

# CHAPTER-5

## Other Issues

**Scrutiny in Audit revealed several issues including irrecoverable loss incurred towards advances due to faulty record management, loss of interest on undisbursed loans, imprudent investment resulting in financial loss, diversion of scheme funds towards contingent expenditure, non-utilisation of scheme funds, flawed contract management and loss of interest on scheme funds kept outside the bank account in violation of the guidelines.**

### 5.1 LOSSES/OVERPAYMENT

#### KHEJURI-II PANCHAYAT SAMITI

##### *5.1.1 Irrecoverable advances of Rs. 86.49 lakh*

According to West Bengal Panchayat (Zilla Parishad and Panchayat Samiti) Accounts and Finance Rules, 2003, an advance Ledger is required to be maintained and a quarterly statement of outstanding advances against each individual is to be prepared. The Rules also prescribe adjustment of the advances within thirty days from the date of drawal. But Khejuri-II PS under Purba Medinipur Zilla Parishad neither maintained the Advance Ledger nor prepared the quarterly statement of advances. However, from a statement furnished (December 2005) by the PS to Audit, it was seen that there were outstanding advances of Rs. 86.49 lakh given for execution of different works like construction of primary schools, construction of huts etc. as of March 2005<sup>∞</sup>. The above outstanding advances had accumulated since 1984-85.

In reply, the PS stated (December 2005) that there was no scope or possibility to recover or adjust the outstanding advances, as the whereabouts of the recipients of the advances were not traceable. The PS could not even indicate whether the works for which the advances were given were executed or not. This indicates that internal controls in the PS were extremely weak.

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<sup>∞</sup> 1984-85 to 1999-2000: Rs. 64,56,322; 2000-01: Rs. 4,43,411; 2001-02: Rs. 3,54,773; 2002-03: Rs. 2,41,860; 2003-04: Rs. 8,58,900; 2004-05: Rs. 2,94,000.

**MURSHIDABAD ZILLA PARISHAD**

***5.1.2 Irrecoverable loss of Rs. 47.50 lakh towards advance***

An Advance Register was not maintained properly by Murshidabad Zilla Parishad. Particulars of advances like name of the payee of advance, purpose of advance, reference to voucher number and date etc. were not regularly entered in the Advance Register. The ZP also did not prepare a quarterly list of outstanding advances regularly as prescribed in the Rules. As a result, the ZP was not in a position to clarify to Audit as to whom and when Rs. 47.50 lakh\* was given as there were no records/documents to identify the recipients. The Artha-Sangstha-Unnayan-O-Parikalpana Sthayee Samiti admitted the fact (June 2005) and decided to take legal action against the persons at fault for non-maintenance of records, with the concurrence of the State Government. Moreover, the State Government instructed the ZP to submit the details of each advance holder as of March 2005 and ordered to take action departmentally or in the court of law. But the ZP failed to furnish the details or take any action against the advance holders (December 2005), in the absence of proper records.

Thus, non-maintenance of Advance Register properly as prescribed in the Rules led to an irrecoverable loss of Rs. 47.50 lakh in the form of advances.

**PASCHIM MEDINIPUR ZILLA PARISHAD**

***5.1.3 Loss of Rs. 10.15 lakh due to unwise decision of raising loans from HUDCO***

Paschim Medinipur ZP had raised in March 2000 loans of Rs. 4.60 crore from Housing and Urban Development Corporation (HUDCO) for disbursement of housing loan assistance to 1527 tornado affected families. The survey report identified 1527 affected families for providing loans, but the ZP could disburse only Rs. 76.85 lakh in August 2000 among 264 families. The ZP thus failed to utilise the whole amount of loans raised due to poor response from the tornado affected people selected for providing loan assistance and refunded Rs. 3.83 crore (Rs. 3.60 crore in June 2000 and

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\* Advance towards purchase of rod and cement: Rs. 39.30 lakh; advance to different employees: Rs. 8.20 lakh.

