

CHAPTER - I

SECTION 'A'

AN OVERVIEW OF THE ORGANISATION, FINANCES, DEVOLUTION AND ACCOUNTABILITY FRAMEWORK OF PANCHAYAT RAJ INSTITUTIONS AND URBAN LOCAL BODIES

1.1 Introduction

Seventy Third and Seventy Fourth Constitutional amendments gave constitutional status to the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) and established a system of uniform structure, regular elections, regular flow of funds through Finance Commission etc. As a follow up, the states were required to entrust these bodies with such powers, functions and responsibility so as to enable them to function as institutions of self government. In its wake, the Constitutional amendments intended to pave the way for smooth transition to fiscal decentralization at the grass root level. In particular, the PRIs and ULBs were required to prepare plans and implement schemes for economic development and social justice including those functions included in the Eleventh and Twelfth Schedules of the Constitution. Assam has a very strong historical background of local self government.

Assam had a strong Panchayat in different names or forms since long past. Post 73rd Constitutional amendment the State enacted Assam Panchayat Act, 1994 and framed Assam Panchayat (Administrative) Rules, 2002 and Assam Panchayat (Financial) Rules, 2002 to enable Local Bodies (LB) to work as third tier of government. The state has also identified and amended other related laws to empower LBs.

There were 2407 PRIs and 89 ULBs in the State as on 31 March 2010. Of the 89 ULBs, 72 were in General Areas and governed according to the provision of the Assam Municipal Act, 1956. The remaining 17 ULBs were within the jurisdiction of Sixth Schedule Area, governed by the rules framed by respective Autonomous District Councils (ADCs). The Third Assam State Finance Commission (TASFC) recommendations did not cover the ADC.

The Guwahati Municipal Corporation (GMC) was constituted under the Guwahati Municipal Corporation Act, 1971 and started functioning with effect from 15 February 1974.

1.2 State profile

Assam is situated in the North East (NE) part of India. According to 2001 census the State covers an area of 78,438 sq. km. with a population of 2.67 crore. The rural population in the State was 2.32 crore (87%) and urban population was 35 lakh (13%). The percentage shares of area and population of the State to that of the country are 2.4 and 2.6 respectively. The State has the highest population density among NE States at 340 persons per sqkm. As against decadal growth of 21.54 *per cent* at national level, the population of the State has grown by 18.85 *per cent* over the period 1991-2001. The sex ratio of Assam at 935 females to 1000 males is higher than the national average of 933. Female literacy rate of the State rose to 56.03 *per cent* from 43.03 *per cent* in 1991.

The State can be divided into three distinct geographical regions *viz.*

1. The Brahmaputra Valley comprising of twenty two plain districts with a total area of 56194 sq.km;
2. The Hills areas consisting of two districts with a total area of 15322 sq. km. and;
3. The Barak Valley covering three districts with a total area of 6922 sq.km.

There are 27 districts in the state, the districts are further subdivided into 56 *sub-divisions* and 145 *revenue circles* for the convenience of administration and revenue collection. The economy of Assam continues to be predominantly agrarian, the dependence of rural labour force on agriculture and allied activities was nearly 53 *per cent* as per Population Census, 2001. The service sector along with tea industries dominates Assam's economy.

As per Planning Commission and MOPR report (2009-10) the state has 11 backward districts out of 278 in India.

1.3 Size of Local Bodies (LBs)

The comparative position of local bodies in the state of Assam in numerical, average population and average area terms is given below in **Table 1.1:**

Table 1.1: Comparative position of Local Bodies

Level of LB	No.	Average Area per LB (Sq Km)	Average population	National value	
				No. of LBs	Average population
Zilla Parishad (ZP)	20	2032.93	1009940	582	1275976
Anchalik Panchayat (AP)	185	219.78	109183	6285	118157
Gram Panchayat (GP)	2202	18.46	9173	241428	3076
Municipal Corporation (MC)	1	216	808021		
Municipal Board (MB)	31	8.575	43802		
Town Committee (TC)	57	3.71	10225		

1.4 Organizational Setup in State Government and Local Bodies

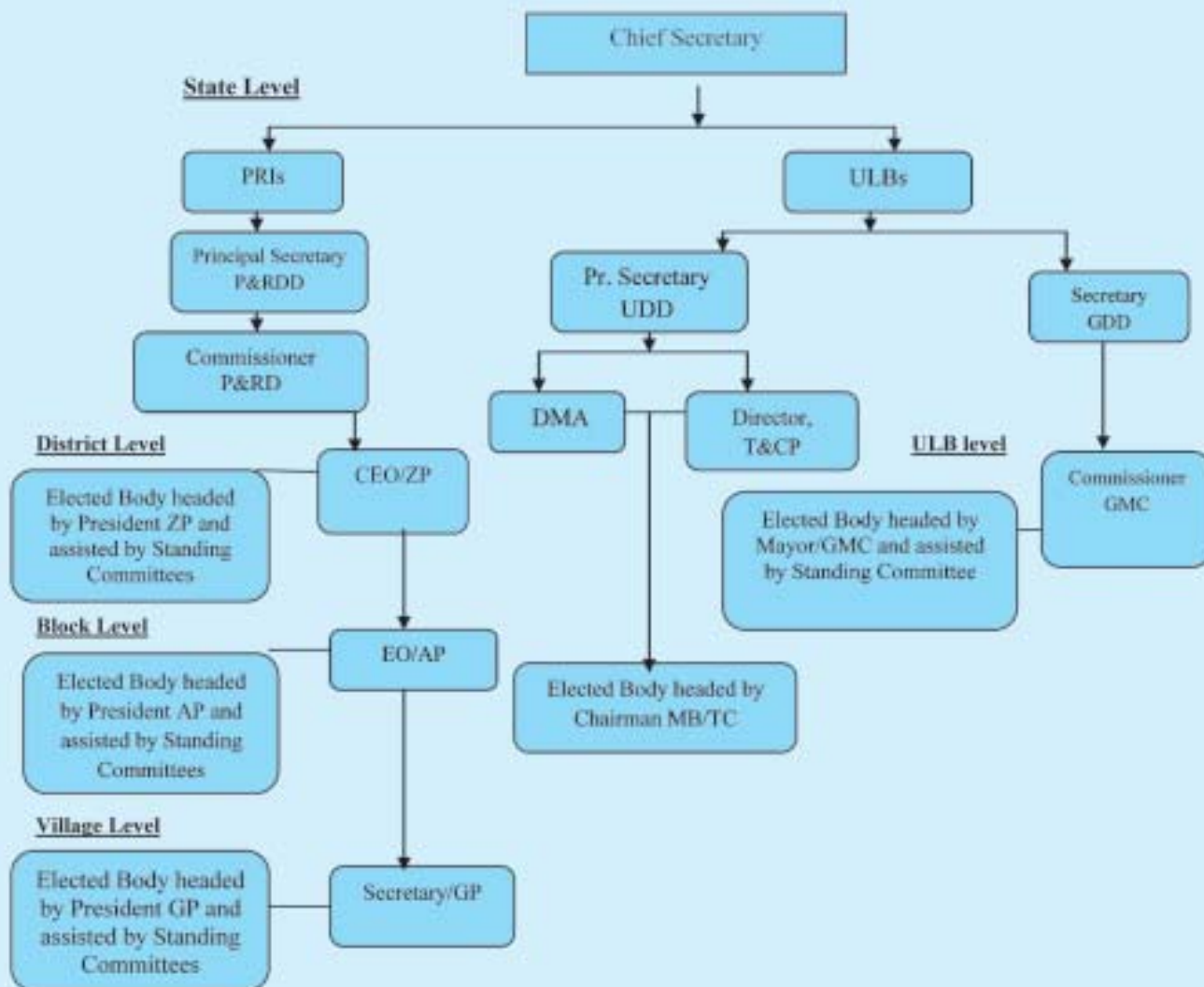
The Chief Secretary of the State is the overall incharge of monitoring the functions and activities of local bodies in the State. The Principal Secretary, Panchayat and Rural Development Department is the administrative head of PRIs and is assisted by the Commissioner, Panchayat and Rural Development in allocation of funds and in exercising overall control and supervision of functions and schemes at the State level.

