PREFACE

1. *This is the second separate report of the Comptroller and Auditor General of India (CAG) on Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) in Maharashtra. The report (for the year ended 31 March 2007) is prepared for submission to the Governor of Mahrashtra under Article 151 (2) of the Constitution.*

2. *The Report sets out the results of audit under various sections of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Services) Act, 1971, in respect of financial assistance given to PRIs and ULBs.*

3. *The Report contains six Chapters. Chapter I (Section A) and Chapter IV (Section B) relate to the Accounts and Finances of the PRIs and ULBs respectively. Chapter II and Chapter V relate to performance reviews including IT review. The remaining Chapters contain observations arising out of transaction audit of selected Panchayati Raj Institution and Urban Local Bodies.*

4. *The cases mentioned in the Report are those which came to notice during the course of test audit of financial transactions during the year 2006-07 as well as those which had come to notice in the earlier years.*

Overview

The Report comprises six chapters under two sections. Section A includes three chapters containing observations on the Accounts and Finances of Panchayati Raj Institutions, one performance audit on 'Transfer of functions, funds and functionaries to Panchayati Raj Institutions' and eight transaction audit paragraphs. Section B comprises three chapters containing observations on the Accounts and Finances of Urban Local Bodies, one Information Technology Audit on the 'Accounts module of the e-Governance project of Kalyan Dombivli Municipal Corporation' and eleven transaction audit paragraphs. A summary of the major audit findings is presented in this overview.

1 Accounts and Finances of Panchayati Raj Institutions

The allocation from total revenue of the state to Panchayati Raj Institutions showed a declining trend from 20.15 per cent in 2003-04 to 15.37 per cent in 2006-07 as against 40 per cent recommended by the Second Maharashtra State Finance Commission.

As per the Economic Survey of Maharashtra, the total expenditure of Zilla Parishads during 2006-07 was Rs 10475 crore (inclusive of capital expenditure of Rs 2314 crore). However as per information collected from 32 Zilla Parishads during 2006-07, these Zilla Parishads had incurred an expenditure of Rs 1354 crore on their own schemes and another Rs 10028 crore on transferred/agency schemes indicating that the figures adopted by the State Government in its Economic Survey was not realistic.

None of the 33 Zilla Parishads had finalised (May 2008) their accounts for 2006-07 although the same should have been finalised by 30 June 2007 and the arrears of their accounts and certification by the Chief Auditor, Local Fund Accounts ranged between two and five years. The State Government had so far not implemented the revised accounting format prescribed by the Comptroller and Auditor General of India.

Although an amount of Rs 28.30 crore was allocated for maintenance of database on the finances of Panchayati Raj Institutions out of the first instalment of Twelfth Finance Commission grant, the same was not utilised for the aforesaid purpose. The State Government redistributed the grant to all the Panchayati Raj Institutions for implementation of different schemes.

While assessment of grants has not been done in six departments, an amount of Rs 738.73 crore is pending for recovery/regularisation from Zilla Parishads in respect of six departments where assessment had been completed upto 2006-07.

While 11926 paragraphs of Inspection Report issued by Principal Accountant General for the period upto 2006-07 were pending settlement, the outstanding *paragraphs in respect of CALFA Report for the year upto 2005-06 was 137925.*

(Paragraph 1.1 to 1.14)

2 Performance Audit on Transfer of Functions, Funds and Functionaries to Panchayati Raj Institutions

In accordance with the 73rd Amendment, 29 functions listed in the Eleventh Schedule under Article 243G of the Constitution were required to be transferred to Panchayati Raj Institutions. The Government of Maharashtra has so far transferred only 214 schemes relating to 15 functions.

The activity mapping as specified by Central Task Force, for devolution of powers and functions among the three tiers of Panchayati Raj Institutions, had not been completed.

While the State Government incurred expenditure on schemes already transferred to Zilla Parishads viz grant-in-aid for cultural activities and organisation of State drama, schemes like Hostel for Economically Backward Classes and Scheduled Caste Boys and Girls were taken back by Government.

In eight Zilla Parishads, funds amounting to Rs 142.13 crore could not be drawn and utilized due to non receipt of release orders from Administrative Departments before closing of the financial years.

Transfer of posts of the Agriculture Department to PRIs was not implemented which resulted in non-transfer of agriculture-related functions to Panchayati Raj Institutions.

(Paragraph 2.1 to 2.10)

3 Transaction Audit findings - Panchayati Raj Institutions

Failure of the ZPs in ensuring the quality of machines supplied resulted in excess payment of Rs 2.01 crore to the supplier.

(Paragraph 3.1)

Failure to maintain the power factor at the required levels resulted in avoidable expenditure of Rs 38.53 lakh in Pune, Ratnagiri and Sangli Zilla Parishads.

(Paragraph 3.2)

Incorrect interpretation of Government orders resulted in overpayment of incentive allowance of Rs 3.03 crore in Block Development Office, Aheri, 13 offices under five naxalite affected districts and five Panchayat Samities in Gadchiroli District.

(Paragraph 3.3)

Non-observance of Government orders resulted in irregular retention of service charges of Rs 79.12 lakh by the Animal Husbandry Department of Zilla Parishad, Latur.

(Paragraph 3.4)

Non-observance of Government instructions resulted in excess payment of transport allowance of Rs 21.02 lakh to the teaching staff of Zilla Parishad, Wardha and Gadchiroli.

(Paragraph 3.5)

Failure of Zilla Parishad, Akola to initiate action to arrest leakage of water resulted in unproductive expenditure of Rs 35 lakh and deprival of intended irrigation benefit for over eight years.

(Paragraph 3.7)

Release and utilisation of Twelfth Finance Commission grants by Panchayati Raj Institutions

Although the Twelfth Finance Commission guidelines stipulated transfer of Twelfth Finance Commission grants to Panchayati Raj Institutions within 15 days of its receipt, there were delays ranging from 19 to 132 days in issue of release orders by Rural Development Department and further delay of 7 to 119 days in actual drawal of funds by eight Zilla Parishads test checked.

Out of the Twelfth Finance Commission grants of Rs 991.50 crore received for the period from 2005-06 to 2007-08, the unspent balance at the end of June 2008 was Rs 305.72 crore.

Zilla Parishad Ahmednagar kept Rs 2.50 crore in fixed deposit from February 2006 to June 2007 and issued utilization certificate for the entire amount of grant received.

Fund amounting to Rs 15.05 crore were utilised for purposes other than those specified in the TFC guidelines by 13 PRIs and Rural Development Department.

In Jalna district, scrutiny of records of 10 Gram Panchayats revealed that basic records such as cash books, vouchers and measurement books were either incomplete or missing, indicating lack of monitoring and control.

(Paragraph 3.8)

4 Accounts and Finances of the Urban Local Bodies

The total receipts of all Municipal Corporations in the State during 2006-07 was Rs 16217 crore and were higher by 25 per cent over previous year. The major contribution in total receipts was from rent, taxes etc., (69 per cent) and Other Income (22 per cent).

During 2006-07 the total expenditure of all Municipal corporations increased by 20 per cent over the expenditure of previous year. Although the share of establishment increased from Rs 3703 crore (34 per cent) in 2004-05 to Rs 4677 crore (38 per cent) in 2005-06, it decreased to Rs 4265 crore (29 per cent) in 2006-07.

The Government of Maharashtra adopted National Municipal Accounts Manual (NMAM) for implementation from 2005-06. However, only five corporations have implemented double entry accounting system from April 2008.

Except Mumbai and Solapur Municipal Corporations, the audit of annual accounts is not being done for the past seven years by Municipal Chief Auditor indicating weak internal controls.

(Paragraph 4.1 to 4.10)

5 Information Technology Audit of the Accounts module of the e-Governance project of Kalyan Dombivli Municipal Corporation

Neither a documented IT plan nor the 'Acceptance Criteria Document' containing details of deliverables was available with the Corporation.

Inadequate monitoring of the development and implementation of the modules resulted in non-implementation of important modules like engineering module.

Deficient User Requirement Specifications paved way for non utilisation of bank reconciliation module and needed manual intervention and duplication of data entry.

Critical business rules relating to daily closure of cash book were not mapped into the system.

Effect of bounced cheques were not made against the respective receipts in the functional modules.

The system did not ensure automatic carry over of closing balances in the cash book and manual intervention made the system prone to fraud and misappropriations.

Lack of validation checks in the system paved way for the entry of transactions on later dates.

Lack of controls in the system facilitated generation of internal receipts for adjustment in excess of the advances to the tune of Rs 2.11 lakh.

The information security policy prepared in 2005 is yet to be implemented.

System allowed deletion of 477 receipt numbers and 1029 voucher numbers in 2006 -07 without leaving any audit trails.

(Paragraph 5.1 to 5.13)

6 Transaction Audit findings - Urban Local Bodies

Commencement of work of underground drainage system without proper assessment of finance by Amravati Municipal Corporation resulted in unfruitful expenditure of Rs 33.78 crore.

(Paragraph 6.1)

Failure of the Aurangabad Municipal Corporation in availing exemption from payment of electricity duty resulted in avoidable payment of Rs 8.60 crore.

(Paragraph 6.2)

Non-recovery of advances paid to Ward Officer by Brihanmumbai Municipal Corporation for demolition of unauthorized structures/removal of unsafe buildings led to accumulation of arrears of Rs 9.00 crore.

(Paragraph 6.3)

In Brihanmumbai Municipal Corporation, undue benefit of Rs 1.05 crore was extended to a contractor due to non enforcement of contractual conditions relating to duty exemption.

(Paragraph 6.4)

Dhule Municipal Corporation failed to frame octroi rules in time as per the Acts in force resulting in loss of revenue of Rs 3.70 crore.

(Paragraph 6.5)

Failure to maintain the power factor at the required levels resulted in avoidable expenditure of Rs 56.01 lakh in Dhule and Malegaon Municipal Corporations.

(Paragraph 6.6)

Jalgaon Municipal Corporation had taken up the development of an aerodrome, which was neither an obligatory nor a discretionary duty under the BPMC Act and that too without Director General of Civil Aviation's approval resulting in abandonment of work and wasteful expenditure of Rs 3.22 crore besides undischarged liability of Rs 8.71 crore.

(Paragraph 6.7)

Pimpri-Chinchwad Municipal Corporation failed to recover the octroi in time resulting in short realization/loss of revenue of Rs 22.91 crore and interest of Rs 6 crore.

(Paragraph 6.8)

In Nagpur Municipal Corporation, non-observance of Government instructions regarding assessment of teaching staff resulted in avoidable *expenditure of Rs 20.43 crore on pay and allowances of teaching staff during 2002-03 to 2006-07.*

(Paragraph 6.9)

Ulhasnagar Municipal Corporation failed to revise rates of water charges despite instruction from State Government, leading to accumulation of water charges payable to suppliers. This resulted in avoidable loss of Rs 24 crore per annum in addition to accumulated arrears of Rs 140.64 crore.

(Paragraph 6.10)

Release and utilisation of Twelfth Finance Commission grants by Urban Local Bodies

Although the Twelfth Finance Commission guidelines stipulated transfer of Twelfth Finance Commission grants to Urban Local Bodies within 15 days of its receipt, there were delays of two to five months in drawal of the fund by the Director of Municipal Administration, controlling officer for distribution of grants.

Out of the Twelfth Finance Commission grants of Rs 316.40 crore received for the period from 2005-06 to 2006-07, the unspent balance at the end of June 2008 was Rs 86.72 crore.

Malegaon Municipal Corporation and Sangamner and Latur Municipal Councils utilised Rs 4.42 crore out of Twelfth Finance Commission grants for payment of labour contract bills engaged in transportation of solid waste although the grants were to be utilised for creation of durable assets for solid waste management.

Director of Municipal Administration deposited Twelfth Finance Commission grants of Rs 16 crore in fixed deposits in ICICI Bank in violation of Twelfth Finance Commission guidelines.

The Director of Municipal Administration was to supply computers to Municipal Councils alongwith customised software to enable them to maintain their accounts in double entry system. However, non development of State specific accounting manual and related software rendered the hardware procured in October/November 2006 at a cost of Rs 91.08 lakh idle for the last 17 months.

(Paragraph 6.11)

SECTION A

CHAPTER I

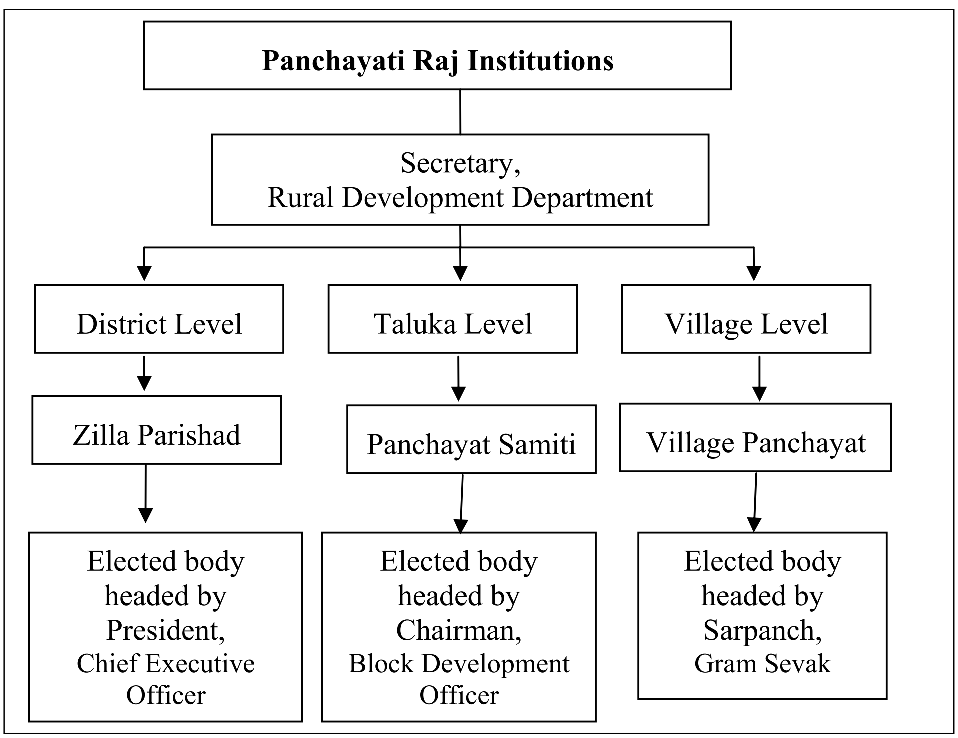
ACCOUNTS AND FINANCES OF
PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

1.1.1 In conformity with the provisions of the 73rd Constitutional Amendment, the Maharashtra Zilla Parishad and Panchayat Samitis Act, 1961 (ZP Act) and the Bombay Village Panchayat Act, 1958 (VP Act), were amended in 1994. A three tier system of Panchayati Raj Institutions (PRIs) comprising Zilla Parishads (ZP) at the district level, Panchayat Samitis (PS) at the block level and Village Panchayats (VP) at the village level was established in the State. As per the 2001 Census, the total population of the State was 9.69 crore, of which the rural population was 5.58 crore i.e 57.58 *per cent* of total population of the State. Election to PRIs were held in March 2007. The Act provides for constitution of State Finance Commission (SFC) every five years to review the financial position of Panchayats and District Planning Committees.

1.2 Organisational Set up

1.2.1 The organizational set up of PRIs in Maharashtra is depicted below:



1.3 Powers and Function

1.3.1 Zilla Parishads are the first tier of Panchayat at the district level. As of March 2007 there were 33 ZPs in the State. Chief Executive Officer (CEO) is the administrative head and assisted by departments like, Finance, Public Health, Agriculture, Works *etc.*

1.3.2 The ZPs were required to prepare the budget for the planned development of the District and utilisation of the resources. Government of India(GOI) schemes, funded through the District Rural Development Agency and State Government schemes were also implemented by the ZP. In Maharashtra, the ZPs are empowered to impose water tax, pilgrim tax and special tax on land and building.

1.3.3 Panchayat Samiti is the intermediate tier of Panchayat at the Taluka level. As of March 2007, there were 351 PSs in the State. The PSs do not have their own source of revenue and are totally dependent on the Block Grants received from ZPs. The PSs undertake developmental works at the block level.

1.3.4 Village Panchayat is the last tier of Panchayat at the grass root level. As of March 2007, there were 27916 VPs in Maharashtra.

1.3.5 The amended VP Act provides for the constitution of Gram Sabha, which is the body consisting of persons registered in the electoral rolls of the villages within the VP area. The VPs are empowered to levy tax on buildings, betterment charges, pilgrim tax, taxes on fairs/festivals/ entertainments, taxes on bicycles, vehicles, shops, hotels *etc*.

1.3.6 Gram Sabhas are empowered with disciplinary control over VP employees and are required to meet periodically. They select beneficiaries for the State/Central Government schemes, approve development plans and projects to be implemented by the VPs, grant permission for incurring expenditure by the VPs on developmental schemes. They also convey their views on proposal for acquisition of land by the VPs.

1.3.7 The broad accountability structure in the PRIs is detailed below:

	Functions Assigned
Zilla Parishad Chief Executive Officer (CEO)	1. Drawal and disbursal of fund 2. Preparation of annual budget and accounts 3. Supervision and control of officers of the ZP 4. Finalisation of contracts 5. Publishing statement of accounts of PSs in the Government Gazette

Chief Accounts and Finance Officer(CAFO)	1. Compilation of the accounts of the ZP 2. Providing financial advice
Heads of Departments (HODs)	1. According technical sanctions to the works 2. Supervising the work of Class II officers
Panchayat Samiti Block Development Officer (BDO)	1. Drawal and disbursal of fund 2. Acquisition, sale or transfer of property 3. Preparation of statements of accounts
Village Panchayat Gram Sevak	1. Secretary to the Gram Sabha 2. Execution and monitoring of schemes and maintenance of records

1.4 Funding of Panchayati Raj Institutions

1.4.1 The District Fund consists of money received from the Central Government, grants for centrally sponsored schemes, funds from plan and non plan schemes of the State Government, assigned tax and non tax revenues, receipts of ZPs, interest on investments, *etc*.

1.4.2 In order to tide over the time lag between the approval of the budgets and release of grants by the State Governments, Ways and Means Advances are released by the Rural Development Department on a monthly basis to the ZPs for execution of the schemes/activities/works transferred to them and for payment of pay and allowances to the staff. These advances are finally adjusted out of grants sanctioned by the State Government (Administrative Departments).

1.4.3 Grants released by the State Government to the ZP are drawn from the district treasury by the ZP. The ZP in turn release the share of funds to the PSs and VPs. Reconciliation of fund transfer as per ZP records with treasury is done by the CAFO every month.

1.4.4 A fund flow statement depicting the flow of funds to the PRIs is shown in **Appendix I**.

1.5 Devolution of funds

Allocation of revenue to the PRIs

As per the recommendations of the Second Maharashtra State Finance Commission (MSFC), 40 *per cent* of State revenues should be allocated to the PRIs, Though this was accepted by the State Government this is not being done. The table below indicate the total revenue of the State (tax and non-tax) *vis-à-vis* allocation to the PRIs during the period from 2003-04 to 2006-07.

(Rupees in crore)

Sr. No.	Head	2003-04	2004-05	2005-06	2006-07
1	Total revenue of the State[1] (Tax and Non-tax revenues)	28711.10	34724.59	39475.29	47617.49
2	Amount required to be allocated as per SSFC. (40 *per cent* of 1 above)	11484.44	13889.84	15790.12	19047.00
3	Allocation to PRIs[1]	5784.58	6300.48	7472.84	7321.27
4	Percentage of allocation to State revenue	20.15	18.14	18.93	15.38

The table above indicates that although the Second MSFC had recommended allocation of 40 *per cent* of the State revenues to PRIs, the actual allocation declined from 20.15 *per cent* in 2003-04 to 15.37 *per cent* in 2006-07.

1.6 Transfer of functions and functionaries

1.6.1 The 73rd Constitutional Amendment envisaged that all 29 functions mentioned in the XI[th] Schedule of the Constitution of India would be eventually transferred to the PRIs through suitable legislation of the State Governments.

1.6.2 However, as of March 2008, the State Government had transferred only 214 schemes pertaining to 15 functions to the PRIs. Audit comments on transfer of funds, functions and functionaries are included in Chapter II of this Report.

1.7 Receipts and expenditure of VPs and ZPs

1.7.1 As per the Annual Reports published by Government of Maharashtra, Directorate of Economics and Statistics for the year 2006-07 and 2007-08, the position of revenue/capital receipts, revenue/capital expenditure in respect of the PRIs for the period from 2004-05[2] to 2006-07 is as follows :

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[1] Vide Report of CAG (Civil), Government of Maharashtra for the year 2005-06 and 2006-07
[2] Source : Economic Survey of Maharashtra

(A) Zilla Parishads[3]

(Rupees in crore)

	Receipts						Expenditure		
Year	**Own revenue[4]**	**Govern-ment Grants**	**Other revenue**	**Total revenue**	**Capital receipts**	**Total receipts**	**Revenue**	**Capital**	**Total**
2004-05[5]	260	6690	Nil	6950	1788	8738	6776	1692	8468
2005-06	154	7394	181	7729	2267	9996	7495	1984	9479
2006-07[6]	147	7773	189	8109	2692	10801	8161	2314	10475

The total receipts (Capital and Revenue) of ZPs in the State for the year 2006-07 was Rs 10801 crore registering an increase of 8 *per cent* over the previous year's receipts of Rs 9996 crore. However, ZPs own revenue declined from Rs 260 crore in 2004-05 to Rs 147 crore in 2006-07.

The major source of revenue for ZPs during 2006-07 was from Government grants and Capital receipts which constituted 72 and 25 *per cent* respectively of the total receipts of all ZPs.

The PSs accounts are incorporated in ZP accounts.

