

## **CHAPTER-I**

# **An Overview of the Functioning, Accountability Mechanism and Financial Reporting Issues Rural Local Bodies (Village Councils)**



# CHAPTER-I

## AN OVERVIEW OF THE FUNCTIONING, ACCOUNTABILITY MECHANISM AND FINANCIAL REPORTING ISSUES RURAL LOCAL BODIES (VILLAGE COUNCILS)

### AN OVERVIEW OF THE FUNCTIONING OF THE RURAL LOCAL BODIES (VILLAGE COUNCILS) IN THE STATE

#### 1.1 Introduction

There were eight districts in the State of Mizoram as on 31 March 2017. Out of the eight districts, two administrative districts – Lawngtlai and Siaha of the State are governed under the Sixth Schedule<sup>1</sup> of the Constitution of India.

The Seventy-third Constitutional Amendment Act which empowers the Panchayati Raj Institutions as third tier of Government is not applicable in Mizoram. However, the traditional Village Councils (VCs) have been constituted in all the eight districts, which discharge the role of the Panchayati Raj Institutions.

As per the Finance Department's Notification (June 2010), in the context of Mizoram, local body means all the Village Councils (VCs), Aizawl Municipal Council (AMC) (subsequently upgraded as Corporation in October 2015), Sinlung Hills Development Council (SHDC), and three Autonomous District Councils (ADCs) (Lai, Chakma and Mara).

Further, the State Government notified (April 2013) the District Local Administration Officers/ Local Administrative Officers as "Zila Parishads" *i.e.*, District Level Local Body. In effect, rural local bodies in Mizoram are structurally Quasi-Governmental bodies with no direct control mechanism at the block level to keep regular watch over the activities of the VCs.

Statistical data on rural population in Mizoram as per Census 2011, is given in Table-1.1 below:

**Table-1.1:- Statistical data on rural population in Mizoram as per Census 2011**

Particulars	Rural		Total
	Male	Female	
Population	2,69,135	2,56,300	5,25,435
Sex Ratio (Male : Female)	1000 : 952		
Literacy Rate	88.16	79.81	84.10

Source: Census 2011

#### 1.2 Organisational setup in State Government and Rural Local Bodies

The Finance Department of the State Government headed by the Commissioner-cum-Secretary is responsible for overall monitoring of the funds under Rural Local Bodies (RLBs).

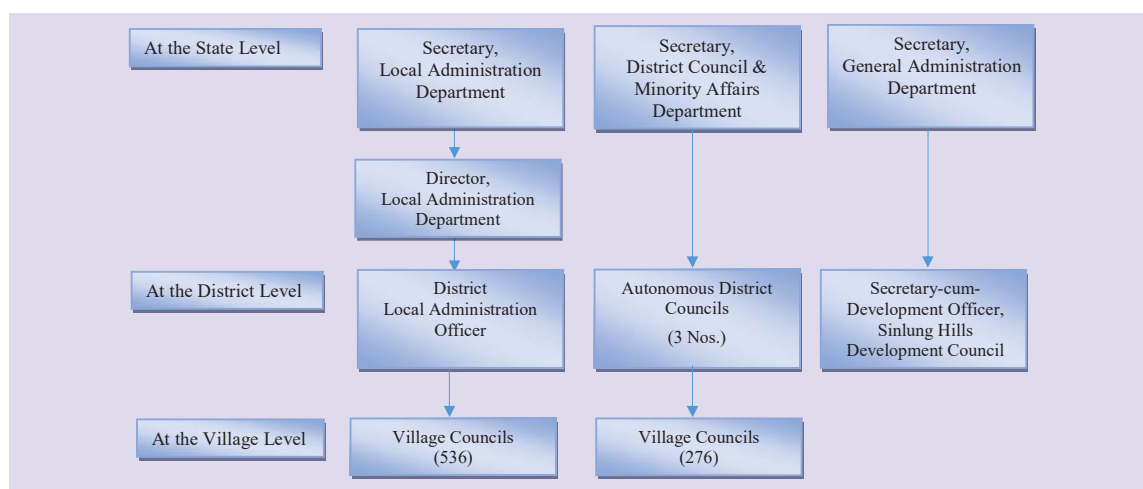
1 Sixth Schedule of the Constitution of India deals with the provisions as to the Administration of the Tribal Areas in the States of Assam, Meghalaya, Tripura and Mizoram wherein safeguards have been laid out for these scheduled areas. These tribal areas are to be administered as autonomous districts

The Secretaries of the Administrative Departments viz. Local Administration Department (LAD), District Council and Minority Affairs Department (DCMAD) and General Administrative Department (GAD) function as the Nodal Departments in respect of various grants and funds released to the RLBs.