The Principal Secretary, Urban Development Department is the administrative head of ULBs and is assisted by the Directors, Municipal Administration and Town & Country Planning in allocation of funds and in exercising overall control and supervision of functions and schemes at the State level.

The Secretary, Guwahati Development Department is the administrative head at the state level in respect of Guwahati Municipal Corporation (GMC).

The PRIs and ULBs are functioning under democratically elected bodies. PRI in each tier is headed by a President. However, GP President is represented in AP and likewise AP President is represented in ZP. As regards ULBs, a TC or MB is headed by a Chairman. The only Municipal Corporation in the State is headed by a Mayor.

Following organogram depicts the organizational set up at State Govt. Level and LB level with linkage between Administrative set up and elected body:



Note: P&RDD: Panchayat and Rural Development Department, UDD: Urban Development Department, GDD: Guwahati Development Department, DMA: Director of Municipal Administration, Dir, T&CP: Director, Town and Country Planning.

The functions of CEO in a ZP, Executive Secretary in an AP and the Secretary in a GP are to carryout the policies and directions of the Panchayat concerned, execution of works and development schemes. The CEO of a ZP is also responsible for allocation of funds under Finance commission grant and District Development Funds to the PRIs and implementing agencies in the district.

Sections 102 (2) and 103 (3) of AP Act, 1994 provide that Government shall appoint a Chief Accounts Officer (CAO) and a Chief Planning Officer for each ZP. The CAO shall advise the ZP on financial matters and shall be responsible for all matters relating to the

accounts of the ZP including preparation of annual accounts and the budget. The Chief Planning Officer shall advise the ZP on plan formulation and shall be responsible for all matters relating to the planning of the ZP. However, the Government had not created any post for appointment of these officers in the ZP till March 2010.

The executive function in the GMC is exercised by the Commissioner, GMC, under Section 34 of GMC Act, 1971. As per Section 53 of Assam Municipal Act, 1956, MBs may appoint executive officer with the approval of the Government. However, there is no executive officer in any MB or TC where the elected body is functioning. The Chairman exercises the executive function.

1.5 Standing Committees

PRIs shall constitute standing committees to perform the assigned functions. The political constitution of the committees of the PRIs is given in **Table 1.2** below:

Table 1.2: Political constitution of the Standing Committees

Level of PRIs	Chief Political Executive	Standing Committees	Political executives
GP	President	i) Development Committee ii) Social Justice Committee iii) Social Welfare Committee	President is the chairman of each of the three committees
AP	President	i) General Standing Committee ii) Finance, Audit and Planning Committee	President is the chairman of each committee
		iii) Social Justice Committee	Vice President is the chairman
ZP	President	i) General Standing Committee ii) Finance, Audit and Planning Committee	President is the chairman of each committee
		iii) Social Justice Committee iv) Planning and Development Committee	Chairman is elected among the elected members of each committee

PRI wise roles and responsibilities of the standing committees are given in **Appendix-1**.

Section 20 of Guwahati Municipal Corporation Act, 1971 provides for constitution of standing committees on the following:

- (i) Taxation and Finance and Planning and Development;
- (ii) Public Works;
- (iii) Public Health, Conservancy and Water Supply;
- (iv) Assessment, Markets and Trades;
- (v) Appeal.

Each Standing Committee is headed by a chairman and consists of five members elected by the members of the Corporation other than the mayor.

1.6 Staffing pattern of PRIs

Staffing pattern formulated under Assam Panchayat (Administrative) Rules, 2002 for Gr. III and IV staff, as detailed **Table 1.3** below, was quite inadequate in view of volume of work handled and funds transacted by all the three tiers of PRIs. From the table below, it is quite evident that provision of adequate staff for maintenance of accounts had not been considered for all the three tiers of PRIs.

Table 1.3: Staffing pattern of PRIs

Staffing Pattern for ZP		Staffing Pattern for AP		Staffing Pattern for GP	
Category of Staff	No.	Category of Staff	No.	Category of Staff	No.
Gr. III staff					
(i) Head Assistant	1(One)	(i) Upper Division Assistant	1 (One)	(i) Secretary	1 (One)
(ii) Upper Division Assistant	2(Two)	(ii) Lower Division Assistant	2 (Two)	(ii) Tax Collector cum Road Mohrar	-
(iii) Lower Division Assistant	4(Four)	(iii) Tax Collector	2 (Two)	-	-
(iv) Accountant	1 (One)	-	-	-	-
(v) Junior Engineer	1 (One)	-	-	-	-
(vi) Tax Collector	2 (Two)	-	-	-	-
(vii) Driver	1 (One)	-	-	-	-
Gr. IV staff					
(viii) Peon	4 (Four)	(iv) Peon	2 (Two)		
(ix) Chowkidar	2 (Two)	(v) Chowkidar	1 (One)	(ii) Peon cum Chowkidar	1 (One)

The Gram Panchayats (with two Gr-III and one Gr. IV staff), were poorly staffed to meet the demands of accounts and record keeping functions under various schemes.

1.7 Staffing pattern of Urban Local Bodies (ULBs)

There was no prescribed staffing pattern for ULBs. The number of employees of different ULBs did not conform to any norm based on population, area or other criteria. The department did not take any step to make an assessment of the number of officers and staff of different categories required for proper functioning of each ULB. A clear policy in this regard was not formulated by the State Government keeping in view the skill requirement of personnel considering work loads entrusted to ULBs under different programmes, schemes and projects.

1.8 District Planning Committee

In terms of Article 243-ZD of the Constitution provides for the constitution of District Planning Committee (DPC) to consolidate the plans prepared by the Panchayat into the Draft Development plan for the district. The Constitution also envisages active involvement of the people (beneficiaries/user group) in formulation of District Plan and implementation of scheme/maintenance of assets created.