(B) Village Panchayats[7]

(Rupees in crore)

Year	**Revenue Receipts[8]**					**Revenue Expenditure**
	Government grants	**Taxes**	**Contributions**	**Other receipts**	**Total receipts**	
2004-05	243	346	112	72	773	758
2005-06	293	381	112	72	858	820
2006-07	376	430	113	71	990	938

The total revenue receipts of all the VPs in the State during 2006-07 registered an increase of 15.38 *per cent* over the receipts of 2005-06. The increase in revenue expenditure during the period was 14.39 *per cent*.

One of the major source of receipts for the VPs in 2006-07 was Government grants of Rs 376 crore constituting 38 *per cent* of the total revenue receipts as against Rs 293 crore in previous year indicating an increase of 28 *per cent.* The other sources of revenue included taxes, contributions and other receipts.

1.7.2 The following are the component wise details of the revenue

[3] Figures adopted from Economic Survey of Maharashtra 2006-07 to 2007-08
[4] excludes opening balance
[5] Actuals for 2004-05 and 2005-06
[6] Revised Estimates
[7] Figures adopted from Economic Survey of Maharashtra 2006-07 to 2007-08
[8] These figures are excluding opening balance. However the revenue receipts of the VPs for 2004-05 indicated in the Audit Report for 2005-06 included opening balance also.

expenditure of VPs and revenue/capital expenditure of ZPs during 2005-06 and 2006-07.

(Rupees in crore)

Sr. No.	**Components**[9]	**Village Panchayats expenditure**		**Zilla Parishad expenditure**	
		2005-06	**2006-07**	**2005-06**	**2006-07**
1.	Administration	136	154	569	575
2.	Health and Sanitation	197	241	-	-
3.	Public Works	317	352	502	591
4.	Education	19	20	3489	3638
5.	Irrigation	-	-	216	239
6.	Agriculture	-	-	75	92
7.	Social Welfare	-	-	629	737
8.	Public lighting	41	47	-	-
9	Animal Husbandry	-	-	100	115
10	Forests	-	-	9	7
11	Public Health	-	-	827	946
12	Welfare of People	54	44	-	-
13	Other expenditure	56	80	1079	1221
14	Capital expenditure	-	-	1984	2314
	TOTAL	820	938	9479	10475

1.7.3 The above table shows that the revenue expenditure of VPs increased from Rs 820 crore in 2005-06 to Rs 938 crore in 2006-07, registering an increase of 14 *per cent*. During the year 2006-07, expenditure on public works constituted the largest component at 38 *per cent* followed by health and sanitation at 26 *per cent*. In the case of irrigation, social welfare, animal husbandry, public health, no expenditure was incurred by the VPs during the period 2005-06 and 2006-07.

1.7.4 At the ZP level, the expenditure on public works during 2006-07 showed an increase of 18 *per cent* over the previous year.

1.7.5 The works undertaken by the ZPs comes under the categories of (1) ZPs own schemes (2) schemes transferred/funded by the State Government (3) Schemes funded by other agencies. The expenditure of Rs 10475 crore during 2006-07 indicated in Para 1.7.2 is based on the figures adopted from the Economic Survey of Maharashtra. It was however noticed from the

[9] Figures from Economic Survey of Maharashtra 2006-07 to 2007-08

information received from 32 ZPs[10] for the year 2006-07 that these ZPs incurred an expenditure of Rs 1354.04 crore on their own schemes and Rs 10028.49 crore on Transferred/Agency Schemes. District wise split up of expenditure incurred on transferred and agency schemes and on ZPs own schemes have been given in **Appendix II**. This shows that the figures adopted by the State Government in its Economic Survey was not realistic.

1.8 Accounting arrangements

1.8.1 Under the provisions of Section 136 (2) of ZP Acts, the BDOs forward the accounts approved by the PSs to the ZPs and these form part of the ZPs' accounts and under provisions of Section 62 (4) of the VP Act, the Secretaries of the VPs are required to prepare annual accounts of the VPs. The approved accounts are to be forwarded to the ZPs on the prescribed date.

1.8.2 In accordance with the provisions of Section 136(1) of the ZP Act, CEOs of ZPs are required to prepare every year statements of accounts of revenue and expenditure of the ZPs along with statements of variations of expenditure from the final modified grants on or before 10 July of the following financial year. These are then required to be placed before the Finance Committee and the accounts are finally to be placed before the ZPs for approval along with the Finance Committee reports.

1.8.3 The abstracts of the approved accounts of the ZPs/PSs and VPs are prepared by CAFO and forwarded to the Chief Auditor, Local Fund Accounts (CALFA) for audit, certification and publication in the Government Gazette.

1.8.4 The prescribed date for finalisation of annual accounts of ZPs for a financial year is 30 June of the following year. Accordingly, the accounts for 2006-07 should have been finalised by June 2007. However, it was observed from the information collected (May 2008) from CALFA that none of the 33 ZPs had finalised their accounts for 2006-07. Arrears in finalisation of accounts by the ZPs and certification thereof by the CALFA ranged between two and five years.

1.8.5 According to Section 136(9) of the ZP Act, the annual accounts of the ZPs, duly approved and certified by the CALFA for a particular year, were required to be published in the Government Gazette by 15 November of the subsequent year. However, information regarding the status of publication of the ZPs' accounts was not available with the Government, although procedure for ensuring timely finalisation and publication of the accounts was prescribed. Arrears in finalisation and publication of accounts is indicative of

[10] Ahmednagar, Akola, Amravati, Aurangabad, Bhandara, Beed, Buldhana, Chandrapur, Gadchiroli, Gondia, Hingoli, Jalgoan, Jalna, Kolhapur, Latur, Nagpur, Nanded, Nandurbar, Nashik, Osmanabad, Parbhani, Pune, Ratnagiri, Raigad, Sangli, Satara, Sindhudurg, Solapur, Thane, Wardha, Washim, Yavatmal

inefficient internal controls. Absence of a proper management information system and the increasing arrears in finalisation and publication of accounts are fraught with the risk of misappropriations and other irregularities.

1.9 Creation of database on finances of Panchayati Raj Institutions

Twelfth Finance Commission (TFC) had accorded high priority for the creation of database on finances at the grass root. Accordingly, TFC had allocated an amount of Rs 28.30 crore for maintenance of database on finances of PRIs out of the first instalment of Rs 198.30 crore received in October 2005. As the amount could not be utilised for the said purpose within the stipulated time, the Government (March 2006) redistributed the same to all the PRIs for implementation of different schemes.

1.10 Audit arrangements

1.10.1 Audit by Chief Auditor, Local Fund Accounts

1.10.1.1 The Audit of PRIs is conducted by the CALFA in accordance with provisions of the Bombay Local Fund Act, 1930, the Maharashtra Village Panchayat (Audit of Accounts) Rules, 1961 and VP Act. The CALFA prepares an Annual Audit Review Report on the financial working of PRIs for placement before the State Legislature.

1.10.1.2 It was observed that local fund (transaction) audit of ZPs was in arrears for periods ranging from one to two years. The Consolidated Audit Review Report for the year 2005-06 prepared by the CALFA was presented to the State Legislature.

1.10.2 Audit by Comptroller and Auditor General of India (C&AG)

The C&AG of India in accordance with the recommendations of Eleventh Finance Commission (EFC) conducts audit of ZPs and PSs under Section 14 of the CAG's (DPC) Act, 1971 and under Section 142A of ZP Act, 1961. The audits of selected VPs under PS are also conducted during audit of the PS.

1.11 Non-adoption of new format of accounts prescribed by C & AG

The EFC had recommended that the C&AG shall be responsible for exercising control and supervision over the proper maintenance of accounts of Local Bodies. Accordingly, C&AG had prescribed the formats for maintenance of accounts by PRIs in 2002. The State Government was required to amend the Maharashtra Zilla Parishads & Panchayat Samities (MZP&PS) Account Code for adoption of the accounts formats prescribed by C&AG. It was, however, observed that the State Government has not amended the MZP&PS Account Code as of March 2008 due to which maintenance of accounts in the prescribed formats were not done in any of the ZPs.

1.12 Internal Control

1.12.1 Pending assessment of grants

Funds were made available to PRIs through ways and means advances for implementation of schemes. The grants were released by the Government to the ZPs as the functions had been transferred to them. According to Government orders (May 2000), grants paid to ZPs were required to be assessed by the Heads of the Administrative Departments by July every year. They were to inform the Rural Development Department about the amounts recoverable from/payable to the ZPs for adjustment while releasing ways and means advances for the succeeding years.

It was, however, observed that in respect of six departments of ZPs, there were arrears in assessment of grants as shown in **Appendix III**. In respect of the remaining six departments for which assessment was done by the respective administrative Directorates, the amounts recoverable from the ZPs and the expenditure requiring regularization after assessment were Rs 589.60 crore and Rs 149.13 crore respectively as shown below:

(Rupees in crore)

Name of department	Period of assessment	Excess expenditure requiring regularization	Amount recoverable from ZP
Education	1998-99 to 2006-07	57.08	485.96
Agriculture	1998-99 to 2006-07	26.04	58.87
Social Justice	1996-97 to 2006-07	0.07	6.43
Animal Husbandry	2002-03 to 2006-07	2.84	10.34
Public Health	2001-02 to 2006-07	59.87	11.02
Family Welfare	2002-03 to 2006-07	3.23	16.98
Total		149.13	589.60

Thus while assessment has not been done in six departments, an amount of Rs 738.73 crore is pending recovery/regularisation from ZPs in respect of the six departments where assessment had been completed upto 2006-07.

The Education Department stated (August 2007) that due to non-availability of staff, assessment were in arrears.

1.12.2 Formation of District Level Audit Committees

The Government directed (March 2001) the ZPs to constitute District Level Audit Committees (DLAC) for discussion and settlement of outstanding audit objections. As on 31st March 2007, the DLAC had been formed in 22 districts and in the remaining 11[11] districts the DLAC is yet to be formed. The State Government stated (April 2008) that instructions had been issued to constitute DLAC in all the districts and to conduct quarterly meetings.

1.12.3 Lack of response to Audit

1.12.3.1 Outstanding Paras from CALFA Report

As per the report of CALFA for the year 2005-06, 90316 and 47609 paragraphs involving Rs 3037.59 crore and Rs 760.41 crore were pending for settlement in respect of Government funds and the ZPs own funds respectively for the period from 1962 to 2005 as detailed in **Appendix IV**.

- **Outstanding Inspection Reports and Paras of Pr. Accountant General**

Audit observations on financial irregularities and defects in initial accounts/records noticed during local audit by the Principal Accountant General/Accountant General but not settled on the spot were communicated to the heads of offices and departmental authorities through Inspection Reports. The more important and serious irregularities were reported to the Government. Statements indicating the number of observations outstanding for over six months were also sent to the Government for expediting their settlement.

For efficient implementation of the schemes transferred to the PRIs, all deficiencies pointed out by the Accountant General's audit were required to be complied with as early as possible and this would ensure establishing accountability structure in PRIs.

At the end of March 2007, 3581 Inspection Reports containing 11926 paras of ZPs and PSs issued by Audit were pending settlement. The yearwise breakup of the outstanding reports and paras at the end of March 2007 were as follows :

Year	Inspection Reports			Paragraphs		
	Mumbai	**Nagpur**	**Total**	**Mumbai**	**Nagpur**	**Total**
Upto 2001-02	257	78	335	558	78	636
2002-03	58	142	200	152	145	297
2003-04	353	1066	1419	1056	3537	4593
2004-05	318	366	684	979	1075	2054
2005-06	256	246	502	850	1206	2056
2006-07	196	245	441	900	1390	2290
Total	1438	2143	3581	4495	7431	11926

[11] Akola, Dhule, Gadchiroli, Gondhia, Nashik, Parbhani, Raigad, Sangli, Thane, Wardha and Yavatmal,

Huge arrears in outstanding Inspection Reports and paragraphs indicate weak internal control mechanism in PRIs.

1.13 Conclusion

An overview of the functioning of PRIs in the State revealed that allocations out of the State budget to PRIs were much less than the 40 *per cent* recommended by Second MSFC. Maintenance of accounts in the formats prescribed by C&AG was not done in any of the ZPs due to non-amendment of the MZP&PS Account Code. Database on finances of PRIs were not maintained though funds were provided by TFC for the purpose. The ZPs were yet (May 2008) to finalise the accounts for 2006-07. Arrears in finalization of accounts and certification by CALFA ranged between two to five years. Instances of pending assessment of grants, non-formation of DLAC and outstanding audit paras indicate weak internal controls.

1.14 Recommendations

- The State Government may consider to increase financial outlay to PRIs as recommended by the State Finance Commission.
- Steps be taken to prepare the accounts of ZPs/PSs/VPs on timely basis and certification thereof by CALFA.
- Creation and maintenance of database on finances of PRIs be expedited.
- The ZP/VP Act and Account Code be amended suitably for implementing the revised accounting formats.

The matter was referred to Government in September 2008, reply had not been received (January 2009).

SECTION A

CHAPTER II

RURAL DEVELOPMENT AND WATER CONSERVATION DEPARTMENT

Performance Review
Transfer of Functions, Funds and Functionaries to Panchayati Raj Institutions

Highlights

In accordance with the 73rd Amendment, 29 functions listed in the XI Schedule under Article 243G of the Constitution were required to be transferred to Panchayati Raj Institutions(PRIs). The Government of Maharashtra has devolved only 15 functions to the PRIs.

(Paragraph 2.1 and 2.5.1)

The activity mapping as specified by Central Task Force, for devolution of powers and functions among the three tiers of PRIs had not been completed.

(Paragraph 2.5.3)

In eight ZPs, funds amounting to Rs 142.13 crore could not be drawn and utilized due to non-receipt of release orders from Administrative Departments before closing of the financial years.

(Paragraph 2.6.2)

Transfer of posts of the Agriculture Department to PRIs was not implemented which resulted in non-transfer of agriculture-related functions to PRIs.

(Paragraph 2.7.1)

2.1 Introduction

Democratic decentralization in the Indian context means the establishment of self-Government at the local level and transfer of functions, functionaries and funds from the State Government to elected local bodies. The administrative control over staff and freedom to take administrative and financial decisions were also to be transferred to the local bodies. The 73rd Constitutional Amendment Act left the extent of devolution to the wisdom of the State Legislatures.

With the enactment of the 73rd amendment to the Constitution in April 1993, schemes relating to 29 functions were to be transferred to PRIs. The transfer of functions, funds and functionaries to PRIs was reviewed by Audit during January to March 2008 and the findings are discussed below.

2.2 Audit Objectives

The audit objectives were to evaluate whether

- Functions envisaged to be transferred to PRIs were actually transferred
- Adequate funds were allocated to PRIs to perform these functions
- Proportionate number of functionaries were transferred to PRIs to ensure effective performance of the functions transferred
- There exists proper co-ordination among the different tiers of PRIs
- There was a proper internal control mechanism

2.3 Audit Criteria

The audit criteria used for assessing the effective devolution of transfer of functions, funds and functionaries included

- provisions and schedules of the Maharashtra Zilla Parishads and Panchayat Samitis Act (MZP&PS) and the Bombay Village Panchayat(BVP) Act relating to transfer of functions.
- Government orders transferring functions, funds and functionaries, *etc*.
- Government Guidelines and fixation of norms for transfer of functions to PRIs.

2.4 Audit Methodology and Scope

The performance audit covering the period from 2002-03 to 2006-07 was conducted during January to March 2008 in eight ZPs[12] selected by the stratified sampling technique, using IDEA software, 16 PSs[13] and 32 VPs[14] were selected from the respective ZP. Entry and Exit Conferences were held with the officers/representatives of State Government as well as the PRI functionaries in December 2007 and September 2008 respectively. The State

[12] Aurangabad, Kolhapur, Nashik, Parbhani, Solapur, Thane, Wardha and Yavatmal

[13] Kagal, Karanja, Malshiras, Maregaon, Nashik, Paithan, Parbhani, Pandharpur, Radhanagari, Seloo, Soygaon, Sinner, Selu,; Shahapur, Umarkhed, Vasai,

[14]Bakudjalgaon, Baradwadi, Bastawade, Bhandishegaon, Bhatsai, Bilalpada, Bondarthana, Borgaon, Bori(Ko), Bori(Najikchatari), Borwand(Bk), Botoni(Chi), Brahmangaon(P), Chas, Devhari, Dewargaon, Nagapur, Rajur bahula, Susundra, TaraleKhurd, Teltumba, Thangaon, Thergaon, Tungat, Umari(Ma), Usgaon, Vadgaon, Vanojadevi, Varaskol, Vithalwadi, Wadgaon(Ka) and Warkhed budruk

Government agreed to re-examine the issues raised by audit during the Exit Conference.

2.5 Audit Findings

The audit findings are discussed in the succeeding paragraphs:

2.5.1 Functions not transferred as per 73rd Constitutional amendment

Although the State Government accepted the recommendations of the Second Maharashtra State Finance Commission (MSFC), for devolution of all the functions listed in the 11th schedule of the Constitution to the PRIs, the same was not implemented in full.

Till March 2008, the Government had transferred only 15 functions to the PRIs. The department-wise position of schemes transferred to PRIs by State Government as of March 2008 under the 15 functions is detailed in **Appendix V.**

Remaining 14 functions were not transferred to the PRIs as of March 2008 **(Appendix VI)** there by not achieving the democratic decentralization as envisaged by 73rd Constitutional amendment. It was however observed that the Government had issued a statement of conclusion (June 2007) stating that remaining 14 functions will be transferred within six months.

2.5.2 Non-transfer of schemes

The Government of Maharashtra issued notifications (February 2001) transferring 45 schemes under two functions (37 schemes under Agriculture and eight schemes under Minor Irrigation, Water Management and Watershed Development) to PRIs.

These schemes were however, not transferred to the PRIs due to non adoption of the new staffing pattern by the Government which envisaged transfer of functionaries alongwith the transfer of schemes. The new staffing pattern could not be implemented as there was a demand from the public representatives to reconsider its adoption. However, no action has been taken by the Government to reconsider the new staffing pattern even after lapse of seven years (April 2008).

The Department of Agriculture had incurred an expenditure of Rs 683.55 crore on the aforesaid 37 schemes relating to agriculture during 2002-03 to 2006-07.

2.5.3 Activity Mapping

Co-existence of various tiers of PRIs pre-supposes balanced distribution of powers and functions among them. The basic criteria for such distribution being that a function should be performed by a tier to which it belongs and a mechanism for inter-tier co-ordination to exist in case of overlapping functions. In order to operationalise administrative decentralisation of funds, functions and functionaries among PRIs, the Ministry of Rural Development, GOI constituted (July 2001) the Central Task Force (CTF) for suggesting the manner of transfer to each tier of PRIs so that devolution of all the 29 functions enlisted in the XIth Schedule of the Constitution can be completed by March 2002. The inter-tier allocation of functions was also to be specified by the CTF in an activity map prepared by them.

The CTF had accordingly suggested (August 2001) a model Activity Mapping to ensure a balanced distribution of powers and functions between the three tiers of PRIs. The State Government is however, yet to revise their existing activity map in accordance with the map suggested by CTF. On being pointed out, the State Government stated (March 2008) that additional activity mapping was in progress to clarify the demarcations of the responsibilities of each tier of PRIs.

2.5.3.1 According to the CTF, the activity of procurement and supply of material and equipments under the function 'Non-conventional Energy Sources' was to be implemented by PSs. However, the procurement of material was done by an outside agency *viz*. MEDA (Maharashtra Energy Development Agency) to which funds were released by the State Government. Expenditure of Rs 1.10 crore was incurred by this agency from 2002-03 to 2006-07 which should have been incurred by the PRIs.

2.5.3.2 The activity of selection of beneficiaries and supply of milch animals under the function 'Animal Husbandry, Dairy and Poultry' was required to be performed by PSs. However, expenditure of Rs 4.89 crore during the period 2002-03 to 2006-07 was incurred by eight[15] test-checked ZPs towards procurement and supply of milch animals which should have been done by the PSs. It was also noticed that selection of beneficiaries was done by the District Level Committee in two test checked districts[16] without involving the elected representatives of the PSs.

Thus performing of lower tier activities by the higher tier breached the principle of subsidiarity.

2.5.4 Schemes though transferred but implemented by the State Government

2.5.4.1 As per the Government's Resolution dated 21 October 2000, schemes providing grants-in-aid for cultural institutions and organization of State Drama competitions were transferred to ZPs. It was, however, observed that the Social Justice and Cultural Affairs Department incurred an

[15] Aurangabad(Rs 0.11 crore), Kolhapur(Rs 0.68 crore), Nashik(Rs 1.95 crore), Parbhani (Rs 0.27 crore), Solapur (Rs 0.09 crore), Thane(Rs 0.29 crore), Wardha (Rs 0.08 crore), Yavatmal(Rs 1.42 crore)

[16] Solapur and Kolhapur

expenditure of Rs 7.70 crore and Rs 22.67 lakh respectively on these two activities during 2002-03 to 2006-07. On being pointed out, the Directorate stated (May 2008) that there was no proposal to implement the scheme at the ZP level even though the Government had issued the order.

2.5.4.2 The Coaching scheme was introduced by the Government to provide coaching facilities to post-graduate students belonging to backward classes to enable them to appear for the Civil Services Examination. The scheme was transferred to the ZPs in November 2000. However, it was observed that this scheme was being implemented through the University of Pune by incurring expenditure from grants received from the Ministry of Social Justice without the involvement of ZP Pune. The expenditure incurred by the University of Pune on the scheme was Rs 14.07 lakh during the period from 2002-03 to 2004-05.

Even though the Government had issued orders for implementation of the schemes by ZPs, the funds had not been released to the PRIs and implementation was being done at State level.

Thus implementation of schemes transferred to PRIs by the State Government were not in conformity with the 73rd Constitutional amendment.

