

CHAPTER-III

COMPLIANCE AUDIT PARAGRAPHS URBAN LOCAL BODY

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3.1 Fund Management

The year-wise position of budget estimates, availability of fund with the AMC and expenditure there against during the period 2012-13 are depicted in the following Table-3.1:

Table-3.1

(₹ in crore)

Year	Budget Estimate			Position of Fund availability with the AMC									Expenditure				Closing Balance
	Cap	Rev	Total	Opening Balance		GoI		State Government		OSR	Int	Total	Cap	Rev	OSR	Total	
				Cap	Rev	Cap	Rev	Cap	Rev								
2012-13	7.45	8.37	15.82	2.91	1.34	6.26	5.94	0.00	3.09	3.14	0.13	22.81	4.99	7.38	1.67	14.04	8.77

Source: Departmental records

AMC=Aizawl Municipal Council, Cap=Capital, Rev=Revenue, GoI=Government of India, Int=Interest, OSR=Own Source of Revenue

It can be seen from the Table-3.1 that out of available GoI grants of ₹ 9.17 crore (Opening Balance: ₹ 2.91 crore plus ₹ 6.26 crore) under capital section for civic amenities through developmental works during 2012-13, the AMC could spend only an amount of ₹ 4.99 crore constituting 54 per cent of the available fund, which resulted in savings of ₹ 4.18 crore to the extent of 46 per cent. The savings occurred due to the fact that the GoI released the fund at the fag end of the financial year. As a result, no minor works against the Annual Action Plan of 2012-13 could be taken up during the concerned financial year.

3.1.1 Shortage of cash

Scrutiny of the cash books revealed that a closing balance of ₹ 876.91 lakh was retained by the AMC as on 31 March 2013. An analysis of the cash balances with reference to the cash in hand and cash at bank as of 31 March 2013 as per statement furnished by the CEO, AMC revealed that there was a shortage of physical cash amounting to ₹ 0.85 lakh, as per details given below:

1.	Closing Balance as per Cash Book as on 31 March 2013	₹ 876.91 lakh
2.	Physical Cash balance as on 31 March 2013 as per Statement furnished by the CEO:	
	(i) in six Banks	₹ 866.61 lakh
	(ii) cash in hand	₹ 9.45 lakh
	Total	₹ 876.06 lakh
3.	Cash shortage (1-2)	₹ 0.85 lakh

While accepting the facts, the CEO stated (April 2014) that the accounts for the year 2012-13 will be re-checked and balances will be verified.

3.2 Civic Amenities

As per Thirteenth Finance Commission's recommendations the State Government needs to provide core services like drinking water, sewerage, solid waste management and street lights to local bodies.

In order to implement the programmes for civic amenities to the community in Aizawl Municipal Area, AMC prepared Annual Action Plans for 2011-12 (Outlay: ₹ 9.99 crore) and 2012-13 (Outlay: ₹ 10.07 crore) under grants for ULB as per ThFC recommendations. The important points noticed in course of audit are spelt out in the succeeding paragraphs.

3.2.1 Delay in release of Thirteenth Finance Commission grants

As per Para 4.2 of the guidelines issued by the Ministry of Finance for release and utilisation of grant recommended by the Thirteenth Finance Commission, the State Government is required to transfer the funds to ULB within five days of receipt from the Central Government in case of States with easily accessible banking infrastructure and ten days in case of States with inaccessible banking infrastructure. Any delay will require the State Government to release the instalment with interest, at the Bank rate of RBI. The dates of release of ThFC grants *vis-à-vis* transfer of funds by the Urban Development and Poverty Alleviation (UD&PA) Department to the AMC (ULB) are shown in the following Table-3.2:

Table-3.2

(₹ in lakh)

Release of Grants-in-Aid by GoI			Release to the AMC			Delay (in days)
Recommendations	Date of release	Amount released	Due date of release	Date of release	Amount released	
ThFC (1 st instalment – 2012-13)	01.11.12	592.56	05.11.12	18.02.13	35.00	105
				05.03.13	321.75	120
				12.03.13	235.81	127
Total		592.56	--	--	592.56	--

Source: Departmental records

Thus, due to delay in release of the grants, the State Government had to release penal interest along with the release of grants.

3.2.1.1 Non-execution of works

It can be seen from the Table-3.2 that the UD&PA Department released ThFC grants to the AMC after a delay ranging from 105 days to 127 days beyond the stipulated date of transfer.

It was noticed that AMC could not execute the works for creation of capital assets as per approved Action Plan due to delay in release of ThFC grants by UD&PA Department in contravention of the guidelines. Out of available fund of ₹ 5.93 crore AMC could not be utilised ₹ 3.22 crore for the year 2012-13.

3.2.1.2 Penal Interest

Audit noticed that the State Government had released (March 2013) penal interest of ₹ 10.87 lakh in full for delay in release of ThFC grants for the year 2011-12 to the AMC as per the guidelines.

However, the penal interest of ₹ 17.41 lakh¹ payable for delay in release of ThFC grants for the year 2012-13 was not released by the State Government as of March 2014.

3.2.2 Minor works

In order to cater to the needs of the public in AMC area, minor works viz. construction of stone masonry steps, retaining wall, link drain, culvert, approach road, hand railing, side drain, Reinforced Concrete Construction bridges etc. were to be executed by the AMC out of the ThFC grants.

There is an Engineering Cell under the AMC, which is headed by an Executive Engineer (EE) who is assisted by three Junior Engineers (JEs).