Section 3 of APA, 1994 and AP (F) Rules 2002 framed thereunder; provide that the State Government shall constitute a District Planning Committee (DPC) in every district to consolidate the plans prepared by Zilla Parishad, Anchalik Panchayats, Gram Panchayats, Town Committees, Municipalities and Municipal Corporations in the district and to prepare a draft development plan for the district as a whole.

However, there was delay in commencement of functioning of DPC in nine districts ranged from 1 to 2 years from the date of the framing of the Rule. No consolidated district plan incorporating the needs of the grass root level with an integrated plan comprising all the development schemes of the district with the extent of available resources were prepared by the DPCs and their functions were limited to allocation of District Development Plan (DDP) fund provided by the State Government under the State Plan. Further, there is no practice of preparation of perspective plans of each Panchayat. None of the DPCs had engaged technical experts in different fields for preparation of the draft district development plan.

In absence of incorporation of defined needs of the grass root level the DPC allocated the DDP fund in routine manner. Thus, functioning of the DPC was not up to the standards set in APA, 1994.

1.9 State Finance Commission Recommendations

The Third Assam State Finance Commission (TASFC), constituted on 06 February 2006, submitted its report to the Governor of Assam on 27 March 2008. It covered a period of five years from 2006-07 to 2010-11. The recommendations of the TASFC relating primarily to devolution of state taxes, grants-in-aids and debts relief of the ULBs, decentralization of fund, function and functionaries had been accepted but not implemented (February 2010). Out of 103 recommendations relating to both ULBs and PRIs, government accepted 88 in full while two recommendations were partially accepted, five recommendations were kept pending, two recommendations accepted with modification. Government negated four recommendations in total, one recommendation relating to Pay and Pension of GMC employees referred to the cabinet. Further development in this regard is yet to be communicated by the Government (February 2011).

1.10 Devolution of Funds, Functions and Functionaries (3Fs)

1.10.1 Devolution of Funds , Functions and Functionaries to PRIs

The 73rd constitutional amendment aimed at enabling the PRIs to function as institutions of self government. The Assam Panchayat Act, 1994 has only enabling provision for functions identified for different tiers of PRIs, as detailed in **Appendix-2**.

However, for effective functioning of both state government and local bodies it is necessary to delineate the role and responsibilities of state government and each tier of PRI. This exercise was done through Activity Mapping drawn up by the State Government in June 2006 indicating devolution of powers for 23 out of 29 functions included in the 11th Schedule of the Constitution. Respective departments had been urged to issue notifications by 7 February 2007, indicating transfer of fund, functions and functionaries to be transferred to different tiers of PRIs and specifying the responsibilities of the officials against the activity transferred. However, target date so given passed by without any recorded compliance.

A Sub-committee constituted (October 2009) by the State Government, with Additional Chief Secretary as Chairman, to oversee the process of transfer of funds, functions and functionaries to PRIs, observed in June 2010 that:

- i) Field level transfer of funds, functions and functionaries to be taken up by respective departments had not taken place.
- ii) Some Head of Departments expressed difficulties in full transfer of funds, functions and functionaries to PRIs.
- iii) Schemes to be devolved were yet to be identified.
- iv) Requisite transfer of fund and functionaries would follow on identification of schemes.

Though the Sub-committee urged the Principal Secretary, P&RDD to initiate action with all respective departments to carryout the devolution exercise within a fortnight, the departments failed to carryout the devolution exercise. Even the merger of District Rural Development Agencies (DRDAs) with the ZPs, which was to take place by the first January 2007, was yet to be done (March 2011).

A study undertaken by the Indian Institute of Public Administration (IIPA) during 2009-10 on the status of devolution of funds, functions and functionaries in the States revealed that the State is lagging behind in actual devolution to the PRIs. Devolution status against certain devolution parameters as in March 2010 as per report of the institute (July 2010) is given below in **Table-1.4**.

Table: 1.4: Devolution status against certain devolution parameters

Devolution parameter	Score (out of 100)	Status (ranking)	Number of states evaluated
Framework	63.70	16	23
Function	23.08	22	-do-
Finance	26.56	15	-do-
Functionaries	12.67	23	-do-
Overall	28.31	21	-do-

The overall score of 28.31 and overall ranking of 21 out of 23 states indicated that the state has performed poorly in devolution of 3Fs to PRIs.

1.10.2 Devolution of Fund, Functions and Functionaries to ULBs

The State Government was yet to complete the process of decentralization fully in accordance with the provision contained in Article 243W of the Constitution, which enjoin State Governments to transfer 18 subjects to ULBs listed in the Twelfth Schedule. However, out of 18 subjects, only 8 were transferred to ULBs. Further, State Government had not transferred the functionaries required to carry out these functions.

The Principal Secretary, Urban Development Department (UDD) communicated (March 2010) that the matter of devolution of Fund, Functions and Functionaries to the ULBs in the state in conformity with the provision contained in Article 243W of the Constitution is under process.

The present status of devolution of Funds, Function and Functionaries to ULBs has not been communicated by the state Government (March 2011).

1.11 Financial Profile of PRIs

1.11.1 Funds flow to PRIs

The resource base of PRIs consists of own revenues, assigned and shared revenue, State Finance Commission grants, Central Finance Commission grants, Central Government grants for maintenance and development purposes, Central Government grants and loans. The fund wise source, its custody and reporting for each tier is given below in **Table 1.5**. The authorities for reporting use of funds in respect of ZPs, APs and GPs are Chief Executive Officer (CEO), Executive Officer (EO) and Secretary respectively.

Table – 1.5: Funds flow mechanism in each tier of PRI

Nature of Fund	ZPs		APs		GPs	
	Source of fund	Custody of fund	Source of fund	Custody of fund	Source of fund	Custody of fund
Own receipts	Assesses and users	Bank	Assesses and users	Bank	Assesses and users	Bank
SFC	State Government	do	State Government	do	State Government	do
CFC	GOI	do	GOI	do	GOI	do
State plan	State Government	do	State Government	do	State Government	do
MNREGA	GOI	do	GOI	do	GOI	do

Table 1.6: Fund flow arrangements in CFC grants and CS schemes

Sl. No	Scheme	Fund flow
1	2	3
1	Twelfth Finance Commission (TFC)	Government of India transfer the fund to the State exchequer, which is released through budget allocation to the Zilla Parishads. The ZPs after drawal of the fund through treasury distributes the share of APs and GPs under their jurisdiction.

1	2		3
2	Backward Region Grant Fund (BRGF)		Same as above.
3	Mahatma National Employment Guarantee (MNREGS)	Gandhi Rural Scheme	Government of India and State Government transfer their respective shares of MNREGA funds to the respective DRDAs .The Project Director of DRDA is the custodian of MNREGA funds in the district and transfer to ZPs, APs and GPs within the district.