2.5.5 Scheme taken back by Government from PRIs

The management of 168 Government hostels for economically backward class and Scheduled Caste boys and girls at the Taluka level were transferred to the ZPs in November 2000. However, these hostels were taken back by the Government in May and September 2004 respectively. It was seen from the minutes of the meetings of Members of Parliament and the Chief Minister held on 14 November 2003 that the performance of these hostels was poor which prompted the Government to take back the transferred functions. There were approximately 14151 beneficiary students as of May 2004 and the Government incurred an expenditure of Rs 61.70 crore during 2004-05 to 2006-07 without involving the PRIs at any stage. The Director of Social Welfare attributed (June 2008) the poor performance to the delays in drawal of funds from treasuries which delayed payment of maintenance allowances, payments to diet suppliers, electricity charges, rent to landlords *etc*. This was due to the fact that the Chief Accounts and Finance Officer (CA&FO) of ZP had become the Drawing and Disbursing Officer after transfer of the hostels to the ZP and accordingly all bills were required to be routed through Social Welfare Department and to the CA&FO causing the delay.

Similarly, schools at Pune and Nagpur for children whose parents were working in unclean occupations were transferred to the respective ZPs in November 2000. However, these schools were taken back by the Government in September 2004. During the period 2004-05 to 2006-07, Government provided Rs 1.32 crore in the State Budget for running these schools, against which the department incurred an expenditure of Rs 1.25 crore. The ZPs, thereafter, had no role either in the selection of the students or in the school management, which was against the spirit of decentralization. The Director of Social Welfare gave the same reasons as stated above for taking over the scheme.

According to Article 243G of the Constitution, these functions had to be transferred to the PRIs and in cases of deficiencies in implementation by PRIs, Government should have re-considered the process of payment rather than taking back the function from ZPs as the later goes against the spirit of decentralisation of powers to PRIs.

2.6 Devolution of Funds

2.6.1 Decline in transfer of funds to PRIs

During 1995-2000, 120 schemes were implemented in PRIs and the percentage of average devolution of funds from the State's own revenue was 23.23. After transferring 94 new schemes related to 12 functions enlisted in the Eleventh Schedule during November 2000 to September 2002, the percentage of average devolution of funds from the State's own revenues declined to 18.74 as indicated below.

(Rupees in crore)

Year	State's own total revenue (Tax & Non tax)	Funds transferred to PRIs	Percentage
1995-96	13710	2863.70	20.89
1996-97	15470	3456.48	22.34
1997-98	17363	3924.79	22.60
1998-99	17776	4335.64	24.39
1999-00	21200	5283.23	24.92
Total	**85519**	**19863.84**	**23.23**
2002-03	27316.93	6453.82	23.63
2003-04	28711.10	5784.58	20.15
2004-05	34724.59	6300.48	18.14
2005-06	39475.29	7472.84	18.93
2006-07	47617.49	7321.27	15.38
Total	**177845.40**	**33332.99**	**18.74**

2.6.2 Non-drawal of funds for want of release orders

Funds were made available to PRIs through ways and means advances for implementation of schemes. The grants were released by the Government to the ZPs as the functions had been transferred to them. In the eight test-checked ZPs, it was noticed that though funds amounting to Rs 895.04 crore during 2004-05 to 2006-07 were provided through ways and means advances, an amount of Rs 142.13 crore could not be drawn by them due to non-receipt of release orders from the Administrative Departments before the closure of financial year as shown in **Appendix VII**.

It was noticed that in Parbhani, Aurangabad, Solapur and Yavatmal ZPs, the sanction orders for drawal of funds from ways and means advances were received in the months of June and July due to which the amounts could not be drawn in time.

The delays in sanctioning the amount by the Administrative Departments delayed the implementation of schemes thereby depriving the beneficiaries of the intended benefits.

2.6.3 Weak financial position of Village Panchayats (VPs)

It was observed that out of the 32 test-checked VPs, only 17 VPs had income of their own above Rupees one lakh during the period 2002-03 to 2006-07.

As per Section 45 of the BVP Act, 79 activities were transferred to the VP. However, it was noticed that the number of activities at the VP level ranged from 14 to 32 only.

2.7 Transfer of functionaries

Devolution of funds and functions to the PRIs required the functionaries also to be transferred at all levels for effective discharge of these functions. The State Government had transferred 78 schemes to the PRIs (September 2002) with 1609 Group A and B and 13562 Group C and D staff members from six departments on deputation basis and 16 schemes without any staff. The posts were to be filled from feeder posts and the pay and allowances were to be paid by the respective heads of departments. A review of the system of transfer of functionaries to PRIs revealed the following deficiencies.

2.7.1 Revised staffing pattern

The Agriculture Department decided (March 2001) to surrender 5425 posts and approved a new staffing pattern for ZPs and State Offices at the District/Taluka/Circle level.

As per the revised staffing pattern, 479 technical posts and 627 ministerial posts were proposed to be transferred to the ZPs', 1414 technical posts and

1616 ministerial posts at Grade I Blocks, 1029 technical posts and 1176 ministerial posts at Grade II Blocks and 16 posts at the Circle level. However, the revised staffing pattern was not made operational. On being pointed out, Deputy Secretary Agriculture stated (April 2008) that the staffing pattern sanctioned in February 2001 had been deferred and a revised staffing pattern was under consideration of the Government. The fact remains that the new staffing pattern has not been implemented even after seven years and the PRIs are not being able to effectively discharge their functions due to shortage of staff.

Similarly, Government had transferred 14 schemes under the function 'Non-Conventional Energy Sources' to PRIs in October 2000. Though one Project Officer was earmarked for each ZP, Government had transferred only 11 posts as of October 2000. It was noticed that the vacant posts were not filled up. On being pointed out, the State Government stated (April 2008) that the matter regarding transfer of the remaining posts was under consideration. The fact remains that due to non-transfer of the required functionaries, the PRIs would not be able to effectively discharge their functions.

2.7.2 Functionaries taken back by Government

In November 2000, 1353 posts relating to 168 Government Hostels for Scheduled Caste Boys and Girls, Economically Backward Class Girls and two Schools[17] for children whose parents were working in unclean occupation were transferred to the PRIs. The transferred posts were taken back by Government in May and September 2004 since the hostels and schools were taken back by the State Government as already stated in Paragraph 2.5.5.

Instead of taking back the transferred posts, Government should have considered better means for implementation of the functions.

2.8 Capacity Building

Capacity building of the staff members of the PRI was one of the objectives under IT enabled e-governance. Accordingly, rules were framed by the Government vide a notification dated 25 January 1999. Under the rules, a two-year time limit was prescribed for acquiring knowledge of computers for both existing employees and newly recruited employees. The time limit was extended from time to time and finally it was extended upto December 2007. The Second MSFC also recommended that knowledge of computers should be made mandatory for PRI employees. As of March 2008, the number of employees to be trained and those actually trained in seven test checked ZPs is as follows :

[17] Pune and Nagpur

Name of Zilla Parishad	Total employees	Number of employees trained	Number of employees not trained	Percentage of untrained employees
Wardha	4260	1942	2318	54.41
Yavatmal	1762	929	833	47.27
Parbhani	1337	551	786	58.79
Aurangabad	824	492	332	40.29
Nashik	15436	1612	13824	89.56
Thane	12633	1635	10998	87.06
Kolhapur	9688	3138	6550	67.61
TOTAL	**45940**	**10299**	**35641**	

It is clear from the above table that the percentage of untrained employees in the ZPs remained very high even after eight years of the introduction of the policy of e-governance. It was also seen that the percentage of untrained employees in Thane and Nashik was above 80. While attributing this to their reluctance to send employees for training due to deficiencies in managing day to day work in their absence, ZP Nashik stated (March 2008) that steps would be taken to train the staff. However, fact remains that training is essential for implementation of e-governance and ZP should have planned and provided training to all their employees in batches during the last eight years.

2.9 Conclusion

Out of 29 functions listed in the Eleventh schedule of the constitution, the State Government has so far devolved only 15 functions to PRIs. The State Government could also transfer functionaries relating to 78 schemes out of 94 schemes transferred under 15 functions. The State Government has not revised their activity map in accordance with the model prescribed by CTF. Schemes under the Agriculture, Minor Irrigation, Watershed Management and Watershed Development which were proposed to be transferred to PRIs had not been transferred due to non adoption of revised staffing pattern. Activities transferred to PRIs were taken back by the State Government because of poor performance by PRIs.

2.10 Recommendations

- Government should consider the transfer of remaining 14 functions specified in the Eleventh Schedule of the Constitution.
- Government should consider the transfer of adequate funds and functionaries corresponding to the transferred functions.
- Government may consider amendments to the MZP&PS Act & BVP Act to incorporate clear demarcation of activities for each tier of PRI.

- Government should adopt the revised staffing pattern for schemes related to Agriculture and Minor Irrigation and transfer these functions to PRIs.

CHAPTER III

AUDIT OF TRANSACTIONS

RURAL DEVELOPMENT AND WATER CONSERVATION DEPARTMENT

3.1 Excess payment on purchase of water purifying machines

Failure of the Zilla Parishads in ensuring the quality of the machines supplied resulted in excess payment of Rs 2.01 crore to the supplier

With the objective of providing safe drinking water to schools, health centres *etc.* in Zilla Parishads(ZPs), the Development Commissioner (Industries) and the Central Stores Purchase Organisation, Mumbai entered into a rate contract with a supplier in September 2006 for supply of 10077 numbers of Kenstar Le-pure (online) continuous type water purifying machines manufactured by Kitchen Appliances India Limited for 27 ZPs in the State. The purchases were to be made out of Twelfth Finance Commission (TFC) grants. As per the rate contract, the supplier was required to supply machines with stainless steel purification chambers at Rs 8944 per machine. However, the rate contract did not specify the model number.

The supplier supplied (December 2006 to February 2007) 5084 machines to 15[18] ZPs only. The invoice furnished by the supplier did not indicate the description and model number of the machine supplied. In order to confirm the correctness of the supply, the audit party along with Panchayati Raj Institution functionaries visited (August 2008) the Primary Health Centre in Thane ZP and on joint physical verification of the water purifying machine supplied, it was noticed that inferior quality machines with model code No.WP 0212-Z having aluminium purifying chambers were supplied instead of stainless steel chambers as per the rate contract. Subsequent verification conducted in 21 units during August-September 2008 at Satara, Solapur and Ahmednagar ZPs confirmed that the machines in these ZPs were also of inferior quality. As ascertained from the manufacturer in Mumbai (May 2008), the market price of the machine with code No.WP-0212-Z was only Rs 4990 per unit. Thus the supplies did not conform to the specifications as per the rate contract and the ZPs incurred an extra amount of Rs 3954 per machine.

Thus the failure of the ZPs in ensuring the quality of the machines supplied resulted in excess payment of Rs 2.01 crore to the supplier for the 5084 machines supplied to 15 ZPs. On being pointed out, the department accepted (November 2008) the fact and also confirmed that water purifier with stainless steel chamber had not been supplied in any of the ZPs.

[18] Ahmednagar, Amravati, Bhandara, Buldhana, Gondia, Hingoli, Nagpur, Nanded, Osmanabad, Parbhani, Sangli, Satara, Solapur, Thane and Wardha.

The matter was referred to Government in November 2008, their reply has not been received (January 2009).

3.2 Penalty due to non-maintenance of power factor at required level

Failure to maintain power factor at the required levels resulted in avoidable expenditure of Rs 38.53 lakh in three Zilla Parishads

As per the Supply Act of the Maharashtra State Electricity Distribution Company Limited (MSEDCL), consumers having high tension (HT) supply are required to maintain their power factor (PF) within the prescribed limit. The tariff determined in December 2003 for various classes of consumers of HT supply, provided that the consumers should maintain the power factor at 90 *per cent,* failing which penal charges would be levied at the revised rates.

During test check of the records of the Executive Engineers, Water Supply Departments, Zilla Parishad (ZP) Pune (November 2006), ZP Sangli and ZP Ratnagiri (May 2008), it was observed that Rural Water Supply Schemes (RWSS) having HT connections were imposed penal charges amounting to Rs 38.53 lakh[19] by MSEDCL due to low PF during the periods from 2002-03 to 2006-07. Except ZP Sangli, the other two ZPs had paid the penal charges. ZP Sangli has taken up (May 2008) the matter with MSEDCL.

The ZPs had not adopted any corrective measures to maintain the PF at the required efficiency level by installing capacitors and other devices of the required rating and standard.

On being pointed out, ZP Pune stated (November 2006) that due to frequent defects and repairs of equipments, variations in voltage, the voltage regulation efficiency of electrical equipments including capacitors had been affected. However, corrective measures such as replacement of damaged capacitors by new capacitors of required rating and standard would be taken up on priority basis. ZP Sangli stated (May 2008) that due to floods, the pumps had been submerged and the capacitors had become non-functional. However, efforts were being made to rectify and repair/replace the capacitors to improve the power factor. ZP Ratnagiri attributed (May 2008) the problem to transfer of rural water supply schemes during 1990 and 2001 by Maharashtra Jeevan Pradhikaran to the ZP and differences between contract demand, sanctioned demand and connected load resulting in the PF going below the required level.

The replies are not tenable as ZP, Pune failed to maintain its capacitors in good working condition and avoid paying the penal charges. As far as ZP Sangli was concerned, the floods had taken place in July 2005 while the penal

[19] ZP Pune - Rs 9.16 lakh, ZP Ratnagiri - Rs 4.90 lakh and ZP Sangli - Rs 24.47 lakh

charges were being paid from 2002-03 onwards. The reply of ZP Ratnagiri is not tenable since the schemes had been transferred to the ZP in 1990 and 2001 and even after a lapse of seven to 18 years the ZP had not taken any corrective action.

Thus the failure of the three ZPs to maintain the PF at the required level resulted in avoidable penal charges of Rs 38.53 lakh.

The matter was referred to the Government in June 2008; their reply had not been received (January 2009).

3.3 Overpayment of incentive allowance

Incorrect interpretation of government orders resulted in overpayment of incentive allowance of Rs 3.03 crore

The employees posted in Naxalite affected areas and in tribal and inaccessible areas were paid allowances of Rs 3.03 crore in excess of entitlement due to incorrect interpretation of Government orders. The cases are discussed below :

(i) In order to encourage the employees working in Naxalite affected areas, Government of Maharashtra (GOM) decided (August 2002) to pay Incentive allowance at the rate of 15 *per cent* of basic pay. Finance Department decided (July 2004) to merge 50 *per cent* of dearness allowance with the basic pay as dearness pay with effect from 01 August 2004 for calculation of certain allowances. However, the GOM decided not to pay Incentive allowance on dearness pay.

Scrutiny of records of Block Development Officer(BDO) Aheri, District Gadchiroli and 13 offices in five[20] Naxalite affected districts (June 2007 to May 2008) revealed that the incentive allowance was paid at the rate of 15 *per cent* on basic pay plus 50 *per cent* dearness pay resulting in overpayment of incentive allowance of Rs 2.66 crore (**Appendix VIII**) during the period from August 2004 to January 2008. The Rural Development and Water Conservation Department while accepting the fact, issued orders (January 2008) for recovery of the overpaid amount and accordingly BDO Aheri started recovery from March 2008 and an amount of Rs 4.31 lakh has been recovered (June 2008).

(ii) The scheme of granting of Incentive Allowance to employees working in tribal and inaccessible areas of the state has been in vogue in the Tribal Development Department since January 1989. Government of Maharashtra, School Education Department (6 February 2001) prohibited the payment of

[20] Bhandara - 2 offices, Chandrapur – 6 offices, Gadchiroli – 2 offices, Gondia – 2 offices and Yavatmal – 1 office.

Incentive Allowance during summer vacation since it exceeds more than 30 days.

Scrutiny of records of four[21] Panchayat Samities of Gadchiroli District revealed (September 2007) that BDO concerned paid Incentive allowance amounting to Rs 36.83 lakh (**Appendix IX**) to teaching staff in contravention of Government order during vacation period of May and June of the years 2003, 2006 and 2007. While accepting the fact, the BDOs agreed to recover the amount.

The matter was referred to Government in October 2007; their reply had not been received (January 2009).

3.4 Irregular retention of the Service Charges

Non-observance of Government order resulted in irregular retention of the Service Charges by the Animal Husbandry Department of Zilla Parishad Latur

Government of Maharashtra revised the rates of service charges (6 April 2000) leviable for services rendered to treat the animals by the Veterinary Clinics of Zilla Parishads (ZP). These charges were normally retained by the ZPs. It was, however, decided by the Government (April 2000) that Service Charges so recovered shall be credited to treasury from 24 April 2000. Commissioner of Animal Husbandry, Maharashtra State, Pune also directed (September 2000 and November 2002) all ZPs to credit the service charges to Government account.

Test check of records of ZP Latur (January 2007) and further information collected (August 2007) revealed that an amount of Rs 79.12 lakh collected during 2000-01 to 2006-07 was irregularly retained by ZP Latur instead of remitting it to Government account.

District Animal Husbandry Officer, ZP Latur accepted (January 2007) the facts but did not initiate any action to remit the amount to treasury.

The matter was referred to Government in October 2007; their reply had not been received (January 2009).

[21] Chamorshi, Desaiganj, Dhanora and Kurkheda

3.5 Excess payment of transport allowance to teaching staff

Non-observance of Government instructions resulted in excess payment of Transport Allowance of Rs 21.02 lakh to the teaching staff of Zilla Parishad Wardha and Gadchiroli

Government of Maharashtra (GOM) introduced (December 1998) the payment of Transport Allowance (TA) to its employees and others (including teaching staff) based on scale of pay effective from 1 October 1998. The TA was similar to the TA paid to the Central Government employees. GOM further clarified (May 2003) that no TA is payable to the teaching staff for the vacation period exceeding 30 days. TA is admissible proportionately to the number of days on which the teaching staff attended duty during vacation for training or other administrative work.

Test check (October 2007) of records of ten[22] Panchayat Samitis (under Zilla Parishad Wardha and Gadchiroli) revealed that Block Development Officers (BDOs) paid TA for the entire period of summer vacation instead of paying proportionately for the duty period of the staff, resulting in excess payment of TA of Rs 21.02 lakh during 2003-04 to 2007-08 as detailed in **Appendix X**.

On being pointed out, seven[23] out of ten test checked BDOs agreed (October and November 2007) to recover the amount in consultation with higher authorities. The remaining three[24] BDOs stated (September and October 2007) that the matter would be referred to higher authorities for guidance.

The matter was referred to Government in January 2008; their reply had not been received (January 2009).

3.6 Extra payment

Payment of Rs 18.93 lakh to a contractor in violation of the conditions of the contract

The work of construction of Public Health Centre building and quarters of Medical Officer and staff at Sakhara Taluka Sengaon, District Hingoli was administratively approved (August 2000) for Rs 80 lakh and technically sanctioned (September 2002) for Rs 72.14 lakh. It was awarded (June 2003) to a contractor at 10.57 *per cent* below the estimated cost of Rs 69.37 lakh (*i.e.* Rs 62.03 lakh). The schedule time of completion was 24 months *i.e* June 2005. The work was completed (June 2007) at the cost of Rs 90.06 lakh (including price escalation of Rs 18.93 lakh) after a delay of 24 months.

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[22] Arvi, Ashti, Chamorshi, Deoli, Hinganghat, Karanja (G), Kurkheda, Samudrapur, Seloo and Wardha

[23] Arvi, Ashti, Deoli, , Karanja (G), Kurkheda, Samudrapur and Seloo

[24] Chamorshi, Hinganghat and Wardha

During scrutiny of the records of the Executive Engineer (EE), Works Department of ZP Hingoli, it was observed that the contract included a clause that "no claim shall be accepted under price escalation". Despite clear condition of the contract regarding no payment on account of price escalation, the ZP accepted (May 2005) the claim of price variation of the contractor to the tune of Rs 18.93 lakh.

When pointed out, the EE stated (August 2007) that the payment was made as per the Government of Maharashtra, Public Works Department resolution of September 1991 and January 1992. Reply is not tenable as the above resolutions laid down the procedure for payment of price escalation if a clause for payment of price escalation is included in the original contract.

Thus, payment of Rs 18.93 lakh to the contractor was in violation of the condition of contract.

The matter was referred to Government in February 2008; their reply had not been received (January 2009).

3.7 Unproductive expenditure

Failure of Zilla Parishad Akola to initiate timely action to arrest leakage of water resulted in unproductive expenditure of Rs 35 lakh and deprival of intended irrigation benefit for over eight years

The work of construction of KT Weir[25] at Sangvi Jomdeo in Akola District to irrigate 66 hectares of land was taken up for execution (December 1996) by Executive Engineer (EE), Minor Irrigation Division, Zilla Parishad (ZP), Akola. The work was completed at a cost of Rs 35 lakh in April 2000.

Scrutiny of records (October 2007) of EE ZP Akola and further information collected (January 2008) revealed that no irrigation was possible from the project since its completion as a leakage developed at raft foundation. Even though EE during his visit to the weir (December 2002) observed that repairs were necessary, the estimates were prepared only in December 2007, after a delay of five years. The estimates were yet to be approved by the competent authorities (March 2008).

While accepting the fact EE stated (October 2007) that leakages were not rectified due to paucity of funds. Further, it was stated (April 2008) that after getting technical sanction and obtaining grants the repair work would be carried out during 2008-09. The reply was silent regarding delay in preparation of estimates and its approval which is a prerequisite for allotment of funds.

[25] Kolhapur Type Weir

Thus, failure of the ZP to initiate timely action to arrest the leakage of water resulted in unproductive expenditure of Rs 35 lakh and deprival of intended irrigation benefit for over eight years.

The matter was referred to Government in February 2008; their reply had not been received (January 2009).