The Director, LAD (Nodal Officer) is responsible for allocation of funds and supervision of the works to be executed by the VCs under Mizoram Finance Commission Grants. The Director is assisted by the six District Local Administrative Officers (DLAOs) in supervising and monitoring the activities of the 536 VCs under six districts in the State. The Secretary, DCMAD functions as the Nodal Officer in respect of various grants and funds released to the three ADCs. The development works in the village councils (276) of the ADC areas are implemented through Local Administrative Officers (LAOs). The VCs are governed by “Lushai Hills District (Village Councils) Act, 1953”.

The organisational structure of the RLBs is given in the Chart-1.1 below:

**Chart-1.1:- Organisational structure of the RLBs**



### 1.2.1 Functioning of Rural Local Bodies (Village Councils)

The functions of the Village Councils as envisaged in the “Lushai Hills District (Village Councils) Act, 1953” include, *inter alia*, the following:

1. Allotment and distribution of a particular region within the boundaries of each village for *jhums*<sup>2</sup>, each particular year in accordance with the laws framed by the State Government; and
2. Regulation and enforcement of “*Hnatlang*”<sup>3</sup> – a form of social work.

2 “*Jhum*” cultivation also known as ‘slash and burn’ method of cultivation. Small patches of land, mostly in forests and hilly areas are cleared of the vegetation and burnt for cultivation

3 *Hnatlang* is the voluntary community labour in which everyone is called upon to take part, somewhat similar to ‘*shramdaan*’

## **1.3 Audit Arrangement**

### **1.3.1 Primary Auditor**

As per provision under Section 4 (3) of the Mizoram Grants-in-aid to Village Councils Rules, 2007, all accounts relating to the specific grants made by the Government are subject to audit by approved auditors or anyone appointed for the post by the Government of Mizoram or Accountant General concerned. Further, Section 8 (1) of the Rule provides that the accounts shall be audited by the auditor appointed by the State Government or the Accountant General.

Accordingly, the State Government appointed (June 2011), Examiner of Local Funds Accounts (ELFA), renamed (August 2012) as Director of Local Fund Audit (DLFA) Mizoram as statutory auditor of the Aizawl Municipal Corporation (AMC) with the responsibility of certification of accounts and audit of the local bodies under the administrative control of the Finance Department.

Rule 21 of the Mizoram Local Funds (Accounts & Audit) Rules, 2012 requires that the Audit Report of the DLFA must be placed before the State Legislative Assembly.

It was, noticed that the Audit Report of the DLFA on RLBs for the period ended 31 March 2016 was laid in the State Legislative Assembly on 16 November 2017. However, the status on preparation of DLFA Audit Report for the year ended 31 March 2017 and its placement in the State Legislative Assembly was awaited (May 2019).

### **1.3.2 Audit by Comptroller and Auditor General of India**

The Government of Mizoram entrusted (June 2011) the audit of accounts of local bodies under the Technical Guidance and Support (TGS) to the Comptroller and Auditor General of India (C&AG) under Section 20(1) of the C&AG's (Duties, Powers and Conditions of Service) Act, 1971.

Accordingly, the audit of the accounts of the VCs was conducted under TGS arrangement. The audit findings are featured in the Annual Technical Inspection Report (ATIR). The ATIR on Rural Local Bodies and Urban Local Body for the year 2015-16 was placed in the State Legislative Assembly on 16 November 2017.

As per Paragraph 3.8.6 (b) of the recommendations of the Second Administrative Reforms Commission, the State Government is required to form a separate Standing Committee of the State Legislature for the Local Bodies in the lines of Public Accounts Committee (PAC) for discussion of the Audit Report on Local Bodies. The Secretary of Mizoram Legislative Assembly intimated (April 2015) that a separate Standing Committee namely Committee on Local Fund Accounts (CoLFA) was formed (25 March 2015) by the State Government on the line of PAC for discussion of Audit Report on Local Bodies.