During 2012-13, as recommended by the Local Councils, the AMC executed 538 minor works (total estimated cost ₹ 462.54 lakh) with an expenditure of ₹ 448.66 lakh out of the funds received from the GoI (ThFC grants). Out of 538 minor works, 316 works with an estimated cost ranging from ₹ 0.04 lakh to ₹ 7 lakh (total estimated cost: ₹ 237.25 lakh) were executed departmentally by the Engineering Cell and the remaining 222 works with an estimated cost ranging from ₹ 0.15 lakh to ₹ 6 lakh (total estimated cost: ₹ 225.29 lakh) were executed through contractors.

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Amount	RBI Bank Interest		Delay in days	Amount of Interest (₹ in lakh)
	Period	Rate of Interest		
₹ 35 lakh	06.11.2012 to 28.01.2013	9.00	84	$3500000 * 9\% / 365 * 84 = 0.48$
	29.01.2013 to 12.03.2013	8.75	21	$3500000 * 8.75\% / 365 * 21 = 0.18$
Sub-Total (A)			105	0.66
₹ 321.75 lakh	06.11.2012 to 28.01.2013	9.00	84	$32175000 * 9\% / 365 * 84 = 6.66$
	29.01.2013 to 05.03.2013	8.75	36	$32175000 * 8.75\% / 365 * 36 = 2.78$
Sub-Total (B)			120	9.44
₹ 235.81 lakh	06.11.2012 to 28.01.2013	9.00	84	$23581000 * 9\% / 365 * 84 = 4.88$
	29.01.2013 to 12.03.2013	8.75	43	$23581000 * 8.75\% / 365 * 43 = 2.43$
Sub-Total (C)			127	7.31
Grand total (A + B + C)				17.41

Test check of records of the 316 works executed departmentally (estimated cost ₹ 237.25 lakh) with an expenditure of ₹ 235.48 lakh revealed the following irregularities:

3.2.2.1 Excess expenditure

Public Works Department (PWD), Government of Mizoram (GoM), while preparing the Schedule of Rates (SoR), 2007, included a contractor's profit @ 10 per cent uniformly on materials, labours and machineries for all items of works. Consequently, the element of 10 per cent contractor's profit is not to be taken into consideration in the estimate of work to be executed departmentally.

The EE of the AMC framed 316 estimates for minor works in 19 Wards valued at ₹ 237.25 lakh² as per SoR 2007 without deducting the element of 10 per cent contractor's profit from the estimated cost. For execution of 316 works departmentally, the AMC was to restrict the estimated cost to the tune of ₹ 215.68 lakh³ (₹ 237.25 lakh minus 10 per cent contractor's profit of ₹ 21.57 lakh).

Scrutiny of records of the AMC, however, revealed that all of these 316 minor works were executed departmentally during April 2012 to March 2013 by engaging Muster Roll labourers and procuring materials locally by the Engineering Cell from time to time with a total expenditure of ₹ 235.48 lakh (Materials cost: ₹ 161.96 lakh plus Labour cost: ₹ 73.52 lakh).

Thus, the AMC incurred an excess expenditure of ₹ 19.80 lakh (₹ 235.48 lakh minus ₹ 215.68 lakh) due to non-restriction of estimated cost at the admissible limit of ₹ 215.68 lakh for execution of 316 minor works departmentally.

While accepting the facts, the CEO stated (December 2013) that 10 per cent contractor's profit will not be included in the estimate of the works to be executed departmentally in future.

3.2.2.2 Satisfaction level

In order to assess the impact of the programme of construction works for civic amenities, joint physical inspection by one officer of the audit team and concerned JEs was conducted (December 2013) in respect of 67 works in four Wards⁴ out of 19 Wards under AMC. It was noticed that in Ward No.VII, XV and XVII, 52 works were completed within the sanctioned

² The amount was calculated on SoR 2007 (which includes 10 per cent Contractor's profit) plus 26.06 per cent cost index applicable for Aizawl District

³ $(100 * ₹ 237.25 \text{ lakh}) / 110 = ₹ 215.68 \text{ lakh}$

	Ward No.		No. of works
i.	VII	:	22
ii.	XV	:	20
iii.	XVII	:	10
iv.	XVIII	:	15
Total :	Four Wards	:	67 Works

cost and time schedule. Whereas, in Ward No. XVIII out of 15 works physically inspected, one work (estimated cost: ₹ 1.50 lakh) namely Covering of drain & construction of step between Malsawma Tuikhur to Sikulpuikawn at Mission Veng shown as completed (November 2012) was found incomplete as of December 2013 after incurring an expenditure amounting to ₹ 0.90 lakh in December 2012.

In respect of incomplete work, the CEO stated (December 2013) that the contractor was pressurised by the public to discontinue the work. Accordingly, the volume of work done by the contractor was measured and ₹ 0.90 lakh was paid to the contractor. Further, during recent visit to the site it was found that the work was damaged apparently by the public. The CEO assured that the AMC will take necessary action in the matter.

3.3 Conclusion

- The AMC incurred an expenditure (under capital section) to the tune of ₹ 4.99 crore (54 *per cent*) against the available GoI grants of ₹ 9.17 crore during 2012-13, which resulted in savings of ₹ 4.18 crore (46 *per cent*).
- Due to delay in release of Grants-in-Aid by the State Government, the AMC could not execute development works valued at ₹ 3.22 crore, out of the available fund of ₹ 5.93 crore, as *per* the Annual Action Plan.
- The AMC incurred an excess expenditure of ₹ 19.80 lakh for execution of 316 minor works departmentally.

3.4 Recommendations

- State Government should release ThFC grants to AMC in time as *per* guidelines.
- The element of 10 *per cent* contractor's profit should not be included in the estimate of the work in case the work is to be executed departmentally.