3.8 Release and utilisation of Twelfth Finance Commission grants by Panchayati Raj Institutions

3.8.1 Introduction

The Twelfth Finance Commission (TFC) recommended grants of Rs 2774 crore to Panchayati Raj Institutions(PRIs) and Urban Local Bodies (ULBs) in Maharashtra State for the years 2005-06 to 2009-10. Out of this Rs 1983 crore was allotted to the PRIs. During 2005-06 to 2007-08 Government of Maharashtra(GOM) received Rs 991.50 crore as grant for PRIs from Government of India(GOI) which was released to the PRIs. The amount utilised till June 2008 was Rs 683.68 crore. The allocation amongst various PRIs and autonomous councils in excluded areas were to be made by the States. A High Level Committee(HLC) with Chief Secretary as Chairman and Principal Secretaries, (Finance) and other related department as members was formed by the State Government in November 2005 to ensure proper utilisation of TFC grants. This committee was required to meet every quarter to review the utilisation of TFC.

3.8.2 Audit scope and methodology

Audit of the release and utilisation of TFC grants by local bodies in Maharashtra from the year 2005-06 to 2007-08 (up to November 2007) was conducted between November 2007 and April 2008 to ascertain whether the TFC grants were being utilized as per the guidelines issued by GOI. Eight Zilla Parishads (ZPs[26]) (out of 33), sixteen Panchayat Samitis (PSs) (out of 351) and thirty two Village Panchayats (VPs) (out of 27916) were selected by random sampling for audit scrutiny. Audit also examined the related records in the Rural Development Department (RDD) of the State Government. The audit findings are detailed in the succeeding paragraphs.

3.8.3 Release of TFC grants

3.8.3.1 The position of receipt of TFC grants by the State Government from GOI during the period 2005-06 to 2007-08 is given below:

[26] Ahmednagar, Amravati, Jalna, Latur, Nashik, Pune, Solapur and Thane.

Year	Amount of TFC grant received from GOI (Rupees in crore)	Date of receipt by State Government
2005-06 First Instalment	198.30	28.10.05
2005-06 Second Instalment	198.30	05.04.06
2006-07 First Instalment	198.30	15.09.06
2006-07 Second Instalment	198.30	22.06.07
2007-08 First Installment	198.30	28.01.08

3.8.3.2 Delay in release of grants by State Government and non-payment of interest

As per the TFC guidelines, the State Government was required to transfer TFC grants to PRIs within 15 days of their receipt. In cases of delay, interest on delayed payments at Reserve Bank of India rate was to be paid to the PRIs by the State Government. During audit, delays were noticed in the release of grants from the Finance Department to RDD, from RDD to the ZPs and from the ZPs to the PSs and VPs, but interest as required was not paid to the PRIs.

There were delays ranging from 19 to 132 days in issue of release orders of 1st and 2nd instalment of TFC grants for the year 2005-06 by RDD and the interest payable on this account worked out to Rs 1.91 crore, as detailed below. The interest was, however, not paid to the PRIs by the State Government. Reasons for non-payment of interest were not furnished to audit.

(Rupees in crore)

Year	Instalment No.	Date of receipt of grants from GOI	Due date by which grants to be received by PRI	Amount of grant	Date of grants released by RDD	Delay in days	Interest payable at 5.50 *per cent* per annum
2005-06	I (Part)	28/10/2005	12/11/2005	85.00	06/12/2005	24	0.31
2005-06	I (Part)	28/10/2005	12/11/2005	85.00	19/12/2005	37	0.47
2005-06	I (Part)	28/10/2005	12/11/2005	28.30	24/03/2006	132	0.56
2005-06	II	05/04/2006	20/04/2006	198.30	09/05/2006	19	0.57
						Total	**1.91**

In addition to the above, there were further delays in drawal of funds from treasuries by the ZPs. In respect of the eight ZPs test checked, this delay in drawal of funds ranged from 7 to 119 days involving interest element of Rs 1.42 crore.

Test check of few cases in PSs and VPs also revealed that there were delays ranging from one to eight months in the distribution of grants by ZPs to the PSs and VPs, as detailed below:

Sr. No.	Instalment No.	Date of receipt by ZP	Names of PRIs receiving grant	Date of receipt of grant by PRIs	Amount of grant (Rupees in lakh)	Delay in months
1	I(05-06)	13.01.06	VP – Pirangut, Tal. Mulshi, Dist.- Pune	03.06.06	0.68	5
2	I(05-06)	23.02.06	PS Daryapur, Dist. Amravati	15.05.06	9.61	3
3	I(05-06)	19.04.06	VP Sategaon, Taluka- Anjangaon, Dist.- Amravati	29.11.06	1.14	7
4	I(05-06)	19.04.06	VP Gaiwadi, Taluka- Daryapur, Dist.-Amravati	23.11.06	1.00	7
5	I(05-06)	23.02.06	PS - Anjangaon, Dist.- Amravati	30.10.06	4.50	8
6	II(05-06)	05.09.06	PS - Daryapur, Dist. Amravati	13.11.06	11.65	2
7	I(06-07)	10.11.06	PS Parner Dist- Ahmednagar.	04.12.06	17.30	1
8	I(06-07)	27.11.06	VP in Thane Dist.	01.12.06	194.26	--
9	I(06-07)	10.11.06	PS Shevgaon, Dist.- Ahmednagar.	04.12.06	14.80	1
10	I(06-07)	10.11.06	VP Wagdari, Tal. Akkalkot, Dist.- Solapur.	06.03.07	0.48	4
11	II(06-07)	24.08.07	VP Nagansur, Tal. Akkalkot, Dist.- Solapur	07.12.07	0.95	4
12	II(06-07)	30.07.07	VP – Pirangut, Tal. Mulshi, Dist.- Pune	24.12.07	0.62	5
13	II(06-07)	03.09.07	PS in Thane Dist.	16.10.07	118.07	1

The avoidable delay in release of grants resulted in delay in utilisation of the grants and consequential delay in delivery of the intended benefits to the beneficiaries.

3.8.3.3 Delay in depositing of cheques by VP

From the records of selected ZPs, it was seen that while the VPs generally deposited their cheques in time, 11 VPs in Thane ZP failed to deposit cheques received towards the first instalment of TFC grants for 2005-06 in their bank accounts within the stipulated time. The reason for delay in depositing of cheques was attributed by the ZP (March 2008) to non-opening of separate bank account for TFC grants. As a result cheques amounting to Rs 1.89 lakh were required to be revalidated, resulting in avoidable delay in utilisation of the grants.

3.8.3.4 Funds not released through Electronic Clearance System

The State Government directed (December 2005) the ZPs that the distribution of grants to PSs and VPs should be made by Electronic Clearance System (ECS) in order to avoid delays in the transfer of funds. It was, however, observed that the grants were distributed through demand drafts/cheques instead of ECS in seven out of eight test checked ZPs though ECS facility was available in all the district.

3.8.3.5 Utilisation of TFC grants

As per State Government instructions, the TFC grants were to be utilized within eight months of their receipt. As per the details furnished by the RDD, the position of grants received, their utilisation and the unspent balances as of June 2008 were as follows :

(Rupees in crore)

Year	Instalment number	TFC grants received by RDD from Finance Department	Amount of expenditure incurred	Unspent balance with PRIs	Reason for delay in utilisation
2005-06	Ist	198.30	198.29	0.01	Delay in planning and obtaining approval of General Body.
2005-06	IInd	198.30	198.04	0.26	
2006-07	Ist	198.30	182.53	15.77	
2006-07	IInd	198.30	104.82	93.48	
2007-08	Ist	198.30	2.10	196.20	This instalment was released by GOI in January 2008 and received by PRIs in March 2008
Total		**991.50**	**685.78**	**305.72**	

Audit scrutiny in this regard revealed the following :

(I) Government of Maharashtra, released Rs 30 crore (July 2007) from the II instalment of 2006-07 to ZP Thane, a nodal agency for distribution of TFC grants to excluded areas. However, ZP Thane had distributed Rs 56 lakh only to three ZPs.[27]

On this being pointed out (February 2008), RDD stated (June 2008) that Rs 24.62 crore out of the balance amount was distributed by ZP, Thane during April to June 2008 to all PRIs for construction of Gram Panchayat Bhavans and creation of database on PRIs. The balance amount of Rs 4.82 crore was yet to be released to the VPs (June 2008).

(II) Similarly, the State Government released (July 2007) Rs 10 crore to Thane ZP for distribution to those VPs whose development plans had been approved by the State Government. Even after a lapse of seven months, no

[27] Satara, Solapur and Pune.

fund had been distributed for want of necessary orders from the State Government regarding distribution of fund (February 2008).

On this being pointed out (February 2008) the State Government issued necessary orders and in turn, the ZP distributed the entire amount in April 2008.

In both the cases, there were avoidable administrative delays in issuing release orders and consequently, there were delays in distribution of grants by Thane ZP. The delay in release resulted in delays in execution of work in the excluded areas and in VPs whose development plans had already been approved.

(III) ZP Ahmednagar received TFC grants of Rs 6.57 crore in three instalments during the period from January to November 2006. The entire amount was required to be utilized by June 2007. Out of the grant of Rs 6.57 crore received, the ZP Ahmednagar kept Rs 2.50 crore in fixed term deposits during February 2006 to June 2007 and the entire amount of Rs 6.57 crore was shown as utilised. Wrong utilisation certificate was also issued to that extent. Thus, the ZP not only diverted the grant for purposes other than the specified ones, but also misreported the expenditure figures.

3.8.3.6 Diversion of TFC grants

3.8.3.6.1 The TFC grants were to be utilized only for the purposes specified in the guidelines such as repairs and maintenance of water supply schemes, gutters, repairs to schools, anganwadis, primary health centres, veterinary clinics, construction of VP offices, repairs to cremation grounds *etc*. Scrutiny of the records of the selected PRIs and RDD revealed that funds to the extent of Rs 15.05 crore were utilized for other purposes as detailed below:

Sr. No.	Name of the Department/PRIs	Amount in lakh	Period	Purpose for which the amount was diverted
1	RDD Government of Maharashtra, Mumbai.	1059.60	January 2007 to March 2007	Purchase of voting machines
2	ZP – Pune.	10.00	August 2007	Deposit in ZP Fund
3	VP, Waghdhari, Tal. Akkalkot, Dist. Solapur	0.30	November 2007	Payment of electricity charges of water supply
4	PS - Malshiras, Dist. Solapur.	1.09	2005-06	Payment of water tax of MJP and repairs of Samaj Mandir
5	VP - Wadala, Tal. Newasa, Dist. Ahmednagar	2.47	2006-07	Diversion to Joint Regional Water Supply Samiti for payment of electricity bills
6	VP - Shrigonda, Dist. Ahmednagar	1.39	2006-07	Colouring of signboards

7	PS - Niphad, Dist. Nashik.	0.42	2005-06	Construction of compound wall of library
8	PS - Igatpuri, Dist. Nashik	1.05	2005-06	Construction of concrete gate at PS office
9	PS - Igatpuri, Dist. Nashik.	1.27	2005-06 and 2006-07	Samaj Mandir repairs
10	PS - Trimbak, Dist. Nashik	4.84	2006-07	Samaj Mandir repairs
11	VP - Kapursatwali, Dist. Amravati	1.30	2006-07	Payment of electricity bill
12	PS – Ausa, Dist.Latur	42.60	2005-06 and 2006-07	Construction of road
13	PS -Latur, Dist.Latur	26.06	2005-06 and 2006-07	Construction of road
14	ZP – Latur	352.20	2005-06 and 2006-07	Construction of road
	Total	**1504.59**		

Irregular diversion of funds to the tune of Rs 15.05 crore for purposes other than those specified in the TFC guidelines defeated the very purpose of the disbursement of grants.

3.8.3.7 Maintenance of assets created under the Swajaldhara programme

(i) As per TFC guidelines, grants were to be used to improve service delivery in respect of water supply and sanitation. Panchayats were to be encouraged to take over the water supply assets created under the Swajaldhara Programme and maintain them with TFC grants. RDD was required to furnish information to GOI regarding the assets which were taken over by VPs from NGO. However, it was observed that no such assets created under Swajaldhara Programme had been taken over by the VPs and no information in this regard was furnished to GOI.

(ii) The State Finance Secretary was required to provide a certificate every year to GOI regarding the percentage of grants spent by PRIs on water supply and sanitation, but no such certificate was furnished by the Government.

3.8.3.8 Non-maintenance of basic records

It was noticed in Jalna district that 785 VPs received TFC grants of Rs 10.67 crore during 2005-06 and 2006-07. The Deputy Chief Executive Officer, ZP Jalna was the controlling officer for distribution and utilisation of the grants at the VP level. Scrutiny of records of selected 10 VPs of Jalna district revealed that basic records such as cash books, vouchers and measurement books were incomplete. As basic records were either missing or incomplete, the possibility of financial irregularities including misappropriation of fund could not be ruled out. This indicated lack of monitoring and control by the ZP Jalna.

3.8.3.9 Improper Monitoring

For monitoring of release of TFC grants and its utilisation, the guidelines issued by GOI specified constitution of a HLC headed by Chief Secretary of the State apart from the review committee of GOI. The HLC was responsible for approval of projects and monitoring both physical and financial targets and adherence to specific conditionalities in respect of each grant. Cases of delay in release of grants by State Government and its utilisation by PRIs, diversion of TFC grants, irregularities in utilisation of TFC grants, *etc.* pointed out in the earlier paragraphs indicate ineffective functioning of the HLC.

3.8.4 Conclusion

There were delays in release and distribution of TFC grants at all levels. The existing ECS system was not used for distribution of grants. Amounts were kept in bank deposits instead of utilising them for developmental purposes. Delay in planning resulted in non-utilisation of the funds within prescribed time. Irregularities in issue of utilisation certificates, diversion of funds *etc,* were noticed.

3.8.5 Recommendations

- Delay in release of TFC grants to PRIs must be avoided.
- PRIs should do advance planning so as to ensure that the grants are utilized within the prescribed time and fund do not remain blocked in bank or ZP funds.
- Monitoring mechanism be made effective for timely utilisation of grants.
- It should be ensured that grants are utilised within the time frame and utilisation certificates are issued for the actual expenditure only.

SECTION B

CHAPTER IV

4 ACCOUNTS AND FINANCES OF URBAN LOCAL BODIES

4.1 Introduction

4.1.1 In keeping with the 74th Constitutional Amendment, the Government of Maharashtra (GOM) amended in December 1994, the existing Bombay Municipal Corporation Act, 1888, the Bombay Provincial Municipal Corporation (BPMC) Act, 1949, the Nagpur Municipal Corporation (NMC) Act 1948 and the Maharashtra Municipal Councils Act (MMC) 1965. All the corporations except Brihanmumbai Municipal Corporation (BMC) and the NMC which had enacted their own Acts, were governed by the provisions of amended BPMC Act. As on 31 March 2007, there were 22 Corporations and 222 Municipal Councils in Maharashtra.

4.1.2 Out of the 18 functions referred to in the Twelfth Schedule of the Constitution, 12 functions were assigned to the Urban Local Bodies (ULBs) under Sections 61 and 63 of the BMC Act and Section 63 of the BPMC Act, prior to the 74th amendment. The remaining six functions were transferred/ assigned to the ULBs from 1994.

4.2 Organizational set up

4.2.1 As per the census of 2001, the total population of Maharashtra was 9.69 crore, of which 42.42 *per cent* was from urban areas. The state has 40 cities/urban agglomerations having a population of over one lakh.

4.2.2 Twenty two Municipal Corporations in the state have been created for urban agglomerations having a population of more than three lakh. These Corporations have been classified into four categories *i.e.* A, B, C and D, based on the criteria of population, *per capita* income and *per capita* area. At present, apart from the BMC which is in category A, there are two Corporations[28] in category 'B' and four[29] and 15[30] Corporations in categories C and D respectively.

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[28] Nagpur and Pune

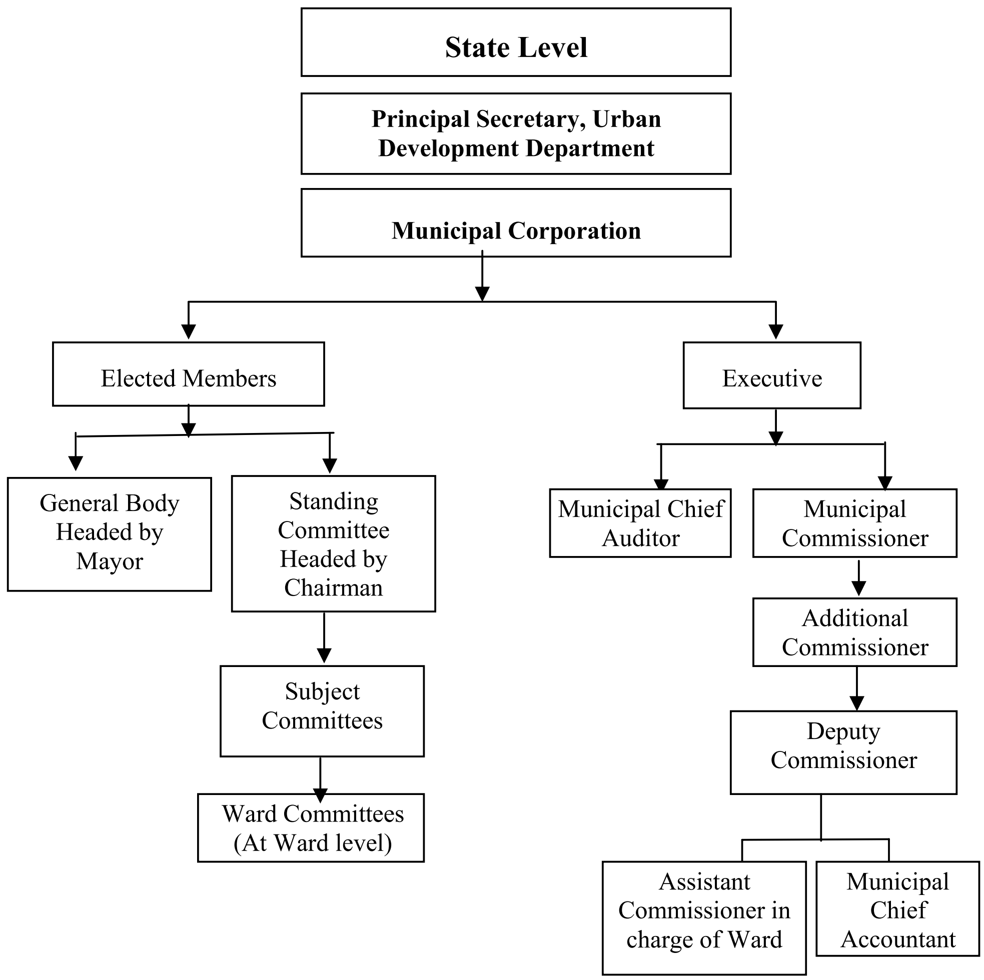
[29] Nashik, Navi Mumbai, Pimpri-Chinchwad and Thane

[30] Ahmednagar, Akola, Aurangabad, Amravati, Bhiwandi-Nizampur, Dhule, Jalgaon, Kalyan-Dombivli, Kolhapur, Malegaon, Mira-Bhayander, Nanded-Waghala, Sangli-Miraj-Kupwad, Solapur and Ulhasnagar.

4.2.3 Similarly, 222 Municipal Councils have been created for smaller urban areas and categorized based on their population. At present, there are 19 A class, 62 B class and 141 C class Municipal Councils.

4.3 Organisational Structure

4.3.1 The organisational set up of Municipal Corporations is depicted below:



4.3.2 The accountability structure of a Municipal Corporation is as follows.

Sr. No.	Name of the Authority	Accountable for
1	General Body	Policy decisions related to expenditure from the Corporation's Municipal Fund, implementation of various projects, schemes, *etc*.
2	Standing Committee	All functions related to approval of budget and sanction for expenditure as per the delegation. (Can delegate its powers to sub Committee/s).

3	Municipal Commissioner	Administration and execution of all schemes and projects subject to conditions imposed by the General Body
4	Municipal Chief Accountant	Preparation of the annual budget and finalisation of accounts and internal audit.
5	Municipal Chief Auditor	Audit of municipal accounts, preparation and submission of Audit Reports to the Standing Committee

4.4 Financial profile

4.4.1 Municipal Funds are constituted under the provisions contained in the BMC Act 1888 and BPMC Act, 1949. All the moneys received by or on behalf of the Corporations under the provisions of the respective acts, all moneys raised by way of taxes, fees, fines and penalties, all moneys received by or on behalf of Corporation from the Government, public or private bodies, from private individuals by way of grants or gifts or deposits and all interest and profits are credited to the Municipal Funds.

4.4.2 The State Government and the Government of India release grants to the Municipal Corporations for implementation of schemes of the State sector and for centrally sponsored schemes, respectively. In addition, grants under the State Finance Commission and the Central Finance Commission recommendations are released for developmental works.

4.4.3 The accounts of each scheme/project are required to be kept separately. Utilisation Certificates are required to be sent to the Central Government for centrally sponsored schemes and to the State Government for state schemes.

4.4.4 Under the BPMC Act and the BMC Act, Corporations are required to constitute special purpose funds *eg*. Water and Sewerage Fund, Depreciation Fund, Sinking Fund, *etc*. The capital works of water supply schemes and sewerage projects are to be executed out of the Water and Sewerage Fund. The Depreciation Fund is to be created for replacement of capital assets. The Sinking Fund is to be created for redemption of long term loans.