Rs. 0.23 crore in September 2000) to HUDCO and shouldered an unnecessary liability of Rs 10.15 lakh<sup>‡</sup> towards interest.

Thus, due to an unwise decision of raising excess loans without ascertaining the actual requirement the ZP suffered a loss of Rs. 10.15 lakh towards payment of interest.

## 5.2 IMPRUDENT INVESTMENT/BLOCKAGE/DIVERSION/MISUTILISATION OF FUNDS

### BARDHAMAN ZILLA PARISHAD

#### *5.2.1 Imprudent investment of Rs. 64.90 lakh from specific purpose funds*

Bengal Nestor's Industries Ltd. (BNIL), a joint venture of West Bengal Industrial Development Corporation Ltd. (WBIDC) with a private entrepreneur, started preliminary works to set up an ultra heat treated milk project at Ausgram in March 1999. Bardhaman Zilla Parishad agreed to participate in the project by equity participation with Rs. 1 crore through WBIDC and without entering into any agreement, paid Rs. 25 lakh in July 2003 to WBIDC out of Untied Fund although the fund was not to be utilised for commercial venture as per guidelines of the State Government issued in March 2001. In September 2003, Zilla Parishad made an investment of Rs. 39.90 lakh out of SGSY infrastructure fund for purchase of five bulk coolers for the said project although the funds were to be utilised only for Self Help Groups (SHG). After an investment of Rs. 64.90 lakh<sup>⊗</sup> in the project, the ZP raised some points on the terms and conditions laid down in the draft tripartite agreement (May 2004) which was submitted by WBIDC to the ZP with the request to place the balance funds of Rs. 35.10 lakh<sup>⊘</sup>. The points were not clarified by WBIDC although the plant was scheduled to be commissioned in May 2004.

However, neither was the plant commissioned nor was any agreement with the ZP executed subsequently. Thus, no benefit was derived from an investment of Rs. 64.90 lakh which was irregularly diverted by the ZP from specific purpose grants.

<sup>‡</sup> (A) Rs. 3.60 crore (principal refunded in June 2000) x 10 per cent x 3 months (April 2000 to June 2000) = Rs. 9 lakh; (B) Rs. 0.23 crore (principal refunded in September 2000) x 10 per cent x 6 months (April 2000 to September 2000) = Rs. 1.15 lakh. Total of (A) and (B) = **Rs. 10.15 lakh.**

<sup>⊗</sup> Rs. 25 lakh plus Rs. 39.90 lakh.

<sup>⊘</sup> Rs. 1 crore minus Rs. 64.90 lakh.

WBIDC was moved (July 2006) for refund of Rs. 25 lakh after Zilla Parishad decided to withdraw its equity participation from the project. However, no amount out of Rs. 64.90 lakh had yet been received (March 2007) from WBIDC.

### **MURSHIDABAD ZILLA PARISHAD**

#### ***5.2.2 Ill-considered investment of Rs. 32 lakh on food processing unit***

Murshidabad Zilla Parishad acquired some land in Banzetia Mouza measuring 9.15 acres in March 1994 and invited applications from the promoters/entrepreneurs for setting up an industrial estate on the said land. The ZP agreed in November 1996 to invest Rs. 32 lakh (3,20,000 shares @ Rs. 10 each) with Pilva Organics Private Limited, for setting up a food processing unit. Before sanctioning the proposal for transfer of land in favour of the company, the Government discouraged the ZP for participation in any commercial venture normally exposed to vicissitudes of a market economy and asked for (March 1997) some vital documents like Project Report, agreement, memorandum of understanding, source of funds to be invested, etc. But the ZP made a lease agreement with the company for 27 years @ Rs. 35,900 per year from March 1997 without obtaining Government approval and invested Rs. 32 lakh in August 1997 out of its own funds for purchasing shares of the said company.

Ultimately, the project did not take off (December 2005). Moreover, lease rent of Rs. 35,900 per year was also not being paid by the company. Thus, on account of not obtaining the viability report for the project and non-adherence to the Government directives, the ZP suffered a loss of Rs. 32 lakh, which was not recovered from the company, besides suffering the loss of lease money of Rs. 35,900 per year.