Source: Scheme guidelines

The grants enjoin upon sanctioning authorities in Government of India (GOI) to ensure proper utilisation of grant money. This is achieved through receipt of progress reports, Utilisation Certificates (UCs) by the implementing agencies. Each sanction of grant contains certain conditions of grants-in-aid mentioned in General Financial Rules.

1.11.2 Resources: Trends and Composition

The trends of resources of PRIs for the period 2005-06 to 2009-10 is shown in **Table -1.7** below:

Table- 1.7: Time series data on PRI resources

	(₹ in crore)				
	2005-06	2006-07	2007-08	2008-09	2009-10
Own Revenue	8.79	12.30	16.00	NA	NA
SFC transfers	.....	.....	.....	.....	295.68
CFC transfers (TFC)	.....	50.04	55.17	52.60	152.71
Grants for State sponsored schemes	134.57	190.76	166.14	520.69	123.69
GOI grants for Centrally sponsored schemes	1487.72	2198.10	1382.50	1125.31	1712.18
Total	1631.08	2451.20	1619.81	1698.60	2284.26

Source: 2004-05 to 2007-08: Information furnished by the State Government to the Thirteenth Finance Commission. 2008-09: Commissioner P&RD, Assam, 2009-10: Appropriation & Finance Accounts

1.11.3 Public investment in social sector and rural development

During 2006-07 to 2009-10 public investment in social sector and rural development through major centrally sponsored schemes is given in **Table – 1.8**.

Table –1.8: Statement showing investment through major centrally sponsored schemes

(₹ in crore)

Sl. No.	Schemes	Year	Fund Released	Expenditure	Percentage of shortfall in utilisation
(1)	(2)	(3)	(4)	(5)	(6)
1.	MNREGA	2006-07	357.57	269.04	25
		2007-08	570.84	320.77	44
		2008-09	718.07	455.19	37
		2009-10	785.84	632.47	20
2.	IAY	2006-07	212.58	207.06	3
		2007-08	276.66	290.09	5
		2008-09	1996.39	627.04	69
		2009-10	635.34	470.51	26
3.	PMGSY	2006-07	889.35	691.15	22
		2007-08	155.00	261.20	41
		2008-09	9.82	10.07	2
		2009-10	900.00	931.69	4
4.	SGSY	2006-07	98.41	55.15	44
		2007-08	130.81	104.58	20
		2008-09	226.25	174.97	33
		2009-10	139.83	97.72	30
5.	BRGF	2006-07	NA	NA	-
		2007-08	59.98	59.98	-
		2008-09	41.06	NIL	100
		2009-10	59.41	57.78	3

Source: Sl. No. 1-4: MORD Annual Reports 2006-07 and 2009-10, Sl. No. 5: Govt. of Assam, P&RD Deptt.

There was considerable increase in expenditure on the Schemes in 2009-10 compared to the year 2006-07 except a minor decline in expenditure under BRGF in 2009-10 compared to the year 2007-08. The utilisation by the PRIs of the funds available has shown improvement.

Audit observed that the percentage of utilization has substantially increased in 2009-10 in comparison to the previous year.

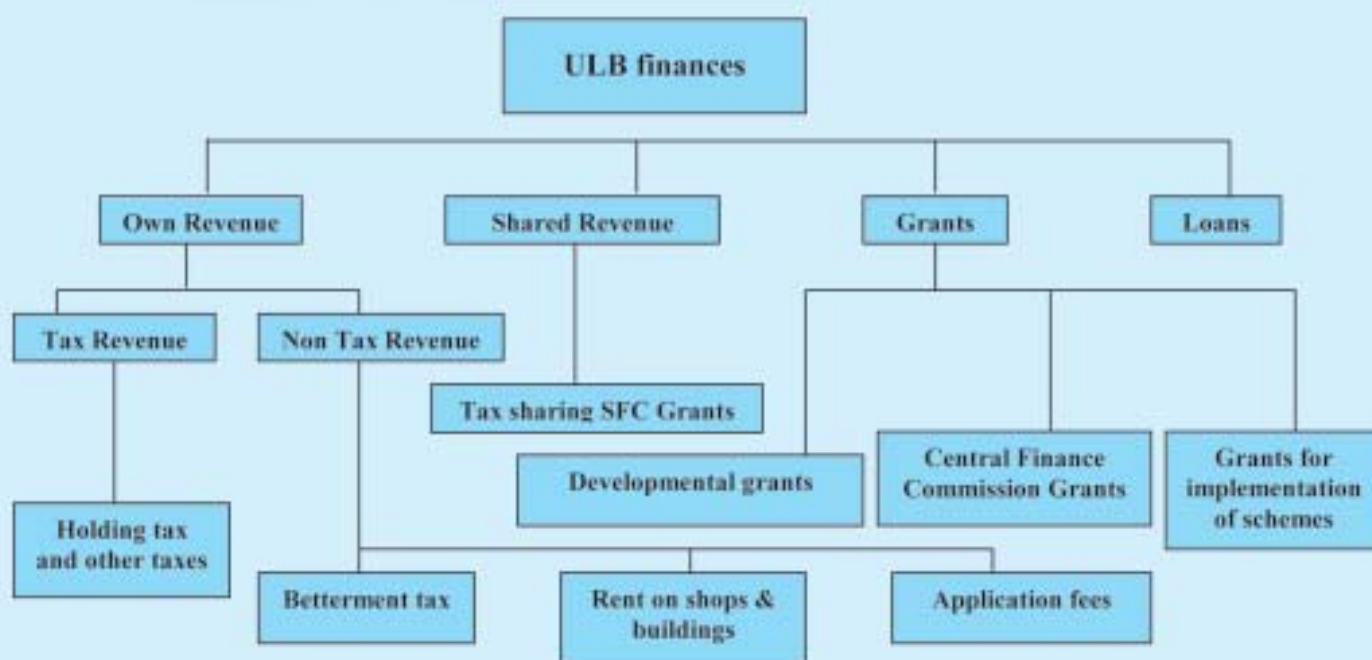
1.12 Financial profile of ULBs

The ULB fund comprises receipts from its own sources, grants and assistance from Governments and loans obtained from any public financial institutions or nationalized banks or any other institutions.

1.12.1 Source of Revenue

There were two sources of revenue for the ULBs viz., (a) Government Grants and (b) Own Revenue. Own revenue resources of ULBs comprised of Tax and Non-Tax revenue realized by them. Property Tax was the major source of revenue. Government grants comprised of funds released by the Central and State Governments based on recommendations of EFC, TFC, SFC and GOI's share for various Central Sector Schemes. Besides, loans were also obtained by them from financial institutions for implementation of various schemes relating to Urban Development, Water Supply and Roads *etc.*

A flow chart of finances of an ULB was as under:



Under the provision of the Acts in force all collections such as tax on holdings, water tax, latrine tax *etc.*, were source of tax revenue and building plan sanction fees, rent from shops and buildings, tolls and other fees and charges constitute the main source of non-tax revenue. The State Government released grants-in-aid and loans to the ULBs to compensate their establishment expenses. Grants and assistance were also received from State Government and Central Government for implementation of specific schemes and projects. However, in absence of complete database of finances of ULBs, the overall financial position of ULBs in the State could not be ascertained.