4.4.5 The consolidated position of receipts and expenditure of ULBs are not maintained at the State level. This information although called for (April 2008) from the State Government is yet to be received. As per the Annual Reports published by GOM, Directorate of Economics and Statistics under the heading Economic Survey of Maharashtra for the years 2006-07 and 2007-08, the overall receipts and expenditure of the Corporations in the state from 2004-05 to 2006-07 is as follows:

(Rupees in crore)

Item	2004-05	2005-06	2006-07
Receipts[31]	11083	12927	16217
Expenditure	10883	12335	14820

4.4.6 Receipts

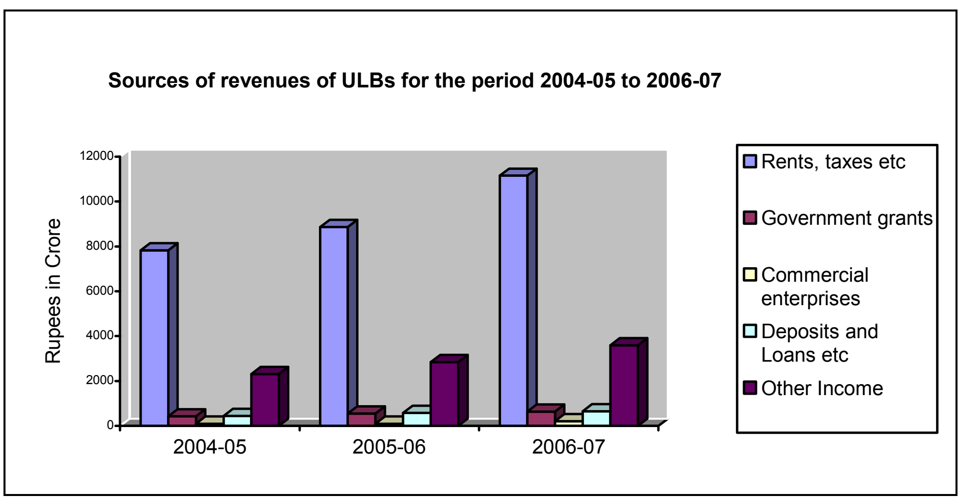
As per the Economic Survey of Maharashtra for the year 2006-07 and 2007-08, the total receipts from various sources during the last three years in respect of all the Corporations were as follows.

(Rupees in crore)

Items	2004-05	Percentage to total receipts	2005-06	Percentage to total receipts	2006-07	Percentage to total receipts
Rents, taxes *etc.* including octroi, property tax and water charges	7818	70.54	8867	68.59	11147	68.74
Government grants	424	3.83	552	4.27	636	3.92
Commercial enterprises	92	0.83	95	0.73	199	1.22
Deposits and Loans, *etc.*	447	4.03	578	4.47	640	3.95
Other Income	2302	20.77	2835	21.94	3595	22.17
Total Receipts	**11083**	**100**	**12927**	**100**	**16217**	**100**

During 2006-07, the major contribution in receipts was from octroi collection (40 *per cent*), water charges (7 *per cent*) and property tax (6 *per cent).* This along with other receipts on account of rent, taxes accounted for 68.74 *per cent* of the total receipts in 2006-07.

A chart depicting the receipts of ULB for the year 2006-07 is as follows:



[31] Excluding opening balance

The total receipts of all Municipal Corporations in the state put together during 2006-07 were Rs 16217 crore and were higher by 25 *per cent* over total receipts of previous year.

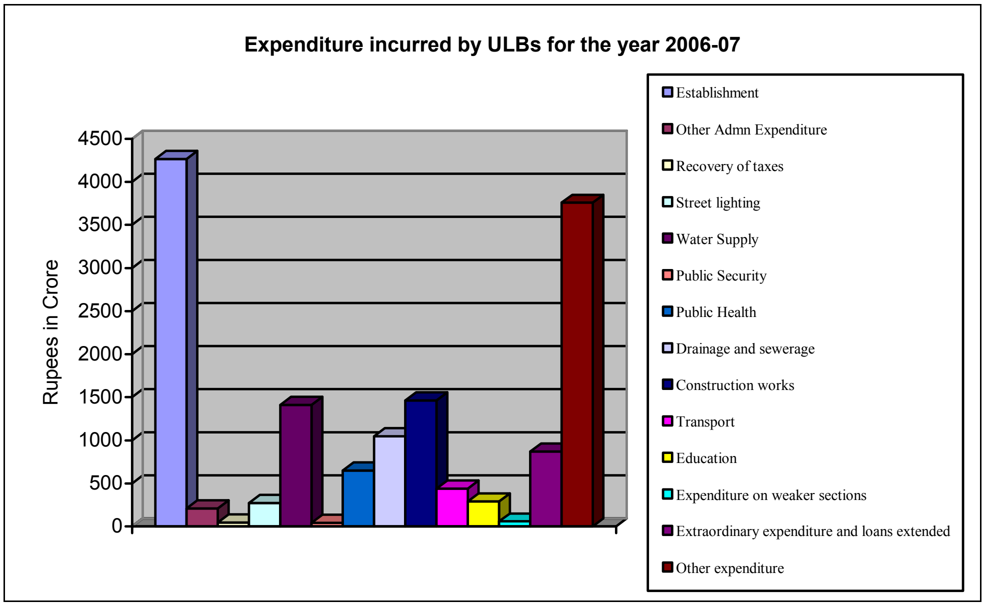
4.4.7 Expenditure

As per the Economic Survey of Maharashtra for the year 2006-07 and 2007-08 the total item-wise expenditure of all Municipal Corporations put together in the state for the last three year are as follows:

(Rupees in crore)

Municipal Corporation	2004-05	Percentage to total expenditure	2005-06	Percentage to total expenditure	2006-07	Percentage to total expenditure
Item	(1)		(2)		(3)	
1. Administration (a) Establishment[32]	3703	34.03	4677	37.92	4265	28.78
(b) Others	164	1.51	235	1.91	209	1.41
2. Recovery of taxes	28	0.26	37	0.30	45	0.30
3. Street lighting	206	1.89	205	1.66	274	1.85
4. Water Supply	1054	9.68	1232	9.99	1410	9.51
5. Public Security	21	0.19	29	0.24	42	0.28
6. Public Health	393	3.61	503	4.08	651	4.39
7. Drainage and sewerage	413	3.79	465	3.77	1047	7.07
8. Construction works	735	6.75	932	7.56	1462	9.87
9. Transport	306	2.81	247	2.00	439	2.96
10. Education	189	1.74	183	1.48	289	1.95
11. Expenditure on weaker sections	38	0.35	26	0.21	58	0.39
12. Extraordinary expenditure and loans extended	578	5.31	590	4.78	871	5.88
13. Other expenditure	3055	28.08	2974	24.10	3758	25.36
Total expenditure	**10883**	**100**	**12335**	**100**	**14820**	**100**

[32] Expenditure on staff establishment under various sections has been clubbed in 1(a)



During 2006-07, the total expenditure of all Municipal corporations increased by 20 *per cent* over the expenditure of previous year. Although expenditure on establishment increased from Rs 3703 crore (34 *per cent*) in 2004-05 to Rs 4677 crore (38 *per cent)* in 2005-06, it decreased to Rs 4265 crore (29 *per cent)* in 2006-07. This was in accordance with the State Government instructions (May 2006) to reduce/control the expenditure on account of establishment charges and ensure that it does not exceed 35 *per cent* of their revenue.

The share of expenditure incurred on the main functions of Water Supply, Public health, Drainage and Sewerage, Construction works, Education, Transport and Street lighting increased from 31 *per cent* in 2005-06 to 38 *per cent* in 2006-07.

4.5 Twelfth Finance Commission grants

4.5.1 The Twelfth Finance Commission(TFC) allocated funds of Rs 791 crores to the ULBs in Maharashtra for the period 2005-10, payable at Rs 158.20 crore every year to be utilised for development of civic services and basic amenities in the urban areas. Against the total grant of Rs 316.40 crore received during 2005-06 and 2006-07, the expenditure was Rs 229.68 crore only, leaving a balance of Rs 86.72 crore (June 2008). Detailed audit findings on TFC grants are included in Chapter VI of this Report.

4.6 Accounting arrangements

4.6.1 Section 93 of the BPMC Act, 1949 and Section 123 of MMC Act, 1888 provide that the accounts of the Corporations should be maintained in the formats prescribed by the Standing Committees. In pursuance of the Eleventh Finance Commission (EFC) recommendations, the Task Force constituted by the Comptroller and Auditor General of India (C&AG) had prescribed an accrual based accounting system for ULBs. In accordance with the Task Force recommendations (2002), the Ministry of Urban Development, Government of India in consultation with C&AG had prescribed the National Municipal Accounts Manual (NMAM) for implementation of accrual based accounting system by ULBs.

4.6.2 The GOM adopted (July 2005) the NMAM for implementation from 2005-06. The State Accounting Manual in conformity with the NMAM was under preparation. Till finalisation of the Manual, all Corporations were directed to maintain their accounts on accrual basis from the year 2005-06, as per the NMAM guidelines. The Steering Committee constituted by the State Government also recommended (January 2007) the implementation of accrual system of accounting in the ULB. Five corporations *viz* BMC, Bhiwandi-Nizampur, Navi Mumbai, Sangli-Miraj-Kupwad and Solapur have implemented accrual system of accounting from April 2008.

4.7 Audit Arrangement

4.7.1 Municipal Chief Auditor (MCA) is appointed by the respective Corporation under Section 78(a) of the MMC Act, 1888 and Section 45(i) of the BPMC Act, 1949. The pay and allowances of the MCA is borne on the establishment expenditure of the respective Corporation.

4.7.2 Section 105 of the BPMC Act, 1949 and Section 135 of the MMC Act, 1888 provide that the MCA should audit the Municipal accounts and submit a report thereon to the Standing Committee. This report should comment on the instances of material impropriety or irregularities which the MCA may, at any time, observe in the expenditure or in the recovery of the money due to the Corporation. Section 136 of the MMC Act, 1888 further provides that the MCA shall examine and audit the statement of accounts and shall certify and report upon these accounts.

4.7.3 It was noticed that except for BMC and Solapur Municipal Corporation, no such audit was conducted during the period 2000-01 to 2006-07 and no reports were submitted to the Standing Committees.

Audit also observes that entrustment of audit of accounts of the Corporations to a person who is under the administrative control of the Corporation dilutes the independency of the auditor.

4.7.4 In accordance with the recommendations of EFC, the State Government issued orders entrusting the audit of Municipal Corporations to the C&AG of India. The C&AG conducts audit of Municipal Corporations under Section 14 of the CAGs Duties, Powers and Conditions of Services

(DPC) Act, 1971. The audit of Municipal Councils has not been entrusted by the State Government to C&AG.

The audit observations on financial irregularities and defects in initial accounts/records noticed during local audits but not settled on the spot are communicated to the heads of offices and departmental authorities through Inspection Reports. Statements indicating the number of observations outstanding for over six months are also sent to the Government for action.

4.8 Internal Control

4.8.1 The Commissioners, Officers and the elected bodies/standing committees are mainly responsible for the internal control. For efficient implementation of the functions transferred to the ULBs, all deficiencies pointed out by the Accountant General's audit were required to be complied with as early as possible and this would ultimately be helpful in achieving the objective of service to the urban population. However, the position of huge outstanding Audit Inspection reports and paras issued by Accountant General, Maharashtra to the Corporations, as detailed below, is a reflection of inadequate internal control.

Year	Inspection Report	Paragraphs
2000-01	2	9
2001-02	45	244
2002-03	17	91
2003-04	14	213
2004-05	65	408
2005-06	63	362
2006-07	105	479
Total	**311**	**1806**

The arrears in audit of the Corporations by MCA as already pointed out in Para 4.7.3 also indicates weaknesses in the internal control of the Corporations.

4.9 Conclusion

During 2006-07, the total expenditure of all the corporations put together increased by 20 *per cent* over the expenditure of the previous year. The increase in income during the same period was 25 *per cent.* Octroi receipts continued to be the major source of revenue of ULBs. Although the State adopted (July 2005) the NMAM for implementation from 2005-06, the ULBs (except five) had not implemented the same so far. Arrears in audit of Municipal Corporations by MCAs indicate weak internal control. Further, the entrustment of audit of accounts of the Corporations to MCA, who is under the administrative control of the respective Corporation was against the principles of independence of auditors.

4.10 Recommendations

- The State Government should consider early implementation of National Accounting Manual by all ULBs.
- Government should consider effective audit of the annual accounts and transactions of all Municipal Corporations by MCA. The State Government should also consider to appoint an independent auditor for audit of accounts of Corporations.
- ULBs should ensure timely clearance of the Audit observations specially on financial irregularities for overcoming the deficiencies in the working of the ULBs.

CHAPTER V

KALYAN DOMBIVLI MUNICIPAL CORPORATION

5 Information Technology Audit of the Accounts module of the e-Governance project of Kalyan Dombivli Municipal Corporation

Highlights

Neither a documented Information Technology(IT) plan nor the 'Acceptance Criteria Document' containing details of deliverables was available with the Corporation.

(Paragraph 5.7.1)

Inadequate monitoring of the development and implementation of the modules resulted in non-implementation of certain important modules including engineering module and resulted in unfruitful expenditure of Rs 23.15 lakh.

(Paragraph 5.7.2)

Deficient User Requirement Specifications paved way for non utilisation of bank reconciliation module and usage of separate application needed manual intervention and duplication of data entry.

(Paragraph 5.7.3)

Critical business rules relating to daily closure of cash book were not mapped into the system.

(Paragraph 5.8.1)

Effect of bounced cheques were not made against the respective receipts in the functional modules.

(Paragraph 5.8.2)

The system did not ensure automatic carry over of closing balances in the cash book and manual intervention made the system prone to fraud and misappropriations.

(Paragraph 5.9.1)

Lack of validation checks in the system paved way for the entry of transactions on later dates.

(Paragraph 5.9.2)

Lack of controls in the system facilitated generation of internal receipts for adjustment in excess of the advances to the tune of Rs 2.11 lakh.

(Paragraph 5.10.1)

The information security policy prepared in 2005 is yet to be implemented.

(Paragraph 5.12.1)

System allowed deletion of 477 receipt numbers and 1029 voucher numbers in 2006-07 without leaving any audit trails.

(Paragraph 5.12.3)

5.1 Introduction

The Kalyan Dombivli Municipal Corporation (KDMC), which came into existence in October 1983, was divided into seven Wards[33]. KDMC initiated e-Governance project of complete computerisation of the Corporation in December 1999 for better efficiency and citizen servicing standards with the following objectives:

- to utilise information technology for functions of their various departments
- to improve efficiency and avoid repetition
- to computerise all activities and utilise computerised systems for providing services to the citizens

Under this project, application modules were developed for computerizations of various functions such as water billing, property tax, birth and death registration, accounts, city engineering, working of the Commissioner's office *etc*. All these modules had a common user interface *i.e.* KDNET, facilitated through the Citizen Facilitation Centre (CFC) in Headquarters and in the Ward offices. The application software was developed and maintained by M/s Advent Business Machines Ltd (ABM). The software was developed with Oracle 9i as RDBMS and Oracle Forms as the front end tool. The operating system for the Database Server was Sun Solaris and the clients were on WindowsXP platform. In November 2005, Government of Maharashtra decided to implement the applications software in all other Municipal corporations/councils. The Accounts module developed at a cost of Rs 7.52 lakh was implemented in April 2003. The expenditure on maintenance (upto 2006-07) of this module was Rs 2.26 lakh.

The Corporation adhered to the Maharashtra Municipal Account Code, 1971 for maintaining its books of accounts. Services including receiving the payments for the bills due to the Corporation were provided through CFC at the Corporation Headquarters and also at the Ward offices. The details regarding revenue received were entered online in the system and the receipts generated from the system were issued to the citizens. Vouchers in respect of payments made by the Corporation were entered in the system by the Accounts department through the Accounts Module.

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[33] A,B,C,D,F,G and H wards

The receipts and expenditures of KDMC for the period from 2003-04 to 2006-07 were as follows:

(Rupees in crore)

Year	Receipts	Expenditure
2003-04	191.31	189.34
2004-05	213.56	213.67
2005-06	246.53	239.72
2006-07	272.94	268.76

5.2 Organisational Set Up

The Commissioner is the administrative head of KDMC. The Computer wing of KDMC is headed by a Systems Manager and supported by a Systems Analyst, a Programmer, five computer operators and other supporting staff.

5.3 Scope Of Audit

The IT Audit of the Accounts module of the e-Governance project was conducted during February to March 2008, covering the data pertaining to the Corporation Headquarters office and the Wards for the period from April 2003 to March 2007.

5.4 Audit Objectives

The audit objectives were to evaluate the following:

- Planning of IT systems
- Adequacy of incorporation of business rules in the Accounts module
- Completeness and correctness of the data and reports generated in the accounts module
- Input, processing and output controls in the Accounts module
- Adequacy of security controls to ensure the integrity of data

5.5 Audit Methodology

Audit commenced with an entry conference held on 22 February 2007 with the Municipal Commissioner and Heads of the Departments of the Accounts and Computer wings of KDMC. The application and database were reviewed with respect to the relevant rules and procedures relating to Accounts. The data in the Oracle database system was analysed using CAATs[34].

[34] Computer Assisted Audit Technique

5.6 Audit Findings

As the Accounts module was linked to the other modules of the e-Governance project which handled the receipts and expenditure of the Corporation, it was imperative that the software being used was developed based on the user requirements, mapped the business rules correctly, maintained the data integrity and generated all the information required by the users. It was, however, noticed that relevant business rules were not completely mapped into the application and weaknesses in input, processing and output controls resulted in incomplete, incorrect and unreliable data.

These deficiencies are discussed in the following paragraphs :

5.7 Planning

A structured planning approach was required to achieve the optimum benefits of IT. In this regard, a documented IT plan was required to be prepared covering the organisation's mission and goals, IT initiatives to support the organisation's mission and goals, feasibility studies including risk assessments of IT initiatives, business process re-engineering, staffing, out-sourcing *etc*. The following observations were made.

5.7.1 IT plan

In January 2000, M/s ABM was appointed as a consultant with a view to provide "start to end" services for total computerisation of KDMC. As per the agreement, a document, *viz* 'Acceptance Criteria Document' which would indicate inputs, outputs and deliverables was to be prepared by M/s ABM. Further, target dates for development of various modules to calculate delays and subsequent penalties would also find place in that document.

Audit observed that neither a documented IT plan nor the 'Acceptance Criteria Document' was available with the Corporation, even though expenditure of Rs 1.51 crore for development and Rs 47.85 lakh for maintenance of the applications software was incurred during 2003-04 to 2006-07.

KDMC accepted the non availability of the 'Acceptance Criteria Document'.

5.7.2 Non-implementation of modules of e-Governance project

As per the agreement signed in May 2000, M/s ABM developed (2002-03), fifteen modules[35] relating to the activities of the Corporation. It was noticed that the three modules developed *viz.* City Engineering Module intended for preparation of proposals, estimates for new works, tendering, works monitoring and billing *etc.* Municipal Secretary and Commissioner's office Modules for administrative purpose were not implemented so far, rendering

[35] Accounts, Birth and Death, CARE, City Engineering, Commissioner's Office, Garden, Health Scheme, Legal, Municipal Secretary, Property tax Assessment, Town Planning, Trade Licence(Market & Food), User & Work flow, Water Billing and Web services.

the expenditure of Rs 23.15 lakh spent for the development of the same unfruitful.

KDMC attributed the non-implementation of City Engineering Module to City Engineering wing, Secretary Module to non compatibility with Marathi language and Commissioner's office Module to incomplete user requirements. This indicated inadequate monitoring of the development and implementation of the modules.

5.7.3 Incomplete elicitation of user requirements

Development of a major transaction processing system such as the Accounts system of the Corporation required a complete and detailed analysis of user requirements. It was observed that the System Requirements Specifications (SRS) document, prepared in respect of the user requirements analysis, pertained to recording of receipts and payments and bank reconciliation only. Other functional areas like accounting of Deposits, Refunds, Advances, Investments, and Loans had not been covered in the document. Further, requirements for the internal audit were also not considered.

It was also observed that the developed bank reconciliation module was not used due to absence of provision to make correction in respect of incorrect credits entered against wrong bank accounts. Hence, another separate application developed in-house using Foxpro was used for bank reconciliation purpose since 2005. Since the application was not linked to the existing system, it required manual data entry of all the relevant details once again.

KDMC replied that necessary action to rectify the errors in the developed modules was taken up with M/s ABM. They further stated that the SRS was prepared after consultation with the concerned wings. However it is reiterated that the SRS prepared was deficient as observed above.

5.8 Mapping Of Business Rules

5.8.1 Daily closing of Cash book

Maharashtra Municipal Account Code, 1971 stipulates that every entry made in the General Cash Book should be attested by an officer responsible for the maintenance of the same and the Cash Book should be closed and balanced daily under the signature of the concerned officer. Audit observed that though these requirements were identified in the SRS, the same were not incorporated appropriately in the developed system. The lack of adequate safeguards in maintaining cash book is fraught with the risk of misappropriations and possible frauds.

KDMC stated that action would be taken in this regard.

5.8.2 Treatment of dishonoured cheques

Cheques in respect of payments by consumers were received at the CFCs and necessary entries made in the system which in turn updated the Water Bill, Property Tax and the Accounts module. Audit observed that in respect of bounced cheques, entries were made only in the Accounts module, leaving the corresponding receipt entries in the Water Bill or Property Tax modules not reversed and due from the consumer was not increased to such extent, although the payments against the bounced cheques were monitored through the system. This prevented the levy of penal interest through the system.

KDMC accepted the observations and informed that this would be considered in the proposed new application module based on the double entry accounting system.

Recommendations:

KDMC should

- **draw up a time frame to develop and implement all the modules of the system as envisaged.**
- **upgrade the Accounts module by incorporating all user requirements.**

5.9 Input Controls and Validation Checks

Input controls and validation checks ensure that the data entered is complete, accurate and reliable. Data analysis revealed the following discrepancies due to lack of input controls and validation checks:

5.9.1 Modification of cash book balances

Maharashtra Municipal Accounts code, 1971 stipulated that all moneys received or disbursed by or on behalf of a Corporation including Government grants should immediately and without any reservation be brought in the general cash book.

It was noticed that at the beginning of every financial year, the Opening Balances (OB) were fed into the system instead of the balances being carried forward from the previous year. Audit observed that the differences between the Closing Balances(CB) and subsequent OB in the cash book of the Corporation Headquarters office generated from the Accounts module for the years 2002-03 to 2006-07 varied from Rs (-)14031526 to Rs 41227080 as detailed in **Appendix XI**.