Artha-Sangstha-Unnayan Samiti admitted (January 2005) the loss.

### **PUNCHA PANCHAYAT SAMITI**

#### ***5.2.3 Unproductive investment of Rs. 29.62 lakh resulting in loss of revenue of Rs. 15.04 lakh***

Puncha Panchayat Samiti under Purulia District constructed (March 2001) the ground floor of a market complex, without sanitary and electrical installations, at a cost of Rs. 15.79 lakh out of Tenth Finance Commission grants and made an estimate of

Rs. 13.15 lakh for the construction of the first floor in September 2001. Thereafter, the PS incurred an expenditure of Rs. 13.83 lakh on it from Tenth and Eleventh Finance Commission grants<sup>Π</sup>. In spite of incurring an expenditure of Rs. 29.62 lakh, the work remained incomplete even after a lapse of 4 years as of October 2005. The PS stated (December 2005) that the work was not completed due to paucity of funds.

On scrutiny of records, it was revealed that the proposed two-storeyed market complex had a provision of 30 stalls and the PS decided (March 2003) in a meeting to allot them at a total premium of Rs. 12.40 lakh and monthly rent of Rs. 8500 but the plan did not materialise due to non-completion of the work. There was also no specific timeframe to complete the work.

The PS could have earned Rs. 15.04 lakh on account of premium for Rs. 12.40 lakh<sup>∨</sup> and rent of Rs. 2.64 lakh<sup>Σ</sup> had the work been completed. However, the entire expenditure of Rs. 29.62 lakh<sup>†</sup> remained unproductive due to the commencement of the work without identifying beforehand the source of funds and without deciding on a definite timeframe for its completion.

#### RAIPUR-I PANCHAYAT SAMITI

#### ***5.2.4 Diversion of scheme funds of Rs. 15.53 lakh towards contingent expenditure***

The funds of Eleventh Finance Commission (11<sup>th</sup> FC) grants were allotted for maintenance of civic services in rural and urban areas which include provision of education, primary health care, safe drinking water, street lighting, sanitation including drainage, maintenance of burial grounds and other common property resources. But scrutiny in audit revealed that the Raipur-I PS under Bankura Zilla Parishad spent

<sup>Π</sup> Tenth Finance Commission grant = Rs. 9 lakh; Eleventh Finance Commission grant = **Rs. 4.83 lakh.**

<sup>∨</sup> 26 stalls at the first floor @ Rs. 40,000 (i.e., Rs. 40,000 x 26) = Rs. 10.40 lakh; 4 stalls (i.e. 2 stalls in first floor and 2 in ground floor) @ Rs. 50,000 (i.e. Rs. 50,000 x 4) = Rs. 2 lakh. Therefore, the total premium = Rs. 10.40 lakh plus Rs. 2 lakh = **Rs. 12.40 lakh.**

<sup>Σ</sup> 26 stalls @ Rs. 250 (i.e. Rs. 250 x 26 x 31) = Rs. 2,01,500; 4 stalls @ Rs. 500 (i.e. Rs. 500 x 4 x 31) = Rs. 62,000. Total monthly rent for 30 stalls for 31 months (from April 2003 to October 2005): Rs. 2,01,500 plus Rs. 62,000 = Rs. 2,63,500 or **Rs. 2.64 lakh.**

<sup>†</sup> The PS incurred expenditure of Rs. 15.79 lakh for ground floor and Rs. 13.83 lakh for first floor. Therefore, the total investment on market complex = Rs. 15.79 lakh plus Rs. 13.83 lakh = **Rs. 29.62 lakh.**

Rs. 7.64 lakh for construction of boundary wall and generator room at the Block office which are not covered under the guidelines for utilisation of 11<sup>th</sup> FC grants.