Out of 46 paragraphs which appeared in the ATIR for the period from 2011-16, 24 paragraphs<sup>4</sup> were pending for discussion as of January 2019. Further, out of 22 paragraphs discussed, 22 paragraphs were dropped by the committee on the basis of the action taken by the RLBs as of 07 February 2019.

## **Accountability Mechanism and Financial Reporting Issues**

### **Accountability Mechanism**

#### **1.4 Ombudsman**

Government of Mizoram established<sup>5</sup> the institution of the Independent Local Body Ombudsman with the power to receive complaints from citizens on any matters like grievances against administration, grievances against corruption, complaints alleging deficiency in the services of local bodies (Aizawl Municipal Council, Local Councils, Village Councils, *etc.*).

The office of Ombudsman for Local Bodies was established (December 2013) at Aizawl, Mizoram. During 2016-17, 18 cases (redressal: Nine and grievances relating to corruption: Nine) were received by the Ombudsman and all the cases were disposed of after conducting hearings from the complainants and defendants. Further, the Ombudsman submitted the disposed of cases to the State Government for further action. However, the action taken by the State Government was not intimated as of May 2019.

#### **1.5 Social Audit**

The State Government under a notification (March 2012) constituted the “Mizoram Society for Social Audit, Accountability and Transparency (MISSAAT)”. As per Rural Development, GoM notification (16 November 2015) the governing body of Social Audit Unit (SAU) is headed by the Secretary, Rural Development (RD) Department as Chairman with six members from various departments, the Accountant General, Mizoram, Head of Department (Department of Rural Development), Mizoram University and two members from Non-Governmental Organisations (NGOs) as members. The Director, Social Audit Unit is the Member Secretary of the governing body.

Social Audit Unit, Mizoram have so far published six Social Audit Reports covering the Schemes – Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Indira Awas Yojana (IAY) and Integrated Watershed Management Programme (IWMP) through the Block Development Officers (BDOs) *viz.* Pilot Social Audit (32 villages), Special Pilot

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<sup>4</sup> Under Secretary, Mizoram Legislative Assembly Secretariat vide letter no. LA/CoLFA-1/5/C&AG/2015-16/2015/294 dated 07 February 2019 intimated that as the CoLFA was constituted during 2013-14 and the committee started examined the paragraphs of ATIR after 2013-14 only. Further, the paragraphs for the year 2015-16 were also not taken up for discussion. Thus, out of 24 paragraphs, 12 paragraphs for the year 2012-13 prior to constitution of CoLFA and 12 paragraphs for the year 2015-16 was pending for discussion

<sup>5</sup> Vide notification No. B.13017/47/2012-UD&PA/113 dated 16 December 2013

Social Audit (five villages), Social Audit (28 Villages), Social Audit 2014-15 (47 villages), Social Audit 2015-16 (96 villages) and Social Audit 2015-16 (62 villages) as of August 2018.

## **1.6 Financial Reporting Issues**

### **1.6.1 Source of Funds**

### **1.6.2 Recommendations of the State Finance Commission (SFC)**

In pursuance of the Sub-Section (1) of Section 3 of the Mizoram Finance Commission Act, 2010 (Act No. 17 of 2010), the State Government constituted (30 September 2011) the Mizoram Finance Commission under the Chairmanship of an Ex-Chief Secretary of the State.

The Commission was constituted to make recommendations on the following matters:

- (i) The principles which *inter alia* should govern –
  - a) The distribution between the State and the Village Councils, Aizawl Municipal Council and the Autonomous District Councils of the net proceeds of the taxes, duties, tolls and fees leviable by the State, which may be divided between them to enable these bodies to perform the functions assigned, and which may be assigned to it under any laws in force or orders, and the allocation between the Village Councils, Aizawl Municipal Council and the Autonomous District Councils at all levels of their respective shares of such proceeds;
  - b) The determination of the taxes, duties, tolls and fees which may be assigned to or appropriated by the Village Councils, Aizawl Municipal Council and the Autonomous District Councils;
  - c) The Grants-in-aid to the Aizawl Municipal Council from the Consolidated Fund of Mizoram; and
  - d) The measures needed to improve the financial position of the Aizawl Municipal Council, Village Councils and Autonomous District Councils.