On comparison with the related figures as depicted in the Annual Accounts of the respective years, it was revealed that :

(i) the CB as per the Annual Accounts did not tally with the CB as per the cashbook maintained in the system in all the five years from 2002-03 to 2006-07.

(ii) the CB of cash book as per annual accounts were adopted as the OB for the subsequent years only for the period 2005-06 and 2006-07 and for the earlier period *i.e.* 2002-03 to 2004-05, differences amounting to Rs 1.38 crore to Rs 6.65 lakh were noticed.

Similarly, the cash books in respect of the Ward offices generated from the Accounts module showed differences between CB and OB and with that of the figures adopted in the annual accounts as detailed in **Appendix XII**.

System should ensure that the OB were invariably carried forward from the previous CB and the CB were not altered after finalisation of the accounts. It was seen that the system allowed entering of transactions after the closure of accounts and altering the OB. This made the system insecure against fraudulent transactions and manipulations.

Reply of KDMC in this regard was awaited.

5.9.2 Back dated and delayed entries of payments

Maharashtra Municipal Accounts Code, 1971 stipulated that all receipts and realisation in cash or by cheques should be entered in the cash book daily and all payments made in cash or by cheques should be entered in chronological order daily, as and when the transactions occurred. The validation of the voucher entry date or receipt date with system date could prevent irregular entries on later dates. The same was not built in to the system. It was seen that the voucher data was being modified on later dates and audit trails to store the history of the changes made had not been built in to the system. Test check of data in respect of the Headquarters office for one month (April 2006) revealed the following:

- 104 vouchers dated 1 April 2006 and 7 April 2006 were entered in the Accounts system on 20 April 2006 and 21 April 2006.
- Voucher number 8233 dated 12 April 2006 for an amount of Rs 157901 was entered on 23 June 2006
- Voucher number 556 dated 12 April 2006 was modified on 27 September 2006 and Voucher number 565 dated 19 April 2006 was modified on 19 June 2006. In the absence of details of such modification in the system the reason and the impact could not be assessed.

Thus the absence of input controls, made the data unreliable and the system is prone to risk of fraud or manipulation.

Recommendations:

KDMC should ensure that :

- **the CB were carried forward to the next year without manual intervention and**
- **necessary input controls and validation checks were incorporated into the system so as to make the data complete, accurate and reliable.**

5.10 Process Controls

Process controls inbuilt in the system ensure that only valid data and programme files were used, process was complete and accurate and processed data was updated in the relevant files. Weaknesses in the process controls noticed in audit are discussed below:

5.10.1 Internal receipts in excess of credit available

Internal receipts were generated by the system at the time of generation of water bills and property tax bills to adjust advance/excess payments made by the consumers previously. Analysis of the database revealed that internal receipts generated exceeded the advance payments in 6118 cases of water bills by Rs 203069 and in 17 cases of property tax bills by Rs 7793. Thus the system failed to restrict the internal receipts to the extent of credits relating to advance payments to such an extent.

KDMC stated that such feature for verification of internal receipts generated was not available in the application and the lacuna would be rectified through M/s ABM.

Recommendation:

- **KDMC may incorporate necessary controls in the system for restricting the adjustments through internal receipts to the credits available**

5.11 Output Controls

Output controls ensure accurate, complete and timely outputs and ensure the correct destination. Data analysis revealed the following weaknesses:-

5.11.1 Erroneous report

It was noticed that the summaries of payments and CB were exhibited incorrectly on the receipt side of the cash book. For example, the Corporation Headquarters cash book for 31 March 2006 showed the OB as Rs 11.95 crore on receipt side of cash book where as the same was indicated as Rs 31.18 crore on payment side and total payments was exhibited on receipt side of cash book as Rs 29.54 crore instead of Rs 32.23 crore on payment side.

KDMC stated that the balances as per the payment side only were considered for reporting purposes and balances as per the receipt side of the cash book were ignored.

The reply could not be accepted since the lacuna in the system needed to be rectified. Further, there was risk of adoption of incorrect CB on the days when there were only receipts and no payments being made through the system.

Recommendation:

- **KDMC should review the reports for such errors and rectify them.**

5.12 IT Security

Every organisation is required to adopt an IT security policy clearly identifying the organisation's priorities and necessary controls need to be built in based on the IT security policy. The following were the observation of the IT security policy :

5.12.1 Information Security Policy

Information Security Policy prepared in August 2005 by M/s Secure Synergy Private Limited was not implemented in the Corporation even after two years of its formulation. Further the Corporation had not formulated any password policy and deficiencies were noticed in the users' passwords as detailed below:

- Length of passwords varied from one to seven characters in respect of 1254 out of 1554 user IDs existed in the system.
- The system did not have password-protected screen savers to deny access after a specified inactive period.
- Passwords were not changed at regular intervals *i.e.* only 44 out of 1554 users were changed their password in 2008.
- No provision to lock the user accounts after specified consecutive unsuccessful log-in attempts

KDMC accepted the observations and informed that necessary action would be taken through M/s ABM.

5.12.2 Audit trails

Audit trails depict the flow of transactions necessary in a system in order to track the history of transactions, system failures, erroneous transactions, changes/modifications in data *etc*. It was observed that adequate audit trails did not exist in the system as follows :

5.12.3 Deletion of receipt and voucher numbers

Maharashtra Municipal Accounts Code, 1971 stipulated that receipt entries should be carefully scrutinised by an officer duly authorized to verify completeness with special emphasis on erasures and corrections.

Analysis of data for the period 2006-07, in respect of water bills and payments revealed that:

- Deletion requests were not authorised by any higher authority showing inadequate controls over modification or deletion of data.
- There were 573 missing receipts numbers and 1052 missing voucher numbers in the system indicating deletion but only details of 96 receipts and 23 vouchers deleted from the system were available.
- 2524 out of 148669 receipts and 10335 out of 44530 vouchers were modified at a later date. However the history of modified data was not stored in the system facilitating audit trails.
- There were 118974 gaps in serial numbers (receipt transactions) and 23586 gaps in serial numbers (payment transactions) allotted by the system indicating deletions.

These discrepancies indicated lack of controls over modification and lack of audit trails in the system. This showed the system was insecure and vulnerable to fraud and manipulation. KDMC stated (May 2008) that the missing receipts and vouchers would be reviewed.

5.12.4 Backups

It was observed that backups taken were not stored in an offsite remote location and not in fire-proof containers rendering the purpose of taking backups futile.

KDMC stated that the points had been noted.

5.12.5 Modification of Data through Backend

In order to secure data and system, ownership were required to be identified and defined. Permission of such owners was required in respect of any modification in the data. It was observed that data ownership had not been defined and data was being modified by the vendor (M/s ABM) through the back end to rectify problems reported by any of the users without appropriate authorisations. Error handling module which is required in a system to facilitate the rectification of data errors through the front end was not available in the system. Further, it was observed that even the Oracle database system was not configured to record any modifications of data through the backend. Modification through the back end by the personnel of M/s ABM was not authorised and thus led to the risk of irregular manipulation or deletion of records and made the system insecure.

KDMC stated that necessary audit trails would be incorporated in the system.

5.12.6 Network Connectivity

The CFCs in KDMC Headquarter and those in the Ward offices were connected through optical fiber cables except for A, F and G Wards which were connected through wireless technology. No mechanism was in place to monitor the network uptime (network connectivity and power backup) in CFCs in Ward offices to ensure continuous service delivery.

Recommendations:

- **KDMC should ensure that security policy and password policy are implemented.**
- **Audit trails to track missing receipts and vouchers should be built into the system.**
- **Backups should be stored offsite and in fire-proof enclosures.**
- **Audit trails available in the Oracle Database system should be configured to record modifications of data.**
- **A mechanism to monitor network down-time periodically should be introduced.**

5.13 Conclusion

The objectives of computerisation of KDMC were to utilize information technology for the functions of their various departments and to improve efficiency. However, eight years after initiation of its e-Governance projects, the modules developed for major functionalities like City Engineering Wing were not implemented. The system permitted corrections of opening balances and made the data incomplete, inaccurate and unreliable. Lack of input controls and validation checks resulted in missing receipt numbers, generation of internal receipts more than the advances paid by consumers. Inadequate IT Security, modifications of data by providers of technical support coupled with weak audit trails in the system made the system vulnerable to irregular data manipulation and incomplete information. Thus the accounts module developed was not utilised effectively and efficiently for the purpose envisaged.

CHAPTER VI

AUDIT OF TRANSACTIONS

URBAN DEVELOPMENT DEPARTMENT

AMRAVATI MUNICIPAL CORPORATION

6.1 Unfruitful expenditure

Commencement of work of underground drainage system without proper assessment of finance by Amravati Municipal Corporation resulted in unfruitful expenditure of Rs 33.78 crore

In order to overcome the unhygienic living condition created by waste water flowing into the open nallas from the city, the construction of underground drainage system in seven drainage zones with six pumping stations and two sewerage treatment plants in the jurisdiction of Amravati Municipal Corporation (AMC) was administratively approved (November 1997) by Water Supply and Sanitation Department (WSSD) for Rs 123.04 crore. The scheme was technically sanctioned (January 1998) by Chief Engineer, Maharashtra Jeewan Pradhikarn (MJP). The sources of funds were estimated as below :

1.	Government Grant	Rs 28.71 crore
2.	Loan	Rs 82.03 crore
3.	Public Contribution	Rs 12.30 crore

MJP approached (September 1998) the Housing and Urban Development Corporation (HUDCO) on behalf of AMC for sanction of loan of Rs 82.03 crore for construction of the underground drainage system. The work of underground drainage system was divided into seven zones for better implementation of the scheme. The works in Badnera zones and Zone no 5 of Amravati were taken up for execution in anticipation of loan from HUDCO, at a tendered cost of Rs 53.92 crore (estimated cost of Rs 45.38 crore) between February 1999 and November 2004. The Government funds of Rs 28.71 crore and public contribution of Rs 5.08 crore were received by AMC up to March 2004. Meanwhile HUDCO sanctioned a loan of Rs 82.03 crore in April 2001 and an agreement was signed on 19 December 2001. As per the agreement, AMC was required to repay a loan in full taken previously by AMC from LIC. Since AMC did not fulfill the condition of repayment of LIC loan, HUDCO did not release any instalment of the loan sanctioned by it. Finally, the loan was cancelled by HUDCO (May 2004) and the work was stopped (May 2005) after incurring an expenditure of Rs 33.78 crore.

The AMC stated (August 2006) that it was trying to raise the loan of Rs 82.03 crore step by step by issue of tax free bonds which was permitted by Government in August 2005 and further stated (September 2008) that the proposal to complete the project under Urban Infrastructure Development Scheme for Small and Medium Town (UIDSSMT) at revised cost of Rs 164.04 crore was under consideration of Government of India.

The reply of the AMC was not acceptable as no action was taken by AMC to raise the loan from open market (October 2008) even after obtaining permission for the purpose from Government of Maharashtra as early as August 2005.

Thus, commencement of the work of underground drainage system without ensuring availability of fund to complete the project rendered the expenditure of Rs 33.78 crore unfruitful besides denial of better hygienic living condition to the citizens.

The matter was referred to Government in October 2007; their reply had not been received (January 2009).

AURANGABAD MUNICIPAL CORPORATION

6.2 Avoidable expenditure on payment of electricity duty

Failure of the Aurangabad Municipal Corporation in availing exemption from payment of electricity duty resulted in avoidable payment of Rs 8.60 crore

Paragraph 3 (1) of the Bombay Electricity Duty Act, 1958 provides for levy of Electricity Duty (ED) on the energy consumed by a consumer. However, the Act exempts payment of ED by a Municipal Corporation, if the consumption of energy, *inter-alia* is for the purpose of public water works.

Scrutiny of records revealed that the Aurangabad Municipal Corporation, (AMC) paid bills to the Maharashtra State Electricity Distribution Company Ltd(MSEDCL) inclusive of electricity duty. The total amount of ED paid for the years 2004-05 and 2005-06 was Rs 3.85 crore.

The Executive Engineer, AMC Aurangabad stated (August 2007) that the water supply scheme was earlier under the administration of Maharashtra Jeewan Pradhikaran (MJP). In the year 1998, the scheme was taken over by AMC from MJP, but the change in the name of consumer was not done and hence benefit of exemption of ED was not extended to AMC by MSEDCL.

AMC authorities requested (July 2001) MSEDCL to change the name of consumer to avail exemption from payment of electricity duty. Accordingly the names of five consumer Nos. 1579, 1587, 1889, 4888 and 4896 were changed in the name of AMC in February 2006. It was, however, observed that inspite of change of name, AMC continued to make the payment of ED and an amount of Rs 4.75 crore was paid to MSEDCL during the period April 2006 to March 2008. On being pointed out, AMC stated (January 2008) that even after change in the name of five consumers, the payment of ED was made to avoid the interest payment on arrears and discontinuation of electric supply.

The reply was not tenable as there was no follow up from AMC to get the name changed for five years and avail exemption from payment of ED as per Bombay Electricity duty Act, 1958.

The fact remained that the failure of AMC in getting the name of consumer changed immediately in 1998 and lack of follow up action thereafter resulted in avoidable expenditure of Rs 8.60 crore (including Rs 3.85 crore paid to MSEDCL prior to February 2006) on ED.

The matter was referred to Government in November 2007; their reply had not been received (January 2009).

BRIHANMUMBAI MUNICIPAL CORPORATION

6.3 Non recovery of advances

Non-recovery of advances paid to Ward Officer for demolition of unauthorised structures/removal of unsafe buildings led to accumulation of arrears of Rs 9 crore

Section 378 B and C of the Mumbai Municipal Corporation Act, 1888 empowers the Municipal Commissioner to order demolition of unsanitary/unsafe buildings or unauthorised structures after following the prescribed procedure. As per the procedure, if a building is not demolished by the owner of the building within the stipulated time, the Commissioner can cause the building to be vacated, take measures to demolish the building and sell the materials thereof. The instructions also provide that any expenses incurred by the Commissioner, after giving the credit for the amount realised by sale of salvaged material should be paid by the owner of the building.

Accordingly, in Brihanmumbai Municipal Corporation(BMC), the expenditure incurred towards such demolitions are initially met by the Ward Officers by drawing advances from the Corporation's funds. All such advances drawn are required to be cleared by submitting the final detailed accounts within three months and no further advances are to be granted till the previous advances are cleared.

The work of demolition is primarily done by the Engineering Units of the Ward offices by incurring expenditure from the amounts drawn by the Ward Officers. Demands for recovery of expenditure incurred on the demolitions have to be issued to the parties within seven days. In case the expenditure incurred on the demolitions cannot be recovered from the owners of the buildings within the prescribed period of one month, the Engineering Units would request the Assistant Assessor and Collectors of the concerned wards to recover the said amounts from the owners treating them as arrears of land revenue. Thus it follows that the Engineering Unit of BMC should take timely action to ensure recovery of expenditure and adjustment of advance.

During a test check of the records of the office of the Chief Accountant (Treasury), (CA (Treasury), BMC, it was noticed that advances amounting to Rs 9[36] crore were outstanding as of May 2008.

Out of the total outstanding amount of Rs 9 crore, as much as Rs 6.59 crore related to Division I City alone. Audit scrutiny also revealed that the Corporation was able to recover only Rs 35.05 lakh during the period 2001-02 to 2006-07 and the average recovery *per annum* during the period was less than one *per cent* of the outstanding amount. Further, audit scrutiny in four[37] out of five[38] wards which were test checked in audit in BMC revealed that no account of salvaged material and sale proceeds thereof was maintained and so could not ascertain if any revenue had been realised or not from sale of salvaged materials.

On being pointed out, BMC stated (May 2008) that the amount on account of demolition of unauthorised structures and removal of unsafe buildings were to be recovered by the Ward Officers. It was further stated that no communication had been received by the concerned Assistant Assessor and Collectors from the Engineering Units of the concerned wards for recovery of these amounts as arrears of land revenue. The engineering units of five test checked ward offices also accepted the omission for non conveyance of demands to the concerned Assistant Assessor and Collector without specifying any reason. Thus the lack of coordination amongst the various units of BMC led to accumulation of arrears of Rs 9 crore.

The pendency of long outstanding dues also indicated that the CA (Treasury), who was responsible for finalisation of the accounts of BMC, had also not taken effective steps to ensure that the advances were adjusted within the

[36] Division I City – Rs.6.59 crore, Division II Western Suburban – Rs.0.80 crore and Division III Eastern Suburban – Rs.1.61 crore.
[37] A.C.L and N ward
[38] A.C. F (south), L and N ward

prescribed time limit. Failure to initiate timely action for the recoveries was indicative of weak internal controls.

The matter was referred to Government in June 2008; their reply had not been received (January 2009).

6.4 Undue benefit to contractor

Undue benefit of Rs 1.05 crore was extended to contractor due to non enforcement of contractual conditions relating to duty exemption

The Brihanmumbai Municipal Corporation (BMC) invited (February 2002) tenders for a water supply project for Mumbai on turnkey basis. The scope of the work included design, supply, delivery, erection/commissioning and testing of a 455 MLD water treatment plant at Panjrapur, modifications to the existing Pre-chlorination Plant at Pise and maintenance of the plant for one year including three months training to municipal staff for operation and maintenance. The BMC had appointed Tata Consulting Engineers (TCE) for feasibility study and technical consultation of the project. Seven offers were received in June 2002 and after evaluation by TCE, the tender committee treated two of the offers as technically responsive. Based on the recommendation of the TCE, the offer of M/s. VA TECHWABAG of Chennai for Rs 42.86 crore was accepted in December 2002 and work order was issued in March 2003.

As per contract condition, the cost of the work should be amended if subsequent legislation affected the cost of the work. In September 2002 the Central Government exempted items of machinery, appliances and pipes required for water supply projects for human and animal consumption from excise/custom duty.

Audit scrutiny (December 2007) revealed that the benefit of exemption of aforesaid duty in September 2002 after submission of tender in June 2002 was not considered for reduction of contract price as provided in the conditions of the contract. The cost of the work should have been arrived at taking into account this reduction, as the same was after submission of the tender in June 2002. As per the details furnished by the contractor and also certified by BMC in April 2008, the contractor had availed the exemption of duty aggregating Rs 1.05 crore in respect of the work.

Although the contractor had been paid 48 Running Account (RA) bills till April 2008 for the work, the BMC had not effected any recovery on account of duty exemption except for withholding an amount of Rs 27.33 lakh till March 2006.

On this being pointed out, the BMC initially stated (April 2008) that the amount to be recovered from the contractor was only Rs 0.36 crore. However, subsequently in October 2008 while accepting the audit contention, BMC informed the contractor that the remaining amount of Rs 0.69 crore would also be recovered from the next bill of the contractor.

The matter was referred to Government in June 2008; their reply has not been received (January 2009).

DHULE MUNICIPAL CORPORATION

6.5 Loss of revenue

Dhule Municipal Corporation failed to frame octroi rules as per the Acts in force resulting in loss of revenue of Rs 3.70 crore

Municipal Corporations are eligible for octroi grants from the Government for two years from the date of their formation. Thereafter, they are required to raise their own revenue by levying octroi within their municipal limits by framing octroi rules as per Section 149, read with Section 457(7) of the Bombay Provincial Municipal Corporation (BPMC) Act, 1949. These octroi rules framed were to be approved by the Government.

The Dhule Municipal Corporation (DMC) was formed on 30 June 2003 and was not eligible for octroi grants from July 2005 onwards as it had completed two years of its formation. It was observed (June 2006) that the DMC had not framed its octroi rules. As the preparation of these rules was delayed, the Government directed (March 2005) the DMC to apply the octroi rules of 1969, which had been framed under the Maharashtra Municipal Council, Nagar Panchayat and Industrial Township (MMC, NP & IT) Act 1965 for the purpose of levy of octroi.

Accordingly, the DMC decided to collect octroi through a collection agent from 10 July 2005 onwards and tenders were invited (June 2005) with a minimum offer price of Rs 18.50 crore per year (50 weeks) with the condition that the collection agent would pay two *per cen*t of the offer price every week to the DMC. However, the decision of the DMC to levy octroi under the 1969 Rules was challenged in a writ petition filed in the Aurangabad bench of the High Court of Mumbai. It was decided by the High Court (June 2005) that the DMC was not authorised to levy octroi under the MMC, NP & IT Act, 1965 as the Act had been repealed by the Government by an amendment in 1999. The DMC cancelled the tenders in compliance with the court ruling. The DMC was further directed to frame its own octroi rules under the BPMC Act, 1949 and obtain the prior approval of Government before levying octroi.

Accordingly, the DMC framed octroi rules as per the BPMC Act, 1949 which were approved (11 August 2005) by the Government and were effective from 11 September 2005. Thereafter, after following the prescribed tender procedure, a tender with a maximum offer of Rs 31.69 crore was accepted with a condition for payment of Rs 63.38 lakh per week for 50 weeks. The contract was awarded for one year from 18 September 2005 to 17 September 2006. The octroi for the period from 11 September 2005 to 17 September 2005 was collected departmentally. No octroi could be collected for the period from 1 July 2005 to 10 September 2005.

DMC stated (March 2008) that though it had taken necessary steps to levy the Octroi from 1 July 2005 it could not be implemented as the court directed the DMC (June 2005) to frame Octroi rules under the provisions of BPMC Act, 1949. Failure on part of the State Government in giving guidance to DMC to frame Octroi rules under BPMC Act, 1949 had resulted in loss of revenue. It was also stated that the DMC had requested (March 2007) the State Government to compensate the loss suffered. The State Government's decision in this regard was awaited.

Reply of DMC is not acceptable as there was lapse on their part to frame the Octroi rules under the BPMC Act, 1949. Also there was delay in framing the octroi rules within the first 2 years itself and had this delay been avoided, the non recovery from 1 July 2005 to 10 September 2005 could have been avoided.