1.12.2 Allocation and release of funds

The State Government through budget provisions allocated ₹ 96.28 crore under Grants in aid, schemes, salary *etc.* during 2009-10 to ULBs. However, actual releases of funds to ULBs were ₹10.83 crore only, at 11.24 *per cent* of the budget provision. Reasons for less release were not intimated. Details of budget provision and release are shown in **Table 1.9** below:

Table 1.9: Statement showing budget provision and funds released to ULBs

(₹ in lakh)

Sl. No.	Name of scheme	Year	Nature of grant	Budget Provision	Funds actually received	Funds actually released to ULBs
1	Grants in aid	2009-10		400.61	392.53	392.53
2	SJSRY	2009-10	Central Share	5400.00	Nil	Nil
			State Share	600.00	600.00	600.00
3	Urban Dev Grant	2009-10	12 th FC	861.00	Nil	Nil
			-do-	544.40	Nil	Nil
			Market	20.00	20.00	20.00
			SWM ¹	20.00	Nil	Nil
4	ABY ²	2009-10		1200.00	1090.00	Nil
5	SCCP ³	2009-10		230.00	230.00	Nil
6	TSP	2009-10		70.00	70.00	70.00
7	Salary	2009-10		282.23	238.66	Nil
Total				9627.84	2641.19	1082.53

(Source : Information furnished by Directorate of Municipal Administration)

1.12.3 Short release of CSS grants to ULBs

As per information furnished by the Director, T&CP, receipt and release of fund under various schemes during 2009-10 are shown as under in **Table 1.10**:

Table 1.10

(₹ in crore)

Sl. No.	Name of scheme	OB lying with Director T&CP	Amount received	Total fund	Amount released to ULBs	Closing Balance
1	IDSMT	0.54	Nil	0.54	Nil	0.54
2	UIDSSMT JNNURM	24.08	69.02	93.10	34.17	58.93
3	IHSDP of JNNURM	5.37	13.99	19.36	4.53	14.83
4	10 <i>per cent</i> Pool Fund	17.83	350.00	367.83	306.65	61.18
Total		47.82	433.01	480.83	345.35	135.48

(Source: Information furnished by the Director, T&CP)

¹ Solid Waste Management

² Assam Bikash Yojana

³ Special Component Plan for Schedule Caste

During 2009-10, the Director, T&CP was to allocate ₹480.83 crore including balance of preceding years to ULBs for implementation of the schemes. Against this, only ₹345.35 crore was released during the period resulting in short release of ₹135.48 crore thereby adversely affecting the implementation of the schemes. The reason for such short release has not been intimated.

1.13 Database on LB Finances

1.13.1 Development of Database of Finances of PRIs

Based on the recommendations of the Eleventh Finance Commission (EFC), CAG had prescribed database formats for capturing the finances of all PRIs. The database formats were prescribed with a view to have a consolidated position of the sector-wise resource and application of funds by PRIs, details of works executed by PRIs and their physical progress, etc.

Though Government accepted (August 2004) the formats prescribed by CAG, the development of database has not yet been started. Government constituted (February 2008) a committee to look into the matter. Government stated (September 2009) that computer & networking at ZP and AP level have only been completed and software called PRISM for maintenance of database has been developed. However, computerization at GP level has not been done yet and the software has not yet been introduced. Thus, a complete database of finances in a consolidated form covering all the PRIs in the State was not available.

1.13.2 Development of database formats on finances of ULBs

The Second State Finance Commission (SFC), beyond the fiscal package, recommended the need for building up database in respect of Municipal finances. This recommendation was accepted by the State Government. The inputs for the database need to be collected and compiled in standard formats as prescribed by the CAG. Even after regular correspondence and requests the final action taken for development of database was awaited (February 2011).

1.14 Accountability Framework

1.14.1 Authority and responsibility of State Government on PRIs and ULBs

The Constitution of India empowers states to legislate on Panchayats and Municipalities. Further, in exercise of relevant Acts and Rules, the state government exercises its powers in relation to PRIs and ULBs as detailed in **Appendix-3**.

The Assam Panchayat Act entrust the State Government with the following powers so that it can monitor the proper functioning of the PRIs.

- call for any record, register, plan, estimate, information, *etc.*, from the PRIs;
- inspect any office or any record or any document of the PRIs;
- inspect the works and development schemes implemented by PRIs; and
- take action for default of a Panchayat President, Secretary.

The Assam Municipal Act and Gauhati Municipal Corporation Act 1971, also enjoin similar provisions in the respective acts to enable the State Government to monitor proper functioning of the ULBs.

Despite the above mentioned duties and powers vested in the Government for the enhancement of quality of public service and governance, Audit noticed numerous lapses/defects in the formulation and implementation of schemes, matters relating to finance, *etc.*, as mentioned in Chapter II and III of this Report.

1.14.2 Social Audit

The primary objective of social audit is to bring the activities of Local Bodies under close surveillance of the public and the latter to have access to records and documents of the former. Owing to this mechanism, the citizens should be able to have immediate access to information which would facilitate transparency and accountability in day to day functioning of local bodies. The State Finance Department issued guidelines (May 2009) for social audit which *inter alia* includes:

- Use of Gram Sabhas and Ward Committees as important vehicles spread of awareness about social audit.
- Appointment of nodal officer at the level of Gram Sabhas and Ward Committees who would register complaints and fix the date for social auditing.

- Wide publication of the date of social audit through local newspapers, hand bills, leaflets and notice boards *etc.*
- Presentation by the GP Secretaries and representatives of Urban Local Bodies, the relevant data on revenue and expenditure of their organizations including bills vouchers, master rolls, measurement books, copies of sanction orders and other books of accounts and papers necessary for the purpose of social auditing.

However, except a provision made under the Assam Rural Employment Guarantee (AREG) Scheme in respect of schemes under MNREGA, the State Government is yet to amend the relevant Panchayat and Municipal Acts to make a statutory provision for social auditing.

1.15 Audit Mandate

1.15.1 Primary Auditor

Director of Audit, Local Fund (DALF), Assam under the provisions of Assam Local Funds (Accounts & Audit) Act, 1930 conducts audit of the accounts of any local authority such as universities, colleges, schools, religious and charitable institutions *etc.* including PRIs and ULBs in the State. The State Government had not yet made any provision in the relevant AP Act making the DALF the primary external auditor of PRIs. However, the State Government, through concerned departmental orders issued in December 2009 and January 2010, entrusted the DALF as primary auditor to conduct the audit of the accounts of ULBs and PRIs respectively.