Raipur-I PS incurred an expenditure of Rs. 7.89 lakh out of Member of Parliament Local Area Development Scheme (MPLADS) funds, 11<sup>th</sup> FC grants and Sampoorna Grameen Rozgar Yojana (SGRY)-I funds towards hire charges of vehicles, cost of diesel, repair of xerox machine, purchase of almirah and other contingent expenditure during 2002-05. This was done under the orders of the Executive Officer of the Panchayat Samiti, who was responsible for operating the Panchayat Samiti Fund.

None of the items of expenditure were within the purview of infrastructural development or creation of remunerative assets as defined in the guidelines of the schemes. Thus, the PS incurred inadmissible expenditure of Rs. 15.53 lakh out of 11<sup>th</sup> FC, MPLADS and SGRY-I funds.

#### **MURSHIDABAD ZILLA PARISHAD**

##### ***5.2.5 Non-utilisation of scheme funds of Rs. 65.35 lakh for 20 to 25 years and interest loss of Rs. 85.93 lakh on this account***

During the scrutiny of the statement of grants furnished by Murshidabad Zilla Parishad, it was noticed that the ZP even after 20 to 25 years could not spend Government grants of Rs. 65.35 lakh<sup>⊗</sup> (under 57 heads) meant for various development schemes. The ZP did not take any action for utilisation of these unutilised/unspent funds, thus blocking Rs. 65.35 lakh for such a long period and resulting in loss of interest of Rs. 85.93 lakh<sup>⊕</sup> on this account.

#### **JALPAIGURI ZILLA PARISHAD**

##### ***5.2.6 Blockage of funds for Rs. 10.95 lakh resulting in loss of interest of Rs. 2.63 lakh***

Jalpaiguri Zilla Parishad spent Rs. 47.74 lakh on purchase of steel materials like tor steel, joist, mild steel plate and angle etc in April 2002. Out of these, materials worth

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<sup>⊗</sup> Grants unutilised prior to 1980-81: Rs. 25.20 lakh (22 grants); and prior to 1985-86: Rs. 40.15 lakh (35 heads).

<sup>⊕</sup> Calculated at the average rate of interest at which the Government borrowed money (i) 1980-81 to 2004-05: Rs. 25.20 lakh x 25 years x 6 per cent = Rs. 37.75 lakh (ii) 1985-86 to 2004-05: Rs. 40.15 lakh x 20 years x 6 per cent = Rs. 48.18 lakh. So, total interest loss: (i) plus (ii) = **Rs. 85.93 lakh.**

Rs. 10.95 lakh remained unutilised for a period ranging from 1.8 to 4 years, as of March 2006. The purchase was made without assessment of the actual requirement.

This resulted in blockage of funds of Rs. 10.95 lakh with consequent loss of interest of Rs. 2.01 lakh<sup>∞</sup> (calculated at the rate of 6 *per cent* per annum, being the average rate of interest charged on capital invested by the State Government during 2002-2006).

### 5.3 EXCESS PAYMENT/WASTEFUL EXPENDITURE/INFRUCTUOUS EXPENDITURE

#### JHARGRAM PANCHAYAT SAMITI

##### 5.3.1 Excess payment of Rs. 11.07 lakh on purchase of land under Lodha Development Programme

Jhargram PS in the district of West Medinipur received an amount of Rs. 66.58 lakh in January and June 2001 under Lodha Development Programme, out of which Rs. 27.90 lakh was earmarked for purchasing 60.34 acres of land at the rate of Rs. 0.46 lakh as fixed by the State Government, which was to be handed over to the selected beneficiaries for constructing their houses. But the PS purchased only 29.12 acres of land up to March 2005 at Rs. 24.46 lakh (i.e. at the rate of Rs. 0.84 lakh per acre of land). Thus, the PS paid a higher price of Rs. 0.38 lakh per acre of land over the approved rate of Rs. 0.46 lakh. The PS did not obtain the approval of the State Government for such deviation from the originally approved rate.

Hence, the PS made an excess payment of Rs. 11.07 lakh<sup>f</sup> for purchasing 29.12 acres of land.