Thus, failure of the DMC to frame octroi rules as per the Act in force within two years of its formation and the decision to levy octroi under the repealed Act as directed by the Government, resulted in a loss of revenue of approximately Rs 3.70 crore, calculated on the basis of two *per cent* of the minimum offer price of Rs 18.50 crore per week for ten weeks and two days from 1 July 2005 to 10 September 2005.

The matter was referred to the Government in February 2007; their reply had not been received (January 2009).

DHULE AND MALEGAON MUNICIPAL CORPORATION

6.6 Penalty due to non maintenance of required power factor

Failure to maintain power factor at the required levels in time resulted in avoidable expenditure of Rs 56.01 lakh in Dhule and Malegaon Municipal Corporations

In terms of the tariff for power supply of the Maharashtra State Electricity Distribution Company Limited (MSEDCL) effective from December 2003, the high tension (HT) consumers were required to maintain their power factor (PF) at 90 *per cent*, failing which, penal charges would be levied.

During test check of records of the Water Supply Centres, Dhule Municipal Corporation (DMC) and Malegaon Municipal Corporation (MMC) in April/May 2008, it was noticed that penal charges for HT connections amounting to Rs 56.01 lakh was paid to MSEDCL due to low PF from 2005-06 to 2007-08. These Corporations had not adopted any corrective measures to maintain the PF at 90 *per cent* by installing and upkeeping capacitors and other devices.

The Engineer, DMC while accepting the facts stated (April 2008) that corrective measures such as replacement of damaged capacitors by new capacitors of required rating and standards had been taken up now and the benefit of higher PF was being accrued to Corporation. The Deputy Engineer, Water Supply Department of MMC also stated (May 2008) that quotations for installation of capacitors of required capacity and standards had been called for in January 2007 and the same were under finalisation.

However, the reasons for the delay of 16 months in issue of work order after calling for quotations for replacement of capacitors by MMC were not furnished.

Thus, the fact remains that the failure of the Corporations to take timely action to maintain the PF at the required level by installing and upkeeping capacitors and other devices resulted in avoidable payment of penal charges of Rs 56.01 lakh during 2005-08.

The matter was referred to Government in June 2008; their reply had not been received (January 2009).

JALGAON MUNICIPAL CORPORATION

6.7 Unfruitful Expenditure

Jalgaon Municipal Corporation had taken up the development of an aerodrome, which was neither an obligatory nor a discretionary duty under the BPMC Act and that too without Director General of Civil Aviation's approval resulting in abandonment of work and wasteful expenditure of Rs 3.22 crore besides undischarged liability of Rs 8.71 crore

With a view to increase the tourist inflow to nearby world heritage tourist places, Jalgaon Municipal Corporation (JMC), in its resolution (July 1997), decided to award the work of preparation of a feasibility study report and other consultancy services on the work of development of the existing Jalgaon aerodrome to Rail India Technical and Economic Services, New Delhi

(RITES). The study report submitted by RITES included development of basic strip, runway, approach road, *etc*. The work involved augmentation of facilities for operation of Boeing-737 class of aircraft including night landing facilities.

As per Section 63 and 66 of the Bombay Provincial Municipal Corporation (BPMC) Act 1949, development of an aerodrome was neither an obligatory nor a discretionary duty of a Municipal Corporation. Inspite of this, JMC resolved to grant administrative sanction to this project (June 1998). Tenders for the work were invited (December 1998) and the negotiated tender of M/s. Atlanta Infrastructure (Ltd) was accepted at an agreed cost of Rs 8.71 crore. The project was to be funded from JMC's own resources and loans from the Housing and Urban Development Corporation. A work order was issued (July 1999) prescribing the period of completion as 12 months from the tenth day of the date of issue of the work order. The time limit was extended up to 31 March 2002 for various reasons.

Before the commencement of the project, JMC was required to obtain the technical approval of the Director General of Civil Aviation (DGCA) for the site plan of the aerodrome besides clearances from the Ministry of Defence and the Ministry of Environment and Forests. Pending receipt of the clearances from the above authorities, JMC requested DGCA for site inspection (March 2000) after eight months of the issue of the work order. A joint inspection was carried out by the officials of DGCA and JMC (November 2001) following which DGCA requested for action by JMC on 13 issues which included, *inter alia*, (1) providing details of a topographical survey within a radius of 5 km of the Aerodrome Reference Point (ARP) of the aerodrome, depicting the distance/direction/elevation of all the features of the land and buildings/structures presently existing (2) providing details of the proposed runway/taxiway and apron (3) providing the site plan and the total land area in possession of JMC for the aerodrome, *etc*. DGCA also requested JMC to provide their plans for the proposed upgradation of the runway, a taxiway, aprons, lighting system, terminal building, navigational facilities, *etc*. It was observed that JMC did not furnish the plans to DGCA as a result of which DGCA could not give technical approval. In the meanwhile, before taking action on the 13 issues prescribed by the DGCA, JMC had incurred an expenditure of Rs 5.86 crore on the Aerodrome development works. The contractor stopped the work in 2002 because JMC did not supply any ground level drawings, work plans, *etc*. The contractor approached an Arbitrator appointed by the High Court with an additional claim of Rs 8.71 crore based on the contract agreement as the payment of bills and mobilisation advances were delayed by the JMC. The Arbitrator awarded the claim in favour of the contractor but JMC filed (January 2007) an appeal at Jalgaon District Court against this award which was pending. The Government of Maharashtra informed (May 2007) JMC of their decision to transfer the said aerodrome to the Maharashtra Airport Development Company. The Government also directed (May 2007) JMC to submit a proposal to Chief Secretary, Aviation, General Administration Department, Government of Maharashtra, Mumbai for consideration of the proposal of reimbursement of expenditure of Rs 2.64 crore towards the actual work executed as intimated by JMC. As the total expenditure worked out to Rs 5.86 crore, even if this amount of Rs 2.64 crore is reimbursed by the Government, JMC would still have suffered a loss of atleast Rs 3.22 crore paid as mobilisation advance to the contractor who had abandoned the work. Apart from this there is liability of Rs 8.71 crore against JMC, which is still under appeal.

Thus the improper planning of JMC in taking up development of the aerodrome, which was neither an obligatory nor a discretionary function under the BPMC Act, 1949 without DGCA's site approval as well as permission for construction resulted in the abandonment of the work and wasteful expenditure of Rs 3.22 crore from the funds of the JMC, besides an additional liability of Rs 8.71 crore.

The matter was referred to Government in May 2008; their reply had not been received (January 2009).

PIMPRI-CHINCHWAD MUNICIPAL CORPORATION

6.8 Short realisation of revenue

Pimpri-Chinchwad Municipal Corporation failed to recover the octroi in time resulting in short realisation/loss of revenue of Rs 22.91 crore and interest of Rs 6 crore

As per Section 149(1) of the Bombay Provincial Municipal Corporation Act, 1949, the Pimpri-Chinchwad Municipal Corporation (PCMC) framed its own octroi rules titled the PCMC Octroi Rules, 2001 and also amended the same in 2003. Rule 21 of the said Rules stipulated opening and operation of current accounts for crediting octroi by importers whose entire monthly average liabilities of octroi were not less than Rs 25000 per month. They are thus not required to pay octroi on a daily basis at the octroi collection 'naka' but have to pay the octroi due for each month, along with the prescribed forms before the 10th of the following month. If such account holders submit the said monthly statements on any date after the 10th day of the month, they are liable to pay interest at the rate of 12 *per cent per annum* for the entire month on the amount of octroi payable as per the monthly statement. Such importers are also liable to pay interest at the rate of 12 *per cent* on the outstanding amount.

The accounts have to be kept alive until the final assessments are done by the department so that supplementary demands can be raised, if necessary.

Scrutiny of records of PCMC, Pune revealed (August 2006) that assessment of 126 live current account cases were pending as of March 2006. The pendency periods ranged between one month and 13 years.

Further scrutiny of records revealed that the final assessment orders in respect of 116 live current account cases had been passed by the Octroi Department of the Corporation between June 1982 and July 2006 and a total demand for Rs 23.45 crore had been raised against the current account holders, which remained outstanding as on August 2006. As per the amended (May 2003) octroi rules, interest at the rate of 12 *per cent per annum* was leviable on the outstanding amount. Thus the outstanding interest recoverable on octroi dues from 12 May 2003 to 29 February 2008 amounted to Rs 6.21 crore.

The Assistant Commissioner, Octroi Department, PCMC, Pune stated (December 2007) that due to non-availability of sufficient staff, assessments of current account cases were pending on a large scale and would be cleared by engaging personnel on honorarium basis. He further stated (May and June 2008) that out of 126 pending assessment cases, assessment in respect of 110 cases had been completed and demand of Rs 34.59 crore has been raised out of which, an amount of Rs 31.98 crore was recovered. Further an amount of Rs 11.33 crore was recovered from 40 (out of the 116) live current account holders and efforts were being made to recover the balance amounts at an early date.

Reply of the department is not tenable as recovery of Rs 10.79 crore in 5 cases out of Rs 11.33 crore in 40 cases mentioned above pertained to period subsequent to the one pointed out by audit and the amount actually recovered out of Rs 23.45 crore works out to Rs 0.54 crore only.

Thus, due to the failure of the Corporation in passing final assessment orders in time, octroi revenue amounting to Rs 22.91 crore and interest of Rs 6 crore upto February 2008 had not been recovered from current account holders resulting in short realisation of revenue to that extent. This is despite the fact that the Corporation had incurred a loss of Rs 57 crore and Rs 72 crore during the last two years *i.e* 2005-06 and 2006-07 respectively.

The matter was referred to Government in March 2008, their reply had not been received (January 2009).

NAGPUR MUNICIPAL CORPORATION

6.9 Avoidable expenditure on pay and allowances

Non observance of the Government instructions regarding assessment of teaching staff resulted in avoidable expenditure of Rs 20.43 crore on pay and allowances of teaching staff during 2002-03 to 2006-07

According to instructions issued (January 1996) by Primary Education Department, the requirement of teaching staff is to be assessed on the basis of the strength of students on roll as on 30 September of the preceding year.

Scrutiny of records revealed that Nagpur Municipal Corporation (NMC) operated 271 schools with sanctioned strength of 2004 teaching staff during 1996-97. However, there had been gradual decrease in the number of students during 2002-03 to 2006-07 and the number of schools were reduced to 239 in 2006-07. Due to reduction in number of students and closure of schools, the teaching staff were in excess of requirement during the period 2003-07 and an amount of Rs 20.43 crore was incurred on their pay and allowances during the period. The year wise status of excess teaching staff and their pay and allowances is detailed below :

(Rupees in crore)

Year	Sanctioned strength	Number of teachers required	Number of teachers available	Excess teachers	Avoidable Pay and allowance
2002-03	2004	1401	1690	289	2.90
2003-04	2004	1339	1635	296	3.24
2004-05	2004	1277	1592	315	3.81
2005-06	2004	1176	1522	346	4.87
2006-07	2004	1109	1473	364	5.61
				Total	**20.43**

The main reasons attributed by NMC (January 2008) for the reductions in the number of students was more facilities provided in the private schools as compared to Corporation schools and attraction of students and their parents towards English medium schools. It was also stated that necessary action would be taken to utilise the services of the teaching staff in needy areas of the Corporation after taking the approval of the standing committee.

The reply is not tenable as no action had been taken by NMC to upgrade the facilities of the corporation schools to attract more children and to utilise the services of surplus teachers in other departments by imparting them training.

The matter was referred to Government in October 2007; their reply had not been received (January 2009).

ULHASNAGAR MUNICIPAL CORPORATION

6.10 Avoidable loss

Ulhasnagar Municipal Corporation failed to revise rates of water charges despite instruction from State Government, leading to accumulation of water charges payable to suppliers. This resulted in avoidable loss of Rs 24 crore *per annum* in addition to accumulated arrears of Rs 140.64 crore

The Government of Maharashtra(GOM) issued (February 2001) directives to all the Urban Local Bodies(ULBs) to revise water charges from time to time so that the water supply schemes are maintained on "No profit No loss" basis. Further, in July 2001, the GOM while emphasizing the need for managing finances judiciously, instructed Ulhasnagar Municipal Corporation (UMC) to fix the water rates in such a manner that 100 *per cent* of the revenue expenditure on water supply is recovered by it. The Maharashtra Industrial Development Corporation (MIDC) supplies potable water to the UMC for supply to consumers.

Scrutiny (June 2006) of the records of UMC revealed that MIDC increased the rates in phases from Rs 4.75 per 1000 litres in June 1999 to Rs 7 per 1000 litres in June 2003. However, the rates for the consumers has not been revised by UMC inspite of the directives from the Government to recover 100 *per cent* revenue expenditure on water supply. As per the proposals put up by UMC to General Body for rate revision in August 2004, UMC was incurring expenditure of Rs 36 crore *per annum* on water supply whereas revenue received out of water supply was only Rs 12 crore *per annum*. Thus the UMC has been incurring an avoidable loss of Rs 24 crore *per annum* due to non compliance of the State Government directives/instructions to recover 100 *per cent* of revenue expenditure on water from its consumers.

It was also noticed that the UMC had to pay Rs 34 crore to MIDC on account of water bills from December 1994 to February 2003 and the issue was settled mutually in July 2003 under the condition that the UMC would pay MIDC Rs 34 crore in 40 quarterly instalments of Rs 85 lakh per quarter from 1 April 2003 for 10 years. However, after payment of Rs 8.50 crore in ten quarterly instalments pertaining to the period from April 2003 to July 2005 with delays ranging from 16 to 1005 days, the UMC failed to pay any further instalments. By August 2008, the water charge arrears payable to MIDC by UMC had accumulated to Rs 140.64 crore including interest.

The UMC attributed (December 2007) the reasons for not paying instalments to the floods of July 2005, non-receipt of flood relief from Government in time and higher water charges.

The reply of the UMC is not tenable as the floods occurred on 25 and 26 July 2005 and the delayed payments pertained to the period prior to July 2005. As regards the higher water charges compared to other regions, the UMC was well aware of the water charges being levied by other authorities at the time of entering into the agreement with MIDC and no dispute was raised at that time. Further, UMC had not revised the water rates so as to recover the maintenance expenditure as stipulated by Government.

Thus, the failure of the UMC to comply with Government directives/ instructions to recover 100 *per cent* of expenditure on water by recovery from consumers resulted in an avoidable loss of Rs 24 crore *per annum* on water supply in addition to accumulated arrears of Rs 140.64 crore payable to MIDC.

The matter was referred to Government in March 2008; their reply had not been received (January 2009).

URBAN DEVELOPMENT DEPARTMENT

6.11 Release and utilisation of Twelfth Finance Commission grants by Urban Local Bodies

6.11.1 Introduction

The Twelfth Finance Commission (TFC) recommended grants to the tune of Rs 791 crore to Urban Local Bodies (ULBs) in Maharashtra state for the years 2005-06 to 2009-10. During 2005-06 to 2007-08 Government of Maharashtra (GOM) received Rs 316.40 crore as grants for ULBs from Government of India(GOI) which was released to the ULBs. The amount utilised till June 2008 was Rs 229.68 crore by ULBs. The allocation amongst various ULBs and also autonomous councils in excluded areas were to be made by the States. A High Level Committee (HLC) with Chief Secretary as Chairman and Principal Secretaries, (Finance) and other related department as members was formed by the State Government in November 2005 to ensure proper utilisation of TFC grants. This committee is required to meet every quarter to review the utilisation of TFC grants.

6.11.2 Audit scope and methodology

Audit of the release and utilisation of TFC grants by local bodies in Maharashtra from 2005-06 to 2007-08 (up to November 2007) was conducted between November 2007 and April 2008 by test check of records of ULBs, Urban Development Department (UDD), and the Director and Commissioner of Municipal Administration (DMA). Eleven out of 22 Municipal Corporations and all the 222 Municipal Councils in the State received TFC grants during the period. Three[39] Municipal Corporations and seven[40] Municipal Councils were selected to ascertain whether the TFC grants were being utilised as per the guidelines issued by GOI. The audit findings are detailed in the succeeding paragraphs.

6.11.3 Release of TFC grants

The position of receipt of TFC grants by the State Government from GOI for ULBs during the period 2005-06 to 2007-08 is as follows :

Year	Amount of TFC grant received from GOI (Rupees in crore)	Date of receipt by State Government
2005-06 (Ist and IInd Instalment)	158.20*	01.06.2006
2006-07 Ist Instalment	79.10*	22.11.2006
2006-07 IInd Instalment	79.10*	22.06.2007

* Including Rs 6.40 crore allotted to the Chief Fire Advisor for fire prevention measure

6.11.3.1 Non-drawal of grants

The State Government declared (31 March 2006) the DMA as the drawing, disbursing and controlling officer for effective distribution and monitoring the utilisation of TFC grants. The State Government sanctioned Rs 155 crore to the DMA for distribution amongst the various ULBs and another Rs 3.20 crore to the Chief Fire Advisor (CFA) to the GOM from their own funds in anticipation of the first instalment of TFC grants from GOI. Scrutiny of records of DMA revealed that while the CFA drew the grant in 2005-06 itself, the DMA failed to draw the above grant from PAO Mumbai on 31 March 2006. As a result, the grant remained undrawn and had to be surrendered at the end of the financial year 2005-06. This grant was re-allotted in June 2006 by GOM and was drawn by the DMA during the period from

[39] Dhule, Sangli-Miraj Kupwad and Malegaon
[40] Daryapur, Ichalkaranji, Jaisingpur, Jalna, Latur, Nilanga and Sangamner

June 2006 to August 2006. Thus there was a delay of two to five months in drawal of the grant delay in its distribution to the ULBs and its utilisation by ULBs as indicated in Para 6.11.3.2 below :

6.11.3.2 Delay in distribution of grants

As per TFC guidelines, the grants should be distributed to ULBs within 15 days of the dates of receipt by the State Government and in cases of delay, interest at Reserve Bank of India rate on delayed payments was to be paid to the ULBs by the DMA. TFC grants for the year 2005-06 received on the 1 June 2006 were drawn by the DMA on 13 June 2006 and cheques for the grants were issued in September 2006, after a delay of three months. Further cheques issued by the DMA were dishonoured due to insufficient balance in the DMA's saving bank account as the amount was invested in fixed term deposits. These cheques were finally cleared in October-November 2006. This resulted in blockage of funds and delays in execution of developmental works. Audit also noticed delays in distribution of grant for the year 2005-06 and 2006-07 as detailed in **Appendix XIII**. The interest payable on the delays worked out to Rs 1.50 crore. However, the same had not been paid to the ULBs so far. Reasons for non-payment of interest were not furnished to Audit.

6.11.3.3 Opening of bank account in private bank by DMA in violation of TFC guidelines

As per the TFC guidelines, bank accounts were to be opened only in nationalised banks. However, scrutiny of records revealed that in violation of these guidelines the DMA had opened an account in Axis Bank (not a nationalised bank) in June 2006 and had deposited the funds received as TFC grants.

6.11.3.4 Utilisation of TFC grant

As per State Government instructions, the TFC grants were to be utilised within one year of their receipt. As per information furnished by UDD, the position of grants received, utilised and unspent balances as of June 2008 was as follows:

(Rupees in crore)

Year	Instalment number	TFC grants received	Amount of expenditure incurred	Unspent balance
2005-06	Ist and IInd	158.20	229.68*	86.72
2006-07	Ist	79.10		
2006-07	IInd	79.10		
Total		**316.40**	**229.68**	**86.72**

* year wise breakup not made available to audit

Out of seven selected Municipal Councils, test check of records of Jalna Municipal Council revealed that it had received grants of Rs 3.19 crore under

TFC. Out of this, only Rs 51 lakh had been utilised upto March 2008 and the balance amount of Rs 2.68 crore remained unspent (March 2008). The grant remained unutilised due to non-approval of project proposals by the Divisional Commissioner. This resulted in blocking of funds and non-accrual of benefits to the intended beneficiaries.

6.11.3.5 Diversion of grants

As per Government Resolution dated 31 March 2006, TFC grants were required to be utilised for the purposes specified. The DMA had to ensure that the grants were utilised only for the specified purposes and there was no diversion of funds. Cases of diversion of grants noticed during the test check of the selected ULBs are discussed below :

- The TFC had stressed the importance of public private partnership in the delivery of Solid Waste Management (SWM) in urban areas. The State Government was directed to make it mandatory for Municipal Councils having populations of over one lakh to prepare comprehensive schemes for SWM. Fifty six *per cent* of the TFC grants were required to be utilised for such projects so as to create durable assets and the remaining 44 *per cent* for other developmental works as per the TFC guidelines. Test check of the records of Malegaon Municipal Corporation and Sangamner and Latur Municipal Councils revealed that in disregard to the guidelines, these ULBs had utilised Rs 4.42 crore for payment of labour contract bills towards labour engaged in transportation of solid waste which was a day to day activity of the ULBs.

  Latur Municipal Council stated (February/March 2008) that proposals for implementation of SWM forwarded to the DMA for approvals were pending.

- Ichalkaranji Municipal Council invested Rupees one crore out of TFC grants in fixed deposit during July 2007 instead of utilising the funds promptly as per the guidelines.

- Test check of records of DMA revealed that grants of Rs 310 crore were received during June 2006 to July 2007 of which Rs 16 crore was irregularly invested in fixed term deposits in ICICI Bank during March-April 2007. The interest amounting to Rs 10.60 lakh earned on the fixed deposit was irregularly utilised by DMA for purchase of furniture and other office purposes during 2006-07. Unauthorised investment of grants of Rs 16 crore in violation of TFC guidelines resulted in funds being not available for intended purposes.

The diversion of grants in the above cases in violation of TFC guidelines indicates that there was no proper monitoring and control on utilisation of grants.

