



**CHAPTER – II**  
**PART-II**  
**LOCAL GOVERNMENTS AUDIT**



## PART II: LOCAL GOVERNMENTS AUDIT

### 2.8 Introduction

The 73<sup>rd</sup> and 74<sup>th</sup> Constitutional Amendment Acts (CAAs) were enacted by the Parliament of India to confer constitutional status to the Local Governments (LGs), *i.e.* Panchayati Raj Institutions/Rural Local Governments (RLGs) and Urban Local Governments (ULGs). These Acts provide a basic framework of decentralisation of powers and authorities to the LGs at different levels. In conformity with these Acts, the Legislative Assembly of Arunachal Pradesh has enacted the Arunachal Pradesh Panchayati Raj Act, 1997 (PRI Act) for RLGs envisaging a 3-tier system of Governance, *i.e.* (i) Gram Panchayat (GP) at village level, (ii) Intermediate Panchayat (IP) at Block/ Sub-division/ Anchal/ Mandal level, and (iii) District/ Zilla Parishad (ZP) at District level for the rural areas. However, the Act was amended in 2018 and the IPs<sup>82</sup> constituted were dissolved as per Article 243B of the Constitution of India. At present (February 2024), the number of Gram Panchayat in the State is 2108 and the number of Zilla Parishads at the District level is 25.

Similarly, in accordance with the provisions of 74<sup>th</sup> CAA, Arunachal Pradesh enacted the Arunachal Pradesh Municipal Act (APM Act), 2007 and Arunachal Pradesh Municipal Corporation Act (APMC Act), 2019. There are two ULGs in the State, *viz.* Itanagar Municipal Corporation (IMC) and Pasighat Municipal Council (PMC).

#### 2.8.1 Devolution of Funds, Functions and Functionaries (3Fs)

In order to ensure efficient functioning of the LGs in the subjects assigned to them, it is imperative that there is adequate devolution of Funds, Functions and Functionaries (3Fs) to them. The responsibility of devolution of the 3Fs rests with the State government since LG is a State subject. The 73<sup>rd</sup> CAA provides for devolution of 29 Functions to the PRIs as enumerated in the 11<sup>th</sup> Schedule of the Constitution. Similarly, 74<sup>th</sup> CAA provides for devolution of 18 Functions as enumerated in the 12<sup>th</sup> Schedule of the Constitution to the ULBs.

The Government of Arunachal Pradesh (GoAP) devolved (February 2022) Functions, Functionaries and Funds for 29 subjects listed in the 11<sup>th</sup> Schedule. The activity-wise mapping of Functionaries corresponding to the Functions was also laid out. For General activities, the Circle Officers and Panchayat Technical Assistants were deployed. For specific activities, Field Level staff of line Departments were deployed in GPs. For ZPs, Additional Deputy Commissioner is the *ex-officio* Member Secretary and District Officers of the line Departments were deployed as functionaries.

Devolution of Functions in respect of ULGs as specified in the 12<sup>th</sup> Schedule of the Constitution was effected by GoAP in two<sup>83</sup> phases. The list of Functions devolved is shown in **Table 2.84**.

<sup>82</sup> IPs or Anchal Samiti act as the link between Gram Panchayat and Zilla Panchayat. Article 243B of the Constitution provides for non-constitution of IPs for states with population not exceeding twenty lakhs.

<sup>83</sup> Eight Functions were devolved in the first phase (August 2013), followed by devolution of five Functions in the second phase (February 2014)

**Table 2.84: Status of Devolution of functions specified in the 12<sup>th</sup> Schedule**

Sl. No.	Functions	Status of Devolution
1.	Burials and burial grounds; cremations, cremation grounds	Devolved
2.	Cattle pounds; prevention of cruelty to animals	Devolved
3.	Vital statistics including birth and death registration	Devolved
4.	Planning for economic and social development	Devolved
5.	Slum improvement and upgradation	Devolved
6.	Urban poverty alleviation	Devolved
7.	Provision of urban amenities and facilities such as parks, gardens, playgrounds	Devolved
8.	Urban forestry, protection of the environment and promotion of ecological aspects	Devolved
9.	Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded	Devolved
10.	Promotion of cultural, educational and aesthetic aspects	Devolved
11.	Public amenities including street lighting, parking lots, bus stops and public conveniences	Devolved
12.	Regulation of slaughter houses and tanneries	Devolved
13.	Public health, sanitation conservancy and solid waste management	Devolved partially
14.	Urban planning including town planning	Not Devolved
15.	Regulation of land-use and construction of buildings	Not Devolved
16.	Water supply for domestic, industrial and commercial purposes	Not Devolved
17.	Fire services	Not Devolved
18.	Roads and bridges	Not Devolved

Source: Departmental records

The details of Functions devolved, mapping of activities in respect of the Functions and actual execution of the devolved Functions are given in **Annexure-2.66**.