<sup>∞</sup> Rs. 4,39,117 x 6 *per cent* x 20/12 (i.e. 20 months from August 2004 to March 2006) = Rs. 0.44 lakh; Rs. 6,55,992 x 6 *per cent* x 4 years = Rs. 1.57 lakh. Therefore, the total loss of interest for blockage of funds of Rs. 10.95 lakh for a period ranging from 1.8 to 4 years: Rs. 0.44 lakh *plus* Rs. 1.57 lakh = **Rs. 2.01 lakh.**

<sup>f</sup> Total value of 29.12 acres of land @ Rs. 0.46 lakh (Rs. 0.46 lakh x 29.12 acres) = Rs. 13.39 lakh; but actual selling price was @ Rs. 0.84 lakh (Rs. 0.84 lakh x 29.12 acres) = Rs. 24.46 lakh. Therefore, the excess payment: Rs. 24.46 lakh *minus* Rs. 13.39 lakh = **Rs. 11.07 lakh.**

## 5.4 REGULARITY AND OTHER ISSUES

### KHEJURI-II PANCHAYAT SAMITI

#### ***5.4.1 Irregular expenditure of Rs. 29.75 lakh by wrong selection of beneficiaries under Rural Sanitation Programme***

According to guidelines of the Rural Sanitation Programme, beneficiaries for payment of subsidy<sup>♦</sup> are to be selected from the BPL list. But Khejuri-II PS under Purba Medinipur Zilla Parishad, in violation of the guidelines, selected beneficiaries outside the BPL list and spent Rs. 29.75 lakh<sup>°</sup> during 1997-98 to 2005-06 for making payment of subsidy for construction of 'household latrine', thereby depriving the intended beneficiaries of the benefits of the scheme. The PS admitted (December 2005) the facts and figures.

### MAYURESWAR-I PANCHAYAT SAMITI

#### ***5.4.2 Long outstanding advance of Rs. 15.68 lakh***

According to West Bengal Panchayat (Zilla Parishad and Panchayat Samiti) Accounts and Finance Rules, 2003, an advance is to be realised from the person receiving the advance within a reasonable time, as may be specified by the authority sanctioning any such advance, which should not exceed thirty days from the date of drawal of advance. If the advance received cannot be utilised within the thirty days, the person receiving the advance is to deposit the unutilised amount with adjustment vouchers along with a written explanation. The Accounts Rules also state that further advance shall not be sanctioned until the previous advance drawn has been fully adjusted.

It was seen from the records of Mayureswar-I PS under Birbhum Zilla Parishad that an amount of Rs. 15.68 lakh was given as advance to Md. Basiruddin, a Pay Master, during the period between December 1992 and August 1996 for execution of several works. But the advance has not yet been adjusted as of June 2005. On scrutiny, it was

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<sup>♦</sup> Under the programme, subsidy constituted 80 *per cent* of the total cost of household latrine (60 *per cent* was provided by GOI and 20 *per cent* by State Government). The remaining amount was to be contributed by the beneficiary concerned.

<sup>°</sup> 1997-98: Rs. 1.59 lakh; 2001-02: Rs. 6.57 lakh; 2002-03: Rs. 7.53 lakh; 2003-04: Rs. 3.26 lakh; 2004-05: Rs. 8 lakh; 2005-06: Rs. 2.80 lakh.



revealed that Md. Basiruddin submitted an adjustment of Rs. 12.80 lakh to PS in October 2001 but the District Magistrate (DM), Birbhum, instructed (May 2002) the BDO, Mayureswar-I to check the adjustment properly and submit the report to him by July 2002. In reply, the PS stated (June 2005) that the matter is under the consideration of DM, Birbhum, as all the relevant papers were seized by him in August 2003.