1.15.1.1 Organizational Set up of DALF

The Local Fund Audit organization in the State under the Director of Audit Local Fund, Assam has 16 circle offices each headed by an Assistant Director to perform audit function at the district level. Each audit party comprised of one Audit Officer, one or more Assistant Audit Officers. At present (March 2011) there are 159 audit parties and they work under the direct supervision and guidance of the Assistant Director of the circle.

1.15.1.2 Staff strength of DALF

The details of sanctioned strength and person in position in the organisation during 2009-10 were as shown in **Table 1.11** follows:

Table I.11: Statement showing sanctioned strength and person in position in DALF, Assam

Sl. No.	Post	Sanctioned	Persons in position	Vacant	Percentage of vacancy
1	Director	1	1	-	Nil
2	Joint Director	2	2	-	Nil
3	Deputy Director	3	2	1	50
4	Registrar	1	1	-	Nil
5	Audit officers	159	73	86	54
6	Assistant officers	159	80	79	50
7	Other ancillary staff	303	265	38	87
Overall		628	424	204	32

The organization is functioning with 32 *per cent* shortage of staff, but the shortages in the cadre of Audit Officers and Assistant Audit Officers are more than 50 *per cent* thereby adversely affecting the mandated function of the organization which is discussed in part B of this chapter.

1.15.2 Audit by C&AG of India

C&AG conducts audit of substantially financed local bodies under section 14 (1) of C&AG (DPC) Act 1971 and audit of specific grants to local bodies under section 15 of the Act *ibid* in the office of sanctioning authority. The audit of PRIs and ULBs is also conducted by CAG under section 20 (1) of the Act as per Technical Guidance and Support (TGS) module entrusted to C&AG by the State Government vide notification dated May 2002. However, the State Government has yet to finalize the parameters for TGS as laid down by CAG.

Audit of accounts of 70 PRIs (8 ZPs, 20 APs and 42 GPs), 10 ULBs (one Municipal Corporation, three Municipal Boards and six Town Committees) for the year 2009-10 were conducted during January to December 2010 as detailed in **Appendix-4**.

1.16 Conclusion

- Functioning of District Planning Committees (DPCs) were not upto the mark as envisaged in Assam Panchayat Act, 1994 as the consolidated and integrated development plans of the districts were not prepared.
- The State is lagging behind in actual devolution of fund function and functionalities as the field level devolution is yet to take place.

SECTION 'B'
FINANCIAL REPORTING OF PRIs & ULBs

SECTION 'B'
**FINANCIAL REPORTING OF PANCHAYAT RAJ INSTITUTIONS AND
URBAN LOCAL BODIES**

1.17 Legal framework

Financial reporting in the Local Bodies is a key element of accountability. Matters relating to drawal of funds, form of bills, incurring of expenditure and maintenance of primary financial records are governed by the provisions of the AP Act, AP (F) Rules, AM Act, GMC Act and AM (A/C) Rules and other departmental standing orders and instructions.

However, no provision was made in above Acts and Rules for preparation and rendering of Annual Accounts by the local bodies as required under best practices.

1.17.1 Deficiencies in maintenance of primary financial records

The deficiencies noticed in maintenance of primary financial records of PRIs during 2009-10 are detailed below:

a. Cash Book and other subsidiary accounts

Rule 8, sub rule 4 (a), (b) and (c) of AP (F) Rules 2002 stipulate that all moneys received and payments made should be entered in the cash book and it should be closed every day. Monthly closing of cash book with physical verification of cash and reconciliation of cash book balance with bank balance under proper authentication are to be done. Sub-rule 4 (e) further stipulates that at the close of each month, the bank balance as reflected in the cash book shall be reconciled with balances as per bank account. However, test check revealed that:

- Sixty nine of the 70 PRIs (98.5 *per cent*) test checked for the periods ranging from 2002-03 to 2009-10 maintained more than one cash book which were not closed daily or monthly and maintained as and when a transaction occurred without ever analysing the closing balance and conducting any physical verification of cash.
- In addition to the operation of multiple Cash Books, funds received under different schemes/ activities were parked in a number of bank accounts for each

- scheme, but cash book balances were not reconciled with bank balances in any PRI. Instances of un-reconciled balances with differences ranging from ₹0.14 lakh to ₹3.10 crore in 9 PRIs as on March 2010 are indicated in **Appendix-5**.
- None of the PRIs furnished certificate to Audit declaring total number of bank accounts maintained. In the absence of this, Audit could not ascertain the correctness of the bank transactions recorded in the cashbook.

This indicated failure of the DDOs of the PRIs to adhere to the provisions of financial rules to ensure proper maintenance of cashbook and subsidiary records and therefore, possibility of fraud and embezzlement of money cannot be ruled out.

b. Register of Advances

PRIs granted various advances to the members and officials. Advances were also granted to the departmental officials, construction committees, suppliers' *etc.*, for execution of works/ supplies *etc.* However, none of the 70 PRIs, test checked in audit during 2009-10, maintained Advance Registers for accountal of advances and watching recovery/ adjustments thereof. Instances of advances remaining outstanding in 9 PRIs amounting to ₹7.48 crore are indicated in **Appendix 6**.

The Assam Panchayat (Financial) Rules, 2002, neither provided for maintenance of Advance Register nor prescribed any mechanism for recovery/adjustments of advances. In the absence of any provision in the Rules, advance registers were not maintained and the PRIs thus, failed to watch recovery/ adjustment of advances and treated the amounts of advances as final expenditure.

c. Asset Register

- 69 out of 70 PRIs test checked in audit during 2009-10, did not maintain asset register in violation of the provision of Rule 19 of AP (F) Rules 2002.
- One PRI partially maintained one asset register where upto date entries were not found in respect of movable and immovable properties.
- Annual physical verification of movable and immovable properties was not done in any PRI.
- Stock Register for the period since 2002-03 was not maintained in 36 PRIs out of 70 test checked PRIs (51 *per cent*).

1.18 Annual Accounts and Budgetary control

1.18.1 Non preparation of Annual Accounts

The Government of Assam accepted the accounting formats prescribed by CAG for PRIs and accordingly amended the Assam Panchayat (Financial) Rule 2002 in August 2004. However, neither the formats for preparation of Monthly and Annual Accounts, as prescribed by the CAG, were incorporated in the Assam Panchayat (Financial) Rules 2002 nor any provision was made in the said Rules for preparation and submission of Monthly and Annual Accounts.

Assam Municipal (Account Rules) 1961 framed under Assam Municipal Act 1956, provide for maintenance of accounts of municipalities on cash basis and did not prescribe formats for preparation of annual accounts by ULBs. The State Government prepared the draft State Municipal Accounting Manual (SMAM) in September 2010 in the line of National Municipal Accounting Manual. However, the SMAM has not yet been finalised and the State Municipal Acts has not yet been amended to that effect (March 2011). The accounts of ULBs were continued to be maintained on cash basis and thereby true and fair view of financial affairs of ULBs and their assets and liabilities were not disclosed.