In order to execute the Functions devolved, it is essential that there is a simultaneous devolution of Functionaries to the ULGs. However, the GoAP notifications regarding the devolution of Functions did not specify the devolution of Functionaries. Scrutiny of records of the IMC revealed that the Functionaries in respect of devolved Functions were either drawn from other departments on deputation or are on temporary postings. Many of them are ex-officio appointments and staff appointed as contingency. There is no dedicated municipal/municipality service cadre in the state despite there being provisions<sup>84</sup> to this effect in the APM and APMC Acts.

**Recommendation:** *The State Government may constitute the municipal/ municipality cadre of Functionaries as mandated in the APM and APMC Acts to address the issue of devolution of functionaries to the ULGs.*

Devolution of Funds to the LGs in the state has been discussed in the following paragraph.

### 2.8.2 Budget Allocation and Expenditure

Articles 243I and 243Y of the Constitution provide that the Governor of a State shall, as soon as may be within one year from the commencement of the Constitution (Seventy-third Amendment) Act, 1992, and thereafter at the expiration of every fifth year, constitute a Finance Commission to review the financial position of the LGs and to make

<sup>84</sup> Section 94 of the APMC Act and Section 43 of the APM Act.

recommendations<sup>85</sup> to the Governor. To achieve this, the GoAP incorporated enabling provisions for constitution of State Finance Commission (SFC) in Section 138(1) of the Arunachal Pradesh Panchayat Raj Act and for implementation of recommendations of SFC in Section 73 of Arunachal Pradesh Municipal Act, 2007 and Section 106 of the Arunachal Pradesh Municipal Corporation Act, 2019.

#### ***Compliance to Provisions with regard to State Finance Commission***

- In compliance of the aforesaid provisions, the 1<sup>st</sup> SFC was constituted (September 2005) by the GoAP which submitted its report in April 2008. However, the recommendations in the report were not accepted by the Government.
- The 2<sup>nd</sup> SFC was constituted in August 2012 and it submitted its report in June 2014. The report is yet to be considered by the State Government.
- The State Government is yet to constitute the 3<sup>rd</sup> SFC which is due from 2019-20.

Thus, the devolution of taxes, duties, tolls and fees to the LGs on the basis of the recommendations of the SFCs in the State as per Article 243Y of the Constitution of India has not been carried out yet.

The details of allocation of budget and expenditure of the LGs in the State for the last three financial years are shown in **Table 2.85**.

**Table 2.85: Budget allocation and expenditure of LGs for 2020-21 to 2022-23**

(₹ in crore)

Year	Budget Provision			Expenditure			Savings		
	PRIs	ULBs	Total	PRIs	ULBs	Total	PRIs	ULBs	Total
2020-21	662.67	355.91	1018.58	650.24	186.06	836.3	12.43	169.85	182.28
2021-22	330.75	420.24	750.99	259.93	391.35	651.28	70.82	28.89	99.71
2022-23	485.14	317.87	803.01	337.96	281.54	619.5	147.18	36.33	183.51

Source: Appropriation Accounts of the respective years

It could be seen from **Table 2.85** that the budget allocations to LGs exhibited inconsistent trend as the allocation declined by ₹267.59 crore (26.27 per cent) in 2021-22 with reference to the year 2020-21 whereas it increased by ₹52.02 crore (6.93 per cent) in 2022-23 in comparison to 2021-22.

The decrease in 2021-22 was due to the net effect of decrease in budget allocation to RLGs by ₹331.92 crore and increase in budget allocation to ULGs by ₹64.31 crore. There was decrease in allocation under the head 'Other Rural Development Programme' by ₹327.42 crore and ₹4.50 crore under the head 'Capital Expenditure on Other Rural Development Programme' in respect of PRIs. The increase in 2022-23 was due to net effect of increased allocation to PRIs by ₹154.39 crore primarily under the head 'Other Rural Development Programme' by ₹153.89 crore. The allocation to ULGs, however, reduced by ₹102.36 crore.