#### **PASCHIM MEDINIPUR ZILLA PARISHAD**

##### **5.4.3 Loss of interest of Rs. 14.32 lakh under MPLADS**

According to guidelines of Member of Parliament Local Area Development Scheme (paragraph 4.7), funds were to be kept in a Nationalised Bank and interest accrued thereon was to be utilised for the work approved under the scheme (paragraph 4.8). But Paschim Medinipur Zilla Parishad, in violation of the guidelines, kept the entire allotment received under MPLADS during 2001-02 and 2005-06 in Local Fund Account at the Treasury. This resulted in loss of interest of Rs. 14.32 lakh<sup>†</sup> that could have been earned had the funds been kept in the bank during the same period.

#### **NANDIGRAM-III PANCHAYAT SAMITI**

##### **5.4.4 Unauthorised expenditure of Rs. 6.15 lakh out of Swarnajayanti Gram Swarozgar Yojana (SGSY)**

According to guidelines of SGSY, infrastructural assets created under the programme were to be utilised exclusively for the Swarozgaris\* for production, processing, quality testing and storage or marketing.

<sup>†</sup> Calculated at the rate 4 per cent on the minimum monthly balance in the savings bank account:

Year	Minimum monthly balance available throughout the year (in Rupees)	Rate of interest (in percentage)	Period	Loss of interest (in Rupees)
2001-02	10527094	4	1 year	421084
2002-03	9071636	4	1 year	362865
2003-04	8946466	4	1 year	357859
2004-05	4631417	4	1 year	185257
2005-06	4515932	4	1 year	105372
<b>Total</b>				<b>1432437</b>

\* The objective of the SGSY is to bring the assisted poor families (Swarozgaris) above the poverty line by ensuring appreciable sustained level of income over a period of time.

Nandigram-III PS under Purba Medinipur ZP received an allotment of Rs. 5 lakh in December 2001 and Rs. 1.50 lakh in February 2002 out of SGSY fund for creating infrastructural assets for Swarozgaris. But the PS constructed two meeting halls on the second floor of its already existing three storeyed buildings of ‘Godown cum Training Centre’ at a cost of Rs. 6.15 lakh.

Thus, the very purpose of the allotment of funds under the scheme was frustrated. The PS admitted (December 2005) the fact of the diversion of SGSY funds.

### BALAGARH PANCHAYAT SAMITI

#### ***5.4.5 Unauthorised expenditure of Rs. 4.49 lakh under Bidhayak Elaka Unnayan Prakalpa (BEUP)***

Balagarh PS spent Rs. 4.49 lakh for construction of rooms of Sishu Siksha Kendra under Bidhayak Elaka Unnayan Prakalpa (BEUP) on private land during 2002-04. This was in violation of the guidelines of BEUP scheme which enjoined that the land on which the work is proposed to be executed should be owned by the Government. Alternatively, a no objection certificate from the private owner of the land was to be issued in favour of the user of the land. Since the guidelines were not followed by the PS, the expenditure of Rs. 4.49 lakh stood unauthorised.

### **5.5 Action on Inspection Reports**

**5.5.1** The following table indicates position of Inspection Reports (IRs) and paragraphs pending for settlement, as on 31 March 2006:

Category of PRIs	Accounting years for which IRs are pending for settlement	Number of IRs pending for settlement	Number of paragraphs contained in the IRs awaiting settlement	Money value (Rupees in crore)
Zilla Parishads	1992-93 to 2004-05	76	519	726.89
Panchayat Samitis	1990-91 to 2004-05	636	1575	338.79
Gram Panchayat	2002-03 to 2004-05	10,001	48,997	657.96

**5.5.2** An Audit Committee comprising the Principal Secretary of the P&RD Department and representatives of the Finance Department and the Examiner of Local Accounts was formed for expeditious settlement of the outstanding Inspection Reports. No meeting of the committee was held during 2005-06.

**5.5.3** At the instance of Audit, the P&RDD convened in December 2006 a series of meetings with the representatives of PRIs to expedite the process of furnishing reply to Inspection Reports so that the Committee may consider their settlement.

### **5.6 Reply from the Government**

All the major findings related to Panchayat Samitis and Zilla Parishads were sent to the Government between January and February 2007; reply had not been received (August 2007).