Report of the first Mizoram Finance Commission (2015-20) was laid in the Mizoram Legislative Assembly in March 2016. The recommendations (04 May 2016) were as under:

1. Distribution of the 15 *per cent* devolution of State Own Tax Revenues among the local bodies would be made in three stages as follows:

<b>Sl. No.</b>	<b>Name of the local bodies</b>	<b>Percentage of funds shall be shared</b>
<b>Stage-1 : The 15 <i>per cent</i> of the State Own Tax Revenue shall be shared by</b>		
(i)	Autonomous District Councils	58.33
(ii)	Village Councils of the Eight Districts	24.17
(iii)	Aizawl Municipal Corporation	17.50
<b>Total</b>		<b>100.00</b>

Sl. No.	Name of the local bodies	Percentage of funds shall be shared
<b>Stage-2 : The 58.33 per cent of the 15 per cent of the State Own Tax Revenue to be devolved to Autonomous District Councils shall be shared as follows:</b>		
(i)	Lai Autonomous District Council	41.97
(ii)	Mara Autonomous District Council	34.07
(iii)	Chakma Autonomous District Council	23.96
<b>Total</b>		<b>100.00</b>
<b>Stage-3 : The 24.17 per cent of the 15 per cent of the State Own Tax Revenue shall be shared by the Village Councils as follows:</b>		
(i)	Aizawl District	12.32
(ii)	Lunglei District	22.27
(iii)	Champhai District	16.42
(iv)	Serchhip District	7.66
(v)	Mamit District	9.80
(vi)	Kolasib District	10.73
(vii)	Siaha District	7.81
(viii)	Lawngtlai District	12.99
<b>Total</b>		<b>100.00</b>

Accordingly, the Finance Department transferred (March 2017) ₹ 6.80 crore<sup>6</sup> out of recommended absolute share of ₹ 13.57 crore to the 536 Village Councils under Local Administration Department and expenditure was incurred by the Village Councils during 2017-18. Details of fund transferred were as shown below:

(₹ in lakh)

Sl. No.	Name of District	No. of Village Councils	Absolute share recommended by 1 <sup>st</sup> Mizoram FC	Amount transferred (50.14 per cent of absolute share)
1.	Aizawl	95	231.86	116.26
2.	Lunglei	145	347.86	174.40
3.	Champhai	108	272.63	136.69
4.	Serchhip	49	139.28	69.84
5.	Kolasib	52	178.20	89.35
6.	Mamit	87	186.68	93.60
<b>Total</b>		<b>536</b>	<b>1,356.51</b>	<b>680.14</b>

### 1.6.3 Maintenance of Records/ Accounts by VCs

By virtue of the Sixth Schedule and Article 243 M of the Constitution of India, RLBs in Mizoram being non-Panchayats, the preparation of budget and maintenance of accounts and

<sup>6</sup> The fund was meant for 2016-17, which was released in March 2017 by the Finance Department



database on finances in line with the formats prescribed for Panchayati Raj Institutions by the Ministry of Panchayati Raj is not applicable in the State.

However, Paragraph 6.5.1 (ii) of the Ministry of Finance (MoF) Guidelines on utilisation of Thirteenth Finance Commission grants stipulated that if these agencies (Local Bodies) are non-Panchayats, they must maintain accounts consistent with the instructions in force. Further, these accounts should be up-to-date, duly audited by the C&AG, and the Audit Reports tabled, wherever so mandated.

Accordingly, the State Government had formulated and issued instructions/ guidelines (14 July 2006) to the Village Councils on maintenance of Cash Books and Cash Memos/ Vouchers, *etc.* for keeping accounts.

During November-December 2017, on test check of the records of 32 VCs (Aizawl: 13, Mamit: 8 and Lai Autonomous District Council: 11), it was noticed that all the 32 test checked VCs in three districts maintained Cash Books and Cash Memos/ Vouchers, *etc.*