<sup>85</sup> For (i) the distribution between the State and the Local Governments of the net proceeds of the taxes, duties, tolls and fees leviable by the State (ii) the determination of the taxes, duties, tolls and fees which may be assigned to, or appropriated by, the Local Governments (iii) the Grants-in-Aid to the Local Governments from the Consolidated Fund of the State

Further, there were consistent savings to the tune of ₹182.28 crore (17.90 per cent) in 2020-21, ₹99.71 crore (13.28 per cent) in 2021-22 and ₹183.51 crore (22.85 per cent) during 2022-23 out of the total budget allocated to the LGs.

The savings in 2020-21 were on account of savings of ₹169.85 crore under the head ‘Urban Development’ and that of ₹7.93 crore and ₹4.50 crore respectively under ‘Other Rural Development Programmes’ and ‘Capital Outlay on Other Rural Development Programmes’.

In 2021-22, there were savings of ₹70.82 crore under the head ‘Other Rural Development Programmes’, ₹24.39 crore under the head ‘Urban Development and ₹4.50 crore under “Capital Outlay on Urban Development”.

In 2022-23, the savings were mainly under ‘Urban Development’ of ₹35.72 crore and ₹146.68 crore under ‘Other Rural Development Programme’. Thus, the LGs were unable to fully utilise the funds allocated to them for development programmes.

Further, own revenue collected by the two ULGs (PMC & IMC) during the last three financial years is given in **Table 2.86**.

**Table 2.86: Own Revenue collection of ULGs in the State from 2020-21 to 2022-23**

(₹ in lakh)

Year	PMC	IMC	Total Revenue
2020-21	0.05	218.56	218.61
2021-22	0.79	433.00	433.79
2022-23	4.86	515.07	519.93
<b>Total</b>	<b>5.70</b>	<b>1166.63</b>	<b>1172.33</b>

Source: Records of Director of TP & ULGs, IMC & PMC

It would be seen from **Table 2.86** that own revenue collection of the ULGs in the State is cumulatively ₹11.72 crore for the last three financial years with average revenue collection of just ₹1.90 lakh for PMC and ₹3.89 crore for IMC per financial year. In absence of sufficient collection of own revenue, the ULGs in the State are heavily dependent on Central and State Government Grants.

### 2.8.3 Planning and Conduct of Audit

Audit process starts with the assessment of various risks faced by the LGs based on the expenditure incurred, criticality/ complexity of activities, level of delegated financial powers, assessment of internal controls, topicality, newspapers readings, etc.

Out of the 25 ZPs, 2108 GPs and 02 ULGs in the State, this office conducted District Centric Audit (DCA) covering Namsai Zilla Parishad and five GPs in it during the year 2021-22. Similarly, two DCAs were conducted during 2022-23 covering two districts (West Kameng and Papumpare) and twelve GPs in each district. The District Inspection Reports (DIRs) were sent to the Chairpersons of Zilla Parishads of the respective Districts and Gram Panchayats and the copies of the same were endorsed to the Secretary, Panchayati Raj Institutions, the Director, Panchayati Raj Institutions and the District Panchayat Development Officer (DPDO) of the Districts for taking appropriate corrective actions.

## Compliance Audit Paragraph

### 2.8.4 Functioning of Director of Local Fund Audit

#### Non-appointment of a regular authority to audit the accounts of Local Governments

Section 154 (1) of the PRI Act provides that the audit of the accounts of the funds of Gram Panchayat or a Zilla Parishad shall be carried out by the authority as may be prescribed by the Government. Further, Section 93 (1) of the APM Act provides that the municipal accounts as contained in the financial statement, including the accounts of special funds, if any, and the balance sheet shall be examined and audited by an Auditor appointed by the State Government from the panel of professional Chartered Accountants prepared in that behalf by the State. Section 176(3) of the APMC Act provides that the accounts of the Municipal Corporation Fund shall be audited by a separate and independent audit agency.

In Arunachal Pradesh, the aforesaid authority is referred to as Director of Local Fund Audit (DLFA). The State Government entrusted (December 2022) the role of DLFA to the Director (Audit & Pension) till such time as the office of DLFA was established. However, the State Government is yet to create a regular office of the DLFA.

The Department accepted (January 2024) the audit finding and added that the Director (Audit & Pension) has been given the responsibility of DLFA as a temporary measure and the Department is already in touch with the Finance Department for the establishment of Director, Local Fund Audit (DLFA) office. However, non-appointment of a regular DLFA is a serious issue as this may result in dilution of oversight responsibilities by the Government.

***Recommendation: The State Government may appoint a regular DLFA to ensure timely audit of accounts of Local Governments.***

