bhatta Basti under sub-mission of Jawaharlal Nehru National Urban Renewal Mission.

(Paragraph 4.2)

Short recovery of betterment levy of ` 7.46 crore from the applicants on granting permission for construction of buildings.

(Paragraph 4.3)

Municipal Corporation, Ajmer, Bikaner and Kota failed to recover the Labour Cess amounting ` 1.31 crore.

(Paragraph 4.4)

Resultant loss of revenue of ` 41.04 lakh due to delay in tendering process and low department collections during the delay period.

(Paragraph 4.5)