Due to inadequacy in relevant Acts and Rules, annual accounts are not prepared by the local bodies in the State and their states of affairs remain undisclosed.

1.19 Budget

1.19.1 Budget estimates of PRIs

Budget is the most important tool for financial planning, accountability and control. As per Section 27,59 and 96 of Assam Panchayat Act, 1994, the Budget proposals containing Detailed Estimates of Income and Expenditure expected during the ensuing year were to be prepared by the respective Standing Committees after considering the estimates and proposals submitted by the Secretary and the officers dealing with respective subjects. However, 67 out of 70 PRIs test checked in audit did not prepare their budgets up to the year 2009-10 and unauthorisedly incurred expenditure in the absence of budget allocation reflecting the absence of budgetary control at each tier of PRIs. Instances of 13 PRIs incurring unauthorised expenditure of ₹31.20 crore from their own fund are detailed in **Appendix 7**.

An analysis of budgets prepared by 3 PRIs during 2005-06 to 2008-09 revealed that the budgets were unrealistic. While excess estimation of receipts ranging from ₹4.35 lakh to ₹35.33 lakh were noticed in 3 PRIs, there were variations of ₹4.35 lakh and ₹16.77 lakh in estimated expenditure against the actuals in 2 PRIs as shown in **Table-1.12** below:

Table-1.12: Statement showing preparation of unrealistic budget by PRIs

(₹ in Lakh)

Sl. No	Name of PRIs	Year/ Period	Receipts		Excess provision	Expenditure		Excess provision
			Estimated	Actual		Estimated	Actual	
1.	Goroimari AP	2005-09	42.65	7.32	35.33	NA	NA	NA
2.	Rangapara AP	2006-09	8.31	3.96	4.35	8.31	3.96	4.35
3.	Biswanath Chariali AP	2005-09	26.45	7.70	18.75	24.11	7.34	16.77
Total			77.41	18.98	58.43	32.42	11.30	21.12

The actual receipts during 2005-09 were *much* below that the estimated receipts. This indicated that the budgets were unrealistic. Had the figures in the demand register and the actual collection during previous years been considered for preparation of the budget, it would have been more realistic and accurate.

Further, there was no mechanism at the state level to watch excess/savings in expenditure in respect of PRIs.

1.19.2 Budget estimates and expenditure of ULBs

As provided under Section-43A of the Assam Municipal Act (AMA), 1956 read with Rule-11 to 18 of the Assam Municipal Account Rules, 1961, the budget estimates showing details of probable receipts and expenditure shall be prepared in Municipal Account Form No.1 and placed before the Municipal Board in their meeting to be held at least two months before the close of the year. Further, the budget estimates shall be approved by the Municipal Board and copies thereof shall be submitted to the DMA.

1.19.2.1 Preparation of unrealistic budget

The variation between budget estimates prepared by the Guwahati Municipal Corporation and actuals of revenue receipts from Own source during years 2007-10 are as shown in **Table 1.13** below:

Table 1.13

(₹ in lakh)

Year	Source	Budget estimates	Actual receipts (₹)	Shortfall (₹)	Percentage of realization
2007-08	Own fund	5711.05	2791.09	2919.96	49
2008-09	-do-	5993.00	3077.80	2915.20	51
2009-10	-do-	6208.00	3146.59	3061.41	51
Total		17912.05	9015.48	8896.57	50.33

During the year 2007 to 2010 overall 50.33 per cent receipts were realized in comparison to the estimated receipts. This indicates preparation and adoption of unrealistic budget.

1.20 Internal control system at the level of LB

Internal control mechanism is an integral function of an organization which helps it to govern its activities effectively, to achieve its objectives. It is intended to provide reasonable assurance of proper enforcement of Acts, Rules and bye-laws. Various internal control measures in financial and operational activities were built into the departmental rules and manuals and their strict adherence would minimize the risk of errors and irregularities. Audit scrutiny revealed that the internal control provisions were not effectively implemented by the LBs.

The internal control system at the level of each PRIs and ULBs has been designed by state government through Assam Panchayat (AP) Act, 1994 AP (F) Rules 2002, Assam Municipal Act, 1956, Assam Municipal Accounts Rules, 1961, Guwahati Municipal Corporation Act, 1971 application of state government's own rules and policies relating to finance, budget, personnel matters. The significant provisions of internal control mechanism in PRIs and ULBs are indicated in **Appendix-8**.

1.20.1 Deficiencies in internal control mechanism in PRIs

1.20.1.1 Furnishing of Utilisation Certificates

Financial rules of Central Government, conditions regulating release of Central Finance Commission grants and scheme guidelines of CSS stipulate that for the grants provided for specific purposes, utilization certificates (UCs) should be obtained by departmental officers (specify) from the grantees and after verification, these should be forwarded to the sanctioning authority within a specified period unless specified otherwise. However, the State Panchayat and Rural Development Department did not furnish the status of

submission of UCs in respect of funds released by the Government of India under TFC, MNREGS, BRGF, SGSY etc. As per Annual Report 2009-10 of Ministry of Panchayati Raj, utilization certificate in respect of an amount of ₹7.75 crore sanctioned in 2006-07 for capacity building under BRGF was outstanding as of July 2009.

1.20.1.2 Cases of misappropriation/defalcation/losses, etc.

State financial rules stipulate that each DDO of the State Government should report any case of loss, theft or fraud to the Accountant General and State Government. The State Government will follow it to recover the loss, fix responsibility and remove systemic deficiency, if any. However, no specific provision exists in AP (F) Rules 2002 for DDO or Head of the PRI to report any case of loss, theft or fraud to the Accountant General and State Government. This is a systemic lapse at the level of State Government.

1.20.2 Deficiencies in internal control mechanism in ULBs

Due to lack of internal control, cash books had several deficiencies in the test-checked 10 ULBs as detailed below:

- Several sets of cash books were maintained in two ULBs⁴
- Particulars of payment, voucher nos; classification etc., were not recorded in Dibrugarh MB.
- Cash book was not closed at the end of every month and signed by the officer authorized in two ULBs⁵
- Cash book balances were not reconciled with the balances in banks in respect of 5 ULBs
- Physical verification of cash was not done in Biswanth TC
- In three ULBs ₹1.38 lakh collected through receipt book being the own revenue had not been accounted for in the Cash Book without assigning any reason as shown in the table below:

Sl. No.	Name of ULB	Period	Amount
1	Lakhipur TC	April 2008 to June 2008	11,071
2	North Guwahati TC	June 2007 to March 2008	46,859
3	Bakalia TC	June 2008 to March 2010	79,921
		Total	1,37,851

⁴Dibrugarh MB, Biswanath TC

⁵Dibrugarh MB, Biswanath TC

1.21 Internal Audit

Internal Audit is a vital component of internal control to enable an organization to assure itself that the prescribed system is functioning reasonably well.