6.11.3.6 Irregularities in utilisation of grants

Cases of irregularities in utilisation of grants noticed during the test check are discussed below:

- **Unfruitful expenditure of Rs 91.08 lakh on hardware**

  The State Government decided (March 2006) to convert the accounting of ULBs to the double entry system including computerisation and the DMA received TFC grant of Rs 80 lakh for 2005-06 and 2006-07 for the purpose. In addition, grant of Rs 9.60 crore *per annum* was kept at the disposal of DMA for 2005-06 and 2006-07 to be expended as per the discretion of the DMA. As per the proposal, the DMA was to supply computers to the Municipal Councils along with customised software to enable them to maintain their accounts in the double entry system. The DMA procured 225 desktop computers with accessories costing Rs 91.08 lakh, meeting the extra expenditure of Rs 11.08 lakh from discretionary grant available with DMA. The computers were supplied and installed in 225 Municipal Councils during October–November 2006. The DMA was required to procure the software and supply it to Municipal Councils. However, even after 17 months, the required software was not supplied to the Councils and the computers were lying idle.

  The Project Co-ordinator, DMA stated (March 2008) that customised accounting software was intended to be developed. However, since the State Government has not yet developed State Specific Accounting Manual based on National Municipal Accounts Manual, customization of the accounting software could not be done.

  Thus improper planning for computerisation rendered the hardware worth Rs 91.08 lakh idle for the past 17 months and the switch over to double entry accounting remained unaccomplished.

- **Non-adherence of priority in selection of work by ULBs**

  As per the orders of the State Government, 56 *per cent* should be utilised for SWM and balance 44 *per cent* of TFC grants were to be utilised as per the priorities mentioned below :

  - Fire fighting and other disaster management.
  - Rain water harvesting (old municipal buildings)
  - Development of reserved plots under the Development Plan
  - Development of other projects as per local urban requirements

It was clearly stated that after undertaking the first two categories of work, ULBs could undertake the third and fourth category of works. Test check of records of the selected ULBs revealed that the Sangli-Miraj Kupwad Municipal Corporation, Sangamner Municipal Council and Daryapur Municipal Council had not adhered to the priorities mentioned above and had taken up work under the fourth category.

On being pointed out, Sangamner Municipal Council stated (February 2008) that works under rain water harvesting would be taken up subsequently. Sangli-Miraj Kupwad Municipal Corporation and Daryapur Municipal Council stated that works were taken up as per local requirement. The replies are not tenable since priorities were fixed by the State Government and the ULBs should have obtained approval of the State Government for any deviation.

The irregularities in utilisation of grants in the above cases in violation of TFC guidelines also showed lack of proper monitoring by the DMA.

6.11.4 Monitoring

As indicated in the audit observations relating to utilisation of TFC grants by PRIs, the cases of delay in distribution of grants to ULBs and its utilisation, diversion of grants, irregularities in utilisation of grants *etc.* pointed out earlier indicates lack of proper monitoring mechanism in spite of constitution of HLC.

6.11.5 Conclusion

There were delays in release and distribution of TFC grants at all levels. Amounts were kept in bank deposits instead of utilizing them for the intended purposes. Delay in completion of work resulted in non-utilisation of the funds within prescribed time. Irregularities in diversion of funds and utilisation of grants were also noticed.

6.11.6 Recommendations

- Delay in release of TFC grants to ULBs must be avoided.
- Advance planning should be done by ULBs so as to ensure that the grants are utilised within the prescribed time and funds do not remain parked in banks accounts.
- Diversion of grants should be avoided through effective monitoring and deterrent measures.
- It should be ensured that grants are utilised within the time frame.
- High Level Committee should meet every quarter to review the utilisation of grants and progress of work.

- It should be ensured that TFC grants are invariably deposited in nationalised banks and unauthorised investment should be discouraged.

(RAJIB SHARMA)
Principal Accountant General (Audit) I,
Maharashtra

Mumbai
The

Countersigned

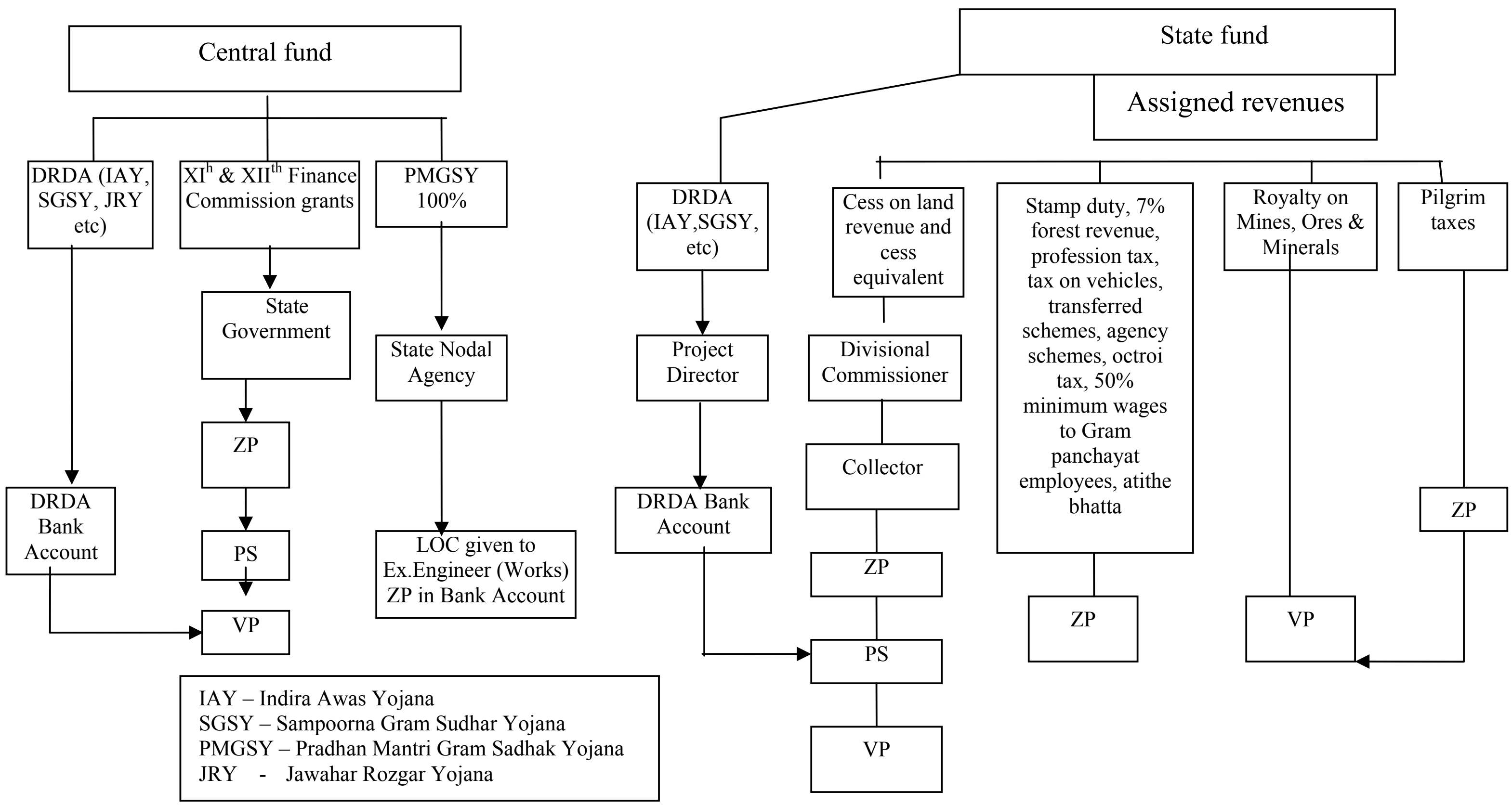
(VINOD RAI)
Comptroller and Auditor General of India

New Delhi
The

APPENDIX I

(Reference : Paragraph 1.4.4, Page 3)

FUND FLOW STATEMENT



APPENDIX II

(Reference : Paragraph 1.7.5 ; Page 6)

Details of expenditure on transferred schemes, agency schemes and Zilla Parishads Own schemes as of 2006-07

(Rupees in crore)

Sr. No.	Name of Zilla Parishad	Expenditure on Transferred and Agency Schemes	Expenditure on ZPs own Schemes	Total expenditure
1.	Ahmednagar	414.06	21.48	435.54
2.	Akola	351.64	12.45	364.09
3	Amravati	269.80	186.96	456.76
4	Aurangabad	256.21	3.58	259.79
5	Bhandara	152.51	3.95	156.46
6	Beed	511.03	1.12	512.15
7	Buldhana	278.69	323.12	601.81
8	Chandrapur	235.69	12.69	248.38
9	Gadchiroli	160.99	6.98	167.97
10	Gondia	0.16	0.01	0.17
11	Hingoli	216.49	2.20	218.69
12	Jalgoan	414.99	270.16	685.15
13	Jalna	357.69	3.73	361.42
14	Kolhapur	343.37	9.17	352.54
15	Latur	467.95	2.20	470.15
16	Nagpur	313.23	247.60	560.83
17	Nanded	281.74	7.45	289.19
18	Nandurbar	183.73	2.76	186.49
19	Nashik	472.08	64.20	536.28
20	Osmanabad	365.34	0.39	365.73
21	Parbhani	304.54	3.74	308.28
22	Pune	431.06	38.95	470.01
23	Ratnagiri	502.65	7.33	509.98
24	Raigad	247.32	21.47	268.79
25	Sangli	288.12	6.42	294.54
26	Satara	427.25	11.91	439.16
27	Sindhudurg	175.77	2.31	178.08
28	Solapur	387.69	52.29	439.98
29	Thane	403.26	13.85	417.11
30	Wardha	384.23	0.32	384.55
31	Washim	127.07	3.70	130.77
32	Yavatmal	302.14	9.55	311.69
	Total	10028.49	1354.04	11382.53

(Source : As per information received from CAFO of respective ZPs)

Appendix III

(*Reference: Paragraph 1.12.1 ; Page 9*)

Statement showing number of ZPs which are in arrears in assessment of grant

Period of arrears	Education Department	Public Health Department	Family Welfare Department	Animal Husbandry Department	Social Justice Department	Agriculture Department
Number of ZPs						
2006-07	33	33	33	33	33	33
2005-06 to 2006-07	33	33	33	2	33	33
2004-05 to 2006-07	1	8	24	13	33	8
2003-04 to 2006-07	1	12	1	15	6	9
2002-03 to 2006-07	3	10	8	3	8	1
2001-02 to 2006-07	9	3	-	-	10	7
2000-01 to 2006-07	13	-	-	-	5	2
1999-2000 to 2006-07	3	-	-	-	-	4
1998-99 to 2006-07	3	-	-	-	3	2
1997-98 to 2006-07	-	-	-	-	1	-
1996-97 to 2006-07	-	-	-	-	2	-

APPENDIX IV

(Reference : Paragraph 1.12.3.1; Page 10)

Outstanding Inspection Reports and Paras from Chief Auditor, Local Fund Accounts Report

Year of the Report	**Number of outstanding Paras**		**Objected Amount (Rupees in crore)**	
	Government Funds	ZPs Own funds	Government Funds	ZPs Own funds
1962-63 to 1996-97	34722	18719	776.90	168.26
1997-98	4161	2109	149.41	33.75
1998-99	4902	2792	225.49	55.94
1999-00	5368	2936	266.15	71.59
2000-01	5686	2809	178.06	44.34
2001-02	6094	3184	156.85	54.30
2002-03	8494	4066	371.79	80.02
2003-04	7895	4909	349.30	112.73
2004-05	12994	6085	563.64	139.48
Total	**90316**	**47609**	**3037.59**	**760.41**

(Source : As per CALFA report)

Appendix V

(Reference: Paragraph 2.5.1 ; Page 15)

Department wise position of schemes transferred to PRIs

Sr. No.	Name of the Department	Functions involved	Number of schemes transferred to ZPs
1	General Education	1.Education including primary and secondary schools	21
2	Public Works	1. Roads, culverts, bridges, ferries, waterways and other means of communication	6
3	Women and Child Welfare	Women and child development	12
4	Water Supply and Sanitation	1. Drinking water 2. Health and Sanitation including hospitals, health centres and dispensaries	8
5	Medical and Public Health	1. Health and Sanitation including hospitals, health centres and dispensaries 2. Family Welfare	60
6	Adult and Non Formal Education	Adult and Non-formal education	4
7	Higher & Technical Education	Education including primary and secondary schools	1
8	Housing	Rural Housing	2
9	Social Justice, Cultural Affairs and Sports	1. Cultural Activities 2. Libraries 3. Social Welfare including Welfare of the handicapped and mentally retarded 4. Welfare of weaker sections and in particular of the Scheduled Castes and Scheduled Tribes	51
10	Animal Husbandry, Dairy Development and Fisheries.	1. Animal Husbandry, Dairying and Poultry 2. Fisheries	35
11	Industries & Energy	Non-Conventional Energy Sources	14
	Total		214

APPENDIX VI

(Reference : Paragraph 2.5.1 ; Page 15)

List of 14 functions not transferred to PRIs

Sr. No.	Subjects under Constitution
1	Agriculture including agriculture extension
2	Land Improvement, implementation of land reforms; land consolidation and soil conservation
3	Minor Irrigation, Water Management and Watershed development
4	Minor Forest Produce
5	Social Forestry and Farm Forestry
6	Small scale Industries including food processing industries
7	Khadi Village and Cottage Industries
8	Fuel and Fodder
9	Poverty Alleviation Programme
10	Rural Electrification including distribution of electricity
11	Technical Training and Vocational Education
12	Market and Fairs
13	Public Distribution System
14	Maintenance of Community Assets

APPENDIX VII

(Reference : Paragraph 2.6.2 ; Page 19)

Statement showing funds provided and drawn by PRIs

(Rupees in crore)

Name of the District	Transferred 2004-05		Agency 2004-05		Transferred 2005-06		Agency 2005-06		Transferred 2006-07		Agency 2006-07	
	Budget Provision	Actually drawn	Budget Provision	Actually drawn	Budget Provision	Actually drawn	Budget Provision	Actually drawn	Budget Provision	Actually drawn	Budget Provision	Actually drawn
Parbhani	13.09	10.80	4.20	1.84	13.56	9.34	2.16	1.41	20.04	12.28	6.40	1.85
Yavatmal	30.87	23.22	12.32	4.32	30.20	29.40	5.64	2.47	31.71	37.10	11.35	0.20
Aurangabad	16.34	10.99	9.76	3.90	23.50	19.63	3.72	2.49	28.69	24.01	11.60	2.36
Solapur	27.69	29.03	9.37	5.20	28.32	35.13	6.87	5.72	27.88	31.38	13.06	8.95
Wardha	8.97	10.09	4.19	1.91	11.58	14.91	4.19	1.83	18.45	0.34	5.64	1.28
Nashik	31.40	30.00	17.43	6.38	49.78	56.12	10.71	8.18	54.79	62.05	15.17	9.13
Kolhapur	16.55	12.80	6.97	4.23	17.89	27.65	5.91	4.92	22.04	25.51	9.86	7.23
Thane	40.93	27.75	17.13	7.78	55.19	49.60	7.39	6.16	57.22	52.76	17.32	11.28
Total	185.84	154.68	81.37	35.56	230.02	241.78	46.59	33.18	260.82	245.43	90.40	42.28

	Transferred schemes	Agency Schemes	Total
Provision	676.68	218.36	895.04
Amount drawn	641.89	111.02	752.91
Amount not drawn	34.79	107.34	142.13

Appendix VIII

(Reference : Paragraph 3.3(i); Page 25)

Details of over payment of incentive allowance

Sr. No.	District/ Name of office	Period	Month	Amount (Rupees in lakh)
	BHANDARA			
1	B.D.O. PS Lakhandur	1-12-2004 to 30-11-2007	36	47.97
2	CDPO, ICDS, Lakhandur	1-12-2004 to 30-11-2007	36	1.35
	CHANDRAPUR			
3	C.A.& F.O. ZP, Chandrapur	1-8-04 to 30-9-07	38	5.12
4	Education Officer ZP Chandrapur	1-8-04 to 1-8-07	37	5.57
5	EE. M.I.Dn. ZP Chandrapur	1-8-04 to 1-8-07	37	4.04
6	Social Welfare Officer, ZP Chandrapur	1-8-04 to 30-7-07	36	1.54
7	B.D.O. P.S. Chandrapur	1-8-04 to 31-3-07	32	57.05
8	B.D.O. P.S. Rajura Dist. Chandrapur	1-8-04 to 30-9-07	38	60.60
	GADCHIROLI			
9	Education Officer, ZP Gadchiroli	1-8-04 to 30-9-07	38	5.29
10	Ex.Engr. PWD ZP, Gadchiroli	1-8-04 to 30-11-07	40	5.94
11	B.D.O. P.S, Aheri Dist. Gadchiroli	1.8.2004 to 31.5.2007	34	49.47
	GONDIA			
12	Executive Engineer P.W.Dn. Gondia	1-8-2004 to 31-10-2007	39	9.38
13	-do- Minor Irrigation Z.P. Gondia	1-8-2004 to 31-3-2007	32	1.48
	YAVATMAL			
14	B.D.O. P.S. Arni Dist. Yavatmal	1-8-04 to 30-11-07	40	10.74
		Total		**265.54**

Say Rs 2.66 crore

Appendix IX

(Reference : Paragraph 3.3(ii); Page 25)

Details of inadmissible payment of incentive allowance to teachers

Name of Panchayat Samiti	**Month/Year of inadmissible payment**	**No. of Teachers**	**Amount (Rupees in lakh)**
Chamorshi	May 2003	450	2.43
	June 2003	488	2.63
	May 2006	568	6.17
	June 2006	613	2.85
	May and June 2007	633	4.09
Kurkheda	May 2006	257	2.66
	June 2006	271	1.31
	May 2007	353	4.83
	June 2007	346	2.19
Dhanora	May 2003	366	2.57
	June 2003	373	2.71
Desaiganj	May2006	100	1.11
	June 2006	99	0.50
	May 2007	27	0.39
	June 2007	61	0.39
		Total	**36.83**

Appendix X

(Reference : Paragraph 3.5; Page 27)

Statement of excess payment of transport allowance to teaching staff during summer vacation period.

Name of Zilla Parishad	Name of Panchayat Samiti	Month/Year	Amount (Rupees in lakh)
Wardha	Arvi	May and June 2003 to 2007	2.47
	Ashti	May and June 2003-07	1.43
	Deoli	May and June 2006	0.39
	Hinganghat	May and June 2003 to 2007	2.75
	Karanja (G)	May and June 2003 to 2007	1.61
	Samudrapur	May and June 2003 to 2007	2.77
	Seloo	May and June 2003 to 2007	2.20
	Wardha	May and June 2003 to 2007	3.15
Gadchiroli	Chamorshi	May and June 2003 to 2007	3.46
	Kurkheda	May and June 2006 to 2007	0.79
	Total		**21.02**

Appendix XI

(Reference: Paragraph : 5.9.1; Page 52)

Differences between the closing and opening balances in the cash book of the Corporation

(Figure in Rupees)

Year (1)	As per computerized system			As per Annual Accounts Reports	Difference of Annual Accounts Reports with computerized system	
	CB as on 31st March (2)	OB as on next 1st April (3)	Difference (4) = (2)-(3)	CB as on 31st March (5)	Computerised system in CB (6) = (2) –(5)	Computerised system in OB (7) = (3) –(5)
2002-03	160747363	119520283	41227080	133395106	27352257	(-)13874823
2003-04	105521910	119553436	(-)14031526	120219043	(-)14697133	(-)665607
2004-05	106005457	108372624	(-)2367167	109273972	(-)3268515	(-)901348
2005-06	156809191	157827192	(-)1018001	157827192	(-)1018001	0
2006-07	147306017	147304403	1614	147304403	1614	0

Appendix XII

(Reference : Paragraph 5.9.1(ii) ; Page 59)

Differences between the closing and opening balances in the cash book of the Ward offices

(Figure in Rupees)

Year (1)	Ward	As per computerized system			As per Annual Accounts Reports	Difference of Annual Accounts Reports with computerized system	
		Closing Balance as on 31st March (2)	Opening balance as on next 1st April (3)	Difference (4) = (3)-(2)	Closing Balance as on 31st March (5)	Computerised system in CB (6) = (2) –(5)	Computerised system in OB (7) = (3) –(5)
2003-04	A Ward	6262935	6262943	8	6273444	(-)10509	(-)1051
	B Ward	10429657	10681984	252327	10681984	(-)252327	0
	F Ward	13202057	13161439	(-)40618	13161439	40618	0
2004-05	A Ward	6093500	6094785	1285	6094785	(-)1285	0
	B Ward	5097014	5097014	0	5097014	0	0
	F Ward	11608279	11728694	120415	11472513	135766	256181
2005-06	A Ward	6804745	6804767	22	6804767	(-)22	0
	B Ward	12176155	12117634	(-)58521	12117634	58521	0
	F Ward	10193436	9937515	255921	9937515	255921	0

Annexure XIII

(Reference : Paragraph 6.11.3.2 ; Page 70)

Interest on delay in distribution of grants to ULBs

(Amount in crore)

Instal-ment for the year	**Date of receipt of grants from GOI**	**Amt of grants**	**Share of Chief Fire Advisor**	**Due date of distribution of grants**	**Date of distrib-ution by UDD to DMA**	**Amt of grants**	**Date of order of DMA distribu-ting the grant to ULBs**	**Amount of ULB share**	**Delay in days**	**Interest Amount @ RBI rate 5.5 *per cent***
2005-06	Vote on account of April , May 06				31.03.06	26.37	15.05.06	11.37	….	….
2005-06	01.06.06	158.20	3.20	16.06.06	29.07.06	128.63	18.08.06	128.63	63	1.22
2006-07 1st Inst.	22.11.06	79.10	1.60	07.12.06	21.12.06	77.50	27.12.06	70.00	20	0.21
2006-07 2nd Inst.	22.06.07	79.10	1.60	07.07.07	05.07.07	77.50	11.07.07	70.00	4	0.04
								Total		**1.47**