Rule 18 of Assam Panchayat (Administrative) Rules, 2002 provided for utilisation of internal auditors of Panchayat & Rural Development Department for checking and rectification of accounts of PRIs. However, no such utilisation of departmental internal auditors were noticed during audit of PRIs. The system of internal audit, therefore, does not exist in PRIs.

There was no provision for internal audit in relevant municipal Acts and Rules and as such the system of internal audit does not exist in ULBs. As intimated by the Director of Municipal Administration, Assam (March 2011), the system of internal audit has not been introduced in the municipalities in Assam.

Guwahati Municipal Corporation (GMC) appointed (February 2007) M/s. Rudmalka and Associates as internal auditor of GMC for a monthly fee of ₹5000⁶. The scope of work included the following:-

- (i) Submission of monthly internal audit report on receipt and expenditure statements.
- (ii) Introduction of accrual system of accounts on the basis of double entry book keeping and preparation of GMC annual budget on accrual basis.
- (iii) Preparation of bank reconciliation statement (BRS)

During audit (August - September 2010) neither any record in support of conduct of any internal audit nor any internal audit report on the accounts of GMC could be produced. Double entry system of accounts on accrual basis has not yet been introduced in GMC and no bank reconciliation has yet been carried out by the firm. Thus GMC failed to have strong internal control system with the help of internal audit.

⁶ The monthly fee was enhanced (May 2007) with retrospective effect to ₹10,000- per month which was further enhanced (June 2010) to ₹20,000 per month w.e.f. May 2010. The firm was paid ₹4.82 lakh from February 2007 to August 2010.

The matter was reported through inspection reports to the Commissioner, GMC and Government of Assam, Guwahati Development Department in November 2010. Reply is awaited (April 2011).

1.22 Audit of accounts of local bodies

1.22.1 Audit coverage by DALF

Director of Audit, Local Fund (DALF), Assam under the provision of the Assam Local Funds (Accounts & Audit) Act, 1930 is the statutory external auditor of any local authority, including PRIs and ULBs. The duty of DALF *inter alia* is to certify correctness of accounts, assess internal control system and report cases of loss, theft and fraud to auditee and Government.

Year-wise position of number of units audited, number of audit reports and arrears in issue of audit reports as intimated by DALF (March 2011) are detailed in table below:

Table 1.15: Arrears in issue of audit reports by DALF

Year	No. of units planned for audit		No. of units audited		No. of audit reports issued		Arrears in issue of audit reports at the end of the year	
	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs
2008-09	....	...	698	50	265	27	433	23
2009-10	1652	46	591	24	172	22	419	2

Arrears in issue of audit reports against the number of units audited were 456 at 61 *per cent* during 2008-09 and 421 at 68 *per cent* during 2009-10. Again there was shortfall in number of units audited against the number of units planned for audit during 2009-10. Reason for shortfall was attributed by DALF to shortage of staff. The shortfall in audit coverage had led the audit of the LBs in arrears and undue delay in issue of inspection reports affected the accountability mechanism in the auditee units leading to persistent irregularities without any corrective measure.

1.22.2 Presentation of annual consolidated audit report

As stated by the Director (February 2010), DALF is required to send an Annual Report to the Finance Department by 30 September each year incorporating major outstanding audit objections relating to LBs which were pending for settlement for further action by the Finance Department. However, no consolidated Annual Report had so far been sent to Finance Department. Further, the State Government did not set up any committee for discussion of Annual Report of DALF.

Thus in the absence of Annual Consolidated Reports, the results of audit conducted by DALF remain unreported without any follow up action thereby creating an environment of serious financial irregularities leading to loss to Government.

1.22.3 Response to Audit Observation

Results of audit of the accounts of PRIs and ULBs, conducted by the office of the Senior Deputy Accountant General (LB Audit & Accounts), Assam, were communicated to the respective units in the form of Inspection Reports (IRs) with copy to the State Government. PRI and ULB authorities were required to comply with the observations contained in the Inspection Reports (IRs) and rectify the defects and omissions and report their compliance to audit within three months from the date of issue of IRs. Only 75 PRI units and four ULBs had furnished replies to IRs till the end of February 2011.

The details of IRs and the outstanding paragraphs as of December 2010 is shown in table below:

Table 1.16: The details of IRs and the outstanding paragraphs

Year of issue	No. of Inspection Reports		No. of outstanding Paras		Money value (₹ in crore)		Total outstanding Paras	Money value (₹ in crore)
	PRIs	ULBs	PRIs	ULBs	PRIs	ULBs		
Up to 2006-07	50	79	762	1072	68.93	2.06	1834	70.99
2007-08	155	2	1312	27	64.57	0.01	1339	64.58
2008-09	97	11	860	190	158.59	80.83	1050	239.42
2009-10	70	10	421	139	138.63	72.79	560	211.42
Total	372	102	3355	1428	430.72	155.69	4783	586.41

Thus 4783 paragraphs with monetary value of ₹586.41 crore were pending for settlement (February, 2011) for want of replies from local bodies.

A review of the IRs, which was pending due to non-receipt of replies, revealed that the heads of the offices, whose records were inspected, did not send any reply to a large numbers of IRs/Paragraphs. The Principal Secretaries of the Departments also failed to ensure that the concerned officers of the LBs took prompt and timely action in furnishing replies to IRs.

1.23 Administrative Reports

Section 128, Sub-sections (1) and (2) of the AP Act, 1994, provides for submission of annual administrative report of the preceding year of AP and ZP to the Government by 30

September every year. Report of the ZP together with a memorandum by the Government reviewing the working of the ZP should be laid before the State Legislature as per subsection (3) of the section *ibid*. However, neither the PRIs prepared their annual administrative reports nor the State Government (P&RDD) called for annual administrative reports from PRIs for consolidation and submission to the State Legislature

Annual administrative report of the preceding year of GMC together with a statement of receipts, disbursements and balance at credit of the Municipal Fund at the close of the year is required to be submitted to the Government under Section 136 of GMC Act. However, during a test check of GMC records in August-September 2010 it was found that no such report was submitted to the Government.

1.24 Conclusion

- Financial reporting is inadequate with no provision in PRI and ULB Acts and Rules for preparation and rendering of annual accounts by Local Bodies. Non preparation of annual accounts resulted in lack of transparency of state of affairs as well as non-disclosure of financial assets and liabilities of Local Bodies. There is no provision for reporting of misappropriation, fraud *etc.*, to the State Government in PRI Acts and Rules and
- Internal control mechanism was weak as evidenced by non maintenance of community assets, register of advances and non furnishing of utilization certificates by PRIs and deficiencies in maintenance of primary financial records at all levels of PRIs and ULBs. There is no provision for internal audit in ULB Acts and Rules.
- Appropriation of fund without preparation of budget led to unauthorized expenditure in PRIs. Preparation of unrealistic budget resulted in over estimation of revenue in both PRIs and ULBs.
- There was poor response and delays in furnishing replies to audit observations leading to accumulation of outstanding audit objections.